NAVIGATING VOLATILE TARIFF LANDSCAPES: Effective Strategies for Cost Mitigation

FROM HOLDING PATTERN TO ACTION PLAN

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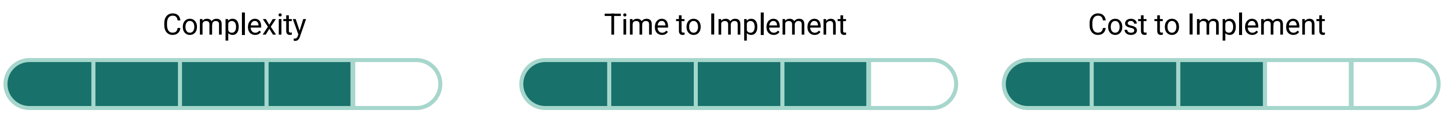
Though the last few weeks have been relatively stable, businesses are facing the formidable challenge of navigating fluctuating tariff rates and other supply chain disruptions causing volatility in sourcing costs and straining financial resources. The pause in trade actions heading into October has left many companies in a holding pattern while waiting for clarity on trade policy, but leaders do not need to remain reactive. With the pending expiration of the current truce with China ending next month, and the Supreme Court hearings on legality of using International Emergency Economic Powers (IEEP) to enact tariffs, there is a bumpy road ahead.

There are actionable strategies available today to create a more resilient and diversified supply chain, each with diverse levels of effort, time to implement, and varying degrees of impact. The key is to know which ones are right for your business. This table shows seven tariff mitigation strategies, and the details of those actions below explain how a tailored approach can help you reduce costs, improve resilience, and gain competitive advantage. Still, every business is unique, so Ankura is offering a Rapid Tariff Vulnerability Assessment (RTVA): a two-to-three-week engagement that identifies your biggest risks and fastest wins.

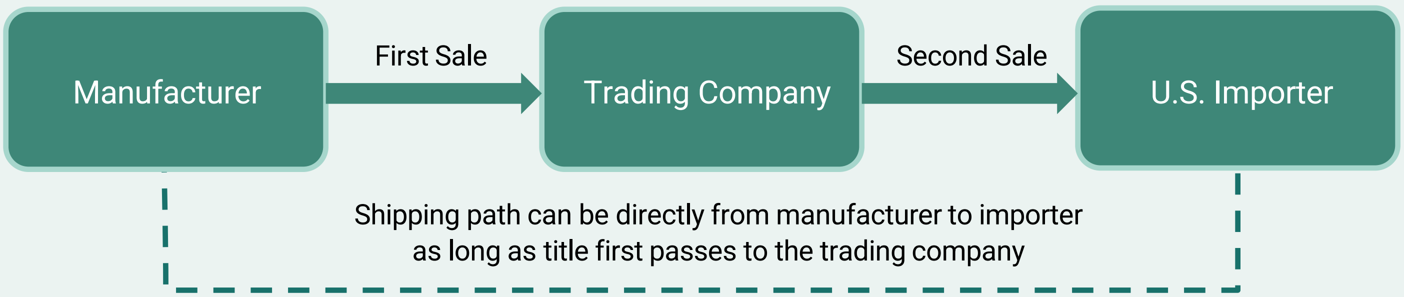
Strategy	Best For	Complexity	Time to Implement	Cost to Implement
First Sale Rule	High-volume importers with multi-tiered sourcing	◕	◕	◑
Foreign-Trade Zones	Manufacturers or assemblers with U.S. operations	●	●	●
Bonded Warehouses	Importers of finished goods with variable demand	◑	◔	◔
Duty Drawback Programs	Exporters of imported goods	◕	◑	◑
Tariff Engineering	Product designers/manufacturers	●	◕	◕
Supplier Diversification	Companies reliant on single-country sourcing	◑	◕	◕
Delivered Duty Paid	Buyers seeking simplicity with greater cost control	◔	◔	◔

First Sale Rule

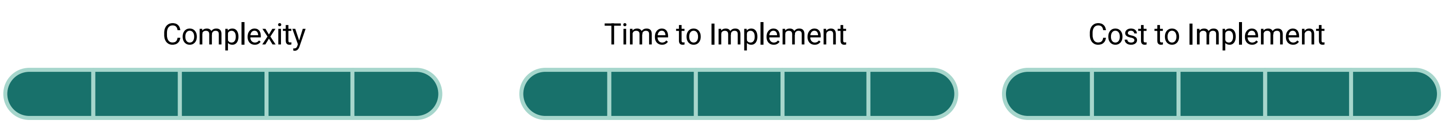


The First Sale Rule is a strategic approach that allows importers to base the customs value of their goods on the price paid by a middleman or trading company to the manufacturer, rather than the price paid by the importer to the middleman. The middleman can be a completely independent third party, or wholly or partially owned by the importer, if the transaction is bona-fide. This method can result in lower duty assessments by establishing the value at the first point of sale, typically where the product is least expensive.

Utilizing the First Sale Rule can lead to significant cost savings in customs duties, as they are calculated at a lower transaction value. This strategy can significantly reduce the landed cost of goods.

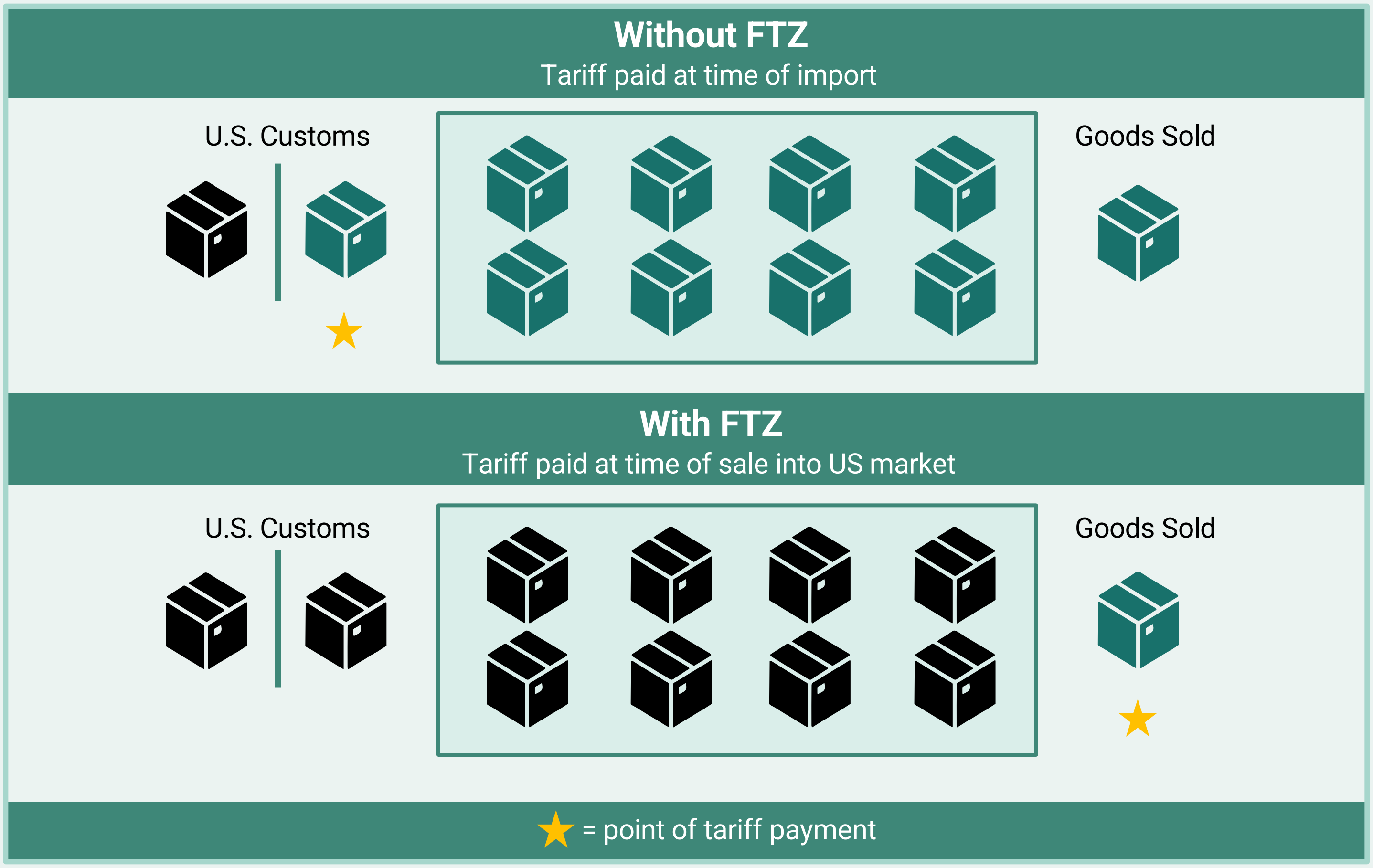


Foreign Trade Zone



Foreign-Trade Zones (FTZs) are designated areas within the United States where businesses can operate with fewer customs restrictions. They may be a region, a warehouse, or a portion of a warehouse. Goods and raw materials can be imported, processed, assembled, or manufactured, and re-exported within these zones without being subject to U.S. customs duties until they enter domestic commerce. This provides companies with greater flexibility in managing their inventory and production processes.

FTZs offer several advantages, including duty deferral, reduction, or elimination. Companies can save on customs duties by assembling or manufacturing products within the zone and only pay duties on the value of imported finished goods or components, but not the value add inside the FTZ. An FTZ can also be used to avoid “upside down” tariffs, where raw materials or components attract a higher duty rate than the finished goods, and they are processed or assembled inside the FTZ.



Bonded Warehouses

Complexity | Time to Implement | Cost to Implement

Bonded warehouses are storage facilities where imported goods can be kept without the payment of duties until they are withdrawn for consumption. These warehouses are regulated by customs authorities, and goods stored within them can undergo minor processing or be re-exported without incurring customs duties. As with FTZ’s, a bonded warehouse can be within a shared facility of a third party or wholly owned by the importer.

While bonded warehouses are similar to FTZs, there are a few key differences. Bonded warehouses have a five-year storage limit, while FTZs have no time limit. Bonded warehouses are best for finished goods, as they allow limited assembly, manufacturing, or manipulation of goods on-site. Bonded warehouses are typically simpler to operate than FTZs, but each shipment must be processed separately, whereas FTZs allow consolidation of entries to reduce administration and processing fees.

Duty Drawback Programs

Complexity | Time to Implement | Cost to Implement

Duty drawback programs allow businesses to recover duties paid on imported goods that are later exported. By submitting claims for refunds, companies can recoup a sizable portion of the costs associated with tariffs. This strategy is particularly beneficial for businesses engaged in international trade, as it incentivizes exports and improves cash flow.

Tariff Engineering

Complexity | Time to Implement | Cost to Implement

Tariff engineering involves modifying products or sourcing materials in a way that changes their tariff classification, potentially reducing import duties. By understanding tariff schedules and regulations, businesses can design products or alter manufacturing processes to qualify for lower duty rates. This proactive approach requires careful planning and knowledge of customs laws but can lead to substantial savings. There are some unique rules that may impact ability to determine country of origin, such as the “fabric forward” rule that allows an importer to deem the country producing fabric as the origin regardless of where further processing occurs. Prior to embarking on tariff engineering, it is recommended to do a detailed review of Harmonized Tariff Schedule (HTS) codes to ensure they are appropriately applied in case there are opportunities to reduce rates through reclassification.

Country of Origin Diversification

Complexity | Time to Implement | Cost to Implement

In the face of tariff volatility, diversifying the supplier network is a crucial strategy to mitigate risk. By sourcing materials and products from multiple countries, businesses can reduce dependency on any single market and avoid sudden tariff increases or other potentially localized supply chain disruptions. A diverse supplier base provides flexibility and resilience, ensuring continuity of supply and stable pricing despite fluctuating tariffs or other unforeseen disruptions. As always when establishing new suppliers, it is important to engage in thorough due diligence to ensure the reliability of new suppliers and their supply chains to protect against supply interruptions and delays.

Delivered Duty Paid

Complexity | Time to Implement | Cost to Implement

Delivered Duty Paid (DDP) is a shipping arrangement where the seller assumes responsibility for delivering goods to the buyer's location, including transportation, import duties, and customs clearance. For buyers, DDP offers simplicity — goods arrive ready for use without the need to manage import logistics or customs compliance.

However, this convenience can come at a cost. Buyers often have limited visibility into how duties are calculated, which can lead to inflated landed costs, misclassified goods, or missed opportunities for tariff mitigation. Additionally, the seller may not optimize for duty savings, especially if they lack deep customs expertise or incentive to do so.

Modified DDP (mDDP) is a strategic enhancement to the traditional DDP model. Under mDDP, the seller still delivers goods duty-paid but uses the First Sale Rule to reduce the dutiable value — declaring the transaction between the manufacturer and middleman rather than the final sale to the buyer. This allows the buyer to benefit from lower duty costs without taking on the administrative burden of customs clearance.

Regardless of the mitigation actions businesses elect to pursue, it is important to engage in Supply Chain Modeling to understand the total cost implications. Each of these strategies can have downstream impacts on raw materials sourcing, distribution costs including inbound and outbound transportation, transit times, and overall supply chain resilience. A full and holistic understanding of these interactions is crucial to making informed decisions on the costs and benefits of these strategies.

NAVIGATING THE FUTURE: EXPERT GUIDANCE

Ankura brings an integrated, cross-functional approach to helping companies navigate today's complex tariff environment. Our team combines deep expertise in trade policy, supply chain operations, and financial strategies to deliver comprehensive solutions that address both immediate cost pressures and long-term strategic imperatives. An international presence enables effective delivery both globally — and locally.

Our approach leverages the complementary capabilities of our integrated practice areas: McLarty Associates provides unparalleled trade policy intelligence and advocacy; our Performance Improvement team delivers supply chain and operational expertise; and Ankura Office of the CFO® practice brings financial and strategic insights — all working together as one seamless team focused on your success.

What distinguishes our approach is our emphasis on implementation support. Unlike traditional consulting approaches that emphasize analysis over action, our methodology focuses on delivering tangible, measurable value from day one. We begin with an RTVA, typically completed within two to three weeks, which delivers not just insights but immediate action steps. We then collaborate with client teams to develop and implement an actionable roadmap prioritized based on impact, feasibility, and time-to-value.

The tariff situation will continue to evolve, requiring organizations to build capabilities that extend beyond the immediate crisis. Ankura's approach is designed not just to address today's challenges but to position clients for long-term success in a world where trade uncertainty has become the norm rather than the exception.