

# Analysis: The Impacts of Tariffs on Corporate Commercial Policies & Contracting Strategies

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Current indications are that corporations remain cautious in the actions they are taking to address market uncertainties. There are a variety of factors causing this, among them unpredictability of exactly where and when disruptions will occur. But beyond this, many of the potential actions are complicated and expensive to implement; existing contracts and relationships are not easy to unwind and new ones take time to identify and establish. Overall, the indications are that mitigation of impact is being given priority over more substantive action.



However, even mitigation is complicated – for example, both buyers and suppliers want more flexibility for themselves, but would like to limit flexibility for the counter-party.

### Key Themes

- **Extreme Policy Uncertainty:** Rapid, unpredictable changes in tariff policy make planning beyond the immediate term risky.
- **Long Lead-Times vs. Short Notice:** Strategic moves such as relocating manufacturing plants take 8–10 years, but policy changes occur in weeks or days.

- **Mitigation vs. Transformation:** At present, companies are opting for temporary mitigations (stockpiling, bonded warehouses, minor diversifications) rather than fully restructuring supply chains.
- **Friendshoring & Reshoring:** There is a push toward moving production to geopolitically aligned or domestic locations, but execution is slow, complicated and expensive.
- **Investment & M&A Freeze:** Uncertainty is chilling deal-making, as companies are unwilling to commit capital in an unstable trade environment.
- **Sector-Specific & Granular Risks:** Tariff impacts vary dramatically across products and sectors and regulatory changes can outweigh tariffs in driving strategic decisions.
- **Unintended Consequences:** Tariffs can raise domestic costs, hurt downstream industries, and create congestion in logistics networks, adding to the complexity of formulating policies and plans.

majeure, renegotiation clauses, tariff pass-through mechanisms, escalation/de-escalation provisions. Supplement contracts with more formal governance frameworks (which may be mutually agreed) covering frequency of meetings, escalation procedures, data sharing and transparency, problem solving forums, joint risk registers.

- **Inventory & Logistics:** Use stockpiling and bonded warehouses strategically; adjust inventory management policies to account for longer lead times & higher costs.
- **Cost Management:** Consider price adjustment clauses tied to tariff levels to mitigate cost volatility; monitor total landed cost more closely.
- **Supplier Engagement:** Engage suppliers early to understand their own mitigation plans and collaborate on joint solutions.
- **M&A Due Diligence:** For acquisitions, scrutinize exposure to tariff-sensitive supply chains and regulatory risk in valuation and deal structure.

## Implications for Commercial Policies and Strategies

### As a Buyer

- **Sourcing Strategy:** Diversify suppliers and geographies (multi-sourcing, friendshoring) where practical, but recognize limitations and appreciate that full relocation takes years.
- **Contract Terms & Governance:** Build flexibility into contracts: termination-for-convenience, force

### As a Supplier

- **Market Access:** Proactively engage customers about how you will maintain supply under shifting tariffs. Identify alternative routes and production options.
- **Pricing & Margins:** Incorporate tariff risk into pricing models and negotiate with buyers over how cost increases are shared..



- **Capacity Planning:** Assess feasibility of relocating or expanding in friendlier jurisdictions, but set realistic timelines
- **Customer Contracts:** Ensure contracts address tariff risk allocation explicitly; use clauses to protect against unforeseen regulatory changes. Incorporate terms such as those indicated in Contract Terms & Governance above, or ensure clear approach to customer negotiations on these topics.
- **Regulatory Compliance:** Monitor sector-specific regulations (e.g. U.S. rules against Chinese software in cars, pharmaceutical localization) and prepare compliance roadmaps.
- **Investment Decisions:** Delay or stage-capital investments until there's more clarity, while keeping options open (e.g. securing sites or rights without full build-out).

### Broader strategic Adjustments

- Shift from lowest-cost global supply chains → toward resilient, adaptable, and regionally diversified supply chains.
- Identify those relationships or acquisitions where there is greatest need to move from transactional contracting → to strategic partnerships with built-in flexibility and shared risk mechanisms.
- Incorporate scenario planning & stress-testing into procurement and sales strategies.
- Invest in contract and risk management capabilities, both operationally and contractually, to respond dynamically.

### Recommendations for Commercial Policies

- **Risk Allocation:** Standardize clauses that allocate tariff and regulatory risks transparently between parties.
- **Flexibility & Exit:** Develop playbooks for rapid exit/entry in suppliers, customers and markets; seek to embed optionality in contracts.
- **Collaboration & Transparency:** Foster open dialogue with suppliers and customers to align on mitigation measures.
- **Legal & Compliance:** Monitor evolving trade rules and regulatory frameworks to adjust contracts and strategies proactively.
- **Investment Policy:** Implement staged or contingent investments tied to clearer policy signals.

### Conclusion

Companies are facing a strategic paradox in that they need to plan long-term in an environment that is dominated by unpredictable, short-term shocks. As both buyers and suppliers, companies should embed flexibility, risk-sharing, and regional resilience into their contracts and commercial strategies, rather than over-reliance on rapid shifts like full reshoring because this is in general slow and expensive. The big problem is that each side wants to have its own flexibility, but is likely to resist flexibility for the counterparty. This implies that contract negotiations will often be difficult to conclude, even when conducted in a spirit of collaboration.

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