Resilient by Design

How industry leaders can navigate tariffs and unlock cost efficiency

Capgemini

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Executive Summary

The widespread implementation of tariffs has sent ripples through global markets, reshaping the business landscape both at home and abroad. Companies must swiftly adapt to enhance their resilience while balancing between price elasticity and scarcity in the short-term and the potential to vertically integrate in the long-term. This study examines the effects of rising tariffs, demonstrating their profound impact on supply chain stability, financial efficiency, and procurement strategies. Additionally, it provides a valuable framework to help businesses navigate these evolving challenges.

Tariffs Are Reshaping Global Business Dynamics

The revival of broad tariffs is severely impacting global supply chains, particularly in sectors such as automotive, consumer goods, and manufacturing. With 93% of executives voicing concerns, businesses are reassessing financial projections and refining sourcing strategies to counter escalating costs and operational uncertainty.

Operational Resilience Is Hindered by Digital Gaps

Despite investments in automation and digital platforms, 83% of organizations struggle with system integration and agility. A broken link between digital strategy and execution is limiting real-time responsiveness, making businesses vulnerable to a range of market shocks.

Optimizing finance and supply chains is no longer optional, it's critical

To offset tariff impacts, businesses must focus on optimizing capital, cutting SG&A, streamlining inventory, transforming procurement, and strengthening supply chains. These strategic efforts can yield significant results, such as 5% - 7% improvement to Working Capital and cash flow, 30% - 50% decrease in SG&A costs, a 20%–30% reduction in inventory days by seamlessly integrating technology, data, and process automation.

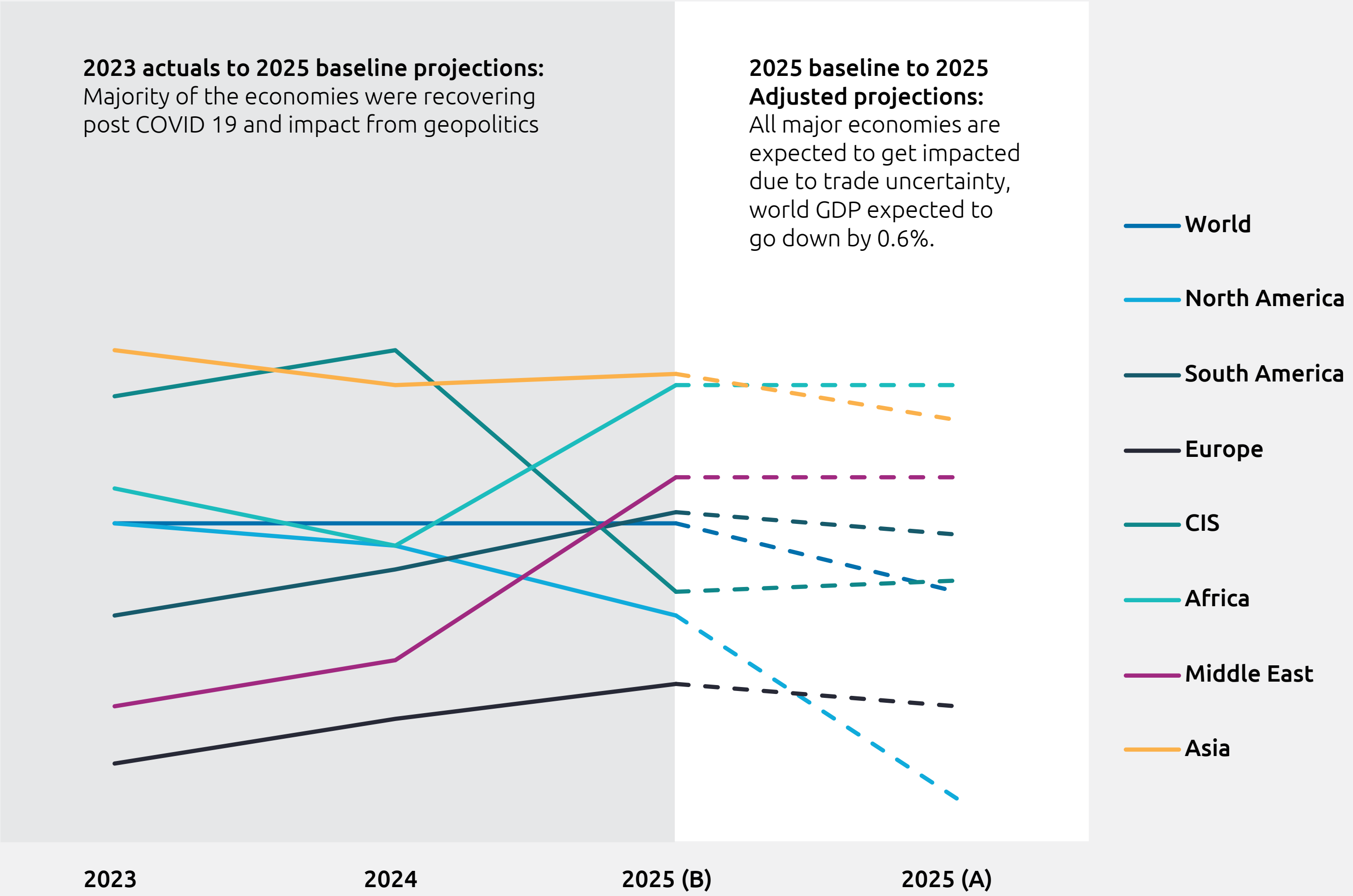
Trade uncertainty threatens global growth

Macroeconomic conditions attributed to global tariff policies and geopolitics have created uncertainties across all industries. A recent study conducted by Capgemini Research Institute highlights that 93% of executives across industries are concerned about the impact that a trade war would have on operations and market access.

Reflecting on tariff uncertainties, economists suggest a contraction of the world GDP if tariffs are implemented. The recent economic forecast from the WTO estimates a 0.6% dip in global GDP in 2025, factoring the 90-day pause. The trade impact on GDP is expected to create further instability if reciprocal tariffs are implemented and subsequently spread beyond the United States, impacting bilateral trade between other economies.

During COVID-19, working capital across industries was impacted as days in inventory increased due to declining demand and contractions in goods movement. Post COVID-19, with a sudden rise in demand and increase in digital buying behavior, organizations were forced to rethink their supply chain strategy and operations. As industries were beginning to recover post-COVID-19, global tariff uncertainties and geopolitical tensions have reintroduced significant volatility.

Figure 1. GDP Growth % (at market exchange rates) — World and Major Economies, Historical and 2025 Baseline (B) and Adjusted (A)



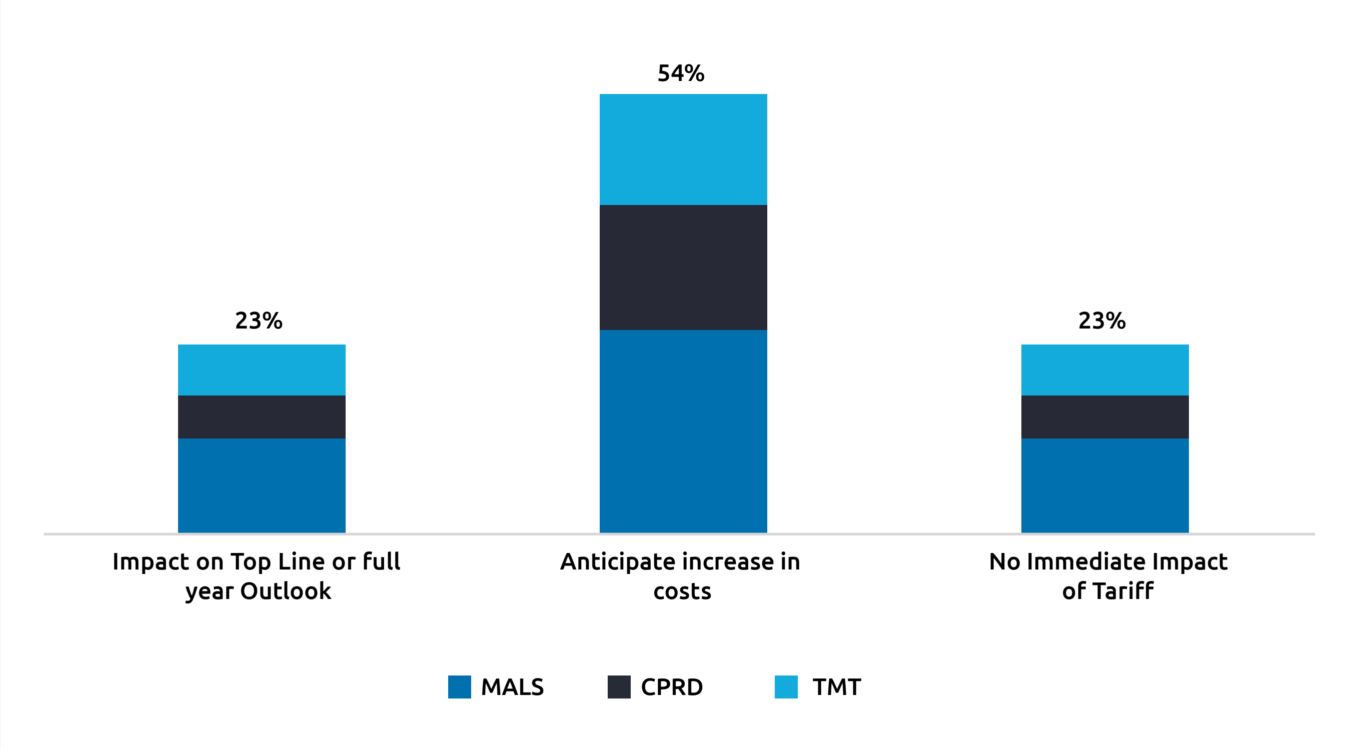
Source: Capgemini Representation based on WEO April 2025 Outlook

The ripple effect across industries amplifies systemic instability

Our study of the transcripts and performance releases of Top Fortune 500 companies (Figure 2) operating in the United States reveals that a majority of organizations across MALS, CPRD, and TMT sectors are primarily concerned about rising costs due to tariffs, with 54% citing this as a key impact area. In contrast, only 23% report an effect on their top-line or full-year outlook, and an equal 23% see no immediate impact. This suggests that while revenue forecasts remain relatively stable for now, cost pressures are a more immediate and widespread concern, prompting companies to closely monitor operational expenses and supply chain dynamics.

Figure 2: Key impact areas of tariff as highlighted by Fortune 500 organizations *

(% of organizations which mentioned the below impact areas in their recent transcripts)



** Based on study of Top 60 Fortune 500 based organizations present in US operating across the below mentioned sectors (Applicable to Figure 2 & Figure 4)*

MALS : Manufacturing (Aerospace & Defense, Energy & Utility, Food & Beverage, Industrial, Automotive and Life Sciences)

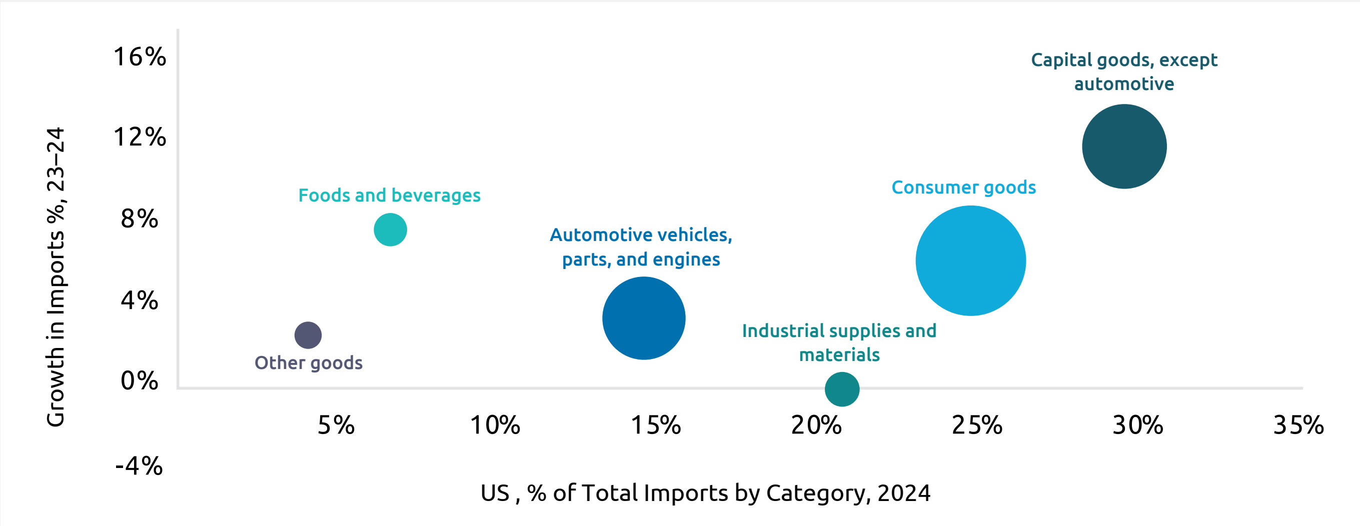
CPRD: Consumer Products, Retail, Distribution

TMT: Technology, Media & Telecom

At an aggregate economic level, the impact across industries is substantial. Sectors such as automotive, food and beverage, consumer goods, and capital goods face significant trade deficits (as shown in Figure 3) and are particularly vulnerable to tariff uncertainties.

Figure 3: US Imports by Industry Category and Trade Deficits in 2024

The bubble size represents absolute trade deficits/trade surplus for representation. Only Industrial supplies & materials category had trade surplus for FY 24 as compared to FY 23



	Automotive	Consumer Goods	Capital Goods	Industrial Supplies	Food & Beverage
Sub-Industries that have high trade deficits and can get impacted in the event of a higher tariff exposure	Passenger Cars (7%)	Pharma Preparations(8%)	Computer and Computer Accessories (7%)	Crude Oil (5%)	Fruits and Frozen Juices (1%)
	Automotive parts and accessories(4%)	Cell phones and Household goods (3%)	Electric Apparatus (4%)	Other Industrial Supplies (1%)	
	Trucks, buses, and special purpose vehicles (2%)	Textile and Cotton Apparel (3%)	Telecommunication equipment (3%)		

Source: Capgemini Analysis based on US International Trade in Goods and Services, December and Annual 2024

Mitigate or wait? Strategic responses to reduce ambiguity

Organizations reflecting on the immediate fluidity have taken a range of mitigating steps to safeguard growth and cost positions. For example, a 25% tariff on steel and aluminum will force F&B manufacturers to switch toward more sustainable and cost-effective packaging options to counteract any impact on COGS further narrowing margins. For the Automobile sector, a 25% tariff was imposed on select imported automobiles earlier in April. However, to ease the burden, a new method was implemented for USMCA-eligible automobile imports. This method enables eligible importers to provide documentation detailing the value of US-origin content in their vehicles, ensuring that the 25% tariff is applied only to the portion of the vehicle's value attributed to non-US content. While this may lessen the overall financial burden, automakers must now modify their back-end processes to comply with the updated regulations, leading to increased costs for managing these adjustments.

The Consumer Sentiment Index (CSI), which gauges consumer optimism regarding personal finances and the broader economy, has declined by 30% since January 2025. According to a study conducted by the University of Michigan, trade uncertainty remains a key factor influencing consumer outlook. On the supply side, some companies have already signaled price increases (see Table 1).

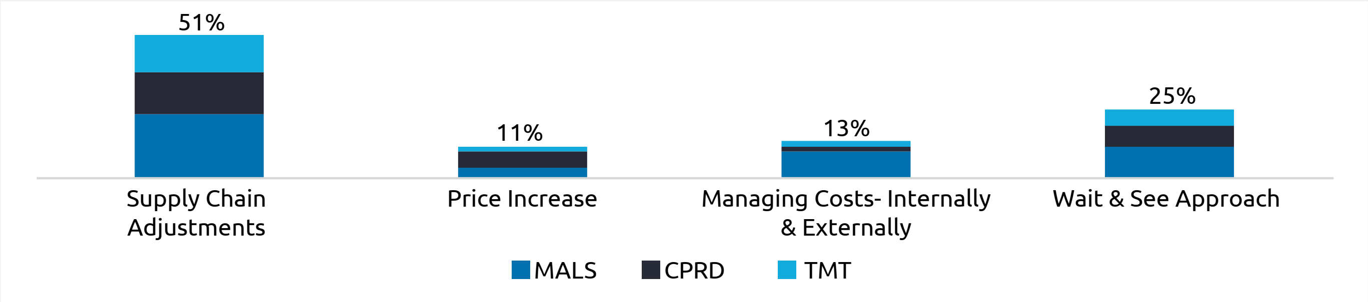
Table 1: Examples – Some Organizations which are increasing their prices citing impacts of tariff & increased cost

Retail	**An American multinational retail corporation** is expecting to increase prices effective from end of May/Early June 2025. **Another American multinational consumer electronics retailer** already increased prices on some items, changes of which were effective mid-May.
Automobile	**An American multinational automobile manufacturer** hiked prices on three of its Mexico manufactured models. The **American entity of a Japan based automobile manufacturer** is hiking prices on certain models staring in June citing changes made to offset increased cost
Industrial	**An American manufacturer of industrial tools & household** mentioned in its recent quarterly performance report about implementing an initial pricing increase in in its industrial tool segment in the United States from April and might further increase their prices in the future.

From our study of transcripts of Top Fortune 500 companies (figure 4) indicates that over half of the companies are prioritizing supply chain adjustments (51%) as their primary response to tariff pressures. However, this strategy, while forward-looking, introduces potential execution risks such as supplier instability, increased lead times, and integration challenges. Meanwhile, 25% of companies are taking a "wait and see" approach, which may expose them to sudden disruptions if trade conditions shift unexpectedly. The relatively lower focus on cost management (13%) and price adjustments (11%) suggests that some organizations may be underestimating near-term financial pressures.

Figure 4: Key mitigation possibilities as highlighted by Fortune 500 organizations

(% of companies which are mentioning about the below tariff mitigation possibilities in their recent transcripts)



MALS: Manufacturing, Automotive Life Sciences , CPRD: Consumer Products, Retail & Distribution , TMT: Technology, Media & Telecom

Operational bottlenecks impacting resiliency

1 Bridging the gap
Aligning digital strategy with execution to strengthen trade resilience

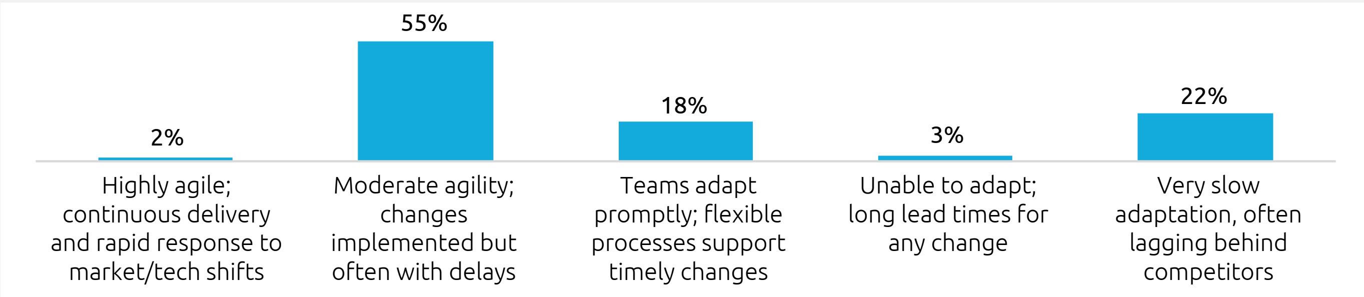
2 Structural continuity
Integration challenges with external or newer systems limiting operational readiness

3 Balancing liquidity & leverage
Strategic benefits of working capital utilization versus cost of tying up the capital

1. Bridging the gap: Aligning digital strategy with execution to strengthen trade resilience

Effective management of key levers such as working capital, supply chain, finance, and supplier collaboration is crucial for enhancing resilience and proactively responding to market shifts and technological changes. A recent survey assessing organizational readiness revealed that only 20% of executives consider themselves aligned with an agile delivery environment capable of swiftly adapting to market fluctuations. Meanwhile, 80% acknowledged their vulnerability to market disruptions, citing the substantial effort required to build resilience often leading to slow progress and delays in service delivery.

Figure 5: Response Percentages highlighting organization's adaptation to changes in technology or market demands



Sample Size, N=114 respondents

One of the major drivers of this vulnerability is inefficient application of process automation that can be due to a multitude of factors like poor process definition to inadequate testing and monitoring. However, our survey across organizations highlights the broken link between organization data strategy and insights from process automation.

Automation outcomes are underutilized with respect to digital strategy and planning due, in part, to ambiguity by all stakeholders.

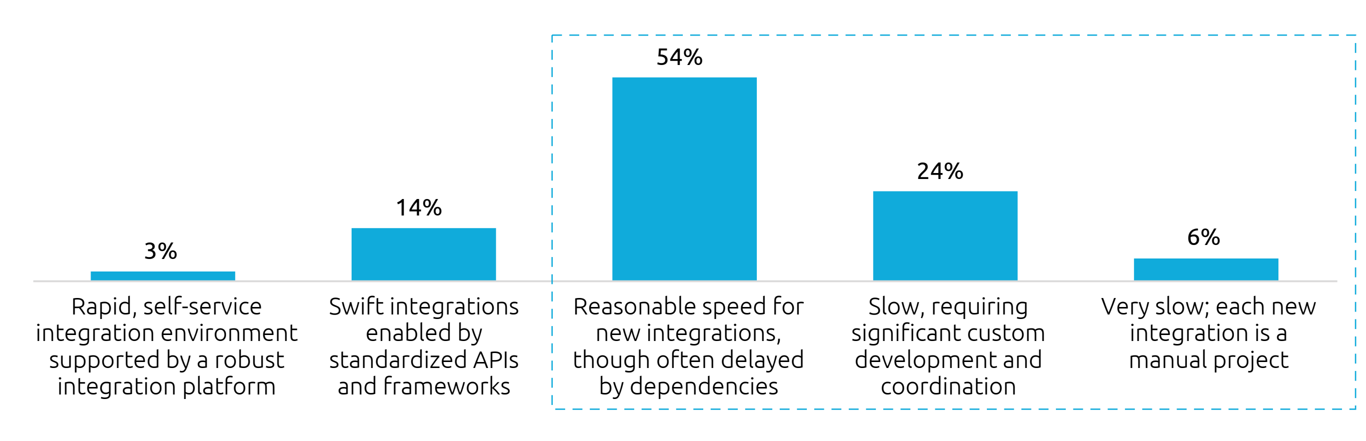
- 95% of organizations that struggle to integrate automation outcomes into future planning are those who's digital, data, and automation strategies lack clear direction and coherence.Only 33% of organizations are leveraging automation outcomes in strategic planning and budgeting.
- Organizations where automation outcomes are considered or occasionally leveraged for decision-making are those where the strategy is defined but its not widely understood across the organization.

2. Structural continuity : Integration challenges with external or newer systems limiting operational readiness

Organizational readiness toward a market shift is its ability to integrate its existing platforms with an internal or external system. Our survey reveals that while majority of organizations surveyed do have the ability of some level of integration, scalability and swiftness are major bottlenecks. 83% of the respondents are unable to drive quick integrations delayed by dependencies, legacy systems, custom developments, and coordination. Thus, while these organizations technically have an enterprise system, in the event of a market shock due to tariffs, geopolitical instability, technological rifts, they may not be in position to leverage real-time changes through their APIs, cascading and impacting supply Chain and procurement operations.

83% of organizations struggle with scalability and the rapid integration of their platforms into new internal or external systems.

Figure 6: Response Percentages highlighting the scalability of existing systems



Sample Size, N=114 respondents

Table 2: Factors driving lack of scalability

Lack of scalability is due to limited exposure to emerging technologies and no track of real-time ROI
Only 1 out of 4 organizations is able to pilot emerging technologies (like AI, Gen AI, RPA)
20% of the organizations only pilot emerging technologies whenever they face a roadblock, 60% of which are slow in integrating to any external platforms .
Only 2% of the organization have systems to measure real-time ROI, continuous optimization across business processes.

3. Balancing liquidity and leverage: Strategic benefits of working capital utilization versus its opportunity cost

Focus on Finance Operations

Businesses facing tariff uncertainty can strengthen financial outcomes by optimizing working capital, reducing SG&A costs, and improving planning accuracy. Leveraging advanced analytics helps prevent revenue leakage, enhance compliance, and reduce balance sheet risk. These strategies collectively improve cash flow, margins, and financial resilience in volatile trade environments

Table 3: Potential Finance Focus Areas to Drive Resiliency

	Focus Areas	Potential Business Outcomes
Improved Working Capital & Cash Flow	Combat changing tariff's impact on working capital by optimizing trade receivables and payables	10% - 15% improvement to DSO 5% to 10% improvement to DPO 5% - 7% improvement to Working Capital and cash flow
Revenue Leakage Prevention & Margin Uplift	Leverage advanced analytics to address revenue leakage and improve margins	0.5% - 1% reduction in revenue leakage 0.5% - 1% margin uplift
Selling, General, & Administrative (SG&A) Reduction	Reduce SG&A costs allowing better cash on hand to manage increase in costs due to Tariff's	30% - 50% decrease in SG&A costs 3% - 5% reduction in overall operating costs
Financial and Enterprise Business Planning Accuracy Improvement	Improve Financial planning and enterprise planning accuracy with advanced analytics and reporting solutions, with underlying Agentic AI and Gen AI solutions	30% - 40% improvement in financial planning and enterprise planning accuracy 10% – 20% improvement to turn around time in the planning and forecasting cycle
Improved compliance	Drive improved compliance with AI driven Governance, Risk and Compliance	20% improvement in compliance through increased automated and targeted testing 10% faster analysis of risks and mitigation across the enterprise
Reduce Balance sheet Value at risk (V@R)	Drive improved balance sheet quality and hygiene to combat the uncertainty with ever changing Tariff environment, allowing for transparency and increase confidence in reported and published numbers to Wall Street	30% - 70% improvement to V@R

Increasing inventory to tackle supply chain challenges has emerged as a major strategy across industries, though it comes at the cost of working capital, an approach that may not be sustainable in the long run. A study by the Capgemini Research Institute, resilience in automotive supply chains, found that approximately 60% of executives from auto OEMs and suppliers have turned to stockpiling inventory and boosting working capital to navigate logistics disruptions and sourcing difficulties

Inventory management plays a crucial role in mitigating the disruptions caused by trade uncertainty. The same study referenced earlier found that > 40% of OEMs and ~ 46% of suppliers have allocated their working capital toward inventory, ensuring a stable supply and prioritizing the production of essential components. While reducing inventory to prevent overstocking especially amid rising tariff costs appears to be a logical approach to align with consumer demand and minimize losses, the strategic benefits must outweigh the financial burden of tying up working capital. To maximize its potential, organizations should position supply chain, procurement, and finance operations at the core of their strategy, fostering seamless collaboration, data-driven decision-making, and agile execution across the value chain.

Focus on Supply Chain Operations

The table highlights supply chain functions that are key to mitigating the impact of tariffs and geopolitics and plays a pivotal role in driving cost and productivity. By removing friction and inefficiencies, organization have the potential to deliver significant business outcomes leveraging the equitable mix of process automation, technology, and people.

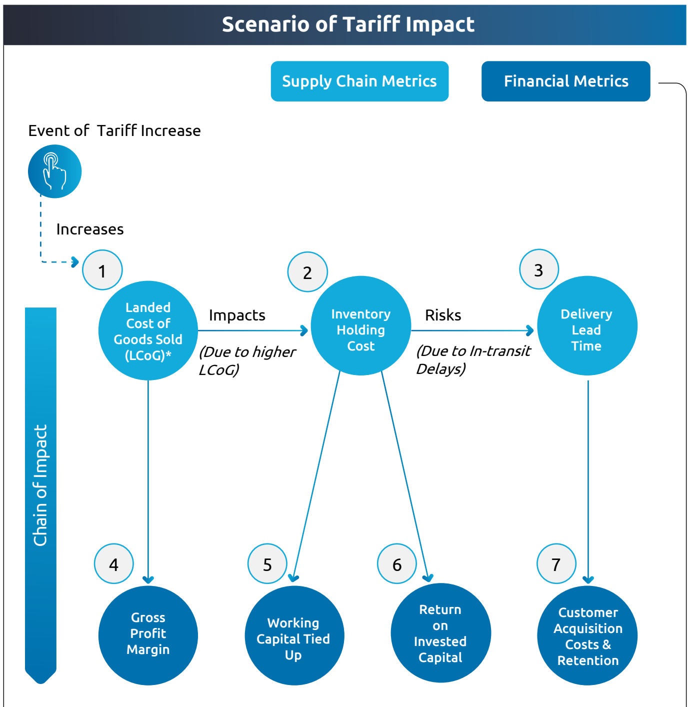
Table 4: Potential Supply Chain and Procurement Focus Areas to Drive Resiliency:

	Focus Areas	Potential Business Outcomes
Inventory Optimization	Dynamically rebalance inventory levels and reduce expensive buffers	20–30% Reduction in days of inventory 95–97% Stock availability 10–15% Improvement in working capital
Supply Resilience	Enhance material availability and streamline the intricate interplay of procurement, logistics, and manufacturing by integrating procure-to-pay and supply planning with seamless purchase order management, inventory in transit visibility, and logistics planning	18% Forecast accuracy 50% Transactional cost reduction 98% Master data accuracy
Supply Chain Optimization	Identify risks or opportunities from trends and patterns, optimize business, and help deliver tangible sustainability results by leveraging millions of qualified data point in logistics and supply planning and applying predictive analytics, ML, and AI	15% Improvement in forecast accuracy 18% Stock reduction
Procurement Transformation	Multilevel procurement organization with enterprise-level procurement policy for supplier selection and buying channels while driving: • Faster PR to PO conversion and reduction of non-PO purchases • Enabling of Auto-PO creation and transmission to vendors	95% PR to PO conversion 70% Reduction in non-PO purchases 92% On-time RFI Conversion 24% Improvement in efficiency due to Auto-PO

Leveraging near-term agility: Swift response amid tariff uncertainty, sustaining competitive edge

A tariff increase functions as a direct price increase on imported goods, significantly influencing a company's costs and, in turn, the prices passed on to consumers. Understanding price elasticity is crucial during such periods, as it shapes consumer reactions to higher prices and ultimately impacts sales volume, market share, and profitability. Strengthening short-term resilience in supply chain and finance to navigate price sensitivity particularly amid tariff hikes or other cost shocks demands a strategic and agile approach. The table below outlines key metrics that can be measured and managed to enhance short-term resilience.

Figure 7: Tackling Near Term Impact of Tariff Increase (Manufacturing & Related Sectors)

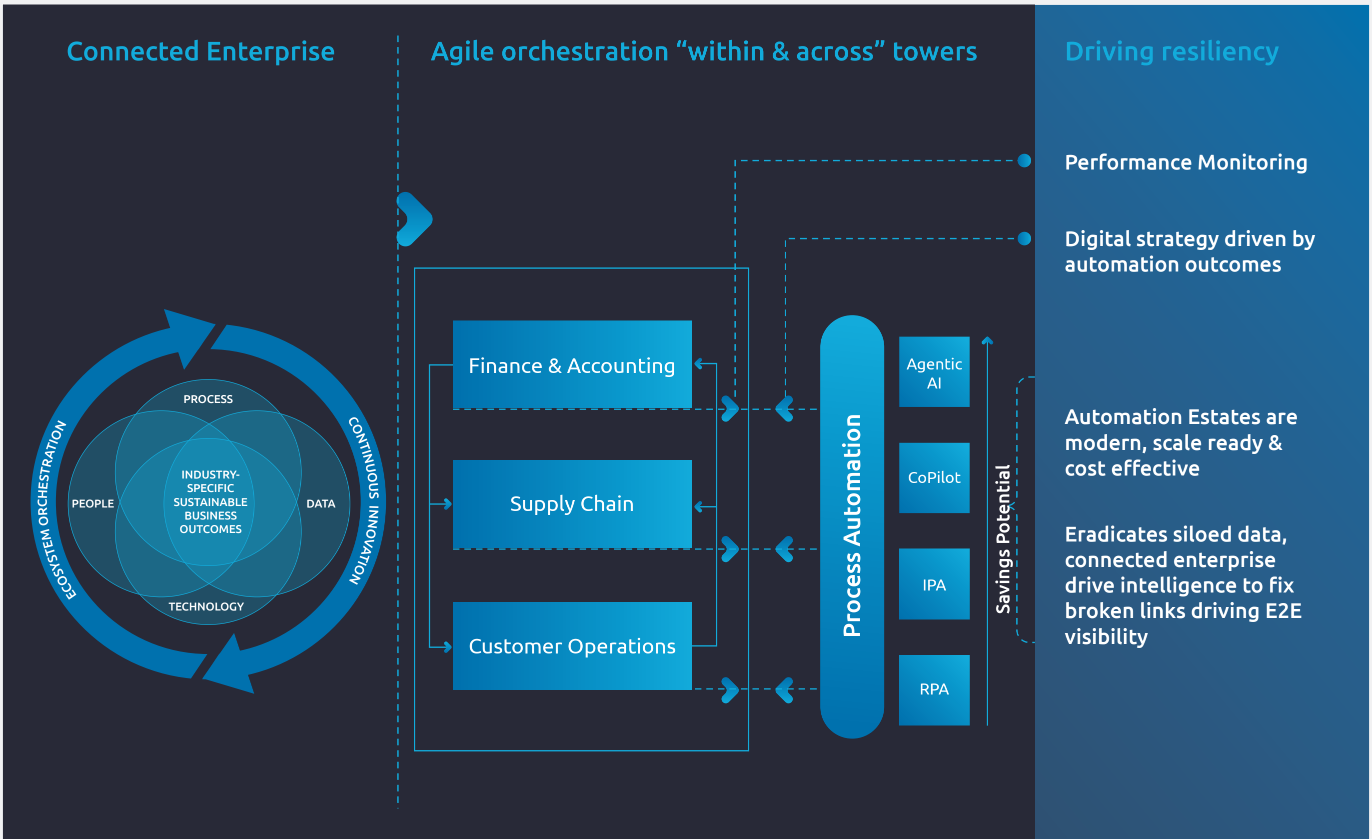


*LCoG: Landed cost of goods sold refers to the total cost of a product, including all expenses incurred from the point of origin to point of buyer. This includes the original purchase price, shipping, insurance, customs duties, taxes, and any other costs associated with getting the goods to their destination.

Short Term Mitigation

Target	Addressing Price Sensitivity	Operational Focus (non exhaustive)	Control
1	Determine LCoG Impact on products (Finished Goods, WIP) with varying price sensitivity	• Leverage real time visibility & analytics to identify precise tariff per unit product • Identify lower tariff sourcing options • Identify tariff exemption opportunities	4
2	Determine Optimal inventory levels based on supply risks & demand volatility	• Implement multi-echelon inventory management • Demand Forecasting Factoring Stress Tests • Strategic Buffer Stock Planning	5
3	Maintain reliable lead times prevents customer churn, which is critical in price-sensitive markets where customers often equate reliability with value	• Strategic Supplier Assesment & Onboard (if necessary) • Evaluating critical paths • Logistics Optimization Plans rerouting, freight consolidation	6
7	Analyze price changes driven by tariff, its impact on customer churn rates and the effectiveness of marketing efforts to attract new customers.	• Communication & Marketing aligned to price adjustments • Revisit customer segmentation, flexible pricing models, and promotional tactics to retain price-sensitive segments and maintain profitability	

Enabling long-term organizational resilience through a Connected Enterprise framework



Driving Business Outcomes

Revenue growth
Improving the quality of processes and the customer buying and paying experience

30%
Improvement in Customer Satisfaction

Working capital
Supporting inventory and cost reduction, and reducing days sales outstanding

70%
Reduction in Operational Cost

Margin improvement
Increasing end-to-end process efficiency by leveraging automation, consolidation, and actionable insights

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The authors would also like to thank Renuka Ok & Atullya Nambiar for their contributions to this POV

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