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Thriving in a Turbulent World

» Adapt Your Strategy for the Tariff-Driven Economy

» 6 Cost Reduction Mistakes You Must Avoid

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Thriving in a Turbulent World

Chris Howard
Chief of Research

Shearing forces are at work in the global economy. These unaligned macro pressures threaten to tear away revenue, upend partnerships, confuse markets and shake consumer confidence. When an airplane hits wind shear, why doesn't it come apart? Resilient design. Thousands of test hours. Simulations of and preparation for countless scenarios. This edition of *Gartner Business Quarterly* provides actionable C-level guidance on multiple dimensions of enterprise resilience in a turbulent world.

Faced with the challenging-to-predict actions of the U.S. administration, executive teams must try to separate the policy signals from the noise. They will need flexibility and strong communication (with each other and to the board and employees) rooted in scenario planning. Tariffs and trade policy shifts from the U.S. are disrupting supply chains and may require broader reviews of organizational strategy.

High uncertainty demands high-resolution forecasting, consistent brand messaging and dynamic budgeting. Speaking of budgets, enterprises need to double down on investment strategies, including but not limited to cost optimization. And as cost constraints increase, they should look to close skills gaps in their workforce by hiring for promise rather than proficiency.

All of this is happening while AI becomes more embedded in work. Economic pressures will force the best AI pilots into production, and executive leaders must look beyond individual productivity for firmwide value. Leading enterprises will leverage innovations, such as AI, that enable them to thrive in these turbulent times. Laggards will turn their attention away from these opportunities and fall farther behind.

Are you ready to survive the shearing forces? Read on and find out.

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Adapt Your Strategy for the Tariff-Driven Economy

by Suzie Petrusic and Sean Kumar

Tariff and trade policies present enterprises with immediate challenges and may also shift their competitive positions. Executive leaders must reassess their enterprise's capabilities, competitors and customers and adjust investments accordingly to survive and grow.

Tariff volatility threatens to trigger an unusual type of global economic downturn. During the Great Recession from 2007 to 2009, and the COVID-19 recession in 2020, governments in leading economies injected resources to provide stability. Now, in contrast, tariff and trade policies are *extracting* resources, increasing the severity of the pinch felt by many global enterprises and disrupting their complex cross-border supply chains.

The probable result is a fiercely competitive, tariff-driven economy, making it likelier that enterprises will seek to grow by taking market share from rivals. Additionally, this reconfiguring of the global economy disturbs competitive dynamics within existing markets and the advantages of leading companies, largely due to these companies' supply chain design. Tariffs give other enterprises a chance to gain market share from larger firms by providing new competitive advantages.

Executive leaders are understandably focused on mitigating immediate tariff impacts on their enterprises by, for example, managing costs and supply. But — absent major policy stimulus or lasting tariff reductions — they must also consider the effect of tariffs on the wider economy. That means reviewing organizational strategy to remain competitive and grow.

Determine Your Enterprise's Competitive Wedge Point

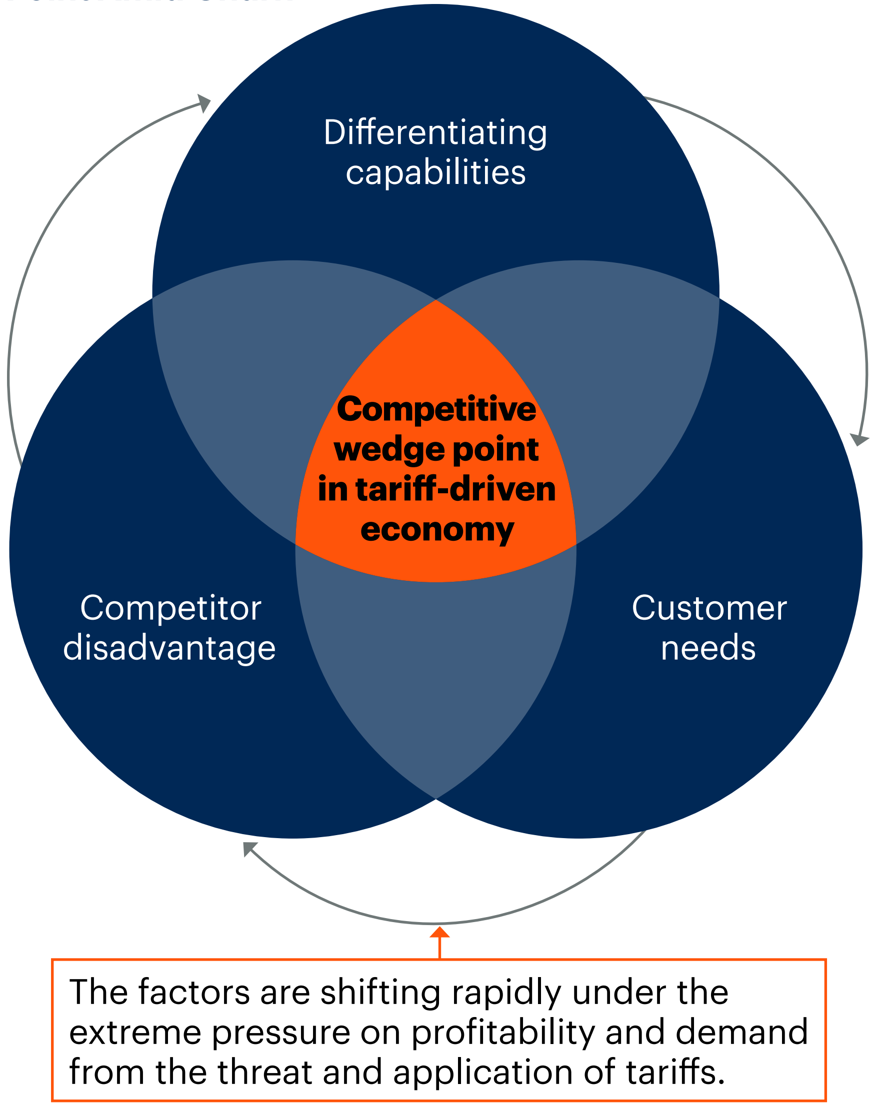
This point lies at the intersection of your differentiating capabilities, customers' needs and competitors' disadvantages. It is where you can take market share from others (see Figure 1).

Finding your wedge point can be challenging even during periods of slow change. The task is harder still today, when all three factors are shifting rapidly.

In the tariff-driven economy, reassess your enterprise's:

- **Capabilities,** and whether your competitive advantage is shifting from one area to another
- **Competitors,** and if and how their competitive position is changing
- **Customers,** and how tariffs are likely to alter their needs now and in the future

Figure 1. Determining Your Competitive Wedge Point Amid Churn



Source: Gartner

For some organizations, survival is the goal. Others aim higher and seek to grow despite the headwinds.

Critically Assess Your Own Capabilities

Survive Through Your Competitive Core

Quickly developing new capabilities that can give you an edge is an asset at any time. In an extremely competitive, tariff-driven market, rather than starting with customers and working backward, begin with your strengths and look for opportunities from there. Develop a structured process using inputs from C-suite stakeholders to reach a full, unbiased understanding of what your firm does best. These core capabilities might include unique technological expertise or specialized knowledge relevant to tariff volatility, such as supply chain network design.

Do not be afraid to spend money or invest in your company's own development. If you do sit on your capital, be sure you are making this choice not out of fear, but for good business reasons. Capitalize on internal capabilities to drive innovation and expansion.

Grow Through Competitive Expansion

Identify core capabilities your organization can harness to explore new market opportunities or enhance existing offerings. Consider both "should" factors (whether the potential financial return is worth the investment) and "could" factors (whether your organization has the capabilities needed to win) to pinpoint priority investment areas. Screen potential markets with your core capabilities in mind to identify adjacent growth pathways that align with your firm's competencies and risk appetite. Invest in research and development, focusing on areas where your company can provide unique value.

What Executive Leaders Should Do

Assess your enterprise's most mature capabilities and look for opportunities to invest given the tariff-driven dynamic.

- **R&D** leaders should evaluate products and services that create new advantages, together with the organization's agility in innovation and lead time to market.
- **Marketing and sales** leaders should look at their ability to drive the enterprise's offering for competitive gain, including in new markets.
- **Supply chain** leaders should examine the organization's cost competitiveness, especially in light of the cost impact of new tariffs, and assess its ability to leverage relationships across its value chains for advantage. They can also look to exploit operational excellence, perhaps in global trade management or in managing supplier relationships through the current volatility.
- **HR** leaders should look for unique attributes of the organization's workforce or culture, and gauge its ability to retain or quickly attract new talent.

Track Your Competitors' Moves and Positions

Survive Through Competitive Monitoring

The basics remain the same — identify primary competitors to scrutinize, gather and analyze data and exploit weaknesses to differentiate. What has changed is how often you scan and *who* you include on your competitor radar.

Based on your evaluation of your capabilities, look for nontraditional competitors that may be taking aim at your market share. For example, you might discover midsize enterprises with U.S. manufacturing capabilities that now have a price advantage over imported goods and are looking to increase their sales volumes. Although these companies are not your traditional rivals, capacity constraints may be the only thing preventing them from eroding your market position.

Grow Through Competitive Intelligence

Seek to identify and exploit potential weaknesses in competitor strategies that have emerged due to the tariffs, such as reliance on heavily impacted markets or supply chain inefficiencies. Evaluate competitor capabilities that are particularly vulnerable, such as collaboration with nontraditional partners, channel partner programs, technology differentiators or pricing strategies. Consider merging with or acquiring smaller enterprises or forming strategic alliances or partnerships to strengthen your position.

What Executive Leaders Should Do

Effective competitive intelligence in the tariff-driven economy requires more frequent and detailed information gathering, strategic agility and good collaboration across the C-suite.

- **Marketing and sales** should aggressively track real-time demand and watch for price increases or reductions from competitors.
- **Supply chain** should monitor competitors' network adjustments and disruptions that might create a vulnerability or an advantage.
- **R&D** can analyze competitors' cost structures and track patent filings.
- **Finance** can assess financial stress and analyze competitors' capital allocation to look for vulnerabilities.

Analyze Customer Needs

Survive Through Competitive Stickiness

Knowing your customers' needs and vulnerabilities is a must, of course. But now you have to understand how these are changing as a result of tariff volatility. When appropriate, tell customers how you are responding to the tariffs. Provide clear information about how the levies will impact your organization and its wider supply chain network.

Look for ways to strengthen your customer relationships. For example, see if you can use your expertise in supply chain network design to help them document and clarify the tariffs they are required to pay. Try to create joint value with your customers, perhaps through collaboration in developing capabilities in a new region to reduce the impact of tariffs on costs.

Grow Through Competitive Customer Intimacy

Aim to anticipate future customer needs and position your offerings accordingly in an economy where growth increasingly requires taking market share or wallet share. Create opportunities for competitive advantage by understanding how customers derive value and identifying areas where they are currently underserved. Identify changing needs and concentrate on those likely to last the longest amid tariff volatility.

For example, customers experiencing margin pressures due to higher tariffs on inputs may be open to more streamlined service offerings or exploring lower-cost product alternatives made out of less-expensive materials.

Consider increasing value by expanding your service offerings. For example, B2B customers are increasingly demanding information about the sources of their suppliers' raw materials to mitigate costs and comply with new tariffs. Emphasize unique product features or benefits that justify a higher price to strengthen your position without solely relying on cost-cutting measures.

What Executive Leaders Should Do

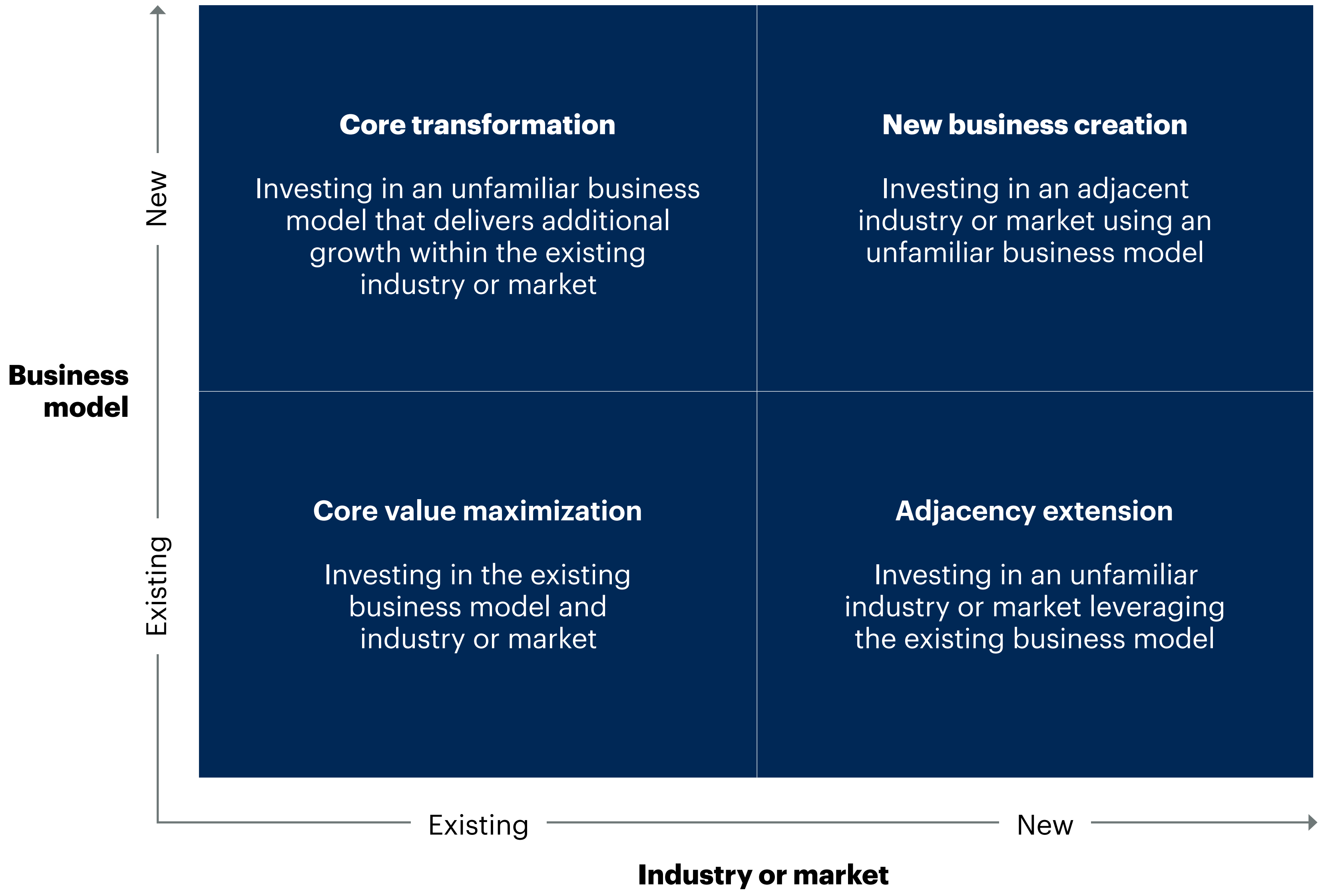
Show empathy and understanding with customers, increase transparency where strategically sensible and invest in long-term relationship management.

- **Customer service and experience** leaders should proactively address customers' tariff-related concerns.
- **Marketing** should craft messages that emphasize the value customers gain with price increases. It should also sense demand shifts and conduct price sensitivity analysis.
- **Sales** leaders will need to equip their salesforce with language to justify price increases and provide alternative options.
- **Finance** can support customers with potential payment and financing options.
- **Supply chain** can look to deepen customer reliance and loyalty through added services.

Adjust Your Investment Portfolio for Survival and Growth

Once you have identified your competitive wedge point, determine whether it requires investing in a new, adjacent industry or market or in a new business model (see Figure 2) and adjust your investment portfolio accordingly.

Figure 2. Gartner's Growth Bets Matrix



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