



# Weathering the Storm

A Canadian SME Playbook for Navigating US-Canada Tariffs

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## INTRODUCTION

# A Call to Action for Canadian Small and Medium-Sized Enterprises

The trade landscape between the United States and Canada has shifted. The imposition of tariffs and reciprocal response present a significant challenge to Canadian SMEs. This isn't just a headline; it's a direct hit to your bottom line, your supply chain, and your competitive edge. But it doesn't have to be a knockout blow.

This playbook is your concise, actionable guide to navigating this turbulent period. It's designed specifically for Canadian SME leaders who need immediate, low-cost strategies to mitigate the impact of these tariffs and emerge stronger. We understand that you don't have time for lengthy theoretical discussions – you need practical solutions you can implement today.

Here's a quick overview of what's covered:

### **MODULE 1: CASHFLOW UNDER TARIFF FIRE**

Learn how to protect your cash flow, the lifeblood of your business, through immediate forecasting, cost control, and working capital optimization.

### **MODULE 2: TARIFF-PROOFING YOUR PRICING & PROFITABILITY**

Discover strategies to adjust your pricing models, recalculate costs, and explore duty-drawback programs to maintain profitability.

### **MODULE 3: SUPPLY CHAIN RESILIENCE**

Diversify your suppliers, assess risks, and explore alternative sourcing options to minimize disruption and reduce your reliance on tariff-impacted regions.

### **MODULE 4: OPERATIONAL EFFICIENCY UNDER PRESSURE**

Implement lean methodologies, optimize processes, and identify cost-saving opportunities to absorb tariff impacts and improve overall productivity.

### **MODULE 5: NAVIGATING PAYMENT TERMS & INCOTERMS IN A TARIFF LANDSCAPE**

Understand how to optimize payment terms and Incoterms to minimize trade risks and manage tariff-related costs effectively.

### **This is Not Just Theory – It's Your Survival Guide.**

The strategies in this playbook are designed to be low-cost and immediately actionable. They are based on best practices and real-world experience, tailored to the unique challenges faced by Canadian SMEs in the current trade environment. Don't wait for the storm to pass – take control of your business's future. Start implementing these strategies today and build a more resilient, tariff-proof business.

### **What You'll Find Inside**

This playbook is divided into five core modules, each addressing a critical area of your business impacted by the tariffs. Each module provides:

#### **CLEAR OBJECTIVES**

Understand the specific goal of each module and how it contributes to your overall resilience.

#### **KEY STRATEGIES**

Learn the proven tactics to achieve those objectives, explained in plain language.

#### **IMMEDIATE ACTION ITEMS**

Get a prioritized checklist of steps you can take right now to start protecting your business.

## Module 1

# Mastering Cash Flow: 8 Practical Strategies for Entrepreneurial Success

Effective cash flow management is crucial for the success and sustainability of startups and small to medium-sized enterprises (SMEs). In Canada, cash flow challenges are a significant concern for many businesses. According to a 2023 [survey by Xero](#), nearly one-third (31%) of Canadian small business owners have been unable to pay themselves at times in the last 12 months due to cash flow challenges.

As Peter Drucker wisely stated, “Entrepreneurs believe that profit is what matters most in a new enterprise. But profit is secondary. Cash flow matters most.” To avoid this common pitfall, here are 8 practical tips for effective cash flow management.

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- 1. Understand Cash Flow Dynamics**

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  - 2. Develop Accurate Cash Flow Forecasts**

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  - 3. Optimize Accounts Receivable**

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  - 4. Manage Accounts Payable Strategically**

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  - 5. Control Operating Expenses**

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  - 6. Maintain Adequate Cash Reserves**

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  - 7. Monitor Inventory Levels**

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  - 8. Plan for Seasonality**

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## 1. Understand Cash Flow Dynamics

### → Cash Inflows

These are the funds entering your business, primarily from sales revenue, investments, or loans. For example, when a customer purchases your product or service, the payment received is a cash inflow.

### → Cash Outflows

These are the funds exiting your business to cover expenses such as payroll, rent, utilities, and loan repayments. For instance, monthly rent payments for your office space or salaries paid to employees are cash outflows.

By regularly monitoring and analyzing these inflows and outflows, you can identify patterns, anticipate shortfalls, and make informed decisions to maintain a healthy cash balance.

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## 2. Develop Accurate Cash Flow Forecasts

### → Leverage Historical Data

Examine your past financial records to identify trends in sales and expenses. For example, if your business experiences higher sales during the holiday season, plan for increased cash inflows during that period.

### → Scenario Planning

Create multiple cash flow scenarios—best-case, worst-case, and most-likely—to prepare for various financial situations. For instance, consider how a 10% decrease in sales would affect your ability to cover expenses.

### → Utilize Forecasting Tools

Implement accounting software or spreadsheets to project future cash flows based on current data. Tools like QuickBooks or Excel can help automate this process, providing real-time insights.

Regular forecasting allows you to anticipate cash shortages and take proactive measures, such as securing a line of credit before it's needed.

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## 3. Optimize Accounts Receivable

### → Set Clear Credit Policies

Define payment terms and conditions upfront. For example, require payment within 30 days of invoicing and communicate this clearly to customers.

### → Incentivize Early Payments

Offer discounts to customers who pay ahead of schedule. For instance, provide a 2% discount for payments made within 10 days.

### → Implement Automated Invoicing

Use digital invoicing systems to expedite billing and track payments efficiently. Platforms like FreshBooks can automate invoice generation and send reminders to clients.

Efficient receivables management accelerates cash inflows and reduces the risk of bad debts.

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## 4. Manage Accounts Payable Strategically

→ **Negotiate Favorable Terms**

Work with suppliers to extend payment deadlines without incurring penalties. For example, negotiate a 60-day payment term instead of 30 days.

→ **Prioritize Payments**

Schedule payments based on due dates and the importance of the supplier relationship. Ensure that critical suppliers are paid on time to maintain good relationships.

→ **Take Advantage of Discounts**

Where possible, pay early to benefit from supplier discounts. For instance, if a supplier offers a 3% discount for payments made within 15 days, and your cash flow allows, take advantage of this offer.

Strategic payables management helps maintain positive relationships and preserves cash.

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## 5. Control Operating Expenses

→ **Regular Expense Audits**

Periodically review all expenses to identify and eliminate unnecessary costs. For example, assess whether all current software subscriptions are essential or if there are more cost-effective alternatives.

→ **Budget Adherence**

Stick to a well-planned budget to prevent overspending. Allocate specific amounts for each department and monitor adherence.

→ **Invest Wisely**

Prioritize expenditures that directly contribute to revenue generation. For instance, investing in a marketing campaign that has previously resulted in increased sales.

Keeping operating costs in check ensures more cash is available for essential activities.

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## 6. Maintain Adequate Cash Reserves

→ **Emergency Fund**

Set aside funds to cover unexpected expenses or revenue shortfalls. Aim to have at least three to six months' worth of operating expenses saved.

→ **Regular Contributions**

Allocate a portion of profits to build and maintain this reserve. Treat this as a non-negotiable expense in your budgeting process.

A healthy cash reserve acts as a financial safety net during unforeseen challenges.

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## 7. Monitor Inventory Levels

→ **Avoid Overstocking**

Excess inventory ties up cash that could be used elsewhere. Analyze sales data to determine optimal stock levels.

→ **Implement Just-in-Time Inventory**

Order stock as needed to reduce holding costs. This approach minimizes storage expenses and reduces the risk of obsolescence.

→ **Regular Inventory Audits**

Assess inventory turnover rates to identify slow-moving items. Consider discounts or promotions to clear out stagnant stock.

Efficient inventory management frees up cash and reduces storage costs.

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## 8. Plan for Seasonality

→ **Identify Seasonal Trends**

Analyze sales data to understand peak and off-peak periods. For example, a retailer might experience higher sales during the holiday season.

→ **Adjust Cash Flow Projections**

Plan for increased expenses during peak times and conserve cash during slower periods.

→ **Diversify Revenue Streams**

Offer products or services that generate income during off-peak seasons. For instance, a landscaping company might offer snow removal services during the winter months.

By proactively managing seasonal fluctuations, you can maintain a steady cash flow throughout the year.

Implementing these strategies can help your business navigate the challenges of cash flow management and achieve long-term financial stability.

## Module 2

# Tariff-Proofing Your Pricing and Profitability: Strategies for Canadian SMEs

### OBJECTIVE

Tariffs and trade barriers can significantly impact Canadian SMEs exporting to the U.S., creating challenges around profitability, customer retention, and financial stability. This module equips businesses with strategies to navigate these disruptions by recalculating costs, adjusting pricing models, renegotiating contracts, and leveraging government relief programs. By taking proactive measures, businesses can protect their bottom line and remain competitive in an evolving trade landscape.

### INTRODUCTION

Trade barriers, including tariffs, can have significant financial and operational implications for businesses engaged in international trade. When tariffs are imposed, they can erode profit margins, disrupt supply chains, and force difficult pricing decisions that impact long-term business growth. To remain competitive, businesses must proactively assess their risk exposure and implement strategies to mitigate these challenges.

**This module is designed to help Canadian SMEs strengthen their resilience against tariffs by:**

- ✓ Understanding the economic impact of tariffs and who ultimately bears the cost.
- ✓ Renegotiating supplier and customer contracts to distribute or reduce the tariff burden.
- ✓ Leveraging duty-drawback and relief programs to recover tariff expenses.
- ✓ Recalculating landed costs to adjust pricing models effectively.

**By the end of this module, you will be able to:**

- ✓ Assess your tariff exposure and determine the financial impact on your business.
- ✓ Use contract negotiations to strategically distribute tariff-related costs.
- ✓ Access government relief programs to minimize financial losses.
- ✓ Adjust pricing models to maintain competitiveness without compromising profitability.

By integrating these strategies into your business planning, you can ensure that your company remains agile and prepared for any future shifts in trade policy.

## 1. Who Pays the Tariff?

For Canadian SMEs exporting to the U.S., understanding who is responsible for paying tariffs at the border is crucial for maintaining competitive pricing while managing costs.

The importer of record—responsible for customs clearance—bears the tariff costs:

→ **U.S. Buyer as Importer of Record**

They absorb the tariff, reducing your cost burden.

→ **Your Company as Importer of Record**

You pay the tariff, increasing landed costs and affecting profitability.

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### KEY CONSIDERATIONS

→ **Incoterms in Contracts**

Reviewing Incoterms (International Commercial Terms) in your contracts can help define whether your company or your U.S. buyer is responsible for duties and tariffs. Adjusting these terms may allow for cost-sharing or cost avoidance strategies.

→ **Importer of Record Review**

If your business is the importer of record, consider whether transferring this responsibility to the U.S. buyer can mitigate tariff costs.

→ **Duty Pass-Through Strategy**

If your company remains the importer of record, ensure that tariff-related costs are factored into your pricing models and communicated clearly to customers.

→ **Competitiveness & Pricing Strategy**

Passing on the full tariff to U.S. buyers may impact competitiveness. A rigid pass-through could make your pricing less attractive, especially if competitors absorb part of the tariff or adjust pricing structures strategically. Instead, a nuanced approach—such as selective cost absorption, bundling, or value-based pricing—may help balance profitability and market positioning.

### ACTIONABLE STEPS

☑ Assess current importer of record arrangements and determine if shifting responsibility can reduce costs.

☑ Review Incoterms in supplier and customer contracts to clarify who bears tariff responsibilities.

☑ Communicate any pricing adjustments transparently to U.S. buyers if tariffs will be passed on.

## International Commercial Terms

Incoterms, short for International Commercial terms are standardized trade terms published by the International Chamber of Commerce (ICC). They define the responsibilities of sellers and buyers in international transactions, specifying who is responsible for tasks such as shipping, insurance, documentation, customs clearance, and other logistical activities. By providing a common set of rules, Incoterms help facilitate international trade and reduce misunderstandings between parties.

### Common Incoterms and Tariff Responsibility

INCOTERM	SELLER'S RESPONSIBILITIES	BUYER'S RESPONSIBILITIES	TARIFF RESPONSIBILITY
EXW (Ex Works)	Makes goods available at their premises	Arranges all transportation and costs	Buyer
FCA (Free Carrier)	Delivers goods to carrier nominated by buyer	Arranges main transport and import clearance	Buyer
FOB (Free on Board)	Loads goods onto vessel at the port of shipment	Handles main transport, insurance, and import clearance	Buyer
CIF (Cost, Insurance, and Freight)	Covers cost of transport and insurance to the destination port	Arranges import clearance and delivery	Buyer
DAP (Delivered at Place)	Delivers goods to agreed location	Handles import clearance and duties	Buyer
DDP (Delivered Duty Paid)	Handles all costs, including import duties	Receives goods at the agreed location	Seller

Note: While these are the typical responsibilities, parties may negotiate specific terms that modify tariff responsibilities.

## 2. Contract Renegotiations: Managing Supplier and Customer Agreements

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### WHY IT MATTERS

- Fixed-pricing contracts may not account for sudden cost increases due to tariffs.
  - Transparent communication and renegotiations help businesses and customers navigate price adjustments collaboratively.
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### KEY STRATEGIES

- **Review Existing Contracts**
  - Identify clauses related to pricing adjustments, force majeure, and renegotiation triggers.
- **Supplier Negotiations**
  - Discuss shared responsibility for tariff costs.
  - Seek discounts or extended payment terms to offset tariff-related expenses.
- **Customer Communication**
  - Provide early notice of price changes with clear justification.
  - Offer phased price increases or loyalty-based discounts to maintain customer retention.

### ACTIONABLE STEPS

- ☑ Audit all supplier and customer contracts for tariff-related clauses.
  - ☑ Schedule renegotiation discussions with key stakeholders before the tariff implementation.
  - ☑ Develop clear customer communication strategies to explain price adjustments.
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## Contract Management Checklist: Renegotiation and Risk Mitigation

Review your contracts immediately for:

- ✓ **Pricing Adjustment Clauses**  
Ensure your contracts allow for price renegotiations due to tariff increases.

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- ✓ **Force Majeure Clauses**  
If applicable, check if tariffs qualify as an unforeseen business impact.

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- ✓ **Review Governing Law of Contract**  
Different jurisdictions may interpret force majeure differently, affecting whether tariffs qualify as an unforeseen event.

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- ✓ **Incoterms**  
Shift responsibility for tariffs to U.S. buyers if possible.

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- ✓ **Supplier Agreements**  
Negotiate cost-sharing on tariffs with upstream suppliers.

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- ✓ **Volume Discounts**  
Offer bulk pricing incentives to lock in customer loyalty.

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## Supplier Negotiation Tactics

Key strategies for negotiating better terms with suppliers to offset tariff impacts.

STRATEGY	DESCRIPTION	BEST FOR	CHALLENGES
<b>Request Cost-Sharing</b>	Ask suppliers to share tariff costs to maintain competitiveness.	When suppliers are heavily reliant on your business or have high margins.	Suppliers may resist; it requires strong negotiation leverage.
<b>Seek Alternative Suppliers</b>	Explore suppliers in non-tariff regions or those with lower costs.	Businesses open to changing suppliers, flexible logistics, if product differentiation is low.	Switching suppliers involves risks, lead time adjustments.
<b>Negotiate Extended Payment Terms</b>	Request longer payment terms to improve cash flow management.	Cash flow-constrained businesses, long-term planning	May require higher credit limits, potential financial risks, potential impact on supplier relationship if they are cash strapped.
<b>Lock in Long-Term Contracts</b>	Negotiate stable pricing agreements to mitigate future cost increases.	Companies with predictable demand, stable supply needs	Limits flexibility, risks being locked into higher pricing, risk of overpaying if market prices decrease.
<b>Optimize Order Volumes</b>	Increase order sizes to qualify for volume discounts and better pricing.	Businesses with storage capacity, long-term purchasing strategies	Ties up working capital, requires accurate demand forecasting.

## 3. Duty-Drawback Programs: Recovering Costs Through Government Relief

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### WHY IT MATTERS

- The [CBSA duty-drawback program](#) allows businesses to reclaim duties paid on imported goods that are later re-exported.
  - Understanding eligibility criteria and application processes can lead to significant cost savings, especially given the upcoming tariff hikes.
  - Eligibility for duty-drawback can be complex and vary depending on the nature of the goods and export processes.
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### KEY STRATEGIES

- **Determine Eligibility**  
Products that are re-exported or used in manufacturing for export may qualify for a refund of duties paid.
- **Maintain Accurate Records**  
Detailed tracking of imported and exported goods is essential for duty-drawback claims.
- **Consult with Customs Brokers**  
Professional guidance ensures compliance and maximizes recovery potential.

Note: While duty-drawback programs offer financial relief, they can be administratively complex and time-consuming. SMEs should weigh the benefits against the operational burden before pursuing claims.

### ACTIONABLE STEPS

- ☑ Identify products eligible for duty-drawback claims under the new tariff regime.
  - ☑ Develop internal tracking systems for import/export documentation to facilitate claims.
  - ☑ Schedule consultations with customs brokers to streamline the rebate process before the new tariffs take effect.
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## Example: How Duty-Drawback Programs Work in Practice

### SCENARIO

A Canadian company, Precision Auto Parts Ltd., imports steel components from the U.S. to manufacture engine parts. These components are subject to a 25% tariff upon import. However, the company exports 60% of its finished engine parts back to the U.S. after assembly.

Without a duty-drawback program, the company pays full tariffs on all imported components, significantly increasing costs. However, by leveraging Canada's Duty-Drawback Program, Precision Auto Parts Ltd. can recover the duties paid on the portion of goods that are re-exported.

### STEP-BY-STEP PROCESS OF A DUTY-DRAWBACK CLAIM

#### → Step 1: Determine Eligibility

The company confirms that imported steel components qualify for a duty refund under the "Manufacturing and re-export" category.

Since 60% of the finished products are exported, they can apply for a refund on the tariffs paid for those materials.

#### → Step 2: Maintain Accurate Records

Precision Auto Parts Ltd. tracks all imports and exports carefully, ensuring detailed documentation of product quantities, tariff amounts, and customer destinations.

Their supply chain team sets up an internal system to match import shipments with their corresponding exports.

#### → Step 3: File for Duty Drawback

The company works with a customs broker to prepare a duty-drawback claim.

They submit invoices, shipping records, and proof of re-export to the Canada Border Services Agency (CBSA).

#### → Step 4: Receive Refund

After CBSA approval, the company receives a refund for 60% of the tariffs paid on imported steel components, lowering production costs and improving cash flow.

### IMPACT OF DUTY DRAWBACK ON COSTS

BEFORE DUTY DRAWBACK	AFTER DUTY DRAWBACK
Imports \$1M worth of steel components	Imports \$1M worth of steel components
Pays \$250K in tariffs (25%)	Pays \$250K in tariffs
Exports 60% of finished products	Applies for a 60% refund on tariffs
No recovery of tariff costs	Recovers \$150K in duty refunds
Final tariff cost = \$250K	Final tariff cost = \$100K

## 4. Understanding the Full Impact of Tariffs

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### WHY IT MATTERS

Tariffs can significantly increase the landed cost of exported goods, directly impacting profit margins and competitiveness. Businesses must reassess cost structures to ensure they remain financially sustainable in affected markets.

By identifying the most impacted products and cost components, companies can take targeted actions to adjust pricing, sourcing, and supply chain strategies.

### ACTIONABLE STEPS

#### ✔ Audit Supply Chains

Identify which products and materials will be affected by the tariff. Analyze the extent of cost increases across sourcing, production, and logistics.

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#### ✔ Break Down Cost Impacts

Calculate the tariff's effect on total landed costs, including import duties, transportation, and warehousing. Consider how these changes impact pricing strategies.

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#### ✔ Identify Alternatives

Explore ways to reduce tariff exposure, such as:

- Shifting production to countries with lower tariffs.
  - Reworking supplier agreements to share cost burdens.
  - Exploring tariff exemptions or relief programs where applicable.
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#### ✔ Model Different Scenarios

Run financial impact assessments based on different tariff levels and possible government responses. This helps in making informed pricing and market expansion decisions.

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By fully understanding how tariffs reshape cost structures and supply chains, businesses can make strategic adjustments to maintain profitability and long-term competitiveness.

## Cost Recalculation: Immediate Pricing Adjustments

### RECALCULATE YOUR PRICING MODELS

Understanding the true cost impact of tariffs is critical for maintaining profitability. Tariffs are typically calculated as a percentage of the customs value of imported goods.

#### Tariff Calculation Formula

Tariff Amount = Customs Value × (Tariff Rate/100)

#### Landed Cost per Unit

*[Product Cost + Freight + Insurance + Customs Fees + Tariff] / Units Sold*

- **Ensure that all cost components (shipping, duties, brokerage fees) are factored in.**
- **Review price sensitivity to determine how much of the increase can be passed on to customers.**

## Self-Assessment: Understanding Your Tariff Exposure

Use this tool to evaluate your risk and determine an action plan:

#### Tariff Impact Scorecard

(Score each question from 1 = Low Risk to 5 = High Risk)

QUESTION	SCORE (1-5)
What percentage of your revenue comes from U.S. exports?	
How reliant are you on price-sensitive customers?	
What percentage of your direct material costs are impacted by the tariff?	
Do your contracts allow for pricing adjustments due to tariffs?	
Can your customers switch suppliers easily if you raise prices?	
Do your supplier contracts allow for tariff-related renegotiations?	
How confident are you in your ability to effectively utilize duty-drawback programs? (1=Not at all,5=Extremely Confident)	

## Risk Mitigation Recommendations

Based on the score, what should businesses prioritize?

- **0-10 (Low Risk):** While the immediate impact is minimal, it's important to stay informed about potential changes. Monitor trade developments, assess any indirect effects on suppliers or customers, and be prepared to adjust if needed.
- **11-20 (Moderate Risk):** Implement pricing adjustments and review contracts. Develop a preliminary revised pricing strategy and communicate proactively with key customers to manage expectations and maintain competitiveness.
- **21-30 (High Risk):** Immediate action required—renegotiate contracts, reassess pricing, and explore duty-drawback programs. Immediately engage legal counsel to review contracts and trade consultants for duty-drawback program guidance. Consider restructuring supply chain strategies to mitigate tariff exposure.

## 5. Pricing Models: Adapting to Tariff Increases

Tariffs significantly impact margins. Businesses must balance cost absorption, price adjustments, and value differentiation to retain customers.

### Determine Pricing Strategy

#### Pricing Model Comparison

A comparison of different pricing models, their applications, and challenges.

PRICING MODEL	DESCRIPTION	BEST FOR	CHALLENGES
<b>Absorb Cost</b>	Business absorbs tariff costs without passing them to customers.	High-margin products, short-term strategy	Reduces profitability, not sustainable long-term. Potential negative impact on brand perception if cost absorption is perceived as weakness.
<b>Pass Cost to Customer</b>	Increase product prices to cover tariff costs.	Price-insensitive customers, strong market demand.  Limited competition, unique product offering.	Highly competitive market, price-sensitive customers, potential negative publicity if price increase isn't justified. May cause customer churn, requires careful communication.
<b>Tiered Pricing</b>	Offer lower prices for bulk orders to maintain competitiveness.	Encouraging bulk purchases, customer retention.  Products with variable demand elasticity across customer segments.	Complex to manage, may require contract adjustments. Increased pricing administration complexity, potential customer confusion.
<b>Value-Based Pricing</b>	Justify price increases by emphasizing added value (e.g., premium service, warranties).	Differentiated products, strong brand reputation.  Strong customer relationships built on trust and value delivery.	Needs strong value proposition, may not apply to all products. Requires robust value communication, potentially longer sales cycles.
<b>Dynamic Pricing</b>	Adjust pricing in real-time based on cost fluctuations and competitor pricing.	Industries with frequent price changes, data-driven companies.  E-commerce businesses, industries with volatile input costs.	Requires sophisticated pricing software and data analytics, potential customer backlash if perceived as price gouging.

## Implement a Price Adjustment Strategy

### → Immediate Price Increases

For price-insensitive products or where competitors are also increasing prices.

### → Phased Pricing Adjustments

Gradual increases to test customer response and manage retention.

### → Bundling and Discounts

Offer incentives for bulk purchases or multi-product packages to offset per-unit tariff costs.

## Train Sales Teams to Communicate Adjustments

→ Ensure sales teams can justify price changes with clear explanations.

→ Position increases as a necessary response to external trade conditions rather than a discretionary hike.

→ Provide alternative options (e.g., bulk discounts, long-term contracts) to retain customers.

### Specific Communication Points for Sales Teams

→ Emphasize the external tariff factor—explain that cost increases are due to regulatory changes, not business decisions.

→ Highlight absorbed costs—demonstrate where the company has offset or minimized the impact to help customers.

→ Focus on the value proposition—reinforce the benefits of the product/service beyond just pricing.

→ Offer alternatives—such as modified order structures, different Incoterms, or loyalty-based incentives.

→ Be prepared to negotiate—provide flexibility where possible to maintain key customer relationships.

## Conclusion

Tariffs and trade disruptions may be unpredictable, but your ability to adapt and thrive is within your control. By taking strategic action—assessing tariff exposure, optimizing cost structures, and renegotiating contracts—Canadian SMEs can not only weather these challenges but emerge stronger, more competitive, and better prepared for the future.

### Here's how you stay ahead:

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- ✔ **Know your numbers**  
Break down the real impact of tariffs on your bottom line.

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- ✔ **Negotiate smarter**  
Work with suppliers and customers to distribute costs fairly.

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- ✔ **Recover what you can**  
Tap into duty-drawback programs and government relief.

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- ✔ **Price with confidence**  
Adjust models, test strategies, and ensure value stays high.

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- ✔ **Own the conversation**  
Equip your sales teams to justify changes and build trust.

Trade policies will shift, but resilience is built by those who adapt. By taking action now, you're not just protecting your business—you're setting it up for long-term success in an unpredictable world. Stay agile, stay informed, and turn uncertainty into opportunity.

## Checklist: Tariff-Proofing Your Business

- ✔ **Review Importer of Record & Incoterms**  
Assess whether shifting the importer of record or adjusting Incoterms can reduce tariff costs.

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- ✔ **Renegotiate Contracts**  
Engage with suppliers and customers to negotiate fair cost-sharing and pricing adjustments.

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- ✔ **Utilize Duty-Drawback Programs**  
Identify eligible products and develop internal tracking to recover duties on re-exported goods.

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- ✔ **Understand the Impact of Tariffs**  
Assess how the tariff affects your total landed cost, margins, and pricing strategy. Conduct a tariff exposure analysis to determine the financial impact on your business.

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- ✔ **Recalculate Landed Costs**  
Incorporate tariffs, customs fees, and additional expenses into pricing structures.

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- ✔ **Adjust Pricing Models**  
Explore flexible strategies such as value-based pricing, tiered pricing, or dynamic pricing.

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- ✔ **Train Sales Teams**  
Ensure that sales and customer-facing teams are prepared to communicate pricing adjustments effectively.

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- ✔ **Develop Contingency Plans**  
For further tariff increases or trade disputes to promote long-term strategic thinking.

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- ✔ **Monitor Competitor Pricing & Market Reactions**  
Track how competitors adjust their prices and gauge customer responses to pricing changes.

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- ✔ **Consult Experts & Government Resources**  
Engage customs brokers, trade consultants, and financial advisors for strategic guidance on tariff mitigation.

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By implementing these strategies, Canadian SMEs can navigate the uncertainty of new tariffs with confidence and agility.

## Digital Tools/ Resources

By integrating these digital tools and resources into their operations, Canadian SMEs can enhance their decision-making processes, optimize pricing strategies, and maintain compliance with international trade regulations.

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### INCOTERMS

Understanding international trade terms and regulations is essential for smooth operations. The [International Chamber of Commerce \(ICC\)](#) provides comprehensive resources on Incoterms, offering guidance on the responsibilities of buyers and sellers in international transactions. Additionally, government websites, such as the [Canada Border Services Agency \(CBSA\)](#), offer valuable information on import and export procedures, tariffs, and regulations.

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### ONLINE LANDED COST CALCULATOR

Accurately determining the total cost of imported goods is crucial for pricing and profitability. Landed cost calculators help businesses account for expenses such as shipping, customs duties, taxes, and additional fees.

- [Dutify](#) offers a comprehensive calculator that provides a detailed breakdown of costs, including HS codes and compliance information.
- [IncoDocs](#) provides a tool to estimate the landed costs of imported goods, including currency exchange, shipping, duties, and taxes.

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### DYNAMIC PRICING SOFTWARE

To remain competitive and maximize profitability, businesses can utilize dynamic pricing software that adjusts prices based on market conditions, demand, and competitor pricing.

- [Prisync](#) enables automatic price adjustments by monitoring market conditions, competitors, and stock availability.
- [Vendavo](#) offers solutions that apply dynamic pricing, price analytics, and optimization to enhance pricing strategies.

## Glossary of Key Terms

- A** **Absorb Cost:** A pricing strategy where a business covers additional costs (such as tariffs) without passing them on to customers, reducing profit margins.
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- C** **Canadian Border Services Agency (CBSA):** The federal agency responsible for enforcing Canada's border policies, including duty-drawback programs that allow businesses to recover tariffs paid on re-exported goods.
- Customs Fees:** Charges applied by government agencies on imported or exported goods, separate from tariffs.
- 
- D** **Duty-Drawback Program:** A government initiative that allows businesses to recover duties paid on imported goods if they are later re-exported.
- 
- I** **Importer of Record:** The entity legally responsible for ensuring imported goods comply with customs regulations and for paying any applicable tariffs.
- Incoterms (International Commercial Terms):** A set of global trade rules defining the responsibilities of buyers and sellers in international transactions, including tariff and duty obligations.
- 
- L** **Landed Cost:** The total cost of a product once it has reached the buyer, including production, shipping, insurance, customs fees, and tariffs.
- Landed Cost Calculator:** A tool used by businesses to determine the total cost of importing goods, including producer cost, shipping, insurance, duties, tariffs, and other fees. This helps in pricing strategies and cost management.
- 
- P** **Price Elasticity of Demand:** A measure of how sensitive customer demand is to changes in price. If demand significantly decreases when prices rise, the product is considered price elastic; if demand remains stable, it is price inelastic. Understanding this concept helps businesses make informed pricing decisions in response to tariffs.
- 
- R** **Retaliatory Tariff:** A tariff imposed by a country in response to tariffs placed on its exports by another country. These tariffs are often used in trade disputes to pressure foreign governments into negotiations or concessions.
- 
- T** **Tariff:** A government-imposed tax on imported goods, intended to regulate trade and protect domestic industries.
- Tariff Exposure:** The degree to which a business is affected by tariff increases, based on factors such as export volume and product cost structure.
- Tariff-Proofing:** Strategies businesses use to minimize the financial impact of tariffs, such as adjusting pricing, renegotiating contracts, or using government relief programs.
-

## Module 3

# Supply Chain Resilience – Diversifying Suppliers to Minimize Tariff Disruption

### INTRODUCTION

Supply chain disruptions can directly impact your bottom line. Increased costs, delays, and unpredictable trade environments can make it harder to remain competitive. This chapter isn't about complex theories—it's about practical, low-cost actions you can take right now to strengthen your supply chain, minimize risks, and keep your business running smoothly. Think of this as a toolkit to help you adapt, pivot, and build a more resilient supply network, even in uncertain times. We'll focus on proven methods that require minimal investment but can have a big impact.

### KEY STRATEGIES FOR IMMEDIATE ACTION

## 1. Identify and Qualify Alternative Suppliers

The goal is to reduce dependency on any single region or supplier. However, diversification may not always be feasible for every SME, so strengthening relationships with existing suppliers can also improve resilience.

### → Leverage Free and Low-Cost Supplier Intelligence

Use resources from industry associations, chambers of commerce, and government trade agencies that provide free supplier databases and market research.

### → Engage with Trade Commissioners

Utilize Canada's Trade Commissioner Service for vetted supplier lists and introductions to pre-screened international partners.

### → Leverage Peer Networks

Connect with other SMEs through industry associations to exchange supplier recommendations and best practices.

### → Pilot Small Orders

Some suppliers may have high minimum order quantities (MOQs). Start with sample orders or shared purchasing with industry peers to reduce costs.

### → Simplified Supplier Vetting

For SMEs without procurement teams, a basic checklist covering quality, reliability, and lead times can streamline supplier selection.

## 2. Explore Nearshoring or Reshoring with a Cost-Benefit Analysis

Nearshoring or reshoring can mitigate supply chain risks, but it may not be suitable for all SMEs. Use simple assessment tools to determine feasibility:

- **Evaluate Total Cost of Ownership (TCO) in a Simplified Manner**  
Compare nearshoring costs (labor, logistics, tax incentives) versus offshore sourcing using a basic spreadsheet rather than complex financial modeling.
- **Assess Lead Time Reduction Benefits**  
Faster delivery times from domestic suppliers can offset higher unit costs.
- **Government Incentives for Reshoring**  
Many programs have eligibility requirements that SMEs struggle to meet. Look for case studies of successful SME applicants to guide your approach.
- **Collaborate with Industry Networks**  
Partner with other businesses in the same sector to collectively source from local suppliers.

### DECISION TOOL: CONDUCT A COST-BENEFIT ANALYSIS FOR NEARSHORING VS. OFFSHORING

**Objective:** Help SMEs decide whether shifting production closer to home is viable.

Use this template to compare different sourcing options based on cost, logistics, and risk factors.

FACTOR	OFFSHORING (COUNTRY A)	NEARSHORING (COUNTRY B)	DOMESTIC (CANADA)
Unit Cost (\$)			
Lead Time (Days)			
Tariff Impact			
Logistics Complexity			
Total Landed Cost (\$)			

### 3. Conduct a Supply Chain Risk Assessment (In Under 30 Minutes)

Understanding where your vulnerabilities lie is the first step in mitigating risks. SMEs can use a quick, streamlined approach:

→ **Use a Simple Risk Checklist**

Identify key dependencies and risks using a supply chain assessment template.

**QUICK SUPPLIER RISK IDENTIFICATION TEMPLATE**

Use this template to identify high-risk suppliers and determine contingency plans.

SUPPLIER	COUNTRY	CRITICAL COMPONENT? (Y/N)	ALTERNATIVE SUPPLIER? (Y/N)	RISK LEVEL (LOW/MED/HIGH)	CONTINGENCY PLAN
Supplier A	XX	Yes	No	High	Seek alternative
Supplier B	XX	No	Yes	Medium	Establish backup supplier
Supplier C	XX	Yes	Yes	Low	Maintain stock buffer

→ **Monitor Real-Time Supplier Risks**

Subscribe to CBSA’s email subscription for trade policy alerts.

→ **Develop Contingency Plans**

Even if a full risk assessment isn’t feasible, identify at least one backup option for key suppliers.

**QUICK SUPPLIER PERFORMANCE TRACKER**

Use this checklist to compare potential suppliers based on key selection criteria.

CRITERIA	SUPPLIER A	SUPPLIER B	SUPPLIER C
Lead Time (Days)			
Pricing (Per Unit)			
Quality Certifications? (Y/N)			
Reliability Score (1-10)			
Minimum Order Quantity (MOQ)			

## 4. Strengthen Supplier Agreements & Build Strategic Partnerships

- **Negotiate Realistic Terms for SMEs**  
Smaller businesses may lack leverage, so focus on building long-term relationships by demonstrating reliability as a customer.
- **Position Your SME as a Valuable Customer**  
Showcase consistent ordering and growth potential to gain better terms.
- **Diversify Shipping Options**  
Explore alternative routes or logistics providers to mitigate delays.

## 5. Monitor Trade and Tariff Policy Developments with Free Resources

- **Sign Up for Alerts**  
Subscribe to CBSA updates, trade policy newsletters from industry associations, and government economic reports.
- **Engage with Policy Advocacy Groups**  
Join SME-focused trade organizations to stay informed and advocate for better trade policies.
- **Scenario Planning for Future Tariff Risks**  
Use a simple “What If?” framework (e.g., “If tariffs increase by X%, what are our options?”) rather than investing in expensive forecasting tools.

## 6. Leverage Government Support Programs & Alternative Financing

- **Export Development Canada (EDC)**  
Offers working capital solutions and risk mitigation tools for SMEs adapting to supply chain disruptions.
- **Supply Chain Grants & Subsidies**  
Seek funding through programs like the Regional Economic Growth through Innovation (REGI) program.
- **Quick Eligibility Check for Government Programs**  
Before applying, SMEs should review basic eligibility criteria to avoid wasting time.
- **Consider Private-Sector Financing**  
SME-friendly alternative financing options (such as invoice factoring or supplier financing) can provide additional flexibility.

## 7. Implement a Lightweight Supplier Performance Review System

### → Tiered Action Plans

- Quick Wins (for SMEs with limited resources): Identify one backup supplier, start a small test order, and set up CBSA trade alerts.
- Long-Term Strategies (for SMEs with growth potential): Invest in supply chain management software, secure alternative financing, and develop long-term supplier partnerships.

### → Track Supplier Performance Informally

Instead of quarterly reviews, keep an ongoing record of supplier responsiveness, delivery times, and quality issues.

### → Use Free or Low-Cost Digital Tools

Utilize Google Sheets templates for tracking supplier performance.

## Action Items - Getting Started Now

- ☑ Identify one key supply chain vulnerability and research at least two alternative suppliers using free or low-cost resources this week.

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- ☑ Schedule a 30-minute internal meeting to map out supply chain risks using a simplified checklist.

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- ☑ Initiate a small test order with a backup supplier or strengthen relationships with an existing one.

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- ☑ Review at least one supplier contract to explore flexible terms or volume adjustments.

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- ☑ Set up free trade policy alerts through CBSA and industry associations.

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## Conclusion

Canadian SMEs must take proactive steps to build a more resilient supply chain. While diversification is ideal, it is not always feasible—stronger supplier relationships, cost-benefit analysis for nearshoring, and leveraging free government and industry resources can also significantly improve resilience. Small, strategic actions taken today will position your business for long-term success in an evolving global trade environment.

## Module 4

# Operational Efficiency Under Pressure: Practical Steps to Cut Costs and Boost Efficiency

### INTRODUCTION

Tariffs and retaliatory measures directly impact your bottom line. Increased costs can make it harder to compete. This module isn't about complicated business theories; it's about *practical, low-cost actions* you can take *right now* to streamline your operations, eliminate waste, and free up cash. Think of it as a toolkit to help you not just survive, but thrive, even in this challenging environment. We'll focus on proven methods to make your business leaner and more resilient, without requiring a huge investment of time or money.

### KEY STRATEGIES FOR IMMEDIATE ACTION

## 1. Find and Eliminate Waste: The Foundation of Cost Savings

The core idea is simple: Identify and get rid of anything that doesn't directly benefit your customer. This "waste" eats up your time, resources, and profits. We'll use some simple, proven techniques from "Lean" thinking – but don't worry about the jargon, focus on the practical steps.

### THE 8 COMMON WASTES (THINK: DOWNTIME)

These are the most common areas where businesses lose money without realizing it. Think about your own operations as you read through these:

- 
- **Defects:** Mistakes that require fixing (e.g., wrong orders, product flaws, invoice errors).

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  - **Overproduction:** Making more than you can immediately sell (e.g., excess inventory, unused reports).

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  - **Waiting:** Time wasted waiting for something (e.g., approvals, deliveries, machine repairs).

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  - **Non-Utilized Talent:** Not using your employees' skills and ideas (e.g., ignoring suggestions for improvement).

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  - **Transportation:** Moving things around more than necessary (e.g., inefficient warehouse layout).

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  - **Inventory:** Excess materials or products sitting idle (e.g., large stockpiles, cluttered digital files).

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  - **Motion:** Unnecessary movement by people (e.g., searching for tools, poorly organized workspace).

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  - **Extra-Processing:** Doing more work than the customer actually needs (e.g., overly complex reports).

## ACTIONABLE STEPS: START SMALL, SEE RESULTS

### 🕒 **This Week: The 15-Minute “Waste Walk”**

- Gather a small team (2-3 people) from different parts of your business.
- Choose one area to focus on (e.g., the shop floor, the office, the order fulfillment process).
- Walk through the area for just 15 minutes.
- Look for examples of the 8 Wastes above. Use sticky notes to literally tag the waste where you see it (e.g., “Excess inventory here,” “Waiting for approval”).
- Afterward, discuss what you found and brainstorm one small thing you can change immediately to reduce that waste.

Example: If you find boxes piled up blocking a walkway (Transportation waste), the immediate action might be to move them to a designated storage area.

### 🕒 **Next Week: 5S Your Workspace (Sort, Set in Order, Shine, Standardize, Sustain)**

**This is a simple, powerful way to organize your physical and digital spaces.**

- Sort: Get rid of anything you don’t need.
- Set in Order: Organize what’s left so it’s easy to find and use.
- Shine: Clean the workspace.
- Standardize: Create simple rules for keeping things organized.
- Sustain: Make it a habit.
- Start with one workstation or one shared digital folder. Even a small improvement can make a big difference.

Example: For a digital folder, this might mean deleting old files, creating clear subfolders, and establishing a naming convention for documents.

### 🕒 **Within Two Weeks: Map a Simple Process (Value Stream Mapping - Really Light Version)**

- Choose one key process that’s impacted by tariffs (e.g., fulfilling an order for your most popular product).
- Grab a piece of paper and, with a small team, draw a simple flowchart of every step, from the customer’s order to delivery.
- For each step, ask: “Does this step directly add value for the customer?” If not, it’s likely waste.
- Focus on brainstorming ways to eliminate or drastically reduce those non-value-added steps.

Example (Bakery):

- Customer orders online (Value)
- Order sits in email inbox for 2 hours (Waste - Waiting)
- Order printed and taken to kitchen (Value)
- Baker waits for ingredients to be delivered (Waste - Waiting)
- Cake baked (Value)
- Cake decorated (Value)
- Cake sits waiting for pickup (Waste - Waiting)
- Cake delivered (Value)
- Possible Improvement: Set up automatic order alerts to reduce waiting time.

---

☑ **Pilot Project: Simple Kanban for Inventory (if applicable):**

- If you manage physical inventory, try a simple Kanban system to avoid overstocking.
- Use cards or visual signals to indicate when to reorder materials.
- Start with one type of material or product.

Example: A red card placed in a bin signals that it's time to reorder that item.

---

☑ **Kaizen Events (Rapid Improvement Workshops):**

- Identify a specific, well-defined problem.
- Gather the people directly involved.
- Dedicate a half-day or full-day.
- Brainstorm solutions and implement them immediately.
- Focus on quick, low-cost changes.

Example: If order fulfillment errors are high (defects), a Kaizen event could focus on streamlining the order-taking process and implementing a double-check system.

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## CANADIAN RESOURCES

→ **Business Development Bank of Canada (BDC)**

Search their website for “operational efficiency,” “lean management,” and “productivity.” They offer articles, guides, and sometimes webinars.

→ **Canadian Manufacturers & Exporters (CME)**

Check their website for resources on operational excellence, especially for manufacturers.

→ **Your Industry Association**

Many Canadian industry associations offer resources specific to your sector.

## 2. Streamline Your Processes and Use Technology Wisely

Optimizing your processes is about making things flow smoothly and efficiently. Standardization and smart technology use can help.

---

### ACTIONABLE STEPS

#### ✔ Standardize Your Key Steps

- Choose 2-3 of your most common processes (e.g., invoicing, customer onboarding, handling a customer complaint).
- Write down the steps in a simple, clear way (a checklist or flowchart is great). This is your Standard Operating Procedure (SOP).
- SOPs reduce errors, make training easier, and ensure consistency.

Example: An SOP for handling a customer complaint might include steps like: 1. Acknowledge the complaint within 2 hours. 2. Gather information. 3. Offer a solution within 24 hours. 4. Follow up to ensure satisfaction.

---

#### ✔ Embrace Free/Low-Cost Technology

- Collaboration Tools: Use free or low-cost tools like Trello, Asana, Slack, or Google Workspace to improve communication and teamwork (reducing wasted time searching for information).
- Online Invoicing: Switch to online invoicing and payment platforms to automate billing and get paid faster.
- Automate Simple Tasks: Look for “macro” or “automation” features in your existing software (e.g., accounting, CRM). Can you automate email responses or report generation?
- Example: Set up automatic email replies to confirm order receipt or acknowledge customer inquiries.

---

#### ✔ Shop Local: Rethink Your Suppliers

- Tariffs make imported goods more expensive. Explore sourcing materials or services within Canada.
- Even if local prices are slightly higher, you might save on shipping, lead times, and avoid tariffs altogether.
- Use Online Directories: Search for “Canadian suppliers directory” + your industry (e.g., “Canadian textile suppliers”).

---

#### ✔ Review Your Current Supplier Contracts

- Don't feel locked in. Contact suppliers to ask for better terms and pricing.
- Consider switching suppliers if you are not getting a fair deal.
- Important: Understand your current contracts. Are there clauses you can leverage or early termination fees?

---

### CANADIAN RESOURCES

→ **BDC:** Search their website for “digital transformation” and “technology adoption.”

→ **Your Industry Association:** Check for resources or programs related to technology.

## 3. Track Your Costs and Find Savings: Every Penny Counts

A systematic approach to cost reduction is essential. This means being aware of *where* your money is going.

---

### ACTIONABLE STEPS

#### ✔ Energy Audit - Quick Wins

- Look for simple ways to save energy. Switch to LED lights, adjust thermostats, turn off equipment when not in use.
- Check with your provincial government – many offer energy efficiency programs or rebates.

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#### ✔ Shipping and Transportation Review

- Can you consolidate shipments? Negotiate better rates with your carriers? Optimize delivery routes?

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#### ✔ Labor Efficiency – Not Just Cuts

- Don't just focus on cutting staff. Can you improve processes so your existing team can be more productive?
- Can you cross-train employees to handle multiple tasks?

---

#### ✔ “Critical Review” of All Expenses

- Look at every expense, big or small. Ask: “Is this absolutely necessary? Can we reduce it?”
- Focus on your biggest cost drivers first.
- Examples: Office supplies, subscriptions, travel, marketing.

---

#### ✔ Consider Group Purchasing

- Explore joining forces with other local businesses to buy supplies or services in bulk and get better prices. Check with your local business association.

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#### ✔ Key Metrics to Measure (Choose 2-3 to start)

- Production Cycle Time: Time to make one unit of a product.
- Fulfillment Time: From customer placing order to receiving.
- Inventory Turnover: How fast inventory is sold.
- Track these and your cost reduction efforts.

---

### CANADIAN RESOURCES

#### → Statistics Canada

Provides data on Canadian industries (helpful for understanding broad trends).

#### → Your Provincial Government

Search their business support website for programs related to cost reduction.

## Action Items - Getting Started Now

- ✓ **Schedule your first 15-minute “Waste Walk” for this week.**  
Choose one area and empower your team.

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- ✓ **Pick one process to standardize.** Create a simple SOP within the next week.

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- ✓ **Choose one area to apply 5S.** Start small and build momentum.

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- ✓ **Set up a simple spreadsheet to track key costs.** (Energy, shipping, key materials).

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- ✓ **Assign someone to be in charge of driving these improvements.**  
Schedule regular (e.g., monthly) check-ins to track progress.

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- ✓ **Prioritize: Use this simple matrix to help decide what to tackle first.**  
(For example purposes, plug-in YOUR OWN tasks and values).

ACTION	IMPACT	EFFORT	PRIORITY #
Waste Walk	High	Low	1
5S (one area)	Medium	Low	2
SOP (one process)	Medium	Medium	3
Kaizen Event (one week)	High	High	4
Cross-training (one team)	Medium	Medium	5
Automation (one task)	High	High	6
Value Stream Map	Medium	Medium	7
Mistake Proofing (one process)	Low	Low	8

## Remember

Responding to tariffs requires action. By focusing on practical steps to eliminate waste, streamline your processes, and track your costs, you can build a more resilient and competitive business. Start small, involve your team, and celebrate your successes. Remember, continuous improvement is a journey, not a destination. The Canadian resources listed above can provide additional support. Don't wait – start taking action today!

## Module 5

# Navigating Payment Terms & Incoterms in a Tariff Landscape – Minimizing Trade Risks

### OBJECTIVE

Optimize payment terms and Incoterms to reduce trade risks, manage tariff-related cost implications, and keep your cash flowing during this trade disruption. We're focusing on practical steps you can take today, and also providing a broader understanding of your options.

### THE SITUATION

Tariffs on both sides of the border mean higher costs, increased risk, and potential disruptions. This module helps you control what you can control: your agreements, how you get paid, and your overall trade strategy.

### PART 1

## Payment Terms – Cash Flow is King (Especially Now!)

### Immediate Action 1: The “Payment Terms Audit & Customer Segmentation”

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#### 🕒 What to do

Grab your standard contracts and your last five US sales contracts. Highlight how and when you get paid. Also, categorize your US customers into tiers:

– **Tier 1: Long-Standing, High-Trust**

Customers with a proven track record of on-time payments and strong relationships.

– **Tier 2: Standard Customers**

Generally reliable, but perhaps with some occasional late payments or less established relationships.

– **Tier 3: New or High-Risk**

New customers, those with a history of late payments, or those in financially unstable situations.

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#### 🕒 Why it matters

Longer payment terms expose you to more risk (customer default, currency fluctuations) and tie up your capital. Different customers require different approaches.

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#### 🕒 What to do now

Identify which customers are on the longest terms within each tier. Prepare a tailored approach for each tier (see below).

## Immediate Action 2: The “Tailored Approach” Email/Phone Script

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### ✔ Concept

Adapt your communication based on the customer tier.

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### ✔ Tier 1 (Long-Standing, High-Trust)

#### – Example Script

“Hi [Customer Name], We value our long-standing partnership. With the recent tariff changes, we’re reviewing all our agreements to ensure we can continue providing you with the best possible service and pricing. We’d like to discuss a slight adjustment to our payment terms on future orders, perhaps moving to [Net 45] or exploring an early payment discount. When’s a good time for a quick chat?”

#### – Why it works

Emphasizes the existing relationship and positions the change as a collaborative effort. Offers flexibility.

---

### ✔ Tier 2 (Standard Customers):

#### – Example Script:

“Hi [Customer Name], With the recent tariff changes, we’re reviewing all our payment terms to ensure we can maintain competitive pricing and reliable supply. We’d like to discuss moving to [Net 30/Net 45] terms on future orders. This helps us manage the increased costs and keep your prices as stable as possible. When is a good time to chat for 5 minutes?”

#### – Why it works

Collaborative, not confrontational. Frames the change as beneficial to both parties.

---

### ✔ Tier 3 (New or High-Risk)

#### – Approach

Consider requiring a Letter of Credit (see Action 4) or a significant deposit upfront, with the balance due upon shipment or even before. Be firm but professional. Explain that these terms are necessary due to the current trade environment.

## Immediate Action 3: Explore “Discount for Early Payment”

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### ✔ Concept

Offer a small discount (e.g., 1-2%) for payment within 10-15 days.

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### ✔ Why it works

Incentivizes faster payment without forcing a change in terms. Can be more palatable than a hard deadline, especially for Tier 1 customers.

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### ✔ What to do now

Calculate what a 1% and 2% discount would look like on a typical order. Is it worth the faster cash flow?

## Immediate Action 4: Letters of Credit (LoC) – A Strategic Tool

- ✔ **LoC can offer strong payment security, but come with fees and administrative overhead.**

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- ✔ **For Tier 3 (New or High-Risk) US customers, or for very large orders**  
Strongly consider requiring an LoC. The security outweighs the cost in these situations.

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- ✔ **For Tier 1 & 2 customers**  
An LoC is likely unnecessary and could damage the relationship. Focus on shortening terms and offering early payment discounts first.

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- ✔ **Crucial Step**  
Talk to your bank first to understand the fees and process involved with LoCs.

### PART 2

## Incoterms Optimization – Know Who Pays What (and When!)

### Immediate Action 5: The “Incoterms Cheat Sheet & Reference Guide”

- ✔ **What it is**  
A one-page summary of the most common Incoterms (EXW, FCA, FOB, CIF, DAP, DDP) and who is responsible for what (shipping, insurance, tariffs, customs clearance).

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- ✔ **Why you need it**  
Incoterms dictate who pays the 25% tariff and when. Using the wrong one can be extremely costly.

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- ✔ **Where to get it**  
The International Chamber of Commerce (ICC) website has resources, but many banks and logistics providers offer free, simplified cheat sheets. Google “Incoterms 2020 cheat sheet PDF” – find a Canadian version if possible. Prioritize resources that explain FCA.

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- ✔ **What to do now**  
Print it out. Keep it on your desk. Refer to it every time you quote a US customer.

### Immediate Action 6: The “Quote Review & Incoterms Audit”

- ✔ **What to do**  
Look at your last three US quotes. Which Incoterm did you use?

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- ✔ **Why it matters**  
If you’re using EXW (Ex Works), the buyer is responsible for everything from your door, including the tariff. If you’re using DDP (Delivered Duty Paid), you are responsible for the tariff.

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- ✔ **Key Question**  
Are you pricing your goods correctly to account for the Incoterm you’re using? If you’re using DDP, your price must include that 25% tariff, or you’re losing money. Generally, avoid DDP in this tariff environment.

## Immediate Action 7: The shift away from DDP

Unless your customer is very unsophisticated, it is best to shift away from DDP. Your customer will likely want to use their own customs broker.

## Immediate Action 8: “The FCA/FOB/CIF/DAP Decision Tree”

### ✔ FCA (Free Carrier)

You deliver the goods to a carrier (e.g., a trucking company) at a named place in Canada. This is often better than FOB for containerized shipments that don’t go directly onto a ship. The buyer handles everything from that point, including the tariff.

### ✔ FOB (Free on Board)

You’re responsible for getting the goods onto the ship at a designated Canadian port. The buyer handles everything (and the tariff) from there. Good for minimizing your risk if goods are shipped by sea.

### ✔ CIF (Cost, Insurance, Freight)

You pay for shipping and insurance to the US port but only if goods ship by sea. The buyer is still responsible for the tariff upon arrival. More responsibility, but potentially more appealing to some buyers.

### ✔ DAP (Delivered at Place)

You’re responsible for transportation to the named place of destination (e.g., the buyer’s warehouse), but not import tariffs or customs clearance.

### ✔ Decision

For most SMEs, FCA or DAP is likely the best option in this tariff environment. It clearly places the tariff burden on the US buyer while offering some flexibility in transportation. Avoid FOB and CIF unless the goods are actually shipped by sea.

## PART 3

# Contractual Clarity & Due Diligence

## Immediate Action 9: The “Tariff Clause”

### ✔ What it is

A clear statement in your sales contracts specifying who pays the tariffs.

### ✔ Example (if using FCA, FOB, or DAP)

“Buyer is responsible for all applicable import duties, tariffs, and taxes levied by the United States government.”

### ✔ Why it matters

Avoids disputes and protects you legally.

### ✔ What to do now

Add this clause (or a similar one) to your standard sales contract template. Use it for all new US orders.

## Immediate Action 10: “Legal Check-In (Low Cost)”

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- ✓ **Don’t need a full-blown legal review**  
 Many law firms offer free initial consultations or have resources on their websites for SMEs.

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- ✓ **What to ask**  
 “Does my new tariff clause adequately protect me?” “Are there any specific Canadian regulations I need to be aware of regarding these tariffs?” “Are my contracts generally sound for cross-border trade?”

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- ✓ **Look for**  
 Law Firm Blogs, FAQs on Tariffs, Webinars

### PART 4

## Beyond Payment Terms & Incoterms – A Broader Strategy

### Immediate Action 11: Tariff Classification (HS Codes)

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- ✓ **What it is**  
 Every product has a Harmonized System (HS) code that determines the specific tariff rate.

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- ✓ **Why it matters**  
 Incorrect classification can lead to delays, penalties, and even higher tariffs.

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- ✓ **What to do now**  
 Verify the HS codes for all your products being exported to the US. Consult the Canadian government’s tariff resources or a customs broker.

### Immediate Action 12: Rules of Origin

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- ✓ **What it is**  
 Even with tariffs in place, your goods may qualify as “Canadian-made” under existing trade agreements (even if being violated). This can be complex.

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- ✓ **Why it matters**  
 Meeting rules of origin can potentially reduce or eliminate tariffs, or at least prevent them from being higher than 25%.

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- ✓ **What to do now**  
 Research the rules of origin for your products. Start with the Canadian government’s resources on trade agreements and consult a customs broker if needed.

## Immediate Action 13: Duty Drawback (If Applicable)

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### ✔ What it is

If you import materials from the US, use them to make finished goods, and then re-export those goods to the US, you might be able to get a refund of the tariffs paid on the imported materials.

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### ✔ Why it matters

This can be a significant cost recovery.

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### ✔ What to do now

Investigate if you're eligible for duty drawback. Consult with your accountant and a customs broker.

## Immediate Action 14: Explore Financing Options

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### ✔ What it is

Consider options like export financing or factoring to help manage cash flow challenges related to longer payment terms or increased costs.

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### ✔ Why it matters

Access to working capital

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### ✔ What to do now

Talk to your bank or a financial advisor about available options.

## Immediate Action 15: Consider Volume Discounts and Price Adjustments

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### ✔ Suppliers

Negotiate with your suppliers for volume discounts to offset some of the tariff costs.

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### ✔ Customers

Carefully analyze the possibility of passing on some of the tariff cost to your US customers through price increases. This is a delicate balance – you need to remain competitive.

## Action Items Recap (Prioritized)

- ✔ **Payment Terms Audit & Customer Segmentation:** Review contracts and categorize customers.

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- ✔ **Tailored “Shorten the Leash” Scripts:** Prepare to negotiate, adapting your approach to each customer tier.

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- ✔ **Explore Early Payment Discounts:** Calculate the impact.

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- ✔ **Letters of Credit - Strategic Use:** Only for high-risk customers or large orders; check fees.

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- ✔ **Incoterms Cheat Sheet:** Print and use it!

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- ✔ **Quote Review & Incoterms Audit:** Understand your current Incoterms and pricing.

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- ✔ **Shift away from DDP:** Not a great Incoterm unless your client is very unsophisticated.

---

- ✔ **FCA/FOB/CIF/DAP Decision:** Choose the right Incoterm (FCA or DAP are often best).

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- ✔ **Tariff Clause:** Add it to your contracts.

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- ✔ **Legal Check-In:** Get a quick review.

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- ✔ **HS Code Verification:** Ensure accurate tariff classification.

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- ✔ **Rules of Origin Research:** Determine if your goods qualify as Canadian-made.

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- ✔ **Duty Drawback Investigation:** Check eligibility if you re-export.

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- ✔ **Financing Options Exploration:** Talk to your bank/advisor.

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- ✔ **Volume Discounts/Price Adjustments:** Analyze cost management strategies.

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## Remember

This module is about taking control and building resilience. By proactively managing your payment terms, Incoterms, and overall trade strategy, you can minimize the risks and financial impact of these tariffs and keep your business thriving. This isn't just about surviving; it's about adapting and finding new opportunities.



The Toronto Region Board of Trade is one of the largest and most influential chambers of commerce in North America and is a catalyst for the region's economic growth agenda. Backed by more than 11,500 members, we pursue policy change to drive the growth and competitiveness of the Toronto region, and facilitate market opportunities with programs, partnerships and connections to help our members succeed – domestically and internationally.

For more on making Toronto one of the most competitive and sought-after business regions in the world, visit [bot.com](http://bot.com) and follow us at [@TorontoRBOT](https://twitter.com/TorontoRBOT).

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The World Trade Centre Toronto (WTC-T) is the trade services and scale-up arm of the Toronto Region Board of Trade. It offers comprehensive programs, consultancy, and expertise to help Canadian businesses accelerate their growth and trade, enhancing their competitiveness.

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