

Where Should We Build, Source, and Operate as the World Fragments?

The lowest-cost footprint is no longer automatically the best footprint. Tariffs, industrial policy, supplier concentration, logistics exposure, market access, and geopolitical risk are changing the economics of where companies place production, suppliers, inventory, and operating capability. The executive task is to design a network that remains competitive across more than one plausible future.

Executive Operations Insights | Saša Cibula

For much of the modern era of globalization, footprint strategy could be organized around a relatively stable question: where can the company produce, source, and serve at the lowest reliable total cost? Labor, tax, freight, capacity, supplier capability, and market proximity mattered, but the underlying assumption was that cross-border access would remain sufficiently predictable for long-lived operating decisions.

That assumption is weaker today. Tariffs, export controls, industrial subsidies, local-content requirements, sanctions, energy security, armed conflict, and political pressure are becoming structural inputs to operating economics. The World Trade Organization reported in July 2026 that global trade-policy activity during January through May was nearly twice its 2024 level and roughly a quarter above its 2025 average. BCG, meanwhile, found that about 80 percent of surveyed companies reported significant geopolitical exposure, while only about 15 percent had systematically embedded geopolitics into core decisions such as capital allocation and investment.

Yet the answer is not to retreat from global operations. Global networks still create scale, specialization, access to talent, supplier depth, and market reach. The harder executive question is whether the existing footprint can continue to create those advantages **without concentrating too much value behind assumptions the company no longer controls**. The objective is not localization. It is strategic optionality at an economically defensible cost.

Location Has Become a Strategic Variable Again

A facility location or supplier decision is unusually consequential because it embeds assumptions for years. Buildings, tooling, supplier qualification, regulatory approvals, workforce capability, technology, logistics lanes, and customer commitments are expensive to move. A decision that looks optimal on today's cost curve can become structurally unattractive if tariffs change, a border becomes less reliable, a subsidy expires, energy prices diverge, or a critical technology becomes subject to export restrictions.

McKinsey's January 2026 analysis of manufacturing footprints captures the shift well: geopolitical distance is again influencing network decisions, but the pattern is more complex than simple deglobalization. Industry exposure differs, capital mobility differs, and the value of flexibility differs. In one advanced-industries example, scenario analysis suggested that 10 to 20 percent of cost of goods sold could be at risk across plausible futures, with only part of that exposure addressable through network restructuring. That is the right executive framing. The question is not whether disruption exists; it is **which exposures matter enough to justify changing a network that may already be economically productive**.

Footprint strategy therefore needs to move beyond a static comparison of country costs. A location can be inexpensive but strategically distant. A local source can reduce lead time but create higher unit cost and lower technical capability. A highly integrated global network can be efficient but difficult to redirect. The economics are increasingly path dependent: what the company chooses today determines which options it will still possess when the environment changes.

CAGE Brings Distance Back Into the Decision

Pankaj Ghemawat's CAGE Distance Framework offers a durable way to examine this problem. Developed to explain why national borders and differences continue to matter, CAGE organizes distance into four dimensions: cultural, administrative or political, geographic, and economic. The framework was originally intended for international strategy, but its logic is directly applicable to operating footprints because each form of distance can create friction, cost, risk, or coordination burden.

CAGE DISTANCE FRAMEWORK: REASSESSING THE OPERATING FOOTPRINT

Executive application of Pankaj Ghemawat's CAGE framework to build, source, and operate decisions

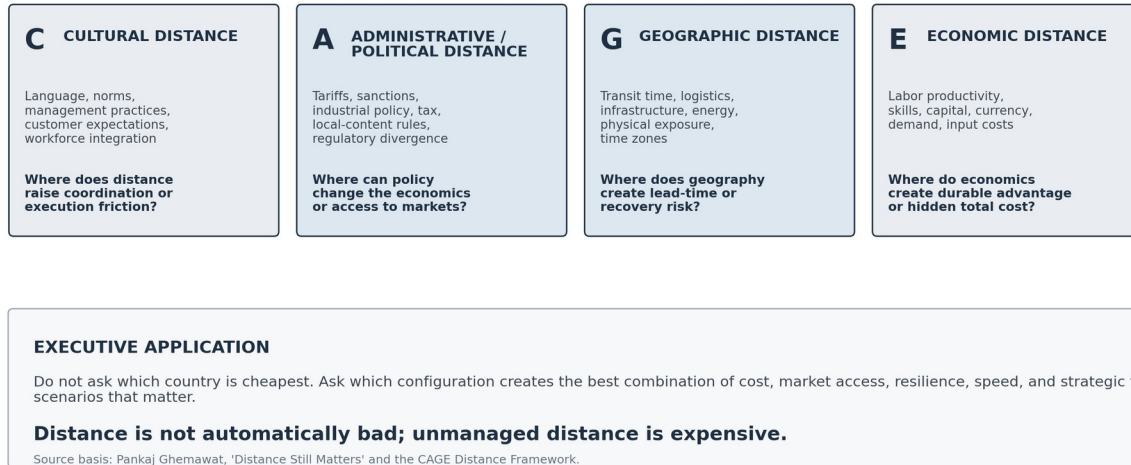


Figure 1. CAGE Distance Framework applied to operating-footprint decisions. Executive adaptation based on Pankaj Ghemawat's CAGE framework.

The framework is useful precisely because it challenges a common simplification: geographic proximity is only one kind of distance. A nearby country can still be administratively difficult. A low-wage location can be economically distant because productivity, skills, infrastructure, or capital costs differ. A technically capable supplier base can still create cultural and managerial friction that slows problem solving and quality recovery. What matters is not the mileage between two points, but the collection of differences that affect how reliably value can move between them.

Cultural distance affects execution more than most cost models show

Cultural distance is often dismissed as a soft variable in hard operating decisions, yet it can influence management practices, escalation behavior, labor relations, quality expectations, communication, and the speed with which problems are surfaced. In tightly coupled operations, those differences can become operating cost. A global model that depends on rapid engineering changes, daily cross-site coordination, or intensive supplier development is more sensitive to cultural and organizational distance than one built around stable, standardized transactions.

Administrative and political distance can change the economics overnight

This is the dimension that has become most visible. Tariffs, export controls, industrial policy, investment screening, local-content rules, tax regimes, data restrictions, sanctions, and government incentives can materially alter both cost and market access. BCG's 2026 geopolitical outlook notes that industrial-policy interventions motivated by national and economic security have increased sharply since 2021. For executives, the implication is straightforward: a footprint decision now contains a policy option whether leadership acknowledges it or not.

Administrative distance also creates asymmetry. A plant may remain perfectly capable of producing a product while becoming less attractive for a particular market because the policy treatment of that origin changes. The right response

may be relocation, but it may also be product-routing flexibility, alternative certification, dual qualification, or the ability to serve the same market from multiple production points. A network can preserve globalization while reducing dependence on any single policy path.

Geographic distance is about recovery time, not just freight

Traditional network models already capture transportation cost and lead time. What they often underweight is the operational consequence of distance when normal flows fail. Port disruption, canal closures, energy shocks, weather events, infrastructure constraints, and conflict can transform an efficient long lane into a service problem. Geographic distance therefore affects more than cost; it affects the time required to redirect supply, recover a failed route, reposition inventory, or support a distant operation.

Economic distance extends beyond wage rates

Economic distance includes income levels, labor productivity, skills, capital availability, currency conditions, energy, demand, and the maturity of the supplier ecosystem. A low-cost location can become expensive when the company must import specialized talent, carry extra inventory, absorb lower yields, build supplier capability, or fund infrastructure that another ecosystem already provides. Conversely, a higher-wage location can be economically attractive when automation, productivity, proximity, and service materially reduce total system cost.

The Sourcing Question Is Not the Same as the Footprint Question

CAGE helps leadership understand where distance creates friction, but it does not determine which dependencies deserve the most intervention. Peter Kraljic's purchasing portfolio provides a useful supporting lens. Kraljic argued that supply strategy should vary according to the strategic importance of the item and the complexity or risk of the supply market. That distinction matters because not every globally sourced component deserves diversification, and not every local item deserves protection.

A low-value, readily substitutable input can often remain globally sourced even in a fragmented environment because the company has alternatives. A strategically important component with concentrated supply, long qualification cycles, proprietary technology, or limited substitutes is different. For those items, the location of supply becomes part of enterprise risk, not merely procurement cost.

The executive mistake is to apply one geopolitical response to the entire spend base. 'Reshore,' 'nearshore,' and 'China plus one' can all become slogans that substitute for segmentation. Kraljic's logic argues for the opposite: **different dependencies deserve different strategies**. Some should be diversified. Some should be partnered. Some justify inventory or capacity buffers. Some may warrant vertical integration. Many should be left alone because the cost of intervention exceeds the exposure.

Think in Configurations, Not Countries

The most important shift is to stop treating footprint strategy as a contest to identify the single best country. The enterprise does not operate a list of countries; it operates a network of flows, capabilities, dependencies, and markets. The relevant unit of analysis is therefore the configuration.

Consider an illustrative industrial manufacturer serving North America and Europe from a concentrated Asian production base. The incumbent network has excellent suppliers, strong quality, favorable unit economics, and experienced technical labor. A simple reshoring analysis shows materially higher conversion cost in both end markets, making full relocation unattractive. At the same time, several high-value components are sourced from a narrow supplier base, final assembly is concentrated, and policy scenarios create the possibility of materially different tariff treatment across markets.

The executive choice is not 'stay' or 'leave.' A better configuration might preserve the high-performing Asian base while qualifying selected strategic suppliers elsewhere, adding final-assembly flexibility in one customer region, holding targeted buffer inventory for long-lead components, and ensuring that product can be rerouted across markets if policy treatment changes. Another configuration might move a specific product family closer to demand while

leaving the rest untouched. The objective is to buy **options where options have value**, not to duplicate the network indiscriminately.

McKinsey makes a similar point in its 2026 work on geopolitical volatility: for companies with distributed manufacturing networks, remaining global can itself be an advantage if the company has the agility to redirect product flows from manufacturing sites to end markets. Fragmentation therefore does not necessarily punish global scale. It punishes global scale that lacks flexibility.

Five Executive Tests Before Moving the Footprint

First, **is the exposure structural or episodic?** A temporary tariff, short-lived logistics disruption, or election-cycle policy debate does not automatically justify moving long-lived assets. Executives should distinguish noise from changes likely to alter the economics over the investment horizon.

Second, **what portion of enterprise value is actually exposed?** Revenue at risk, contribution margin, customer concentration, criticality of the affected products, recovery time, and substitutability matter more than the gross amount of spend flowing through a country. Exposure should be measured at the point where disruption reaches the business outcome.

Third, **what flexibility already exists?** Multi-site qualification, alternate suppliers, tooling mobility, product modularity, postponement, inventory placement, contractual options, and routing flexibility can reduce exposure without moving the entire footprint. Before buying new capacity, leadership should understand the options embedded in the network it already owns.

Fourth, **what new risks does the alternative create?** A move away from geopolitical concentration can create labor scarcity, quality problems, supplier immaturity, energy exposure, higher working capital, or dependence on a different policy regime. Risk is rarely removed; it is redistributed.

Fifth, **what is the cost of being wrong in either direction?** Moving too early can strand capital and permanently raise the cost base. Waiting too long can leave the company trapped by qualification lead times, unavailable capacity, or sudden market restrictions. The strongest footprint strategies preserve the ability to act before certainty arrives.

The Counterargument: Fragmentation Can Be Overstated

There is a legitimate danger in allowing geopolitics to dominate the operating model. Headlines can make the world look more fragmented than actual trade flows. The WTO continues to report a global trading system that remains large and adaptive, and its 2025 Global Value Chain Development Report emphasizes that value chains are rewiring rather than simply retreating. Firms continue to exploit specialization, global supplier ecosystems, and cross-border scale because those advantages remain economically powerful.

That matters because footprint moves are expensive and often irreversible. Moving production from an established ecosystem can sacrifice supplier depth, talent, learning curves, quality maturity, and installed capital. Duplicating capacity can weaken utilization. Geographic diversification can increase complexity faster than it reduces risk. A company that responds to every geopolitical shock with physical relocation can destroy more value than the disruption it is trying to avoid.

The answer is not to ignore fragmentation. It is to resist deterministic conclusions. Scenario analysis should inform the network, not panic it. The goal is to identify which strategic assumptions must remain true for the current footprint to work, determine where those assumptions are becoming fragile, and create options before fragility becomes dependency.

The Decision

So where should a company build, source, and operate as the world fragments? Not necessarily closer. Not necessarily cheaper. And not necessarily in politically aligned markets. It should place capabilities where the combined economics of cost, access, resilience, speed, and strategic flexibility are strongest for the business model and the scenarios leadership is prepared to manage.

CAGE provides a disciplined way to identify the forms of distance that can undermine that logic. Kraljic helps distinguish the dependencies that deserve disproportionate attention. Scenario analysis then tests whether the configuration still works when important assumptions change.

The executive objective is not to predict the geopolitical future correctly. Few companies will. It is to avoid building an operating network that requires one future to be correct.

The strongest footprint is therefore not the one with the lowest cost under today's assumptions. It is the one that remains economically competitive when some of those assumptions inevitably fail.

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Editorial standard: established frameworks, executive application, practical tradeoffs, selective sourcing.