

# THE GROWTH TRAP

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**Mastering the execution  
systems required for  
profitable industrial scaling**

In industrial businesses, growth is one of the leading causes of the next restructuring. Not because markets fail – but because fixed costs are locked in before volume materializes, complexity outpaces capability, and margin quietly erodes behind strong order intake numbers.

**Profitable growth is not a strategy exercise.** It is an execution challenge that requires the same discipline, governance, and rigor as a restructuring program – just with a different objective.

### Where Growth Programs Break Down in Industrials

Most growth initiatives fall short not because of weak ambition – but because the execution model was never built for scale. Growth succeeds only when demand, capacity, cost structures, and organisational capabilities are developed in lockstep.

Common breakdown patterns include:

- Growth targets defined solely by 'Market Potential' without being translated into 'Operational Requirements.' If your sales pipeline isn't mapped to specific capacity, lead-time, and margin

guardrails, you aren't growing— you're just creating a backlog of future delivery failures and cost overruns

- Early and irreversible build-up of fixed costs

**The Growth Trap:  
When fixed costs  
are locked in based  
on optimistic volume  
forecasts that fail to  
materialize, today's  
growth program  
becomes tomorrow's  
restructuring.**

- Insufficient focus on margin quality and delivery readiness
- Fragmented cross-functional execution – commercial momentum without operational alignment

The pattern is consistent: strong order books, deteriorating margins, and an organisation that has scaled its cost base faster than its capabilities.

## From Growth Ambition to Operational Reality

In successful profitable growth programs, ambition is translated into **concrete operational logic across the entire value chain.**

After identifying a limited number of priority growth areas, the focus shifts from *potential* to *realization*.

For each priority growth area, ambition must translate into operational logic: target customers and regions, target volumes, contribution margins, order intake phasing, and commercial win assumptions. From there, the questions become concrete – sales resources by region, win rate improvement levers, tendering structure, and tooling.

Growth becomes real only once these questions are answered and owned.

## Commercial Execution: Winning the Right Business

Top-line growth in industrial businesses is not driven by broad customer acquisition. It is about **winning the right projects, at the right margin, with the right delivery model.**

Effective growth programs therefore focus on:

- Improving hit rates through structured bid management and targeted sales enablement
- Professionalizing tendering processes to reduce variability and cycle time
- Enforcing pricing discipline and protecting contribution margins
- Introducing selective new business models, for example in after-sales and lifecycle services, to stabilize revenue and margin

Crucially, these initiatives are not treated as isolated sales improvements. They are designed in close coordination with engineering, manufacturing, and supply chain to ensure that what is sold can be delivered profitably at scale.

## Designing Growth for Efficiency and Flexibility

A defining principle of profitable growth is **under-proportional cost and headcount expansion.**

In industrial environments, this is achieved through a combination of structural and organizational measures:

- Modularization and standardization of products to reduce engineering effort and manufacturing complexity
- Clear division of work across the value chain, focusing internal resources on high-value and IP-critical activities while externalizing scalable components
- Targeted ramp-up of skilled resources in cost-efficient countries across engineering, supply chain, after-sales, and central functions such as HR, Finance, and IT
- Use of temporary labor and subcontractors to preserve flexibility and absorb demand volatility

The objective is not cost minimization, but **resilience**. Markets, customer demand, and geopolitical conditions can change rapidly. Growth programs that hard-wire fixed costs too early lose the ability to adapt.

### Measuring Efficient Growth: Simple KPIs That Matter

Efficient growth must be measurable. In successful programs, **simple, transparent KPIs** are used to ensure that resources scale under-proportionally to output.

Examples include:

- **Revenue per headcount** in commercial and central functions
- **Engineering hours per unit** or per project
- **Manufacturing hours or parts per unit**
- **After-sales revenue per service FTE**

**The Golden Rule:  
To protect margins,  
central function  
costs must be  
capped at a 0.5%  
increase for every  
1.0% in revenue  
growth.**

These KPIs create immediate transparency, support early intervention and allow leadership to see whether growth is being achieved through productivity gains or simply through headcount expansion.

## The Core-Growth Rule:

The core business funds growth.

The growth business must never destabilize the core.

### Core vs Growth: Two Logics, One Discipline

A critical success factor in industrial growth programs is the **explicit separation of Core and Growth businesses**.

The Core business must:

- Become structurally more efficient
- Generate the cash and margin to fund growth
- Maintain operational stability during expansion

Growth businesses, by contrast:

- Require focused investment
- Must follow strict efficiency and flexibility principles from day one

- Cannot be allowed to dilute overall margin or execution discipline

Both areas are governed with equal rigor – but with different performance logics. Without this separation, growth initiatives either starve due to lack of funding or destabilize the core.

### Steering Growth Like a Transformation

Profitable growth does not run on autopilot.

In successful programs, all growth-related initiatives – commercial, operational, organizational, and investment-related – are treated as **measures**, defined and tracked with the same intensity as in a restructuring.

Key elements include:

- Clear ownership for each measure
- Regular executive-level business reviews
- Early escalation of execution bottlenecks
- Continuous review and adjustment of plans
- Willingness to pause, sequence, or reshape initiatives when assumptions change

Growth plans must remain dynamic. Ramping up headcount or capacity makes little sense if demand develops slower than expected.

**Leadership insight:  
The hardest growth decisions are not how much to invest – but when to preserve flexibility.**

#### Balancing Investment and Optionality

Profitable growth requires upfront investment. Capacity, engineering resources, and new product development cannot be deferred indefinitely.

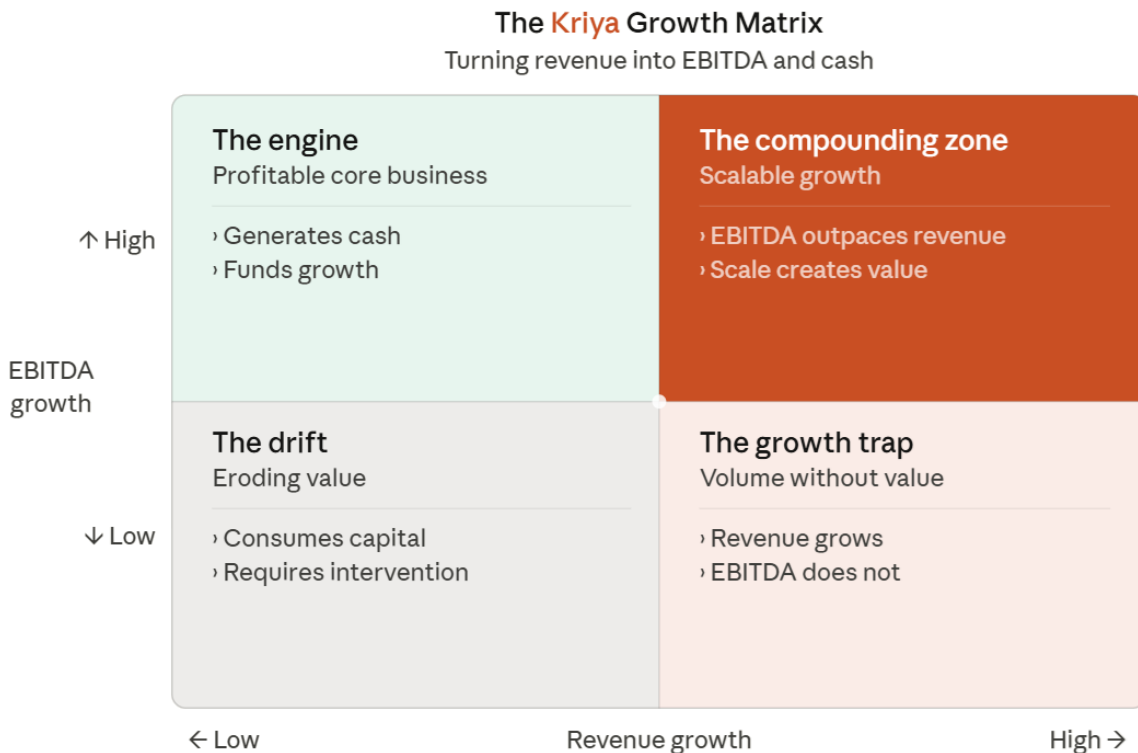
The challenge lies in **calibrating investment**:

- Enough to enable growth
- Not so much that flexibility is lost

This balancing act requires close coordination across all functions. Commercial ambition must be translated seamlessly into operational reality – with constant feedback loops between market demand, delivery capability, and financial performance.

Growth that ignores this balance often creates short-term momentum and long-term fragility.

**Ultimately, scaling is not an achievement of the sales department; it is a victory of the operating model.  
Volume is vanity.  
EBITDA-accretive leverage is sanity.**



## The Execution System

These are the non-negotiables.  
Every profitable growth program we have run holds to them.

### Profitable Growth Execution Non-negotiables

#### Commercial Guardrails

- Growth priorities are focused on **projects and customers with proven delivery models**, not broad volume expansion
- Bid management and tendering are **standardized**, with clear qualification, pricing logic, and approval thresholds
- Pricing discipline** is enforced end-to-end, protecting contribution

margins from opportunity shaping through contract signature

#### Operational Guardrails

- Products and solutions are **standardized and modularized** to reduce engineering complexity and resource intensity
- Engineering and central support capacity is scaled through **cost-efficient regions**, not high fixed-cost locations
- Optionality is preserved** through temporary labor, subcontractors, and flexible sourcing models

#### Measurement Guardrails

- Revenue growth translates into EBITDA growth**

Revenue increases are tracked against EBITDA performance to ensure growth is value-accretive, not margin-dilutive

**Under-proportional headcount growth is enforced**

Headcount growth across the value chain increases **20-40% slower than revenue growth**, ensuring operating leverage is realized as scale increases

**Operating leverage rule is actively managed**

For every 1.0% increase in **revenue**, group and central function costs grow by **no more than 0.5%**

**Productivity KPIs govern scaling decisions**

Engineering hours per unit, output per production hour, or comparable productivity metrics are tracked to ensure scale is driven by efficiency, not capacity build-up

**Revenue per headcount is monitored as an early warning signal**

Declining revenue per employee in central and support functions triggers review before fixed costs become structural

**Growth investments are benchmarked against plan**

Capacity, tooling, and resource investments are tracked against the original business case to ensure timing and scale remain aligned with realized demand

## **Case snapshot**

**At a €3bn industrial manufacturer, a two-year profitable growth program improved return on sales from 10% to 12%.**

**Growth creates value only when scale converts into EBITDA and cash. If scale increases without margin improvement, it is not value creation – it is value dilution.**