

TRANSFORMATION THAT DELIVERS

**What Effective Enterprise
Transformations Must
Encompass – and Why**

Enterprise transformations are launched more frequently than ever – yet many fail to deliver sustained impact.

The root cause is rarely lack of effort or analytical insight. It is the absence of execution capability – the ability to convert ambition into realized profit and cash.

Effective transformations do not optimize isolated cost levers or chase growth in silos. They build the operational, organizational, and governance muscle required to translate ambition into **real revenue, real P&L, and real cash** – quarter after quarter.

Without a clear ambition set early on, transformations often drift—fixing yesterday's inefficiencies while quietly missing what tomorrow's market will require

The Ambition: Setting the 'End State' First

Before a single initiative is launched, leadership must define the destination.

Ambition setting is not a vision statement – it is a concrete commitment to what the organization must deliver economically. This ambition must be anchored in a rigorous **3-year financial look-ahead**, explicitly accounting for structural headwinds before targets are set.

A credible “**North Star**” ambition is built by factoring in the often invisible erosions of value:

- **Inflationary Realism:** Explicitly estimate the 3-year cumulative impact of wage inflation, material cost and overhead increases. Without this, your transformation targets will be "erased" by structural cost creep before they ever hit the P&L.
- **The Strategic Bridge:** Translate ambition into concrete top- and bottom-line effects, explicitly incorporating a 15-20% risk buffer on EBITDA targets to absorb execution risks and potential external disruptions.
- **Implications of Magnitude:** The size of the EBIT ambition determines the nature of the transformation. Large gaps

cannot be closed through incremental measures alone – they require structural decisions across footprint, portfolio, operating model, and organization. Explicitly acknowledging these implications upfront prevents ambition and execution from drifting apart.

Without an early, data-driven anchor, transformations fragment into siloed initiatives that create activity – but not impact.

Revenue Quality: Where Growth Becomes Profitable – or Fragile

In many transformations, revenue growth is treated as an assumption rather than a design variable.

Sustainable growth requires revenue to be won selectively, grounded in economic contribution and the organization's ability to deliver at scale.

High-quality revenue is defined by three disciplines:

- **Portfolio focus:** Concentrating growth on markets, products, and customer segments where the business can win repeatedly and profitably – and deliberately exiting structurally unprofitable business.
- **Pricing discipline:** Enforcing margin thresholds throughout the sales cycle, with governance

that prevents late-stage erosion during negotiations.

- **Delivery readiness:** Aligning commercial commitments with actual engineering, supply chain, and manufacturing capacity *before* orders are taken.

Without revenue discipline, execution pressure simply shifts downstream – forcing operations to compensate for commercial decisions that were never economically viable.

Growth without margin discipline is just a sophisticated way of losing money. True top-line success is defined by revenue quality, not just volume recovery

Structural Cost and Footprint

Structural measures form the backbone of sustainable performance improvement.

These include decisions on production and service footprints, site roles and specialization, manufacturing depth, and outsourcing logic. Structural changes often account for a disproportionate share of long-term impact, yet they are frequently delayed due to organizational resistance or perceived execution risk.

Footprint decisions are the ultimate test of leadership will. If you aren't willing to address structural misalignments in your operating model, you aren't transforming – you're just rearranging the cost base

Complexity: The Silent Margin Killer

Complexity is one of the most underestimated cost drivers in large organizations. Transformations that

deliver lasting results explicitly address portfolio focus, modularization, standardization, and the disciplined allocation of engineering capacity. Without reducing complexity, both cost and top-line improvements achieved elsewhere tend to erode over time.

Complexity is a daily tax on margin. If leaders lack the courage to prune the portfolio, the resulting tail of variants will eventually consume gains made elsewhere.

Material and External Spend

External spend typically represents the largest cost base and therefore a critical lever. However, sustainable impact rarely comes from price negotiations alone.

Effective transformations incorporate value engineering, specification simplification, sourcing strategy realignment, and make-or-buy decisions.

These measures require close collaboration between engineering, procurement, and operations, and must be executed with a clear view on total cost rather than unit price.

Organization and Ways of Working

Organizational structure and ways of working determine how efficiently value is created and captured.

Relevant measures include management layers, spans of

control, efficiency increases through automation and the use of shared services.

Transformation is ultimately a choice between the comfort of activity and the discipline of impact. Realized P&L is the only metric that matters

Cash & Working Capital: Where execution becomes real

Realized P&L – and its conversion into cash – is the only proof of impact.

In effective transformations, Net Working Capital is addressed through a **dedicated execution program with concrete measures, clear measure owners, and quantified impact on cash-relevant KPIs**. Cash improvement is not driven by finance clean-up, but by disciplined execution across the business.

Typical scope areas include:

- **Receivables:** ensuring order intake and delivery translate into timely, predictable cash.
- **Inventory:** preventing excess and dead/slow-moving stock through realistic demand assumptions and operational ownership.
- **Payables:** enforcing agreed terms through process discipline while preserving supplier stability.

Execution progress is monitored through a small set of KPIs – including **DSO, DIO, DPO, and the Cash Conversion Cycle** – used as **steering indicators** to identify execution gaps early.

In strong transformations, EBITDA improvement and cash discipline are both deliberately addressed – as outcomes of disciplined execution, actively steered by leadership.

Success Factors of Effective Transformations

A Binding Execution Framework: Transformation is not a “gentleman’s agreement”. It is a binding social contract between leadership and the organization. Successful programs establish a clear, target- and content-driven execution framework that defines non-negotiable guardrails for implementation. This prevents

transformations from drifting into internal negotiations, functional backsliding, or selective commitment.

Transparency over comfort: What is not transparent cannot be improved. Effective transformations assign clear ownership to every measure, with an explicit purpose, quantified impact, and executable milestones. Radical, real-time transparency of progress and results – enabled through simple, highly visual tracking and a disciplined cadence of board-level reviews – ensures fact-based steering and early intervention.

Granular 'Target Pictures': Ambition only becomes real when it is localized. Leaders must translate the overall North Star into concrete Target Pictures for each function, region, and business unit. This enables every owner to understand what must change in their area and to derive the specific prerequisites, milestones, and actions required to deliver the collective ambition.

The gap between a strategy slide and a realized P&L is where most transformations die

Why Implementation Capability Is the True Differentiator

Most organizations are capable of identifying growth and efficiency opportunities; few can actually deliver them.

Implementation capability is defined by three "uncomfortable" requirements:

- **Active Governance:** Moving beyond passive status reporting to active steering. Measure owners are held accountable for delivery in real time, decisions are taken when trade-offs emerge, and progress is judged by outcomes – not updates.
- **Escalation Hygiene:** Creating a culture where bad news travels fast. When a bottleneck in engineering stalls a commercial rollout, it is escalated and resolved within days – not buried for months in committee discussions.
- **Installing a Fit-for-Purpose Transformation Office:** Successful transformations are driven by a strong central Head of Transformation with clear authority, supported by lean, decentralized PMO capabilities embedded within the business. This model ensures ownership remains with line leaders, while maintaining consistent

standards, transparency, and pace across the program.

- **The Courage to Kill:** Maintaining the discipline to replace underperforming measures quickly. Effective transformations value adaptability over adherence to static plans. Agility matters more than protecting an 18-month roadmap that is no longer anchored in reality.

**The Transformation
North Star:
Transformations
succeed not when
plans are approved,
but when execution
is relentlessly
steered to impact –
across revenue,
margin, and cash**