BATCHMASTER®
Process Manufacturing Software

KPIs That Drive Enterprise Value in $10–$50M Process Manufacturers

Table of Contents

Executive Summary

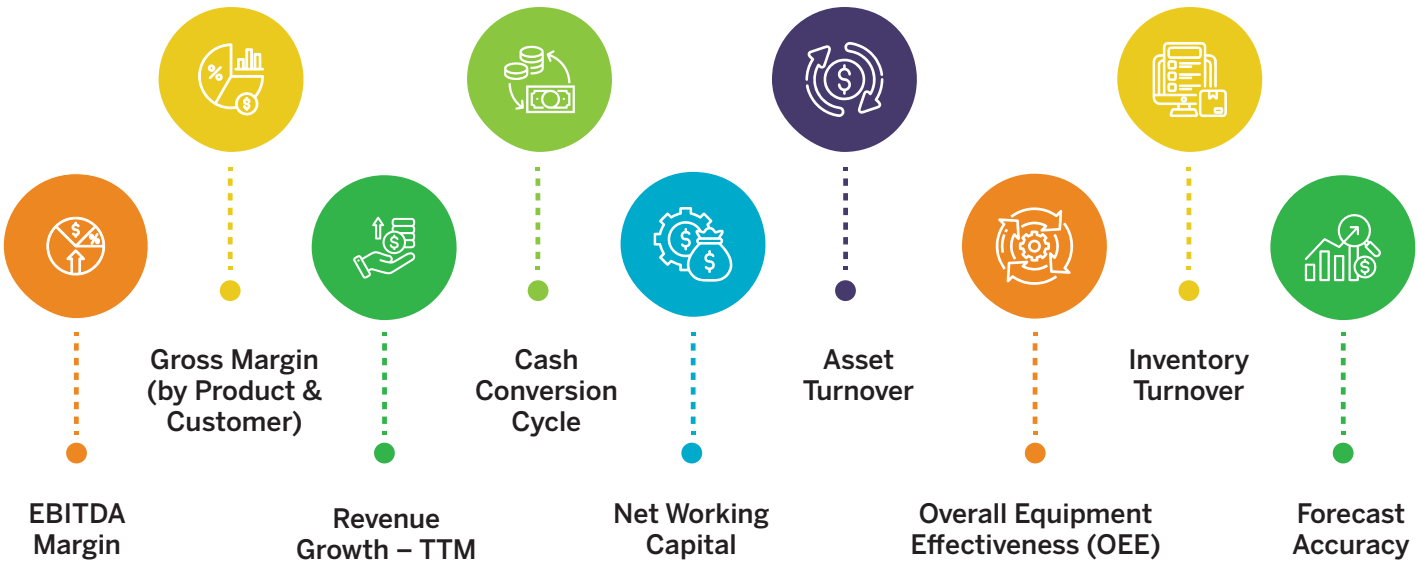
This guide is written for the owners, CFOs, COOs, and PE-ready founders of $10M–$50M process manufacturing organizations — the people responsible not just for running the business, but for building enterprises that withstand financial, operational, and investors scrutiny.

At this revenue stage, enterprise value stops being abstract. It becomes measurable, improvable, and defensible. Lenders, private equity partners, and strategic acquirers no longer ask simply whether the business is profitable. They ask how profitably it operates, how predictably it generates cash, and how resilient it is to the operational risks that tend to surface — and shrink multiples — during due diligence.

The 15 KPIs in this guide represent the metrics that actually move valuation conversations. They fall into two categories:

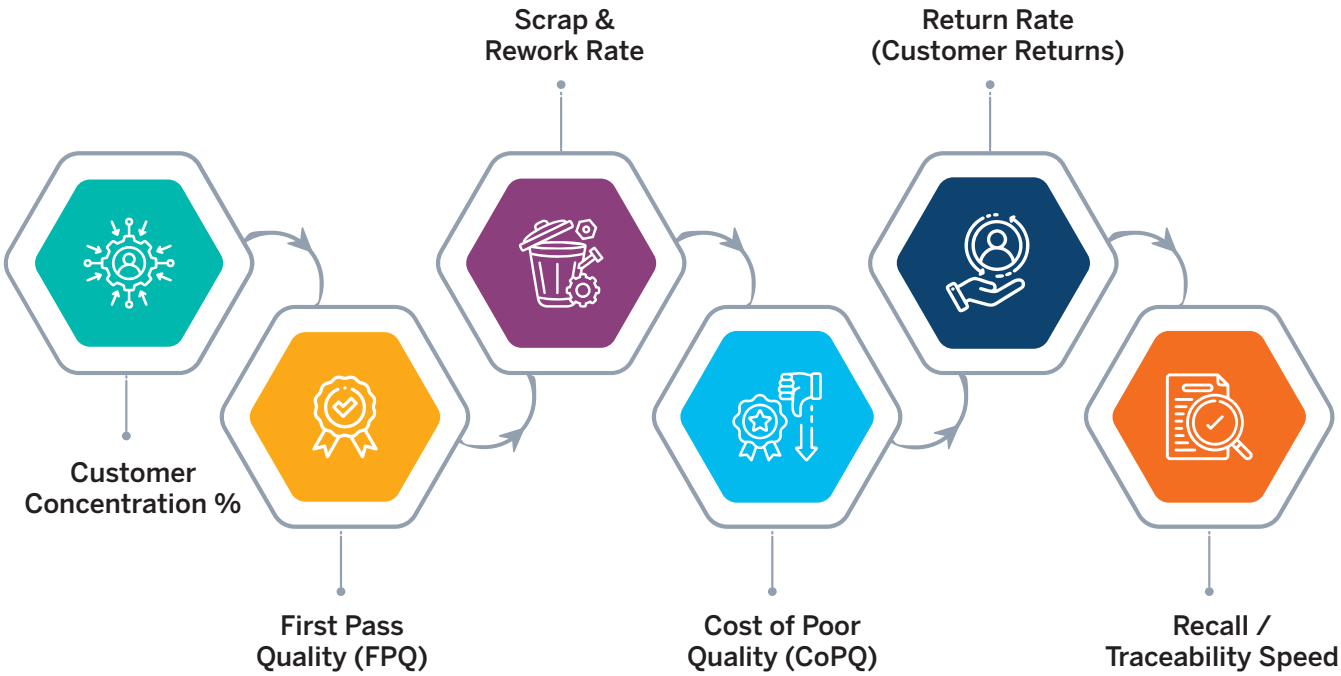
KPIs That Grow Enterprise Value

Metrics that signal earnings quality, cash generation, and scalable growth — the numbers buyers use to set the multiple.



KPIs That Protect Enterprise Value

Metrics that validate operational maturity and risk management — the numbers buyers use to stress-test the multiple.



Each KPI includes a clear definition, calculation formula, ERP data sources, and common mistakes that distort performance visibility. This guide also includes benchmark ranges, a KPI Maturity Model, and a Due Diligence Readiness Checklist to support valuation preparation.

Who Should Use This Guide

This guide is designed for executive leaders of $10–$50M process manufacturing companies in industries like food & beverage, chemicals, personal care, nutraceuticals, pharmaceuticals, or life sciences — who are focused on improving operational performance and positioning the business for future investment, partnership, or strategic exit.

$10–$50M Process Manufacturers: Current State

The $10–$50M revenue band is one of the most operationally demanding stages a process manufacturer can navigate. Revenue has grown to the point where informal management no longer works — but systems and structures have not always kept pace. The result is a business that is growing, but often leaving margin, cash, and enterprise value on the table.

Operational Realities

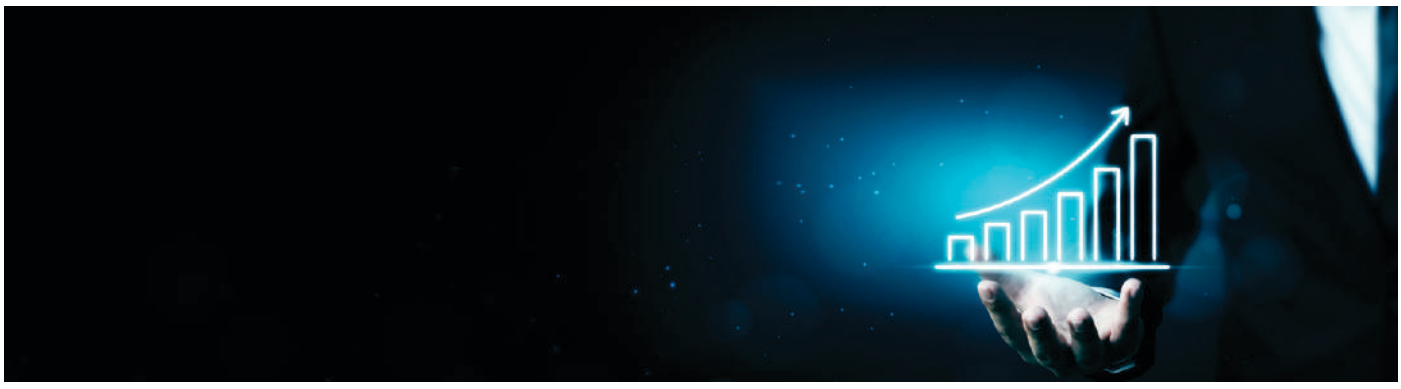
- **Margin pressure** is often quietly building from rising ingredient costs, unreliable yields, or untracked scrap — without leadership awareness until the P&L reflects it months later.
- **Working capital** grows with revenue, locking cash in raw materials, WIP, and finished goods while receivables stretch and payables tighten.
- **Production complexity** increases as SKU counts grow, seasonal demand intensifies, and customer specifications multiply — straining scheduling, quality, and compliance resources.
- **Lot traceability** and recall readiness become genuine compliance risks as regulatory oversight increases, and customer audit requirements become more rigorous.
- **Financial data** is often fragmented across spreadsheets, disconnected systems, or manually reconciled reports — creating blind spots that buyers will find during diligence.

These operational realities do not just impact daily performance. They directly influence EBITDA quality, cash flow predictability, risk profile, and ultimately valuation multiples.

KPIs That Grow Enterprise Value

Earnings Quality · Cash Discipline · Scalability

The nine KPIs in this section are the metrics that buyers, lenders, and PE firms use to set the valuation multiple. They reflect how efficiently the business converts revenue into earnings, how well it manages cash, and whether growth is creating value or consuming it.



KPI 01: EBITDA Margin

The #1 valuation driver. EBITDA Margin shows how efficiently the business converts revenue into earnings before financing and non-cash charges. It is the first number financial teams, acquirers, and advisors inspect because it reflects the company's true earning power.

What It Tells You

- How efficiently the business converts revenue into earnings
- How well costs are controlled as production scales
- How attractive the business is to buyers, lenders, and investors
- Whether margin is expanding or quietly eroding over time
- The EBITDA multiple floor and ceiling in any transaction

Formula

EBITDA Margin % = EBITDA ÷ Revenue × 100

EBITDA = Earnings before Interest, Taxes, Depreciation & Amortization

ERP Data Sources & Actions

1. Pull accurate COGS, labor, and overhead from batch production postings
2. Ensure overhead rates are applied consistently across all batches
3. Keep sales, purchasing, inventory, and manufacturing in one system for clean monthly closes
4. Generate rolling 12-month EBITDA margin reports to identify trend direction

Common Mistakes & Pitfalls

- Including owner compensation or one-time costs without clear addback documentation
- Using standard costing without reconciling to actuals — creates margin illusions
- Reporting EBITDA without segment-level visibility — masks which products are profitable

KPI 02: Gross Margin by Product & Customer

Gross Margin is the most honest measure of production profitability. Tracked at the product and customer level, it reveals which lines carry the business, which customers dilute value, and where formula or run issues need immediate attention. Aggregate gross margins often mask significant variation below the surface.

What It Tells You

- Profitability of production operations before overhead allocation
- Which products truly carry — or drag — the P&L
- Which customers erode margin through pricing, complexity, or returns
- Where formulation, yield, or purchasing inefficiencies create silent loss
- How SKU-level margin trends diverge from reported financials

Formula

Gross Margin % = (Revenue – COGS) ÷ Revenue × 100

Use actual COGS based on real material usage, labor, overhead, and scrap — not standard cost estimates.

ERP Data Sources & Actions

1. Update formulas and BOMs so ingredient and packaging costs are current and accurate
2. Implement actual costing rather than standard costing to capture real batch-level cost
3. Capture actual material and labor usage in each batch at close-out
4. Generate gross margin reports by SKU and by customer monthly

Common Mistakes & Pitfalls

- Relying on standard costs that haven't been updated in 12+ months
- Reviewing only blended gross margin without drilling to product or customer level
- Excluding packaging, inbound freight, or co-pack costs from COGS calculations

KPI 03: Revenue Growth – Trailing 12 Months (TTM)

Month-to-month sales swing widely in process manufacturing due to seasonal patterns, contract timing, and customer stocking cycles. TTM Revenue cuts through that noise and reveals the true growth direction — the number lenders and acquirers use to validate momentum.

What It Tells You

- Whether growth is real and consistent or masked by seasonality
- Which new products or customers are contributing meaningfully
- Whether customer concentration is increasing or stabilizing
- How well pricing, demand, and capacity are aligned over time
- Whether the business is building enterprise value through sustained growth

Formula

TTM Revenue = Sum of revenue for the most recent 12 calendar months

Compare rolling 12-month periods (e.g., Jan–Dec vs. Feb–Jan) to identify acceleration or deceleration.

ERP Data Sources & Actions

1. Ensure all sales invoices are posted inside the ERP so the revenue timeline is complete and auditable
2. Review revenue by customer and product to identify what is actually driving the trend
3. Compare TTM periods quarterly to determine whether growth rate is accelerating or declining

Common Mistakes & Pitfalls

- Using point-in-time monthly revenue without smoothing — creates misleading trend signals
- Counting recognized revenue inconsistently across months
- Not separating organic growth from one-time or non-recurring customer activity

KPI 04: Cash Conversion Cycle (CCC)

CCC shows how long cash is tied up between spending on materials and collecting from customers. Improving CCC by even 5–10 days can unlock hundreds of thousands of dollars in working capital in a mid-market business. Buyers interpret CCC as a direct reflection of cash discipline.

What It Tells You

- How long cash sits in raw materials (DIO component)
- How long it sits waiting on customers (DSO component)
- How effectively supplier terms offset working capital needs (DPO)
- Where the real cash bottlenecks in the business are located
- How efficiently the business can fund growth without additional borrowing

Formula

CCC = DSO + DIO − DPO

DSO = Days Sales Outstanding · DIO = Days Inventory Outstanding · DPO = Days Payable Outstanding. Lower CCC = stronger cash position.

ERP Data Sources & Actions

1. Keep inventory balances and batch consumption accurate so DIO reflects real material flow
2. Ensure sales invoices and AR aging reports are current for reliable DSO calculation
3. Track supplier payment terms and invoice posting dates consistently to monitor DPO
4. Review CCC monthly and compare to prior periods to identify where the cycle is lengthening

Common Mistakes & Pitfalls

- Measuring CCC only at year-end — seasonal inventory buildup distorts the picture significantly
- Including cash and cash equivalents in the working capital calculation
- Not separating raw material DIO from finished goods DIO — each requires different interventions

KPI 05: Net Working Capital (NWC)

Net Working Capital shows how much cash the business needs to operate and how efficiently that capital is deployed. In any transaction, NWC is the subject of a purchase-price peg — meaning poor working capital control doesn't just slow growth; it directly reduces what a buyer will pay.

What It Tells You

- How efficiently cash is cycling through day-to-day operations
- Whether growth is being funded internally or requiring external capital
- How inventory, receivables, and payables compound into cash strain
- How much capital a buyer will need to commit post-acquisition
- Whether the business is operationally disciplined or cash-intensive

Formula

NWC = Current Assets − Current Liabilities

In transaction contexts, buyers focus on AR, Inventory, and AP — excluding cash and debt from the peg calculation.

ERP Data Sources & Actions

1. Ensure inventory, AR, and AP are fully captured and reconciled inside the ERP — not in spreadsheets
2. Monitor working capital trends monthly, not just point-in-time balance-sheet snapshots
3. Tie inventory and receivables decisions back to forecasting, production planning, and customer terms

Common Mistakes & Pitfalls

- Allowing inventory to build passively without monthly review — aging stock silently inflates NWC
- Not tracking a "normalized" NWC level — seasonal swings should be understood and explained
- Treating AR as a collection afterthought — DSO creep is among the most common NWC surprises in diligence

KPI 06: Asset Turnover

Asset Turnover measures how efficiently the business uses its asset base to generate revenue. Higher turnover means more revenue per dollar of assets deployed — a key signal of capital efficiency that buyers use to assess scalability without significant reinvestment.

What It Tells You

- How productive equipment and facilities are relative to invested capital
- Whether the asset base can support growth without major additional capex
- How efficiently previous capital investments have returned value
- Whether underused or aging assets are creating a drag on valuation
- How capital-light or capital-intensive the business is compared to peers

Formula

Asset Turnover = Revenue ÷ Total Assets

Process manufacturers typically range from 0.8× to 1.8× depending on asset intensity. Compare to industry peers.

ERP Data Sources & Actions

1. Track equipment utilization and depreciation accurately through ERP and accounting modules
2. Compare revenue trends to the fixed asset base quarterly to assess whether investments are performing
3. Identify older or underperforming assets that may require retirement, upgrade, or redeployment

Common Mistakes & Pitfalls

- Not keeping fixed asset registers current — missing depreciation distorts the denominator
- Treating capex as EBITDA-neutral without modeling return on incremental asset turnover
- Overlooking idle or redundant assets that inflate the base without contributing to revenue

KPI 07: OEE – Overall Equipment Effectiveness

OEE is the clearest measure of how effectively production equipment is being utilized. It captures three compounding losses — downtime, speed reduction, and quality defects — that together determine how much actual value the business extracts from its production capacity.

What It Tells You

- How much capacity is being lost to unplanned or planned downtime
- Where speed or throughput losses are reducing total output
- How quality issues reduce usable production relative to total units produced
- Whether current equipment can support future volume without additional capex
- How reliably production aligns with customer demand commitments

Formula

OEE = Availability × Performance × Quality

Availability = run time ÷ scheduled time · Performance = actual speed ÷ ideal speed · Quality = good units ÷ total produced. World-class OEE > 85%.

ERP Data Sources & Actions

1. Track machine downtime and root causes through shop floor or batch reporting in the ERP
2. Capture actual production speed and output against planned standards at the work center level
3. Link scrap and rework quantities to specific batches and work centers to identify root causes

Common Mistakes & Pitfalls

- Measuring OEE only on flagship equipment — losses on secondary lines often exceed primary-line losses
- Not separating planned downtime from unplanned downtime when analyzing Availability
- Reporting OEE as a plant average without drilling to equipment, shift, or product level

KPI 08: Inventory Turnover

Inventory Turnover measures how efficiently the business converts inventory investment into revenue. Low turnover ties up cash, increases write-off risk, and signals planning discipline issues. High turnover indicates lean, efficient management — a positive signal for buyers assessing working capital needs.

What It Tells You

- What fast materials and finished goods move through the business relative to COGS
- Whether inventory levels are supporting or suffocating operating cash flow
- Where excess stock, slow movers, or near-expiry items are accumulating
- How well demand forecasting and production planning are working together
- How much cash could be freed by improving inventory discipline

Formula

Inventory Turnover = COGS ÷ Average Inventory

Average Inventory = (Opening + Closing Inventory) ÷ 2. Higher turns indicate more efficient use of working capital.

ERP Data Sources & Actions

1. Maintain accurate inventory balances with real-time receipts, issues, and adjustments in the ERP
2. Track COGS by product to ensure turnover reflects true material consumption
3. Generate an inventory aging report monthly and actively manage items approaching shelf-life thresholds

Common Mistakes & Pitfalls

- Using only total inventory without segmenting RM, WIP, and FG — each requires a different approach
- Allowing inventory counts and ERP balances to diverge — creates false turnover signals
- Not acting on aging reports — slow-moving inventory becomes a write-off risk and a diligence red flag

KPI 09: Forecast Accuracy

Forecast Accuracy measures how well the business predicts actual customer demand. Poor forecasting creates a cascade of working capital, operational, and customer service problems — all which compound into higher costs, lower margins, and weaker enterprise value.

What It Tells You

- How much inventory and cash are tied up in inaccurate predictions
- Whether production schedules are built on reliable data or educated guesses
- How often demand surprises disrupt OTIF, cycle time, and customer relationships
- How reliable and scalable the planning process is as complexity grows
- How much expediting, overtime, or waste is generated by forecast error

Formula

Forecast Accuracy % = 1 – (|Forecast – Actual| ÷ Actual) × 100

Track by SKU and customer monthly. A score of 85%+ is a strong signal of planning maturity.

ERP Data Sources & Actions

1. Use historical sales data and seasonality trends to generate rolling demand forecasts inside the ERP
2. Compare forecast vs. actual monthly for each significant SKU to identify consistent outliers
3. Use forecast accuracy results to calibrate safety stock levels, MRP inputs, and production planning

Common Mistakes & Pitfalls

- Forecasting at the product category level only — SKU-level accuracy drives MRP and inventory decisions
- Not tracking forecast accuracy as a KPI — what isn't measured isn't improved
- Treating large customers as stable without modeling their ordering patterns and lead time variability

KPIs That Protect Enterprise Value

Operational Stability · Quality Maturity · Risk Resilience

Growth alone does not secure valuation. As manufacturers scale, buyers begin asking a different set of questions: How stable are operations under pressure? How exposed is the business to quality, compliance, or customer risk? The six KPIs in this section determine whether the enterprise value is durable — or discounted during diligence.

KPI 10: Customer Concentration %

Customer Concentration is a direct measure of revenue risk. When one or two customers represent a large percentage of revenue, the business becomes vulnerable to demand shifts, contract changes, delayed payments, or pricing pressure — and buyers discount the multiple accordingly.

What It Tells You

- How much revenue is concentrated in a few relationships
- Which accounts create hidden financial and operational risk
- How fragile or resilient the revenue mix is to customer-level disruption
- Whether diversification efforts are working over time
- How much downside protection buyers will price into their offer

Formula

Customer Concentration % = Revenue from Customer A ÷ Total Revenue × 100

Run for all top 10 customers. Flag any single customer above 20–25% and any top-3 combination above 50%.

ERP Data Sources & Actions

1. Ensure customer accounts and sales reps are correctly mapped in the ERP for clean revenue attribution
2. Review sales by customer monthly to track dependency shifts over time
3. Model the EBITDA impact of a 30%, 50%, or 100% loss of your top customer — buyers will ask this

Common Mistakes & Pitfalls

- Tracking concentration only annually — shifts can happen quickly and go unnoticed
- Grouping affiliated customers without parent-level roll-up reporting
- Confusing revenue concentration with profit concentration — some high-revenue customers may carry thin margins

KPI 11: First Pass Quality (FPQ)

FPQ measures how consistent batches meet quality standards the first time — without rework, formula adjustments, or retesting. It is one of the clearest signals of production process maturity, formula stability, and compliance readiness.

What It Tells You

- How consistently formulas and processes perform across batches and shifts
- How much time, labor, and material are saved by avoiding rework cycles
- Where quality issues originate — ingredients, equipment, operators, or process steps
- How stable and predictable production is as volume grows
- How strong the compliance and customer trust foundation really is

Formula

FPQ % = (Batches Approved on First Attempt ÷ Total Batches Produced) × 100

Only count batches that pass ALL required QC tests without rework, formula adjustments, or retesting.

ERP Data Sources & Actions

1. Record QC test results for every batch so first-pass vs. rework status is tracked at the batch level
2. Log all deviations and corrective actions to identify recurring issues and their root causes
3. Review FPQ by product, line, and shift monthly to pinpoint where quality is most consistently at risk

Common Mistakes & Pitfalls

- Not logging rework batches separately — rework that isn't captured creates falsely high FPQ rates
- Reviewing FPQ as a plant average — product or shift variation is invisible in aggregates
- Treating FPQ decline as a quality department problem — it's usually a formulation, procurement, or equipment issue

KPI 12: Scrap & Rework Rate

Scrap and rework are among the biggest silent margin killers in process manufacturing. Even a 1–2% increase in scrap rates across a $20M COGS base represents $200K–$400K in direct margin erosion — often invisible without systematic batch-level tracking.

What It Tells You

- How much material is being consumed without contributing to sellable output
- Where process, equipment, or training deficiencies are costing money
- Which formulas or SKUs generate the highest yield losses
- How yield problems compound into throughput and cycle time impacts
- Where the root causes of margin erosion are actually located in production

Formula

Scrap Rate = Scrap Qty ÷ Total Qty Produced × 100 Rework Rate = Reworked Qty ÷ Total Qty Produced × 100

Track both per batch, per SKU, per line, and per shift for actionable root cause analysis.

ERP Data Sources & Actions

1. Capture scrap quantities with cost values at batch close-out so loss is visible and financially quantified
2. Record rework batches separately to see their true frequency and cost
3. Review scrap and rework trends monthly and link patterns to specific formulas, equipment, or shifts

Common Mistakes & Pitfalls

- Treating scrap as a cost-of-doing-business without investigating root causes
- Not assigning financial values to scrap at the time of recording — volume metrics without cost context don't drive action
- Failing to differentiate between controllable scrap (process-driven) and unavoidable scrap (inherent to formulation)

KPI 13: Cost of Poor Quality (CoPQ)

CoPQ is the most direct way to quantify the total financial impact of quality failures — internal (scrap, rework, rejects) and external (returns, complaints, recall costs). Most manufacturers who track CoPQ for the first time discover it is significantly larger than expected.

What It Tells You

- How scrap, rework, returns, and failures are eroding margin in aggregate
- The true financial impact of quality events vs. reported quality metrics
- Where unstable processes are undermining profitability most significantly
- How quality investment compares to quality failure costs
- Whether quality maturity is improving or stalling over time

Formula

CoPQ = (Scrap + Rework + Returns + Quality Failures) ÷ Revenue × 100

Industry benchmark: CoPQ of 5–10% of revenue is typical. Under 5% signals strong quality maturity.

ERP Data Sources & Actions

1. Capture scrap and rework with cost values at batch close-out — quantity without cost is incomplete
2. Track all customer returns with financial impact and linked reason codes in the ERP
3. Review CoPQ monthly by product line and work center to find the highest-cost quality failure categories

Common Mistakes & Pitfalls

- Calculating CoPQ only from scrap — external failure costs (returns, expediting, credits) are often larger
- Not including cost of re-inspection, re-testing, and administrative rework time
- Treating CoPQ reduction as a quality-team initiative rather than a cross-functional operational priority

KPI 14: Return Rate (Customer Returns)

Return Rate is a direct signal of product quality, packaging integrity, and customer experience. Each return event creates direct financial loss, increases CoPQ, and — if patterns persist — erodes customer relationships and contract security.

What It Tells You

- Which products are generating recurring dissatisfaction at the customer level
- Which customer accounts experience the most service or quality issues
- How quality problems are flowing into direct revenue and margin loss
- Where formulation, packaging, shelf-life, or handling issues originate
- Whether customer trust and contract security are at risk

Formula

Return Rate = (Units Returned ÷ Units Shipped) × 100

Track by product, customer, and reason code. Segment by controllable vs. non-controllable causes.

ERP Data Sources & Actions

1. Record all returns with reason codes linked to product and customer in the ERP at time of receipt
2. Link each return back to the specific lot or batch to enable root cause analysis
3. Review monthly return trend reports by product and customer to identify emerging patterns early

Common Mistakes & Pitfalls

- Issuing credits without logging the return against the originating lot — breaks traceability
- Treating all returns as equivalent without segmenting by root cause category
- Not connecting return rate trends to customer retention risk — high return rates signal attrition risk

KPI 15 : Recall / Traceability Speed

Traceability Speed measures how quickly the business can trace any ingredient from supplier through batch production to the customer's dock — and in reverse. This is not a compliance exercise; it is a real-time measure of supply chain control and risk management maturity.

What It Tells You

- How prepared the business is for an audit, mock recall, or actual quality incident
- How effectively a quality issue can be contained before it becomes a liability
- Whether lot and batch controls are consistently applied across all production areas
- How much risk and potential liability is embedded in current documentation practices
- How the business compares to standards that major customers increasingly require

Formula

Traceability Speed = Time to complete full forward & backward lot trace

Elite: < 2 minutes · Acceptable: 5–15 minutes · Risk: > 15 minutes · Target: full trace from a single ERP report.

ERP Data Sources & Actions

1. Ensure lot numbers are captured at every material movement: receiving, issuance, production, QC, and shipping
2. Maintain accurate batch records with ingredient lot numbers, quantities, and timing in the ERP
3. Run mock recall reports quarterly to test real-world traceability speed and expose documentation gaps
4. Use ERP automated forward and backward trace reporting to eliminate manual research during audits

Common Mistakes & Pitfalls

- Relying on paper-based lot records that must be manually searched — this adds hours, not minutes
- Capturing lot numbers at receiving but not consistently through production and shipping
- Never running a mock recall — discovering traceability gaps during a real audit is a catastrophic risk

KPI Benchmark

KPIs That Grow Enterprise Value

KPI	Red Zone (Risk)	Healthy Zone (Typical)	High Performer Zone
EBITDA Margin	<10%	10-15%	18-22%+
Gross Margin (by Product & Customer)	<25%	25-35%	35-45%+
Revenue Growth (TTM)	<4%	4-8%	10-15%+
Cash Conversion Cycle (CCC)	>70 Days	45-70 days	< 40 days
Net Working Capital	> 25% of revenue	15%-25% of revenue	< 15% of revenue
Asset Turnover	< 0.8x	0.8–1.5×	>1.5x
OEE	<60%	60-75%	80-85%+
Inventory Turnover	<4 turns	4-8 turns	8-12+ turns
Forecast Accuracy	<60%	60%-80%	85%-95%

KPIs That Protect Enterprise Value

KPI	Red Zone	Healthy Zone	High Performer Zone
Customer Concentration %	Top customer > 30%	15–25%	< 10–15%
First Pass Quality (FPQ)	< 90%	90–95%	96–99%+
Scrap & Rework Rate	> 5%	2–5%	< 2%
Cost of Poor Quality (CoPQ)	> 10% of revenue	5–10%	< 5%
Return Rate (Customer Returns)	> 3%	1–3%	< 1%
Recall / Traceability Speed	> 15 minutes	5–15 minutes	< 2 minutes

Supporting KPIs Reviewed in Due Diligence

There are some other KPIs that may not directly drive valuation multiples on their own, but buyers consistently review them to validate operational discipline, scalability, and risk management.

KPI	What It Signals
Financial Leverage Ratio	How much debt the business uses relative to equity or EBITDA — signals balance-sheet risk and post-deal flexibility.
Operating Leverage	How efficiently fixed costs are absorbed as revenue grows — reveals margin expansion potential of incremental growth.
On-Time In-Full (OTIF)	Delivery reliability and customer trust — a key indicator of revenue stability and ability to serve larger accounts.
Manufacturing Cycle Time	How quickly raw materials convert to shipped goods — highlights throughput efficiency and working capital intensity.
Warehouse Storage Cost per Sq Foot	How efficiently inventory is stored — helps buyers identify cost drag and future facility or automation requirements.
Inventory Aging	Slow-moving, obsolete, or expiring inventory that distorts EBITDA and working capital if not actively managed.

Turning KPIs into Enterprise Value

01

Prioritize by intent, not volume. Start with the 5–7 KPIs that directly match your current priority — margin improvement, cash flow discipline, operational stability, or risk reduction. Don't try to track everything at once.

02

Build review cadence, not dashboards. A KPI only creates value when it's reviewed consistently and discussed honestly. Weekly or monthly review discipline matters more than visual sophistication

03

Fix the data before trusting the numbers. Inconsistent BOMs, missing batch reporting, or incomplete QC data undermine confidence in every metric built on them. Buyers will find this quickly.

04

Assign clear ownership. Every KPI should have one accountable owner, not a committee. Improvement follows ownership, not visibility alone.

05

Track trends, not snapshots. Buyers and lenders care far more about directional momentum than perfection at a single point in time. Consistent improvement over 18–24 months is the goal.

06

Use ERP to connect cause and effect. The real advantage comes from seeing how decisions in production, quality, inventory, and supply chain compound into financial outcomes — in one integrated system of record.

KPI Maturity Model

Most $10-$50M process manufacturers evolve through four distinct stages of KPI maturity. Understanding where the business stands today — and the level required to support premium valuation —provides a practical roadmap for improving performance and credibility.

Level 1 Reactive

Financial reporting exists but is disconnected from operations. KPIs are assembled manually from spreadsheets when needed (e.g., for bank reporting or tax prep). No consistent review cadence. Leadership navigates by instinct. Buyers see significant data risk — multiple discounts and escrow requirements expected.

Level 2 Aware

Some KPIs are tracked in ERP or department-level tools, but they're siloed. Gross margin is visible; batch-level costing may be partial. Quality metrics exist but aren't reviewed systematically. Monthly reviews occur irregularly. Buyers see a business with potential but limited operational transparency — manageable discount expected.

Level 3 Managed

Core KPIs across finance, operations, and quality are tracked in ERP with a regular monthly review cadence. Data is reasonably clean and traceable. Trends are visible over 12+ months. Management can produce key metrics within days. Buyers see a credible business with manageable information risk — standard multiple.

Level 4 Optimized

All core and supporting KPIs are tracked in ERP with 24+ months of clean, auditable trend data. Weekly or monthly review cadences are embedded in management routine. Mock recalls, effective analysis, and margin-by-SKU reports are available on demand. Buyers see a PE-ready business — premium multiple, compressed diligence timeline.

What Moves You from L3 to L4?

- Consistent ERP data discipline in all the production, quality, and financial activities posted in one system of record
- 24 months of clean, timestamped KPI trend data that tells a coherent story of improvement
- Mock recall capability — the ability to complete a full lot trace in under 2 minutes
- Weekly or monthly KPI reviews embedded in management routine with documented action items
- Gross margin visibility by SKU and customer over trailing 12+ months, producible on demand

Due Diligence Readiness Checklist

Use this checklist to assess your readiness before any formal process — whether that's a PE conversation, a bank refinancing, a strategic buyer introduction, or a self-assessment against where you want to be in 18–24 months.

Financial Quality

- 24 months of clean, monthly P&L and balance sheet available from ERP
- EBITDA reconciliation with addbacks clearly documented
- Gross margin by product and by customer for trailing 12 months
- Revenue breakdown by customer, product line, and channel

Cash & Working Capital

- Net working capital trend by month for trailing 12–24 months
- AR aging report current and reconciled to GL
- Inventory aging report current with near-expiry/slow-mover flagging
- Cash Conversion Cycle calculated and trended monthly

Revenue Stability

- Customer concentration analysis — top 10 customers by revenue %
- Customer contracts or agreements documented and accessible
- TTM revenue trend and organic vs. non-recurring breakdown available
- Pricing history and any pending customer repricing documented

Operational Performance

- OEE tracked by equipment or line for trailing 12 months
- Inventory turnover calculated monthly by product category
- OTIF rate tracked and trended for trailing 12 months
- Forecast accuracy report for trailing 12 months available

Quality & Compliance

- First Pass Quality rate tracked by batch and product for 12+ months
- Scrap & Rework rates with financial cost values — trailing 12 months
- Cost of Poor Quality (CoPQ) calculated and reviewed quarterly
- Return rate by product and customer — trailing 12 months available
- Full forward and backward lot trace completable in < 2 minutes from ERP
- Mock recall completed within the past 6 months with results documented

Data & Systems Integrity

- All production, quality, and financial activity posted in ERP — not reconstructed in spreadsheets
- Fixed asset register current with depreciation schedules
- Supplier and customer master data clean and deduplicated
- ERP can produce all key KPI reports without manual intervention

Management Readiness

- Management team can discuss KPI trends for last 24 months without extended preparation
- Operational processes are documented and not dependent on one or two individuals
- Key customer relationships are diversified (not single-contact dependent)
- Succession or continuity plan exists for owner and top 2–3 positions

Building Enterprise Value

Most $10-$50M process manufacturing organizations operate with partial visibility. They know revenue. Maybe gross margin. A handful of quality metrics. But they rarely have an integrated, system-backed view that connects operations, cash flow, profitability, and risk into a valuation-ready narrative. Manufacturers that institutionalize this KPI framework within their ERP are not simply improving production efficiency. They are strengthening the financial credibility, reinforcing operational discipline, and building the transparency required to withstand investor scrutiny and support valuation.

The Question That Matters

If a buyer ran due diligence on your business today — asking for 24 months of KPI trends across margin, cash flow, quality, and operational reliability — would you have a compelling story to tell, or would you be scrambling to assemble spreadsheets that don't quite reconcile?

The time to build that story is now — not when a buyer asks the question.

About BatchMaster

BatchMaster is an industry-specific ERP solution designed for formula and recipe-based manufacturers across industries such as food & beverage, nutraceuticals, chemicals, cosmetics & personal care, and pharmaceuticals. Trusted by process manufacturers for more than 30 years, BatchMaster provides capabilities for formulation management, batch production, quality control, compliance and traceability, inventory management, and financial operations to help manufacturers streamline operations, maintain compliance, and drive growth.

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