



MANUFACTURING

The Metrics that Matter

Manufacturing is a necessity for the U.S. economy and historically one of the most important causes of economic growth. The success and productivity of manufacturing firms in the U.S. are impacted by the ability to ask the right questions leading to critical key performance indicators (KPIs). If your manufacturing firm can save a penny for every product created, or reduce a second off production time, the savings can become massive. Measuring the right KPIs can reveal efficiencies, or lack thereof, that impact the bottom-line.

Whether new to the industry or well established, here are the metrics that matter in manufacturing:

SAFETY STOCK REPORTING.



What it reveals:

How often a business needs to order inventory from suppliers.

This metric uncovers how much inventory is required each month from a supplier to execute production—the projection and the actual need should closely align.

PRODUCTIVITY IN REVENUE PER EMPLOYEE.



What it reveals:

The average profit revenue by each employee.

The result of this metric, total sales revenue divided by total employees, is useful when compared to industry benchmarks, which provide insights into efficiencies and how well a business utilizes employees against the bottom-line.

CASH-TO-CASH CYCLE TIME.



What it reveals:

The timeframe it takes for money to flow back into your firm after it has been spent on inventory.

The metric is the time between the purchase of inventories, and the sale of final products made with the inventories. These results determine the amount of cash needed to fund operations and are essential for estimating financing requirements.

40 days of inventory + 50 days sales outstanding - 30 days payables outstanding = 60 cash-to-cash days

**example of the industry average is displayed above*

TIPS: SELECTING KPIS.

When assessing metrics, reference the firm's strategic goals and objectives. For example, if a business strategy strives to improve customer service, KPIs focusing on customer efficiencies should be included in standard reports.

SUPPLIER QUALITY INCOMING.



What it reveals:

The quality of a product from a supplier.

This measures the number of acceptable materials received from the supplier against the total number of products delivered. The remaining, poor-quality materials, reveal the *supplier defect rate*. These metrics can be useful to validate the quality of a new or existing supplier.

CUSTOMER FILL RATE, ON-TIME DELIVERY, PERFECT ORDER PERCENTAGE.



What it reveals:

The status of your order management process, efficiency of production schedules, and an indicator of customer satisfaction.

This metric is the percentage of times that customers receive their completed goods to the correct destination, and at the expected time. The higher the fill rate, the more likely you'll have customer retention, and the more likely customers will choose you over competitors.

The national network of MBDA Business Centers works with minority-owned firms to provide greater access to capital, contracts, and markets. Our network also includes MBDA Advanced Manufacturing Centers that provide extended industry support. Visit www.mbda.gov/grow for more information.