Supply chain and production controlling

€150,000 inventory shortage exposed a hidden EBITDA problem.

A wall-to-wall inventory count revealed that an apparent improvement in material efficiency had been created by unposted production transactions, while the owner was preparing the company for sale.

€150,000 gap found before the sale | **4 weeks** to a working control system

Armes: diagnostics, count audit, action plan

Inventory accuracy is not a warehouse metric. It is a management and value-creation issue.

Industry
Metal processing

Size
€5.4m revenue, 56 employees

Duration
1 month, Nov–Dec 2022

Armes role
Diagnostics, count audit, action plan

Client team
2 people, 4 hours a week each



€150,000
inventory shortage identified during the first full count

~€800k
effect on the agreed sale price once EBITDA was corrected

98.2%
inventory accuracy after the project, up from 90.3%

The situation

An issue accumulating in plain sight.

The annual physical inventory count brought an immediate and unexpected result: a shortage of approximately EUR 150,000.

The managing director was preparing the business for sale, and the correction put the reliability of reported operating performance under pressure. At a sale multiple, every euro of overstated EBITDA becomes several euros of price.

> “That is impossible. How can so much material be missing?”
>
> Managing director, during the inventory count

Root cause

Reported performance had drifted away from physical reality.

For roughly a year, production orders had accumulated unconfirmed operations. When SAP ERP did not detect enough inventory for a material issue, the related consumption was not posted and remained in the COGI error queue.

Why the queue grew: the errors were ignored. Some users had not been trained to clear them, some overlooked them, and no process said who owned them.

1
Unconfirmed operations
about 150 a month stuck in the ERP error queue

2
Consumption not posted
material used, but not booked to cost

3
EBITDA overstated
apparent efficiency gain over the year, about €150,000

4
Sale price at risk
at a sale multiple, about €800,000 of price

The approach

Turn the annual count into a permanent control system.

Armes ran a diagnostic, audited the full count and traced material flows in the ERP. The control system worked within four weeks.

1

Detect

Introduce daily cycle counting.

Key materials were counted 8 times a year, others 4 or 2 times, instead of waiting for the annual inventory. Materials are ranked by consumption value, then by count variance, then by posting frequency.

Counts per year, key materials in copper

8× ●●●●●●●●
4× ●●●●
2× ●●

2

Correct

Clear production-order posting errors.

COGI exceptions were resolved and backflush implemented, so material consumption is posted and the data can be trusted.

3

Prevent

Improve bill-of-material accuracy.

Bill-of-material quantities were reviewed, closing the gap between planned and actual consumption.

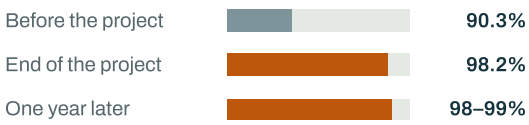
The result

Corrected before closing, controlled since.

The sale closed in December 2022, a month after the count, at a price about EUR 800,000 lower that reflected the corrected EBITDA, instead of a dispute in due diligence.

What was at stake. Found later, in due diligence, the gap would have cut the price critically, and the owner might not have wanted to sell at all.

Inventory accuracy scale from 85%



150 → 5
unposted operations a month

< €20k
gap at the next full count, none from posting errors

What was hard

People resisted daily counting

The hardest part. **Fix:** training, and showing staff the wider picture: why a daily count protects the business.

The ERP data was poor

Fix: a systematic clean-up, with master data corrected through bulk exports and imports in the ERP.

The sale set the deadline

Fix: a tightly organised work plan, so the control system ran within four weeks, before closing.

What stayed. Cycle counting replaced the annual count: five staff in production, warehouse and dispatch count for 20 minutes a day. Posting errors now raise automatic e-mail alerts.

In the client's words

"Had we not dealt with this on time, the sale might not have gone through."

Managing director, after the sale

Diligence-ready performance needs a direct link between physical reality and the P&L.

Facing a similar question in your business?

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