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Co-Manufacturing in Food & Beverage:
Where the Industry is Headed, and How Private Equity Should Play

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Executive Summary

The U.S. Food & Beverage co-manufacturing industry is at an inflection point. Three converging forces are reshaping who buys from co-manufacturers, what they expect, and how operators must compete: the **explosive growth of emerging brands**, the **continued expansion of Private Label**, and the **increasingly selective outsourcing decisions of large CPGs**. Together, these forces are creating a market that is larger, more fragmented, and more demanding than at any point in its history. The U.S. F&B co-manufacturing market surpassed $100 billion by 2023 and is assumed to have reached $120 billion in 2025, growing at two to four times the rate of the broader food industry.

This paper introduces a framework for understanding the resulting landscape: the **co-manufacturing spectrum**. On one end sit small-brand-focused co-manufacturers, agile operators built to support emerging brands with formulation development, flexible and small minimum order quantities, and high-touch service. On the other side sit large-brand and Private Label platforms, scaled operations built around efficiency, contractual rigor, and throughput. Most operators sit somewhere along this continuum, and the question of where to compete is among the most consequential strategic decisions in the industry.

The winners in this environment are not simply the operators with the most capacity. They are the co-manufacturers that have built efficient **systems**: pricing systems that monetize complexity rather than absorbing it as overhead; planning systems that turn high-mix production into a repeatable process; and quality systems that satisfy the demands of both emerging brands and Large CPGs and retailers. **The shift from “selling machine hours” to “building an operating system for profitable complexity” is the central theme of this paper.**

For private equity investors, co-manufacturing represents a compelling **opportunity in the lower-middle and middle market** ($50–300M+ enterprise value). Buy-and-build remains the dominant thesis in a sector where many targets are founder-owned businesses with aging owners. Our analysis of 100+ co-manufacturing companies and 32 acquisitions (50%+

PE-driven) indicates sustained deal interest in the space, with 2024 representing a high point in our sample. More recent market conditions, however, suggest a more selective deal environment rather than a broadly accelerating one. **Multiples range from ~8x EBITDA** for operational turnarounds **to 12–14x for platforms with category-tailwinds**, with most other scaled platforms clearing in the ~10–12x range when operational health and customer quality are credible. Scale alone does not earn a premium multiple, and already-built-out platforms often offer less forward value-creation upside than the headline print suggests. The key to generating returns is matching the fund's operational capabilities to the right investment archetype: **high-mix platforms** reward commercial and systems-building expertise; **scaled platforms** reward lean operations and procurement discipline.

This paper is structured in seven sections. **Section 1** examines the demand forces reshaping the industry. **Sections 2 & 3** introduce the co-manufacturing spectrum and the rising capability threshold. **Section 4** presents the operational playbook for co-manufacturers. **Section 5** provides the investor playbook, including two primary investment archetypes and reference deal economics. **Section 6** offers a practical diligence toolkit: a 20-question scorecard across five buckets designed to give PE deal teams a structured, repeatable method for evaluating targets. **Section 7** concludes with the outlook for the industry and the characteristics of the platforms that will command premium valuations.

1. The Demand Shift

The structural forces reshaping who buys from co-manufacturers and what they need.

The co-manufacturing business model was built for a world of **long, predictable production runs.** A handful of large CPG clients would commit to a volume for a year or more; the co-manufacturer would run dedicated lines at high utilization; and the economics were straightforward: fill the plant, control the cost per unit, and compete on reliability. That world has not disappeared, but it is no longer the only, or even the dominant, demand signal. **Three structural forces are converging to reshape what co-manufacturers must deliver and for whom,** as summarized in **Table 1**.

Table 1 – Three Demand Forces Reshaping Co-Manufacturing

Demand force	What is happening	Impact on co-manufacturers
Emerging brand growth	Small brands gained +5.5 pp share in health/functional products (2019–2024), reaching ~40% segment share. Many small brands (Poppi[1], Olipop, Chomps, Built Bar) dominate growth rankings.	Many customers, different SKUs, various formulations, small runs, high service requirements. Co-manufacturers must support R&D, concept testing, and flexible MOQs.
Private Label expansion	Private Label reached a record 20.5% of U.S. food and grocery sales in 2024; total PL sales ~$280B in 2025. Retailers (Walmart, Trader Joe's, Kroger, Costco, Target) investing heavily in proprietary brands.	Massive volume demand for co-manufacturers, but at scale: long runs, tight cost control, exacting quality standards. Retailers require partners, not just suppliers.
Strategic & selective CPG outsourcing	Large CPGs outsourcing more selectively: innovation they cannot manufacture in-house, overflow demand, and dedicated R&D runs.	Co-manufacturers must deliver CPG-grade execution (OTIF, traceability, audit readiness) while also providing the agility for innovation and overflow production.

1. Recently acquired by PepsiCo
Source: Value Gene analysis; PLMA; Numerator; expert interviews

Small Brands: The Growth Engine

The most powerful structural force reshaping co-manufacturing demand is the **rise of small brands**. As we analyzed in detail in our paper titled *"The Great Divide in U.S. Food & Beverage"*, **small brands gained +5.5 percentage points of share in health and functional-claim products** alone between 2019 and 2024, reaching approximately 40% share in that segment. As Numerator's *"Fastest Growing Brands to Watch, 2025 & 2026 editions"* covers, the brands driving this growth are overwhelmingly **insurgent, capital-light companies that do not own manufacturing**

capacity: Poppi and Olipop in prebiotic sodas, Chomps in meat snacks, Built Bar and Barebells in protein bars, Bloom Nutrition in wellness supplements.

Every one of these brands, from first production run through national distribution, depends on co-manufacturers. The implications for co-manufacturing operators are significant:

- **More customers per facility:** a small-brand-focused co-manufacturer may serve dozens to hundreds of brands simultaneously, compared to a handful for a large-brand operator.
- **More SKUs and formulations:** emerging brands bring more variety per dollar of revenue, with frequent new flavor launches, format changes, and packaging innovations.
- **Short production runs:** minimum order quantities at the small-brand end can be as low as a few hundred units, compared to multi-million-unit campaigns at the large-brand end.
- **High service requirements:** emerging brands often need formulation support, consumer trends research, concept testing, regulatory guidance, and procurement assistance in addition to production.

The result is a fundamental shift in the operating reality: co-manufacturers that serve emerging brands must manage more complexity per unit of revenue than those serving large accounts. **This complexity, when properly priced and managed, is the source of higher margins and financial stability. When unpriced and unmanaged, it is the source of operational chaos.**

Private Label: The Volume Accelerator

According to PLMA, Private Label reached a record 20.5% of total U.S. food and grocery sales in 2024, with total Private Label sales reaching approximately $280 billion in 2025. This expansion is structurally significant for co-manufacturers because **the vast majority of grocery retailers do not own production capacity**. As retailers including Walmart, Kroger, Costco, and Target invest in developing their own brands across categories, they create enormous co-manufacturing demands.

> *" The continued rise of private label, driven by grocers' ambition to develop higher-margin proprietary offerings, has been a significant tailwind for co-manufacturers and remains an important source of growth."*
>
> *— Brett Conradt, CPG Advisor & Investor, Principal at Charlotte Advisory Partners*

The Private Label opportunity is distinct from the emerging-brand opportunity: it brings **large volumes with demanding low cost and high quality requirements**. Co-manufacturers serving Private Label must deliver at scale with exacting consistency, often under multi-year contracts with specified pricing escalation mechanisms and minimum (large) volumes. The relationship dynamic favors reliability and cost competitiveness over innovation and flexibility.

Strategic & Selective CPG Outsourcing: Innovation, Overflow, and Boutique Integrity

The third demand force is more nuanced. Large CPGs are not outsourcing less; they are outsourcing **more, but selectively, strategically, and with a different set of triggers**. The decisions are selective in the sense of applying to a narrow set of SKUs or categories rather than across the full portfolio, and **strategic** in the sense of being underwritten at the corporate level, balancing growth acceleration against cost, capital, and portfolio considerations rather than being left to individual plant managers.

> *" For larger companies, the decision to engage a co-manufacturer is typically driven by two factors: innovation that cannot be executed efficiently in-house, and overflow demand that internal capacity is unable to absorb."*
>
> *— Shari Matras, CPG Revenue Growth Strategist, CEO at BrandNext Partners*

Innovation is the critical keyword. Functional beverages, collagen-infused products, novel protein formats, and other emerging categories require **capabilities that large manufacturers may possess in theory but lack the agility to execute quickly.** Co-manufacturers that can deliver trial runs, speed-to-market, and production flexibility for these new categories are winning a growing share of large-CPG outsourcing spend. Equally important, they provide a release valve for capacity constraints, **allowing large CPGs to manage overflow demand, protect service levels, and preserve focus** within their own manufacturing networks.

A related and increasingly important trigger is **the challenge of playing credibly in the "small-batch" segment without compromising brand integrity**. Large CPGs increasingly need a foothold in the boutique, craft, and clean-label end of the shelf, either through acquisition of insurgent brands or through their own in-house incubated labels. Co-manufacturers with **genuine small-batch capability, clean-label credentials, and discreet plant profiles** are therefore increasingly valuable partners for large CPGs that want to access boutique economics while preserving the brand story the consumer bought into in the first place.

Sitting alongside these three forces is a fourth, more structural driver: **the capital required to build and operate modern manufacturing infrastructure**. Greenfield capacity in food and beverage increasingly carries nine-figure price tags, with long permitting timelines, rising automation requirements, and payback periods that stretch well beyond a typical CPG capital planning horizon. Retailers, insurgent brands, and selective CPGs are, in effect, choosing not to deploy that capital themselves. This is less a tactical outsourcing decision than a balance-sheet one: co-manufacturing absorbs the capital intensity, the depreciation, and the execution risk of owning plants, and converts them into a variable-cost service that brand owners can dial up or down with far less lock-in. For investors, this reframes what the co-manufacturer is actually selling. It is not just machine hours; it is **access to industrial capital that the client is unwilling, or unable, to fund directly**.

The co-manufacturers that thrive in this environment are not simply those with the most capacity. They are the operators that have built **systems, pricing, planning and production discipline** to turn these two very different sets of customers & requirements into a competitive advantage rather than a source of operational disorder. **Section 2** introduces the framework for understanding how different operators are positioned to respond.

2. The Co-Manufacturing Spectrum

From small-brand enablers to large-brand platforms: a spectrum, not a binary.

The co-manufacturing industry defies simple classification. The terminology used across the sector (contract manufacturer, co-packer, toll processor) often obscures meaningful differences in business model, capability, and client orientation. A more precise lens for understanding this market is not a set of discrete segments but a **spectrum**, defined by the type of customer an operator is built to serve and the operating model required to serve them well.

On one end of this spectrum sit **small-brand-focused co-manufacturers**: agile operators built to support emerging brands that need far more than production capacity. These co-mans provide formulation support, concept testing and pilot runs, quality assurance, regulatory support, and flexible minimum order quantities, often as low as thousands even a few hundred units. They accept high client turnover as a structural feature of their business, understanding that many early-stage brands will fail while a few will scale rapidly, often after a few formulation adjustments. On the other end sit **large-brand and Private Label platforms**: scaled operators built around efficiency, throughput, and contractual discipline. Their client relationships are fewer but deeper, anchored by long-term agreements, high volume commitments, and exacting On-Time-In-Full (OTIF) requirements.

Between these two poles lies a continuum, and most co-manufacturers occupy some intermediate position. The question of ***where*** on the spectrum to compete, and ***whether*** to serve multiple positions simultaneously, is among the most consequential strategic decisions in the industry.

The Framework: Eight Dimensions of Differentiation

To make this spectrum actionable for operators choosing where to compete and for investors evaluating where to deploy capital, we have identified **eight dimensions** along which the two anchor points diverge. These dimensions span the full operating model: from client composition and product complexity through to the client relationship nature that each end of the spectrum most naturally supports. **Figure 1** below presents this framework in full.

Figure 1 – Co-Manufacturing Spectrum – Differentiation Dimensions

	Small-Brand Focused	Large-Brand / PL Focused
Client Base	Many brands (tens to hundreds); high turnover. Accepts that many will fail, a few will scale.	Fewer, larger clients; deeper, contract-driven relationships with MOQs and capacity reservations.
SKU Profile	Enormous variety: many formulations, formats, and packaging types across a fragmented product mix.	Narrower range of established SKUs run at high volume; periodic specification or packaging variation.
MOQ & Run length	Low MOQs (as low as hundreds of units; typical ~5,000). Short runs are the standard operating mode.	High-volume runs with long campaigns. Changeovers minimized for throughput efficiency.
Services Beyond Manufacturing	Extensive: R&D, formulation, quality, concept testing, procurement guidance, regulatory support, brand education.	Primarily execution: production, QA, logistics. Limited R&D involvement.
Client Expectations	A partner that teaches, guides, and co-develops. Hand-holding is part of the value proposition.	Flawless execution, OTIF discipline, cost competitiveness, and scale reliability.
Key Capability	Agility: fast changeovers, flexible packaging, low-MOQ production, innovation support.	Efficiency: throughput, yield optimization, cost control, schedule adherence.
Revenue Model	Higher margin per unit, smaller volumes. Complexity-priced with development and production fees.	Lower margin per unit, massive volumes. Scale economics with contract stability.
Relationship Nature	More transactional and opportunistic. Brands may leave or fail; high churn is structural.	Sticky and long-term. Switching costs are high for both sides.

Source: Value Gene analysis; expert interviews

Why a Spectrum, Not Segments

The decision to frame this market as a spectrum rather than discrete segments reflects a practical reality observed across dozens of co-manufacturing operations. **Most operators do not sit neatly at either extreme.** Consider the following examples:

- A **coffee co-manufacturer** may produce commodity K-cups under its own label, while also supporting specialty roasts, limited-time offers, or brand collaborations that require shorter runs, different packaging formats, and more frequent changeovers.
- A **frozen-food operator** may anchor part of its capacity with one or two large retail Private Label programs while also dedicating a line to short-run innovation work, seasonal LTOs, or collaborative launches that demand greater flexibility in both production and packaging.

The strategic question in each case is whether the operator can **manage the inherent tension** between these two modes without sacrificing discipline in either. This tension is not theoretical. Co-manufacturers that attempt to serve both ends of the spectrum without investing in the systems to manage the complexity (planning, quality assurance, sanitation protocols, inventory management) frequently find that **growth in complexity outpaces the operating system**. The result is scheduling chaos, missed deliveries, and quality inconsistency: the precise failure mode of the small-brand end contaminating the large-brand operation as well.

The Small-Brand End: Higher Margins, Higher Churn

Co-manufacturers positioned toward the **small-brand end of the spectrum** operate in an environment shaped by the explosive growth of emerging brands in U.S. Food & Beverage. The structural forces are significant:

- Small brands continue to **gain share,** particularly in **health- and functional-oriented categories.**
- Growth rankings are increasingly led by **insurgent brands,** reinforcing the shift toward **smaller, innovation-led players.**

Because most of these brands **do not own manufacturing capacity,** their growth translates directly into demand for flexible co-manufacturing partners. But this demand does not resemble traditional contract manufacturing economics. Serving small brands typically requires a **broader** and **more hands-on service model,** including **formulation iteration, concept testing (and pilot runs), procurement support, and regulatory guidance.** As a result, **margins per unit are often structurally higher** than in large-volume manufacturing, with development fees, minimum order charges, and complexity pricing rewarding breadth and agility. However, the corresponding risks are equally distinctive:

- **High client churn:** many start-ups fail, creating constant portfolio turnover.
- **Scheduling volatility:** order patterns are irregular and difficult to forecast.
- **Overextension risk:** the constant danger of taking on more brands than existing systems can manage.
- **Diverse inventory:** cost of keeping inventory of unique raw materials for all products and customers.

> *"Every new product looks compelling on paper. But each one brings a cascade of variables you did not price for: allergen protocols that cut your throughput in half, temporary labor that introduces quality risk on the line. We learned the hard way that the gap between what you can produce in a test kitchen and what you can sustain at scale..."*
>
> *— David Skinner, Former Managing Director of James Skinner Baking Company, Founder & CEO at CPG Canary*

One of the most consequential dynamics along this spectrum is **brand graduation**: the tendency for successful small brands to migrate from small-brand-focused co-manufacturers to larger operators as they scale. A brand that begins with runs of 5,000 units at a flexible, full-service co-manufacturer may, upon reaching $10–50 million in annual revenue, require production volumes, consistency levels, and cost economics that only a larger-scale operator can deliver. This graduation effect has direct implications for customer stickiness and holding-period returns at the small-brand end, and it creates a natural pipeline of maturing clients for operators positioned in the middle or toward the large-brand end.

At the same time, some co-manufacturers are responding to this dynamic by acquiring or building small brands themselves, entering the branded market when they see an opportunity. This creates both opportunity (vertical integration and margin capture) and sensitivity around **conflict of interest**, particularly when the co-manufacturer is simultaneously producing for competing brands in the same category.

The Large-Brand End: Scale, Stability & Concentration Risk

At the other end of the spectrum, **large-brand** and **Private Label** co-manufacturers operate in a world of **volume, predictability, and contractual rigor.** Their client relationships are fewer but deeper, governed by multi-year agreements with specified volumes, pricing escalation mechanisms, and detailed quality protocols. The operating model is built not only around **efficiency,** but also around **reliability:** maximizing throughput, minimizing changeovers, optimizing yield, and consistently delivering On-Time-In-Full performance across large retail-driven volume commitments. For large CPGs and Private Label customers, this reliability is mission-critical. Their products are sold primarily through retail channels, where missed shipments translate directly into out-of-stocks, chargebacks, and lost shelf credibility.

The growth of Private Label is particularly significant for co-manufacturers because **the vast majority of grocery retailers do not own production capacity**. As retailers including Walmart, Kroger, Costco, and Target invest in developing proprietary brands across categories, they require co-manufacturing partners capable of delivering at scale with exacting consistency and service reliability. The relationship dynamic here is fundamentally different from the small-brand end: switching costs are high for both sides, contracts are structured with large volume commitments, and the co-manufacturer’s value proposition centers on reliability.

The principal risk at this end of the spectrum is **customer concentration**. TreeHouse Foods, the largest publicly listed U.S. Private Label food manufacturer, disclosed in its 2024 annual report that its **top 10 customers accounted for 57.1% of continuing net sales**, with its largest single customer representing 23.9%. This degree of concentration is partly structural: at the large-brand and Private Label end, the universe of credible retail and CPG buyers is narrow, and the scale required to serve a single national retailer can absorb a sizable share of a plant network’s capacity. That reality, however, does not eliminate the risk. The loss of even one major customer, or a decision by a large retailer to in-source a previously outsourced category, can produce an outsized earnings impact that no amount of operational efficiency can offset. The mitigation lever is less about refusing large accounts than about diversifying across retailers, categories, and service models, and building the contractual and operating terms that make those relationships durable.

Understanding where a co-manufacturer sits on this spectrum, and whether its operating model, commercial structure, and management capabilities are aligned with that position, is the essential starting point for any investment evaluation or strategic assessment. The sections that follow examine what this means in practice: the rising threshold of capabilities required at each end of the spectrum (**Section 3**), the operational playbook for building a winning position (**Section 4**), and the PE considerations that shape deal selection and value creation (**Section 5**).

3. The Rising Threshold

What co-manufacturers must deliver today that they did not need to a decade ago.

The co-manufacturing value proposition was once straightforward: provide production capacity at a competitive cost. A brand owner supplied the formula, the ingredients and the packaging; the co-manufacturer ran the lines and shipped the product. That model still exists, but it is no longer sufficient. Across both ends of the spectrum described in **Section 2,** the **minimum threshold of capabilities** required to win and retain clients has risen materially over the past decade. The drivers differ by position on the spectrum, but the direction is consistent: what was once a "nice to have" is now a **qualifier for the relationship**.

This section examines six capability areas where the bar has risen, and how the requirements differ depending on whether the co-manufacturer serves predominantly small brands, large brands, or both. **Figure 2** provides an overview of these capability requirements across the spectrum, before we examine each area in detail.

Figure 2 – Rising Threshold: Capability Requirements Across Spectrum

Capability area	Small-Brand End	Importance	Large-Brand / PL End	Importance
Customization & flexibility	Trial runs, small batches, frequent formulation changes, multiple packaging formats per SKU.		Spec/pack variation within established product lines; limited format proliferation; focus on cost efficient changeovers.	
Innovation & R&D support	Full service: formulation development, concept testing, ingredient sourcing, regulatory navigation. A core differentiator.		Minimal direct R&D. Innovation typically led by the brand owner; co-manufacturer executes to specification.	
Regulatory compliance & traceability	Must provide compliance infrastructure that small brands lack: FSMA, allergen controls, lot-level traceability, audit readiness.		Must match the compliance rigor of large CPGs and retailers: SQF/BRC certification, real-time traceability, retailer audit pass rates.	
Sustainability & ESG	Emerging expectation rather than a hard qualifier; most relevant for clean-label, natural, and health-oriented brands.		Table stakes for major retailer programs. Recycled content targets, Scope 3 reporting, and packaging recyclability commitments.	
Digital connectivity & planning	Increasingly important operating requirement; lean brand teams value real-time visibility into orders, production status, inventory, and quality documentation.		Advanced: EDI integration, demand signal sharing, real-time inventory visibility, joint S&OP processes with key accounts.	
Operational professionalism	Historically informal; now professionalizing under PE ownership. Key gaps: planning discipline, data-driven scheduling, formalized QA.		Expected to minor CPG-level standards; statistical process control, formalized CAPA systems, continuous improvement programs.	

Source: Value Gene analysis; expert interviews

Customization Is Structural, Not Marginal

The proliferation of SKUs, packaging formats, and product variants is not a passing trend. It is a structural consequence of the demand forces described in Section 1. While **this dynamic is most acute at the small-brand end of the spectrum**, where emerging brands bring more formulations, formats, and packaging configurations per dollar of revenue, it is increasingly relevant across the full continuum. Large CPGs are expanding their portfolios with functional and better-for-you line extensions, and Private Label programs are broadening into premium tiers that demand greater specification variety. **SKU proliferation is happening simultaneously on both the product and packaging sides**, compressing changeover cycles and raising the planning burden for co-manufacturers regardless of their position. The practical implications include:

- **Shorter production runs** with more frequent changeovers between formulations, allergen profiles, and packaging configurations.
- **More version changes per year** as brands iterate on flavors, formats, and claims in response to consumer feedback and retail buyer demands. (see our paper "*From Recipe Tweaks to Reformulation as an Operating Model*" for details)
- **Greater packaging complexity** as brands experiment with novel formats to stand out on shelf and in e-commerce channels.

Critically, this customization is **only profitable when treated as a priced capability**, not absorbed as overhead. Co-manufacturers that fail to build explicit pricing for changeovers, small-batch runs, and specification complexity find their margins eroding even as their top line grows.

Innovation Support as a Differentiator

At the small-brand end of the spectrum, innovation support has become a **core differentiator** rather than a peripheral service. For emerging brands that may have a compelling concept but lack the food science, regulatory, or procurement expertise to bring it to market, a co-manufacturer that can provide the following creates genuine stickiness (or partnership):

- **Formulation development and iteration:** translating a brand's product concept into a manufacturable, shelf-stable formula.

- **Trial and pilot runs:** enabling brands to test products at small scale before committing to full production.
- **Ingredient sourcing and procurement guidance:** leveraging the co-manufacturer's supplier relationships to secure ingredients at viable cost and quality.
- **Regulatory navigation:** guiding brands through FDA and TTB labeling requirements, possible claims, allergen declarations, and state-level compliance.

> *"The most valuable co-manufacturers are no longer just execution partners; they are becoming earlier-stage innovation partners, especially for emerging brands and Private Label. When they contribute trends, consumer insights, and a practical view of commercialization, they help customers build pipelines of ideas that are differentiated, brand-relevant, and credibly manufacturable at scale."*
>
> *— Shari Matras, CPG Revenue Growth Strategist, CEO at BrandNext Partners*

Historically, many co-manufacturers lagged behind their clients not only in scale, but also in strategic and innovation capabilities. That **gap is now beginning to narrow,** albeit unevenly. The operators making the most progress are typically those that have invested in **consumer trends & insights, dedicated R&D talent, pilot capabilities,** and formalized **new product development (NPD)** processes.

At the large-brand end, innovation support plays a different role. Large CPGs typically have their own R&D, but they increasingly turn to co-manufacturers for **capabilities they lack the agility to execute in-house**: functional beverages, collagen-infused products, novel protein formats, and other emerging categories where speed to market is critical. Even R&D itself can be outsourced, though in rare cases.

Compliance and Traceability as Outsourcing Drivers

Regulatory requirements in the U.S. food industry have tightened steadily since the passage of the **Food Safety Modernization Act (FSMA)** in 2011, with subsequent rules on preventive controls, supply-chain verification, and intentional adulteration adding layers of compliance burden. For many smaller brands, building these capabilities in-house is **prohibitively expensive.**

This dynamic is turning compliance infrastructure into an **outsourcing driver in its own right**. Brands that might otherwise attempt in-house production are choosing co-manufacturing partners specifically because those partners can deliver:

- **Audit-ready facilities** with SQF, BRC, or equivalent third-party certifications.
- **Lot-level traceability systems** capable of tracking ingredients from supplier through to finished product.
- **Allergen management protocols** that satisfy both regulatory requirements and retailer specifications.
- **FSMA compliance infrastructure** including hazard analysis, preventive controls, and documented corrective action procedures.

> *"As regulatory requirements tighten, compliance and traceability are becoming increasingly important. Smaller players often lack the capabilities to manage this complexity in-house, which is driving greater reliance on co-manufacturers."*
>
> *— Brett Conradt, CPG Advisor & Investor, Principal at Charlotte Advisory Partners*

At the **large-brand end, compliance is table stakes rather than a differentiator.** The challenge is maintaining compliance at scale across multiple facilities while satisfying the audit requirements of large retailers and CPGs, each of which may impose their own standards on top of regulatory minimums.

Sustainability: From Aspiration to Qualification

Sustainability requirements are at different stages of maturity depending on the end of the spectrum. For **large-brand and Private Label co-manufacturers,** sustainability is increasingly a **qualification criteria for retailer programs**. Major retailers are setting explicit targets for recycled content in packaging, Scope 3 emissions reporting from suppliers, and packaging recyclability. Refresco, one of the largest global beverage co-manufacturers, illustrates this trend in its sustainability report through its packaging initiatives targeting increased recycled PET content across its North American operations.

At the small-brand end, sustainability is more of an emerging expectation than a hard qualifier. However, the trajectory is clear: brands positioned around clean-label, natural, and health-conscious claims increasingly expect their manufacturing partners to share those values in sourcing, production, and packaging. Co-manufacturers that invest early in sustainable packaging options, energy efficiency, and transparent sourcing are building a competitive advantage that will compound as these expectations formalize.

Digital Connectivity and Planning Visibility

Digital integration between co-manufacturers and their clients remains more aspiration than reality for the majority of the industry. Most relationships, particularly at the small-brand end, still rely on email-based coordination, shared spreadsheets, and manual order processes. At the large-brand end, EDI integration and basic demand-signal sharing are more common, but true real-time visibility into production schedules, inventory positions, and quality metrics remains the exception.

The direction of travel, however, is clear. As SKU counts rise and planning windows compress, static systems become a constraint on both responsiveness and accuracy. Co-manufacturers that invest in ERP/WMS integration and customer-facing portals for order tracking, production visibility, and quality documentation are positioning themselves to meet the planning demands of both small and large clients more effectively.

> *"From an operational standpoint, most co-manufacturers still do not exhibit the level of professionalism typically found in large CPG organizations, although that gap is beginning to narrow as leading players invest in stronger systems, talent, and processes."*
>
> *— Shari Matras, CPG Revenue Growth Strategist, CEO at BrandNext Partners*

The Operational Professionalism Gap

Perhaps the most pervasive capability gap across the co-manufacturing spectrum is **operational professionalism**. The specific gaps include:

- **Talent:** attracting and retaining operations, supply-chain, and commercial talent with CPG-caliber experience and expectations.
- **Data-driven decision making:** building the analytical capability to understand true SKU-level profitability, capacity utilization, and operational bottlenecks.
- **Planning and scheduling discipline:** moving from reactive, experience-based scheduling to data-driven, optimized production planning.
- **Quality systems:** transitioning from basic QA checks to statistical process control, formalized corrective and preventive action systems, and continuous improvement programs. At the large-brand and Private Label end, this is not optional: scaled co-manufacturers must deliver Quality, food safety, and MRP/planning capability that is at parity with, or ahead of, the CPG organizations they supply. Retailers and CPG clients will not meaningfully outsource strategic volume to a partner whose quality systems, traceability, audit posture, and production planning discipline are less mature than their own.

This gap is narrowing, particularly among PE-backed platforms that are investing in management professionalization. But the pace of improvement varies widely. For investors evaluating co-manufacturing assets, the operational professionalism gap represents both a **risk** (if the target lacks the systems and talent to execute its strategy) and an **opportunity** (if the gap can be closed through post-acquisition investment, unlocking meaningful margin expansion).

4. The Co-Manufacturer Playbook

How winners design, price, and scale their operating model.

The previous sections established what the co-manufacturing spectrum looks like and what clients increasingly demand. This section turns to **execution**: the practical choices that separate winning co-manufacturers from those that grow revenue but erode margin. Drawing on our analysis of **100+ co-manufacturing companies across North America** and interviews with operators and investors, we structure the playbook as a three-step sequence: choose your position, monetize complexity, then scale.

4.1 Choose Your Position on the Spectrum

The single most consequential decision for any co-manufacturer is **segment clarity**: deciding whether the business is built to serve small brands, large brands/Private Label, or a deliberate hybrid, and then designing every element of the operating model accordingly. Our company research illustrates how sharply the industry divides on this question. Among the **33 small-brand-focused co-manufacturers** we profiled, the overwhelming majority are privately or founder-owned, operate one to three facilities, and compete on flexibility, formulation support, and speed. By contrast, the **23 largest co-manufacturers** in our database operate a combined **250+ manufacturing facilities**, generate billions in revenue, and compete primarily on scale, cost efficiency, and supply-chain reliability.

> *"When a retailer puts volume on the table, it is almost impossible to say no. They show you the projections, you run the numbers, and the revenue looks transformative. But every time we said yes to a product outside our core, we inherited a new set of variables (e.g., new allergen protocols, new machinery, new labor requirements) that we had not fully priced into the deal. The companies that win in co-manufacturing are not the ones that say yes to everything. They are the ones disciplined enough to know exactly what they are great at, and to price the complexity accordingly when they do stretch."*
>
> *— David Skinner, Former Managing Director of James Skinner Baking Company, Founder & CEO at CPG Canary*

The most common failure mode in our observation is **strategic drift**: a co-manufacturer that starts with a clear position on the spectrum but gradually migrates away from it under commercial pressure. One cautionary example, shared by a PE investor active in the space, involved a PE-backed co-manufacturer that began with a clear focus on emerging brands. When growth proved slower than the investment plan projected, the platform shifted toward larger customers to fill volume targets. The result was a business stuck between two operating models: too complex for efficient large-brand service, yet lacking the systems and discipline to manage a high-mix emerging-brand portfolio profitably.

Another driver of shift along the spectrum is becoming **especially visible in beverages.** Co-manufacturers historically concentrated in alcoholic formulations are facing increasing portfolio pressure as consumer demand shifts toward no-/low-alcohol and wellness-oriented beverages, including functional beverages. Yet this is not a simple category substitution. Many alcohol-focused operators are built for **high-volume, repeatable runs,** whereas functional beverages often require a different operating model: more formulation support, greater sensitivity around active ingredients and shelf-life stability, and a willingness to serve smaller or still-emerging volume pools. The strategic opportunity is real, but so is the transition challenge. Success depends not simply on spare capacity, but on whether the co-manufacturer can develop the **technical, commercial, and planning capabilities required to compete profitably in a different part of the spectrum.**

The lesson is straightforward: **the operating model must match the strategic position.** A co-manufacturer serving dozens of emerging brands needs a different planning system, QA cadence, commercial structure, and talent profile than one running five dedicated lines for three national retailers. Attempting both without deliberate investment in dual-track systems is a recipe for the complexity trap described in Section 3.

4.2 Monetize Complexity: Turn Volatility into Margin

For co-manufacturers that choose to serve the higher-complexity segments of the spectrum (small brands, innovation runs, multi-format production), **the critical capability is not simply managing complexity but pricing it.** The difference between a co-manufacturer that grows profitably and one that grows into operational chaos often comes down to four disciplines:

- **Menu pricing:** Replace flat-rate per-unit pricing with a structured fee schedule that explicitly charges for the value delivered: changeover fees (priced by allergen risk and format switch), super small-batch surcharges, expedited lead-time premiums, special QA or certification requirements, and development/NPD fees. The goal is to make every element of complexity visible in the P&L rather than absorbed as unallocated overhead.
- **SKU-level profitability visibility:** Many co-manufacturers discover, upon rigorous analysis, that their long-tail SKUs appear profitable on a gross margin basis but destroy economics when changeover, sanitation, QA, and service costs are fully allocated. In our experience, this is the single most under-developed capability across the industry: the majority of operators do not reliably know which SKUs, customers, or runs actually make money once true cost-to-serve is allocated, and this blind spot compounds as mix and complexity grow. Building the analytical capability to see true SKU-level profitability, and embedding it in pricing, scheduling, and pruning decisions, is the foundation for disciplined portfolio management: pruning or repricing low-margin complexity, and doubling down on high-contribution products.
- **Scheduling and SMED (Single-Minute Exchange of Die):** The operational complement to menu pricing is changeover excellence. Clustering similar runs (by allergen profile, format, or packaging type) and systematically reducing changeover time and variance through SMED methodology transforms high-mix production from a scheduling nightmare into a repeatable, executable process.
- **Planning systems:** The transition from spreadsheet-based, experience-driven scheduling to ERP/WMS-integrated production planning is not optional for co-manufacturers operating in the high-complexity segments. As SKU counts rise and order patterns become less predictable, the planning system becomes the binding constraint on throughput, OTIF performance, and margin.

4.3 Scale the Winners

Once a co-manufacturer has established a clear position on the spectrum and built the operating system to execute profitably, the question becomes **how to scale**. Three levers dominate: consolidation & M&A, category selection, and value-chain expansion.

Consolidation and M&A

Consolidation is becoming an increasingly important growth lever in food and beverage co-manufacturing. In a market that remains highly fragmented, scaled operators are increasingly **expanding by acquiring adjacent co-manufacturers** to **add capacity, broaden category exposure, deepen technical, process and packaging capabilities,** and **extend geographic reach.** This logic also ties directly to the co-manufacturing spectrum described earlier in the paper: consolidation allows operators not only to scale, but also to **cover a broader portion of the spectrum** by adding capabilities that move them closer to adjacent customer segments, whether in small-brand support, innovation-led production, or larger-scale Private Label and CPG programs. **The strategic objective is therefore more about platform building:** evolving from standalone facilities into broader manufacturing networks with greater scale, wider capabilities, and stronger relevance for national customers. **Private equity** has often provided the capital behind this trend, but the more important point is that consolidation is enabling co-manufacturers to accelerate growth, expand their strategic range, and build more resilient operating platforms.

Category Selection

Not all co-manufacturing categories offer equal investment appeal, and within each category, not every end customer is worth competing for. A recurring theme from our interviews is the discipline of **"winning with the winners"**: concentrating commercial effort, capital, and R&D support behind the categories that are structurally growing and the brand owners within those categories who are gaining share. The opposite failure mode, which we see frequently, is **strategic drift**: accepting whatever volume walks in the door, anchoring plants in declining categories, or propping up long-tail brands whose growth curves have already turned. Both the category and the customer cohort that a co-manufacturer chooses to serve compound over time, for better or worse. Based on our expert interviews and market analysis, **Figure 3** ranks the categories attracting the most PE interest, along with the rationale and illustrative examples from our company database.

Figure 3 – Co-Manufacturing Category Attractiveness for PE Investment

Category	PE appeal	Rationale	Illustrative examples
Functional beverages	●	Wellness, hydration, protein drinks. Rapid formulation cycles; many emerging brands. High changeover complexity.	Poppi, Olipop, Bloom Nutrition, liquid IV competitors
High-protein snacks	●	Protein bars, meat snacks (jerky/sticks). Strong C-store and on-the-go demand. Favorable health trends.	Built Bar, Barebells, Chomps; Western Smokehouse ($500M deal, 2025)
Frozen foods (premium)	◕	Shift from commodity TV dinners to higher-end frozen meals. Longer shelf life eases planning; rising consumer acceptance.	Growing Private Label penetration in premium frozen tier
Fresh / prepared foods	◕	Grab-and-go, short shelf life, health-oriented. High entry barrier (cold chain, food safety). Growing retailer demand.	Retailer-driven prepared meal programs at Kroger, Walmart, Target
Better-for-you snacks	◕	Organic, allergen-free, clean-label. Emerging brand density is high; strong innovation pipeline.	MadeGood (Riverside Natural Foods), SunTree Snack Foods
Commodity beverages	◑	Water, basic juices, soft drinks. High volume, lower margin. Scale and logistics efficiency dominate.	Polar Beverages, National Beverage, SunnyD

Source: Value Gene analysis; company database; expert interviews

Value-Chain Expansion

The third scaling lever is **moving along the value chain**. Co-manufacturers that expand **from pure production into adjacent services** (category insights, R&D and formulation, ingredient sourcing, packaging design, warehousing and logistics) increase their total addressable market and create revenue synergies in buy-and-build strategies. This "one-stop shop" model is particularly compelling at the small-brand end of the spectrum, where emerging brands prefer a single partner that can take a product from concept through to retail-ready shipment. At the large-brand end, the expansion is more operational: adding warehousing and logistics to offer delivered pricing, or integrating packaging capabilities to reduce the number of suppliers a retailer must manage.

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5. The Investor Playbook

How to spot platforms, underwrite risk, and drive value creation.

This section shifts to the **investor's lens**: how to translate the spectrum framework into actionable investment criteria, match a fund's capabilities to the right archetype, and underwrite the specific risks that each position carries.

5.1 Two Investment Archetypes

Rather than revisiting the characteristics of each end of the spectrum (covered in **Section 2**), this section focuses on what each archetype means *for the investor*: the return engine, the diligence priorities, and the value-creation levers that differ fundamentally between the two.

Archetype A: High-Mix Platforms (Small-Brand End)

The return engine is margin expansion, not volume growth. These platforms monetize complexity: higher per-unit margins from development fees, changeover charges, and specialty capabilities. The investment thesis is that operational improvements (scheduling systems, SMED, ERP) can unlock **300–500 bps of EBITDA margin improvement** without requiring significant top-line growth.

Diligence priorities that go beyond the standard PE playbook:

- **True cost-to-serve analysis:** Is the target actually pricing complexity, or is it leaking margin through unallocated changeover, sanitation, and QA costs? Key area to explore is SKU-level profitability data with full overhead allocation.
- **Client pipeline sustainability:** With high churn structural at this end, the key question is not current client retention but the *replenishment rate*: is the pipeline of new brands entering production sufficient to replace natural attrition?
- **Hidden bottlenecks:** In high-mix operations, the constraint is rarely line capacity. Looking for bottlenecks in QA lab throughput, sanitation turnaround time, ingredient staging, and packaging material availability is key.
- **Capacity acquisition strategy:** PE investors in this space prefer to acquire at approximately 40% capacity utilization, providing room to

grow to 70–80% over the hold period before triggering sizable expansion Capex. As one investor noted: *“I would prefer to acquire a co-manufacturer at approximately 40% utilization, where there is clear room to scale over the hold period, rather than one that is already operating at 100% capacity on day one.”*

Archetype B: Scaled Platforms (Large-Brand / PL End)

The return engine is operational leverage and cash-flow stability. Small improvements in yield, labor efficiency, uptime, and procurement contracts drive meaningful EBITDA expansion because they apply across very large production volumes. The investment thesis is that professional management, footprint rationalization, and procurement synergies can transform a collection of acquired facilities into an integrated, efficient platform.

Diligence priorities specific to this archetype:

- **Customer concentration stress testing:** Model the impact of losing the top 1–3 customers. Some level of concentration at the scaled Private Label end is a structural feature of the market rather than a signal of mismanagement, given the limited number of very large retail and CPG buyers. The diligence question is therefore whether the target’s concentration is underwritten by durable commercial terms (multi-year agreements, dedicated assets, category leadership) and balanced by a credible diversification path, or whether it reflects unmanaged dependence. TreeHouse Foods’ 23.9% single-customer exposure illustrates how that exposure can still become binding if the relationship sours; Hearthside’s 2024 Chapter 11 filing (with ~$3.1B in debt against $3.3B in revenue) illustrates the consequence when leverage meets operational challenges.
- **Insourcing risk assessment:** Are any major clients investing in their own production capacity? What percentage of the target’s volume is in categories where the client has in-house manufacturing capability? The trend among large CPGs toward selective insourcing of strategic categories is a secular headwind for this archetype.
- **Capex and maintenance debt:** Scaled platforms often carry deferred maintenance obligations that are not visible in trailing EBITDA. Diligence should include a facility-by-facility capex audit and a forward-looking maintenance model.

- **Bolt-on integration capability:** The buy-and-build thesis depends on the platform's ability to integrate acquisitions operationally, not just financially. Assess whether the target has a repeatable integration playbook (IT migration, procurement consolidation, quality system harmonization) or whether prior acquisitions remain loosely federated.

A further consideration that cuts across both archetypes is **spectrum mobility:** how quickly, and how credibly, a co-manufacturer can shift its position along the spectrum if customer mix, growth priorities, or market conditions change. A platform serving small brands cannot simply pivot into Private Label or large-CPG programs by winning a contract; it must already possess, or be able to build in a realistic timeframe, the underlying capabilities required at that end of the market (such as QA rigor, traceability, planning discipline, customer service levels, and the ability to run at larger scale with greater consistency). The same is true in reverse: a scaled Private Label platform cannot move effectively toward the small-brand end without more flexible scheduling, smaller-batch economics, innovation support, and a higher-touch commercial model. For investors, **the key diligence question** is therefore not only where a company sits on the spectrum today, but **how adjacent it already is to the next position it may want to occupy,** and how much time, capital, and organizational change would be required to get there.

A second cross-cutting consideration, closely related to spectrum mobility, is the **interplay between category expansion and conflict-of-interest management**. The dominant PE growth thesis in this space, whether pursued through bolt-on M&A or organic commercial effort, is **expanding both within and across categories**: deepening share of wallet with existing customers in the core category, adding adjacent formats and processing capabilities, and layering in new categories to reduce single-category dependence. Done well, this compounds scale, procurement leverage, and commercial relevance. Done without governance, it collides with the **conflict-of-interest dynamic flagged in Section 2**: as a co-manufacturer broadens its category footprint, the likelihood of serving competing brands (or of producing a private-label item that competes directly with a branded customer's SKU on the same shelf) rises sharply, and in some cases the platform itself may have acquired a small brand that now sits in the same aisle as a customer's. For PE investors, the practical implication is that

category expansion and conflict-of-interest management are two sides of the same underwriting question, not separate diligence items. Deal teams should test, explicitly, how the target governs customer overlap: whether there are formal confidentiality, IP segregation, and formulation firewalls; whether sales incentives steer reps away from pitching direct competitors of anchor accounts; whether sensitive customers sit on dedicated lines or in dedicated plants; and whether the commercial and operating model can credibly support a cross-category buy-and-build *without* eroding trust with the largest existing customers. Platforms that get this right convert category expansion into a durable moat.

5.2 The PE Decision Logic

The decision of which archetype to pursue should be driven by **the fund's own capabilities**, not just the target's attractiveness. Our interviews with PE investors in the space consistently surfaced the same insight: the most successful co-manufacturing investments are those where the fund's operational resources match the target's value-creation requirements.

- **Strong commercial and systems-building capabilities** → pursue high-mix platforms (Archetype A), where value creation comes from pricing discipline, scheduling optimization, and commercial governance.
- **Strong operations and lean expertise** → pursue scaled platforms (Archetype B), where value creation comes from OEE improvement, labor model optimization, maintenance discipline, and procurement consolidation.

A recurring theme across our expert interviews is that the PE firms generating the best returns in food manufacturing are those with **dedicated operating teams, not just deal teams**. This is not merely a preference; it is a structural requirement. Co-manufacturing businesses operate with thin margins, perishable products, and complex scheduling demands that financial engineering alone cannot optimize.

> *"The most successful private equity firms invest in operating capabilities alongside deal execution. Having experienced food industry operators at the table — people who can credibly say, 'We have built businesses like this before' — is far more powerful."*
>
> *— Brett Conradt, CPG Advisor & Investor, Principal at Charlotte Advisory Partners*

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5.3 Reference Deal Economics

To ground the investment discussion in market reality, **Figure 4** presents reference deal economics from recent co-manufacturing transactions tracked in our company database. Where deal terms have not been publicly disclosed, figures reflect analyst estimates triangulated from comparable transactions, acquirer mandates, and financing structures.

Figure 4 – Reference Deal Economics in U.S. Co-Manufacturing

Company	Acquirer	Year	Deal size	Multiple	Notes
Shearer's Foods	Clayton, Dubilier & Rice	Feb 2024	~$3.0B	~10–11x	Private Label for salty snacks, category-leading platform with 17 facilities.
Rise Baking Company	Platinum Equity + Butterfly Equity (JV)	Nov 2024	~$2.5B*	~12–14x*	Bakery co-man & private label. ~$1.5–2.0B rev. Ten prior acquisitions aggregated into a national platform.
Refresco Group (NA)	KKR	Feb 2022	~$7.9B (group)	~11–12x*	Beverage co-packing. ~$4.0B group rev; NA ~40% of volume. Platform premium reflects scale, category growth, and capital-intensive infrastructure.
SunOpta Inc.	KKR	Feb 2026	~$1.1B	~11–12x	Plant-based beverage & snack co-man, ~1.0B revenue, Board-confirmed multiple on FY2025E adj. EBITDA, expected close in Q2 2026.
TreeHouse Foods	Investindustrial	Nov 2025	~$2.9B	~8x	Private label packaged foods. ~$2.9B rev. All terms confirmed. Lower multiple reflects customer concentration risk and recent operational underperformance across a 25-plant network.
City Brewing	Charlesbank Capital Partners / Oaktree / Blue Ribbon / management	Mar 2021	Not disclosed	Not disclosed	Alcoholic beverage-focused co-manufacturer; 2021 transaction resulted in 100% ownership by the investor consortium and was announced alongside a $630M investment program and the Irwindale brewery acquisition.

** Analyst/peer estimate.*
Source: Value Gene M&A transaction database; confirmed deal disclosures; public filings; industry analyst reporting.

Three patterns emerge from this data that are directly relevant to PE underwriting.

- **Operational quality, not scale, is the primary driver of valuation.** The most instructive comparison in this dataset is not between sub-sectors but within them. TreeHouse Foods (a $2.9 billion revenue

Private Label platform with 25 plants) traded at ~8x, while Shearer's Foods at comparable scale commanded ~10–11x. Both are large-format Private Label businesses. The difference lies in operational health, customer concentration, and the credibility of the growth story presented to buyers. Scale alone does not translate into a well-run, sought-after co-manufacturer: it is a necessary but not sufficient condition for a premium multiple.

- **The current price for well-positioned platforms is ~10–14x.** Shearer's, Rise Baking, Refresco, and SunOpta all confirm this range has held through recent market conditions, provided the asset offers diversified customer relationships, category tailwinds, and a defensible operational position. Assets with concentration risk or limited growth optionality remain anchored at 7–9x. TreeHouse at ~8x is the clearest recent data point.
- **Entry price carries structural consequences.** Co-manufacturing businesses operate with thin margins and significant volume dependency, which limits the execution headroom available to absorb a demanding entry multiple. Where EBITDA growth does not materialize at the pace underwritten, the capital structure becomes the constraint.

> *"Scale alone does not translate into a well-run, sought-after co-manufacturer: it is a necessary but not sufficient condition for a premium multiple."*
>
> *— Karl Schraer, Supply Chain Executive and Board Member*

The **Shearer's Foods transaction** (CD&R, 2023, ~$3.0B at ~10–11x EBITDA) reflects the market's willingness to pay a premium for scaled Private Label platforms with strong category positions and operational upside. At the other end, **TreeHouse Foods** trades at ~8x, reflecting the market's discount for customer concentration risk and recent operational underperformance. Beverage platforms (Refresco, Niagara Bottling) command the highest multiples at 12–14x, supported by strong category growth, high barriers to entry, and the capital intensity of beverage production infrastructure.

For PE investors, the key takeaway is that **multiples are not uniform across the spectrum, and the spread is widening.** Entry price is a compounding function of sub-sector position, customer quality, category dynamics, and operational capability. The diligence toolkit in **Section 6** provides a structured framework for evaluating these dimensions before committing to price.

6. Diligence Toolkit

A structured scorecard for evaluating co-manufacturing investments.

The preceding sections established a framework for understanding the co-manufacturing spectrum, the capabilities required to win at each position, the operational playbook for execution, and the investor logic for matching fund capabilities to target archetypes. This section translates that analytical framework into a **practical diligence tool**: a structured scorecard of 20 questions, organized across five diligence buckets, designed to give PE deal teams a systematic and repeatable method for evaluating co-manufacturing targets.

The scorecard is intentionally comprehensive. Not every question will be equally relevant to every target; a small-brand-focused co-manufacturer with three facilities will require different emphasis than a 25-plant Private Label platform. However, the **five-bucket structure** ensures that diligence covers the full scope of what separates winning co-manufacturing investments from those that underperform: footprint and scalability, commercial model and contracts, operations and planning, quality and compliance, and data, integration, and financial resilience.

The Five Diligence Buckets

Each bucket targets a distinct dimension of co-manufacturing value creation and risk:

- **Bucket 1: Footprint & Scalability (Questions 1–2).** Assesses the physical platform: current capacity, expansion optionality, format breadth, and the ability to add adjacent capabilities. This bucket determines the *ceiling on organic growth* and informs capex underwriting.
- **Bucket 2: Commercial Model & Contracts (Questions 3–8).** Evaluates commercial discipline: how complexity is priced, how the customer portfolio is governed, the quality of contractual protections, and the risk of concentration or margin leakage. This is often where the difference between a *"busy"* co-manufacturer and a *"profitably complex"* one becomes visible.
- **Bucket 3: Operations & Planning (Questions 9–13).** Examines execution capability: margin resilience under mix changes,

changeover performance, schedule discipline, service reliability (OTIF), and constraint visibility. This bucket reveals whether the operating system can support the commercial model or whether growth will outpace execution.

- **Bucket 4: Quality & Compliance (Questions 14–15).** Tests the integrity of quality systems: deviation rates, CAPA effectiveness, audit readiness, and certification breadth. In an industry where a single food safety event can destroy brand relationships, this bucket is existential.
- **Bucket 5: Data, Integration & Financial Resilience (Questions 16–20).** Probes the analytical and organizational backbone: SKU-level profitability visibility, working capital management, capex discipline, M&A integration capability, and management depth. This bucket determines whether the platform can sustain and compound the value created in Buckets 1 through 4.

The 20-Question Scorecard

Figure 5 presents the complete scorecard. For each question, we indicate the diligence bucket and the specific dimension of co-manufacturing performance it is designed to reveal. The questions are sequenced to build from physical infrastructure (footprint) through commercial architecture, operational execution, quality systems, and finally the analytical and organizational capabilities that determine long-term platform resilience.

Figure 5: *Co-Manufacturing Due Diligence Scorecard: 20 Questions Across Five Buckets*

#	Diligence bucket	Question	What it reveals
1	**Footprint & Scalability**	What is your current footprint (sites, lines, utilities constraints), and what is the realistic expansion path (space, utilities, staged capex, timeline)? Do you load-balance across sites?	Expansion optionality; utilization headroom; capex risk
2	**Footprint & Scalability**	Which processing and packaging formats do you run today, which formats are you actively winning in, and what is your track record of adding adjacent formats and scaling them quickly?	Format breadth; category adjacency potential; speed to new capability
3	**Commercial Model & Contracts**	Walk us through your standard customer onboarding process (spec completeness, trials, validation, run rules). What are typical cycle times and failure modes?	Process maturity; onboarding discipline; risk of quality escapes
4	**Commercial Model & Contracts**	How do you price complexity (changeover fees, special QA, expediting, lead-time tiers), and how often are those fees enforced versus waived?	Pricing power; margin leakage risk; commercial discipline

#	Diligence bucket	Question	What it reveals
5	**Commercial Model & Contracts**	How is the customer portfolio designed (service tiers, prioritization rules, capacity allocation) to stay diversified without creating scheduling or quality instability?	Portfolio governance; diversification discipline vs. chaos risk
6	**Commercial Model & Contracts**	Provide top-customer revenue and EBITDA contribution and contract terms. What happens if the top customer insources or pulls volume, and what protections exist?	Concentration risk; contract quality; downside scenario modeling
7	**Commercial Model & Contracts**	How many active SKUs are you running? What percentage of SKUs drive profit versus consume capacity? What governance exists to approve, prune, or renegotiate the long tail?	SKU discipline; long-tail margin drag; portfolio management maturity
8	**Commercial Model & Contracts**	Show representative contracts: what pass-throughs, indexing, minimums, MOQs, changeover fees, expedite fees, reservation clauses, and service terms protect economics?	Contract structure; margin protection mechanisms; pass-through coverage
9	**Operations & Planning**	How has EBITDA (and margin) moved over the last 12 to 24 months? How sensitive are margins to mix and velocity changes? Can you demonstrate margin stability under higher complexity?	Margin resilience; mix sensitivity; earnings quality
10	**Operations & Planning**	Provide changeover-time distribution (median, 75th, 90th percentile) by line and product/pack family. What SMED actions have reduced variance?	Changeover excellence; SMED maturity; scheduling efficiency
11	**Operations & Planning**	What are schedule adherence, expediting rate, premium freight/overtime, and frozen-window discipline? Why does the plan break and how is it governed?	Planning maturity; schedule discipline; cost of plan failures
12	**Operations & Planning**	What is OTIF (by customer definition) by key customers and segments? What penalties, chargebacks, or escalations occurred? How do you manage demand peaks?	Service reliability; chargeback exposure; peak management capability
13	**Operations & Planning**	What is the current constraint map (fillers, packers, labeling, QC lab, utilities, warehouse) with data proof, and what is the staged debottleneck plan?	Bottleneck visibility; capacity planning maturity; debottleneck ROI
14	**Quality & Compliance**	What is the hold rate, top deviation categories, recurrence rate, and CAPA effectiveness? Show examples of recurring issues that were eliminated.	Quality system maturity; CAPA effectiveness; deviation trend direction
15	**Quality & Compliance**	What certifications and customer/retailer audits do you support? What were the last three audit outcomes? What findings recur and how fast are they closed?	Audit readiness; certification breadth; corrective action speed
16	**Data, Integration & Financial Resilience**	Do you have SKU-level and customer-level profitability after complexity costs (changeovers, QA, service burden)? How is it used in pricing, pruning, and scheduling decisions?	Analytical maturity; cost-to-serve visibility; data-driven pricing
17	**Data, Integration & Financial Resilience**	How do inventory, accounts receivable, and accounts payable behave under forecast swings? What are write-off and stockout trends? What playbooks prevent cash blowups?	Working capital resilience; cash management; downside preparedness
18	**Data, Integration & Financial Resilience**	Show capex history and ROI. How do you prioritize targeted debottlenecking versus large-scale new lines, and what throughput or margin unlocks have you achieved?	Capex discipline; ROI track record; reinvestment efficiency
19	**Data, Integration &**	What is your integration playbook for acquired sites (ERP, WMS, QMS, master data, SOPs, quality, cadence), and what evidence shows it works?	Integration capability; M&A readiness; post-close execution proof

#	Diligence bucket	Question	What it reveals
	Financial Resilience		
20	**Data, Integration & Financial Resilience**	Who owns commercial, operations, quality, planning, and integration? What is the operating rhythm (weekly KPIs, escalation, accountability), and where is key-person risk?	Management depth; operating cadence; succession risk

Source: Value Gene Consulting Group diligence framework.

From Questions to Conviction

The scorecard is not designed to produce a single numerical score. Co-manufacturing investments are too heterogeneous for a simple pass/fail framework. Instead, the scorecard serves three purposes:

- **Structured coverage:** ensuring that diligence does not overlook critical dimensions. In our experience, the most common diligence failures in co-manufacturing are not errors of analysis but errors of omission: deal teams that thoroughly assess financial performance but fail to probe changeover economics, or that model revenue growth without stress-testing customer concentration.
- **Red-flag identification:** certain answers to certain questions should trigger deeper investigation or, in some cases, deal-level concern. If a target cannot provide SKU-level profitability data (Question 16), it almost certainly does not understand its true cost-to-serve. If changeover-time data does not exist in percentile form (Question 10), SMED has not been formally implemented. If the integration playbook is described in general terms without specific evidence of past execution (Question 19), the buy-and-build thesis carries execution risk.
- **Value-creation roadmap:** the gaps revealed by the scorecard become the foundation of the 100-day plan. A target that scores well on commercial discipline (Bucket 2) but poorly on operations (Bucket 3) suggests a clear value-creation lever in scheduling, changeover, and planning systems. A target with strong operations but weak data infrastructure (Bucket 5) points toward ERP implementation and analytical capability as the priority investment.

The diligence toolkit presented in this section is the operational complement to the strategic frameworks laid out in **Sections 2 through 5**. The spectrum model identifies *where* a target sits; the capability threshold (**Section 3**) identifies *what* the target must deliver; the playbook (**Section 4**) shows *how* winners execute; and the investor archetypes (**Section 5**) frame *why* the investment makes sense for a given fund. The 20-question scorecard ties it all together, providing a repeatable, structured method for translating industry understanding into investment conviction.

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7. Conclusion

The future belongs to co-manufacturers who build systems, not just capacity.

The U.S. Food & Beverage co-manufacturing industry has entered a new era. The demand signal that once defined the business (long runs, few customers, predictable volume) has been permanently supplemented, and in many categories overtaken, by a more complex signal: more brands, more SKUs, more specifications, shorter lead times, and higher expectations from every point on the customer spectrum. The co-manufacturers that will command premium valuations over the next three to five years are not those with the most capacity. They are the operators that have built the **systems** to turn this complexity into a competitive advantage.

The Spectrum Will Widen

The gap between small-brand-focused agility and large-brand-focused scale will continue to grow. Emerging brands will keep proliferating, driven by consumer demand for health, functional, and niche products. Private Label will continue to expand as retailers invest in proprietary brands. Large CPGs will outsource more selectively. Each of these forces reinforces the co-manufacturing spectrum described in this paper, making the **"middle" an increasingly uncomfortable place to compete** without a deliberate strategy for managing the tensions inherent in serving both ends.

For co-manufacturers, the strategic imperative is clarity: **choose a position on the spectrum, build the operating model to match, and invest in the capabilities that turn that position into a defensible advantage.** The operators that drift (adding large-brand volume to fill a small-brand plant, or taking on emerging brands to diversify a concentrated large-brand book) without investing in the dual-track systems required to manage both will find themselves in the **complexity trap** described throughout this paper: growing revenue, eroding margin, and losing operational discipline.

The Winners Are Not Waiting

The most effective co-manufacturers in our research are not waiting for stable demand to return. They are building the systems to thrive in a permanently fragmented market:

- **Pricing systems** that monetize complexity explicitly (changeover fees, development charges, lead-time premiums) rather than absorbing it as overhead.
- **Planning systems** that move beyond spreadsheets to ERP/WMS-integrated scheduling, enabling high-mix production without the chaos that typically accompanies it.
- **Quality and compliance systems** that scale with the business, meeting the audit requirements of multinational retailers and satisfying the FSMA compliance burden that smaller brands cannot manage independently.
- **Analytical systems** that provide true SKU-level and customer-level profitability visibility, enabling disciplined portfolio management and data-driven commercial decisions.

The Investor Opportunity

For private equity investors, co-manufacturing offers a rare combination of **structural growth tailwinds, fragmented ownership, and actionable value-creation levers**. The sector remains heavily founder-owned, with many operators led by aging principals who have not invested in the systems, talent, or commercial discipline required to compete in the new environment. This creates a natural pipeline of acquisition opportunities in the lower middle market and middle market ($10–100M+ enterprise value) that is unlikely to diminish in the near term.

The critical success factor for PE investors is **matching the fund's operational capabilities to the right investment archetype**. The analysis in this paper demonstrates that co-manufacturing is not a single investment thesis but a spectrum of opportunities, each with distinct return engines, failure modes, and value-creation requirements. Funds with strong operations teams should gravitate toward scaled platforms where OEE, procurement, and footprint rationalization drive returns. Funds with strong commercial and systems-building capabilities should target high-mix platforms where pricing discipline, ERP implementation, and scheduling optimization unlock margin.

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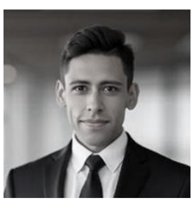

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About Value Gene Consulting Group

Value Gene Consulting Group is a distinguished boutique consulting firm specializing in delivering strategic business solutions that yield significant, swift, and sustainable outcomes. Our dedicated team collaborates closely with C-level executives, providing expert guidance tailored to mastering business challenges within the Food and Consumer industries.

In the ever-evolving landscape shaped by our clients' needs, we prioritize sound strategy and decision-making as cornerstones for enduring success. Our approach is grounded in fact-based quantitative and qualitative analysis, fostering positive change in the best interest of our clients and their stakeholders.

As a boutique management consulting company, we stand out by leveraging the unique skills of our enthusiastic team. Our consultants, with prior experience in top-tier strategy firms, bring a result-oriented focus to decision-making and business management.

Embodying our 'boutique service principle,' we ensure heightened responsiveness, a long-term commitment from our team, and high-quality advice with direct involvement of our senior team in day-to-day operations. Remarkably, over 90% of our business originates from longstanding client relationships, showcasing our dedication to our clients.

At the core of Value Gene Consulting Group is a consulting team comprising top-educated and globally experienced members. With more senior involvement than industry standards, we consistently produce immediately applicable results. Our deep subject expertise, coupled with pioneering industry knowledge, guarantees impactful and quality work.

Our distinctive approach involves working collaboratively with client organizations, fostering a partnership that goes beyond traditional consulting. We are catalysts for change, driving transformation within our clients' businesses by connecting analytics understanding to actionable business insight.

Our success is measured by our ability to maintain enduring client relationships, exhibit client responsiveness, and demonstrate unwavering dedication. Value Gene stands apart in the industry, delivering the content-driven insights that our clients seek from their strategic advisor.

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