

# Discover how a U.S. based manufacturer stopped bleeding profits and rising debt by improving working capital

## Case study

**Company:** Velocitix  
**Industry:** Manufacturing  
**Location:** US



Velocitix, a well-established, mid-size manufacturing company which had been in operation for over 10 years.

### The problem

The company had been experiencing a steady **decline in profit margins** while facing **rising debt costs** over the past two years.

Although the company primarily focused on its internal data and used FP&A software, they had never done a benchmarking analysis before, thus lacked a clear comparison to competitors.

### The goal

The management decided to use INSO to undertake a benchmarking study to gain insights into their position in the industry and identify areas for improvement.

## How INSO managed to help

To gain a better understanding of its position and compare itself to industry peers, the company used INSO's database, which includes data on over 200 metrics from millions of companies worldwide.

AI was then employed to efficiently analyze the big datasets, providing actionable insights.

#### Step 1

Upload own data

With **seamless one-click integration**, the company's **data was transferred into INSO's system**, offering a user-friendly cockpit overview of financial KPIs.

#### Step 2

Conduct benchmarking

After choosing from hundreds of criteria (like industry, geography, and size), **the right benchmarking group to represent the company was identified.**

#### Step 3

AI report and tips

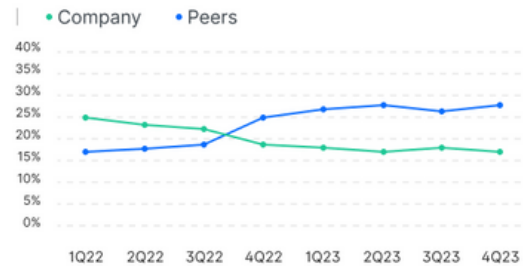
Finally, INSO's AI analyzed the data, **identified red flags**, and provided **actionable insights** for improvements.

## INSO AI generated charts and insights

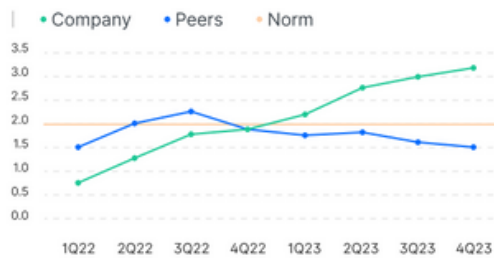
### Gross profit margin

The company's gross profit margin is trending downward, reaching a 10% gap compared to competitors in the last quarter.

Gross profit margin, %



Debt / EBITDA, x



### Debt level / EBITDA

The company's debt level is rapidly rising, exceeding the industry norm, while competitors are following the opposite trend.

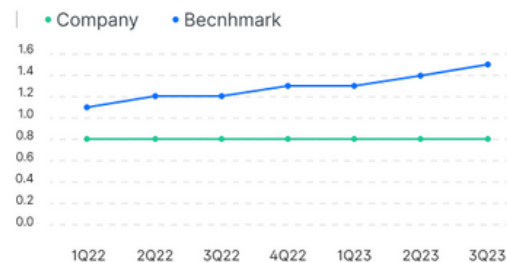
Possible reason: competitors are more cautious about market conditions or simply managing costs and cash flow more efficiently.

### Operating leverage

The company's operating leverage is below 1, meaning more revenue is not contributing to better profitability. In contrast, competitors have higher and rising operating leverage.

To improve operating leverage, the company should optimize fixed costs, focus on efficiency, and shift to high-margin products. These changes can help ensure revenue growth leads to higher profitability, aligning it more closely with competitors.

Operating leverage, %



## Shocking insights

As anticipated, the benchmarking analysis revealed that competitors were achieving:

- Higher profitability
- Issuing less debt due to better-managed cash flow
- And perhaps the biggest surprise - they were **far ahead in operating leverage**, meaning they achieve higher profits as their revenue grows.

“ Understanding the problem is the first step of the solution! ”

INSO AI identified the four key areas which were linked to the company's weak performance:

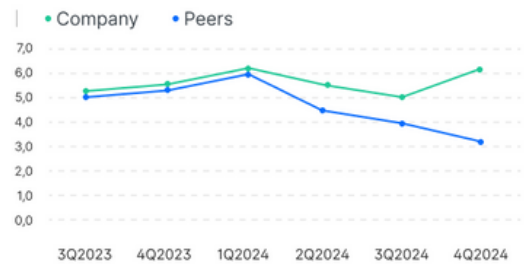
- Inventory Management
- Direct Expenses
- Payment Management
- Costs of Debt

## INSO AI generated charts and insights

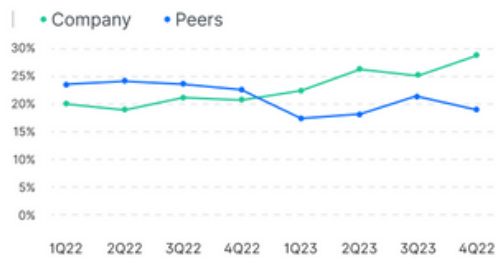
### ■ Inventory turnover rate

The company's **inventory turnover rate** is trending downward, reaching a gap of 3 points compared to average competitor. This could be due to overstocking, high holding costs, or low demand. Such issues tie up money and can lead to waste or outdated stock.

Inventory Turnover Rate



Expense of raw material / Revenue ratio, %



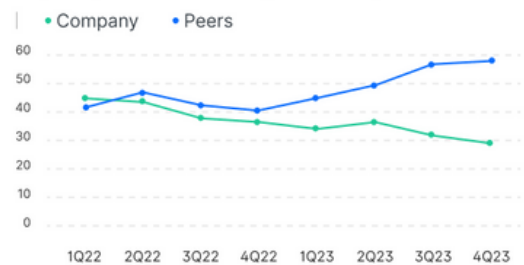
### ■ Revise the spendings

The company is **spending 10% more on raw materials than competitors**. This suggests that it should review suppliers, negotiate better prices, or reduce waste. As this metric directly affects the company's bottom line.

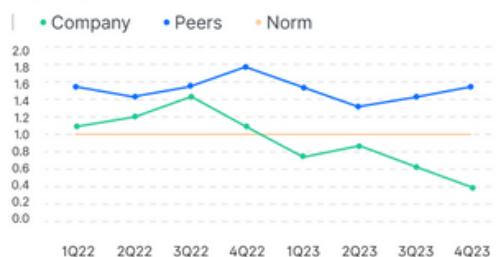
### ■ Days payable outstanding

The company's **DPO** is half the industry average. This shows it pays suppliers too quickly, which tightens capital and hurts profitability.

Days Payable Outstanding (DPO), days



Liquidity ratio, x



### ■ Company's liquidity ratio

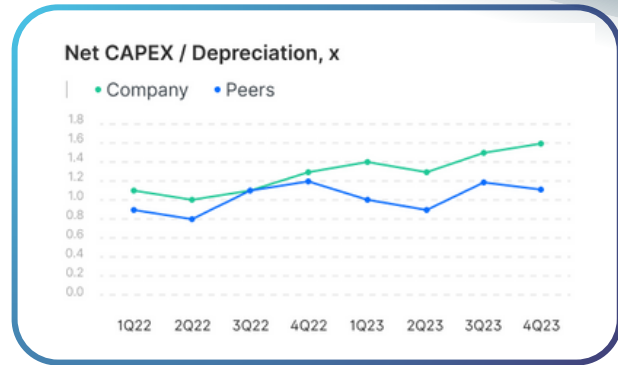
The company's **liquidity ratio** is decreasing sharply, while competitors' levels remain stable.

This aggressive policy may lead to a lack of liquidity buffer during economic downturns.

## ■ Net CAPEX/Depreciation Ratio

There has also been good news, the company's Net CAPEX/Depreciation Ratio was found to be lower than those of its competitors. This shows the company has a lower rate of asset depreciation relative to its new equipment investments.

However, low investment in CAPEX raised a flag that the company may not be reinvesting enough in modernizing equipment or expanding capacity.



While competitors were more aggressive in CAPEX spending, positioning themselves for future growth, the company's limited reinvestment could hinder its ability to remain competitive in the long run.

## ■ Conclusion

The benchmarking analysis was a game-changer for Velocitix. It revealed key weaknesses that regular internal reviews had missed. By comparing the company's performance with industry standards, it discovered serious issues in inventory management, cash flow, and operating leverage. These issues were contributing to the company's declining profitability and rising debt levels.

## Next steps

**INSO identified the problems and provided clear steps to address them before the financial situation worsens:**

- **Optimize inventory management** by addressing overstocking and improving turnover rates. Competitors are using resources more efficiently.
- **Renegotiate supplier contracts** to lower raw material costs and improve the company's cost structure.
- **Slow down supplier payments** to extend Days Payable Outstanding (DPO), allowing for more cash flow flexibility.
- **Reinvest in CAPEX** to modernize equipment and expand capacity, enabling future growth and reducing the risk of falling behind competitors.

**Implementing these changes will likely lead to improved profitability, better cash flow, and a more sustainable path forward for Velocitix.**

## Results

By implementing INSO's recommendations, the company achieved clear, measurable results.

Profitability increased by  
**10 %**

**\$10 mil**  
of freed-up working capital

**\$1.5 mil**  
in monthly savings due to improved COGS

**\$0.4 mil**  
in monthly savings due to improved debt costs