

Discover how a U.S. software company saved itself from **rising debt and declining profits** using benchmarking

Case study

Company: Innovara Labs
Industry: Software Company
Location: USA



Innovara Labs, a mid-sized software development company based in the US, has been operating since 2014.

For the first five years, the company reinvested all of its profits back into the business. This strategy helped Innovara stay ahead of the competition and capture market share.

The problem

However, after years of growth, **investors began demanding higher dividends and ROI** in 2019. This pressure led Innovara's management to shift their capital allocation strategy towards dividends and stock buybacks.

In 2023, Innovara noticed that **competitors were rapidly growing**. They had been successfully launching new and more advanced products, and gaining market share.

The goal

The company decided to use INSO to conduct a benchmarking study to gain insights into their position in the industry and identify areas for improvement, focusing on cash distribution, dividends, and revenue growth.

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.

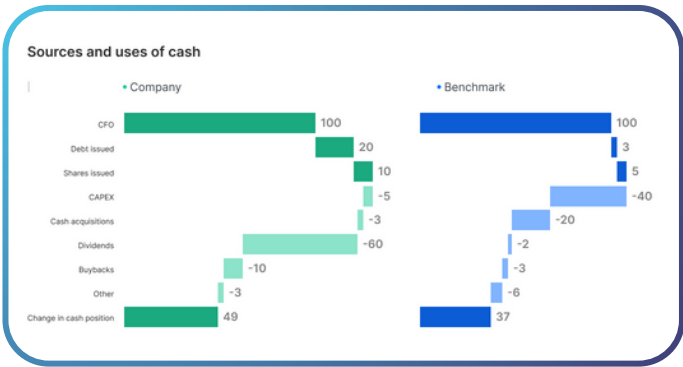
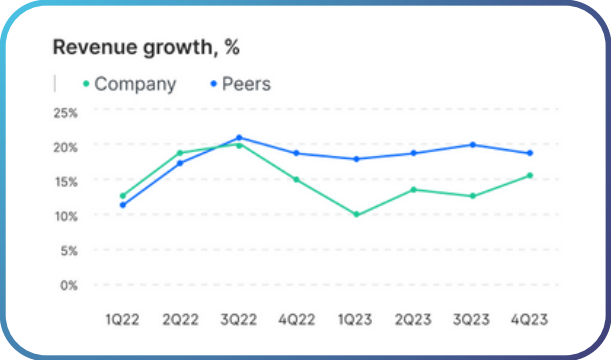


INSO AI generated charts and insights

Revenue growth

Company's revenue growth has slowly recovered after a big drop in 3Q22. However, industry peers kept their growth constant and at a higher rate.

The company is falling behind in revenue growth. To catch up, it should study competitors' strategies, enhance its market position, and invest in growth.



Sources and uses of cash

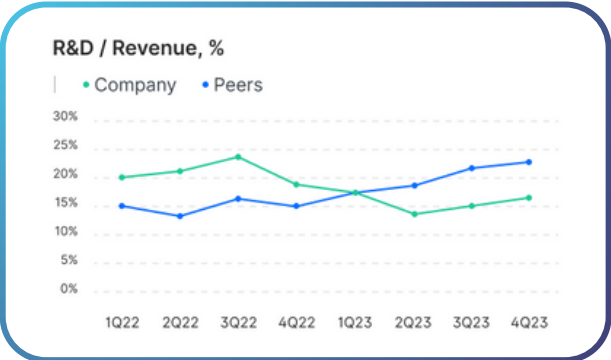
The company is raising more debt and funds significantly larger dividends and buybacks than competitors. While the market is focusing on M&A and CAPEX investments.

This approach could have significant long-term consequences for the company's future development.

R&D / Revenue

The company's R&D expenses as a percentage of revenue have steadily declined, while the market is experiencing an opposite trend.

By spending less on R&D the company risks falling behind in innovation and losing its competitive edge.



Shocking insights

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

- Higher revenue growth
- Issuing significantly less debt
- And investing more in R&D

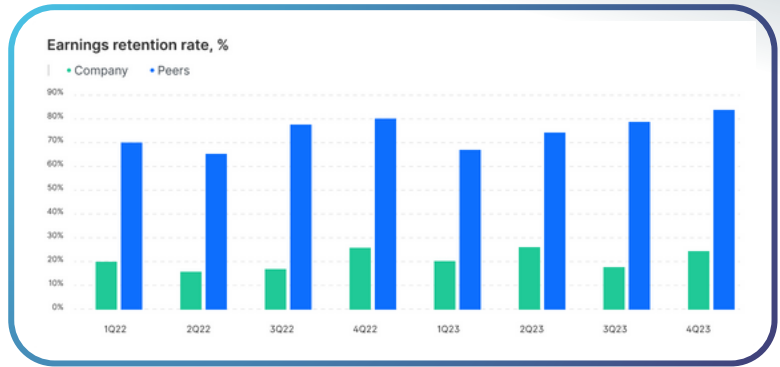
In addition to that INSO AI identified more red flags on Operating Leverage and Earning Retention which require immediate attention.

INSO AI generated charts and insights

Earnings retention rate

The company's **earnings retention** is significantly lower than market average, suggesting the it prioritizes returning profits to shareholders but may lack funds for future expansion.

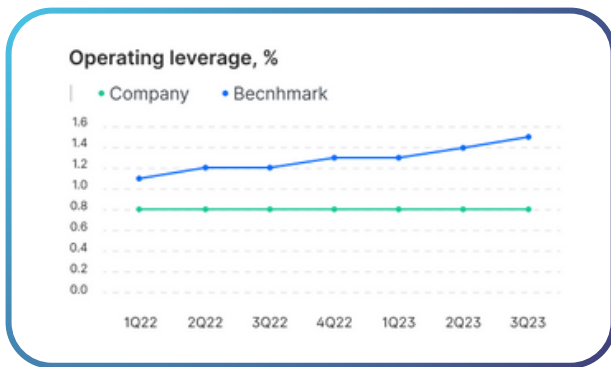
The company should balance dividend payouts with reinvestment needs by allocating more profits toward growth, innovation, or debt reduction. This ensures long-term stability and competitiveness.



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.



Conclusion

The benchmarking analysis was a game-changer for the company. It revealed key weaknesses that regular internal reviews had missed. By comparing the company's performance to industry standards, it uncovered **critical gaps in capital allocation**. The company was **underinvesting in R&D and growth while over-prioritizing debt and dividend payouts**. These factors were directly impacting its **low earnings retention** and **operating leverage**, threatening long-term competitiveness.

Next steps

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

- **Spend more on R&D and equipment** to stay innovative and grow in the future.
- **Cut back on debt** by reducing dividends and buybacks and using the money to grow the business.
- **Learn from competitors** to find ways to increase sales and offer better products.
- **Lower fixed costs** and focus on products that bring higher profits to improve efficiency.

Implementing these adjustments will likely enhance the company's profitability and liquidity.

Results

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

Revenue Growth increased by

5%

Increased R&D spending to

25%

of total revenue

Reduced debt by

\$10 mil

Capital allocation improvements focused on long-term growth

