



The Leader in the Financial Analysis of Privately Held Companies

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## Quick Reference Guide

### **I. Introduction**

Sageworks is a web-based software program that interprets financial statements into a plain-language, narrative report that includes ratios, graphs, industry comparisons, and trend analysis. The reports are very quick and easy to generate, and accountants use them in 3 main ways:

1. As a value-added part of their management discussion
2. As a part of the analytical procedures for audits and reviews
3. As a marketing and business development resource

The power and usefulness of Sageworks is in its ease of use. When developing your own plan, keep it simple so it will be adopted.

### **II. What Is Your Goal?**

Why did you invest in Sageworks, and what is your expectation of how you will use it to enhance your practice?

*Response:*

### **III. Recommended Guidelines for Using Sageworks**

#### **A. As part of the financial statement presentation to business clients**

Progressive accountants are actively looking for ways to elevate their role and add value to the services they provide. Providing a Sageworks report as part of your management discussion is an excellent way to add such value. Here is the recommended way to provide these reports to your clients as part of the explanation of their financial statements.

Where possible, have the person drafting the financial statements automatically create a Sageworks report at least once a year for business client.

**PRESENTATION TIP:** Focus the presentation on three or four specific issues in the client's financials.

This approach will allow the accountant to guide the discussion to the key areas that need to be discussed.

The person who will present the report should have the report in Word format, read the report, and take notes on a separate sheet of paper. The notes should center around 3 or 4 issues brought up in the report that the presenter would like to discuss with the clients.



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### *Example Note:*

Liquidity received a poor score, and it looks like accounts receivable days are higher than the industry. Ask Jane how she feels about getting paid on a timely basis. Are there just a few customers who pay late, or is this a chronic problem? Does Jane provide terms for early payment? Is Jane willing to charge for late payments?

**PRESENTATION TIP:** The presenter should NOT read the report to the client and try to justify each line or issue as this can quickly turn into an ineffective presentation.

**PRESENTATION TIP:** The purpose of the Sageworks is to show the client you care and have taken real effort to evaluate their business and are prepared to have a meaningful discussion.

Leave the report with the client and let them know that you would be happy to discuss other issues that come up after the client has had a chance to read it.

This format ensures the value in the report does not rest on the client's shoulders to reading and absorb it. Rather, the value is that the report can be used as a tool for the accountant to be better prepared for a meaningful discussion that the accountant will initiate and guide. For more information about how to discuss a report with a client, please download the document using a Sageworks Report with a Client and the Client Questionnaire from your user support page under section II.

**PRESENTATION TIP:** Get your client involved by asking questions, not telling information. Asking questions also avoids sensitive areas.

### **Billing Strategy:**

#### Strategy #1:

We recommend that, whether you bill hourly or on a fixed monthly fee, you provide the reports as a bundled part of your services to those clients who would appreciate this higher level of service. Because you are providing more than financial statements, you can charge a higher overall price rather than charging a separate fee for the report and discussion. This ability to provide reports in addition to financial statements positions you as a professional providing advisory services as a standard part of your offering. For existing clients, present the first report before you raise your overall price.

#### Strategy #2:

Accountants with smaller business clients could offer the Snapshot Basic Report complimentary for all business clients and then up-sell the Snapshot Extreme or Analytical Procedures report for an additional fee.

### **B. As part of the analytical procedures**

For audit clients, use the Analytical Procedures report as part of the initial audit planning process. Generate the report on the preliminary financial statements, read the report, and then make notes in the focus areas section online for all the accounts that should be discussed in the audit planning meeting. Use the report as an objective evaluation and guide for accounts to be investigated further. The Analytical Procedures Worksheet portion of the Analytical Procedures report should be added to your working papers to document calculation of expected values. A report should also be generated at the final analytics stage as an additional objective view of the adjusted financial statements.



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The Analytical Procedures report will help meet the new requirements of documentation for audits and reviews.

**C. As part of your business development efforts**

Sageworks reports should be used as an easy way to differentiate your firm and provide an excellent first impression. Print and have on hand several sample reports with example numbers and your firm's branding. We can provide sample reports, or they can be downloaded from the Marketing Collateral section of our User Support page. When you meet a prospect for the first time, bring a sample Snapshot Extreme report and a Sageworks Industry Data and Analysis report on the relevant industry. Show both of these to your prospect and ask, "Would you like to see how you compare?" Or request, "Let us do a financial evaluation of your business to see how we may be able to help you." Then offer a written financial evaluation (Sageworks Report) of their business as part of a follow-up meeting. This strategy is an easy way to ask for their financial statements and will make a great impression at your second meeting.

**IV. Make Sageworks Part of Your Process**

Based on your goal and intended use, how can you make generating reports a standard part of your work flow?

**Step 1)** Identify a Champion:

A Champion will promote the use of Sageworks through working with both those creating reports and those using the reports with clients. Often a Champion is an ambitious Senior or Manager who has initiative and thinks like an owner.

**Step 2)** Make sure everyone has access to Sageworks through the Sageworks Desktop Icon.

**Step 3)** Set down a clear policy on which clients will have a report generated and when.

***For use as part of the management discussion:***

Option 1: Generate a report at least once a year (such as year-end) for all clients.

Option 2: Create a list of clients that should receive Sageworks reports so the person drafting the financial statements knows which clients to process through Sageworks.

***For use as part of the analytical procedures:***

Create an Analytical Procedures report as part of the preliminary audit planning and analytics, and then at the end as part of the final analytics. Include the report and notes as part of your working papers. The inclusion of this report will satisfy AICPA and SAS requirements for audits and reviews.

**Step 4)** Place "create a Sageworks report" on your check list, travel sheet, or transmittal document so it becomes part of the procedures.

**Step 5)** Designate who will create the reports; often the person drafting the financial statements will create the reports.

**V. Success Stories and Case Studies**

**How to Generate a Return on Investment:**

- 1) Use it with existing clients to increase the value of the management conference and increase your overall fees.
- 2) Use the management conference and Sageworks discussion to discover additional services you can provide.  
Advisory and profit enhancement projects generate higher fees than compliance services.
- 3) Use Sageworks Counselor to enable two additional services to your clients:
  - a. Compare your client's budgeted to actual cash flow on a quarterly or monthly basis.



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- b. Enhance bank loan packages that can be prepared for clients.
- 4) Win a higher percent of your prospects at a higher price because of the WOW factor associated with presenting Sageworks at the 2nd meeting.

### **Sageworks Used with a Firm's Existing Clients:**

#### **Example 1**

A NASBA member has built her practice around the concept of value-added services. Sageworks is one of the clearly tangible examples of her additional value that she uses to cross-sell payroll and advisory services. Using Sageworks helps her justify higher overall fees.

#### **Example 2**

A small CPA firm in Fort Wayne, Indiana, purchased a Sageworks subscription to improve the overall quality of the service it was already providing. The firm provides mainly write-up, tax returns, tax planning, and new business planning for small-to-medium sized businesses.

This accountant began to offer the Basic report to nearly all of his clients on a quarterly basis or once a year for his tax-only business clients. When he presented the reports to his clients, he would say, "Well, if you like this type of report, we do a much more detailed report with ratio analysis, industry comparisons, and narrative text." The report he was referring to was the Snapshot Extreme report. For interested clients, he signed them up for a service he called "The Profit Analysis Report Service". He would provide an edited, customized Snapshot Extreme report to his clients on a quarterly basis that he would discuss with them.

The accountant was also able to provide all of his clients a little something extra by presenting the Basic reports. When discussing the financial statements, he was able to discover which clients were willing to seek more advice from his firm, and he began to elevate his role to that of an advisor with those that were interested. A-list clients that were interested in the "Profit Analysis Report Service" signed up to receive Extreme reports on a quarterly basis. The accountant had a dozen clients sign up for the service, and he was able to easily recover his initial investment. In the end, this firm found that it could provide all of its clients with improved service while also offering extra services to help generate additional revenue.

#### **Example 3**

A single person accounting firm in Florida was helping one of his clients prepare his business for sale. He ran a Sageworks report for the client's business and showed it to the prospective buyer. The buyer was so impressed with the report and resulting conversation that he not only bought the client's business but also became a customer of the firm.

### **Sageworks as Part of the Audit Process:**

A managing partner of a regional firm in Texas wanted to bring more discipline and consistency in the initial audit planning process. He found success in mandating that a Analytical Procedures report be generated before the initial audit planning meeting. The managing partner said, "It forced us to organize the initial financial statements to be able to run the Sageworks report, and the report then gave us a good, objective evaluation quickly and easily. We then used the report in the initial audit meeting as a way to identify issues and help set the direction for what accounts would be



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examined in greater detail. We now run a Sageworks report as part of the initial audit planning and again at the end as part of our final analytics. It is an easy process to implement and has helped us significantly.”

### **Sageworks Used for Litigation Support:**

From a regional accounting firm: “Sageworks worked well in that situation (for litigation support) because we were looking to project what the business would be worth in the next few years, and obviously Sageworks lets us take a look at a number of scenarios in a very short period of time.”

### **Sageworks Used for Prospects:**

The Green Bay office of a large accounting firm has won all 5 prospects that they have offered to do a Sageworks report as part of a follow-up meeting. They show a prospect in the first meeting a sample report and then offer to do a “written financial evaluation” as a follow-up meeting.

The Milwaukee office of a regional accounting firm uses the same technique and says they get a “WOW” every time they show the report on the second visit. They feel it sets them apart and gives them a competitive advantage.

### **Smaller Firm Experiences:**

Fiducial franchisees are already benefiting in several ways from using Sageworks according to Joe Crossney, Fiducial’s director of systems support and development.

“The Fiducial franchisees will benefit because the tool really allows for counseling. A few of our franchisees are now using it and have had ‘rave’ reviews. The franchisees and our company owned offices were asking for industry data for their small-business clients, and this tool provides it.”

Crossney noted that Sageworks will definitely help clients by comparing their income and financial data to other like businesses in their industries.

For example, a restaurant will receive information comparing liquidity, profits and profit margin, sales, borrowing, assets, and employees’ data with other businesses in their industry. The tool actually provides ratings of one star to five stars for each of these categories, again comparing the individual business client to their industry.

“Our clients have been asking for this data for some time,” he said.

Bill Woodcock, a fiducial franchisee in Renton, WA, was ahead of the curve when it came to using Sageworks. He says it’s made a difference in his office.

“It allows me to benchmark my businesses, and all the businesses appreciate it,” said Woodcock. “They like to know how they’re doing versus other restaurants and manufacturers. It provides a very simple tool for giving the business kind of a report card based on various financial ratios. Most businesses can clearly understand that if they get five stars they’ve done well, but if they get one star they’ve done poorly.”

Utilizing Sageworks to analyze data from one of his small business clients through the first 10 months of 2004 compared to the same time in 2003, Woodcock pointed out that this software not only has the flexibility to generate specific



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reports but also explains the analysis so clients can grasp it right away. Best of all, there's no waiting for lengthy reports.

Fiducial's Larry Recor uses Sageworks as a consulting tool at his office in Boonville, NY. He says the user-friendly format spells out details for non-financial business owners so they understand exactly what's being discussed; such as if their inventory or accounts receivables are too high. Clients may have difficulty following more traditional reports but not with those generated by Sageworks because the reports tell them a lot more about their business by addressing a number of critical areas.

"It lets them know if they are doing as well as how they should be and how they are really doing," Recor said.

### **Pinpointing troublesome areas**

Sageworks has made a difference for Recor's counseling efforts because when clients are shown a more traditional financial statement, the message doesn't really hit home. "But with all the graphics and industry comparisons, it makes sense to them," he said. "You are more easily able to explain to them what their condition is."

Usually when clients look over their financial statements, they think they're doing just fine. Sageworks, however, pinpoints areas where entrepreneurs need to make some changes.

A construction company, for instance, was presented with a report that told them its gross profit percentage was actually too high compared to the industry. This information explained why they had trouble getting sales. Thanks to Sageworks, Recor determined that the problem area was a revenue issue since the company's services were overpriced. After the client lowered his prices and became more competitive, "he has more work than he knows what to do with."

In Lawrenceville, NJ, Fiducial franchisee Tom Judge has also put Sageworks to good use on the consulting side of his business.

"It adds a great dimension when talking to clients because it gets down into some of the nitty gritty of the financials," said Judge. "It tells them how they're doing and gives them ideas on how to correct a problem."

Judge finds that the software gives him much more credibility with clients as far as producing a report that lends itself "to show that we're the experts." None of the dozen clients he's shown Sageworks to had ever seen this type of financial analysis.

"It's one thing to give clients monthly financials, but this just adds a whole other point of view," he said. "And when we go and meet with them, it adds some meat to the discussion. It's written in a way that you can actually have the report showing the clients 'see what we're saying here', and everything on it allows me to talk to client in more depth before the light clicks on and the client says, 'I've never thought of it that way.' "

Sageworks has even helped spawn new ideas, according to Judge.

One of his clients, who operates a \$5 million manufacturing company, had a financial statement that looked very strong on paper with all the indicators pointing upwards. Still, when Tom used the software to analyze working capital and



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financing data, he discovered some weak points: payables were stretched out a little more than they should have been, and that could have hurt the client's credit rating.

The analysis revealed that the owner had never taken discounts and was paying interest, thinking it was less expensive to use his line of credit. But this reduced his credit to an extremely low level. Armed with these facts, the client used Tom's recommendations to improve his operation in those areas and has since boosted his credit rating.

"By taking the discount, it more than compensated for any interest he was paying on his line of credit," Judge said.