Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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November 23, 2012

THIS JUST IN!

RICOH CONSOLIDATES **CONVERSION SERVICES**

Leveraging years of experience in document conversion services, Ricoh Americas **Corporation** has formally launched a Digital Imaging Services (DIS) practice. DIS offers a nationwide footprint of scanning and consulting services designed to "help customers more efficiently capture valuable information, integrate it into important workflows, and distribute it in the right form to the right person at the right time."

The foundation of DIS is three pieces of the former IKON. "We've taken what was formerly Legal Document Services and combined it with our former Advanced Services Group (ASG) and Business Systems Services (BSS)," said Eric Wangler, VP, Legal, for Ricoh Americas. "We've put them under common leadership with the goal of delivering services to clients near site or on-site and fulfilling their needs on a short-term and long-term basis."

DIS has a total of 45 processing centers across the U.S. "The former ASG brings to the table skills in areas like engineering, programming, indexing, and project management," said Wangler. "They have expertise in projects like legacy system conversions, aperture card and microfilm scanning, and scoping out commercial scanning opportunities.

"The engineers get involved with a lot of setup work, such as matching up data we capture with an existing database. Image capture is really the easy part. It's what you do with data that can get complicated."

Wangler described the former BSS as focused on BPO. "They have done a lot of work in areas like advanced data capture, digital mail, and

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Content Management Key to Expanding "Beyond Print"

Toshiba America highlights capture and workflow solutions at annual event.

LAS VEGAS – Like everybody else in the digital copier world. Toshiba America Business Solutions (TABS) is trying to diversify from its core business of selling printing hardware. In fact, the tagline for last week's Toshiba LEAD 2012 conference held at Caesar's Palace was "Beyond Print." [Yes, I was in Vegas and was hoping to attend the **Microsoft** SharePoint Conference as well, but couldn't secure a press pass. Along with printing solutions, document management and workflow, and digital signage shared top billing at the LEAD event, which had approximately 700 attendees, including TABS employees, members of the dealer channel, and 125 end users.

"Selling MFPs is at best a flat business," said Mark Mathews, president and CEO of TABS in a one-on-one interview with DIR. "Revenue in that area is flat to up slightly. We've been on a solutions path now for five years, but it has really started to pick up steam in the past 2-3 years, as our partners have become more comfortable with it."

Managed print services (MPS) is the most mature of TABS' solutions offerings. In his event-opening remarks, Mathews stated that TABS' 2012 MPS revenue was up 18% from 2011. "I'm proud of that because that's not growth on a start-up number," he said. "That's growth on top of an established base."

Mathews said document capture and workflow solutions were growing at an even faster rate, but from a smaller base. "It definitely helps that document management buyers are more sophisticated than they were a few years ago," he said. "You don't need to make as hard a pitch anymore. Conceptually, end users understand the ROI. At the end of the day, if we aren't selling document management solutions to them, somebody else probably is."

TABS has three primary partnerships in the capture

and BPM space:

- **Drivve** is an Austin, TX-based ISV that specializes in capture solutions for MFPs. Drivve also offers document, print, and fax management software.
- **DocuWare** is a German ISV with U.S. headquarters north of New York City. Its 2011 revenue was approximately \$20 million worldwide—the great majority of which comes through partner sales. DocuWare develops a full suite of document management and imaging software and was a pioneer in marketing that technology through the MFP dealer channel [see DIR 5/4/01].
- Perceptive Software also has a full suite of document imaging and management products. In 2010, Perceptive was acquired by **Lexmark**, which has a long-time relationship with TABS. TABS recently signed on as a reseller of Perceptive's ImageNow product.

At the event, all three ISV partners were showing integration with the TABS eBX platform. eBX runs on MFP touchscreens as a browser-based interface, and it connects to a Linux back end. eBX is the next generation of TABS' eB3 platform, which was similar, but eBX includes more open source software.

On its eBX integration, DocuWare has added the capability to print files from its ECM system. The ISV is hoping this will make its software more attractive to dealers, because the new feature has the potential to drive additional print volume—which has historically been the primary revenue generator in MFP sales.

Dealers show keen interest in ECM

All three document capture and BPM ISVs had speaking slots at LEAD. According to DocuWare's Jay Martin, regional sales director, only 15% of SMBs currently have document management software. "For MFP dealers, our software provides a 'barrier to exit,' for their customers," he said. "Most end users' perception is that hardware is so integrated with software that getting rid of one means they have to get rid of the other. So, if a customer is happy with their document management software, they are going to be less inclined to switch hardware dealers when it comes time to renew a lease." [Along these lines, I remember eCopy founder Ed Schmid saying that many eCopy customers actually re-bought his company's capture software whenever they renewed their MFP leases. Basically, they presumed the software was part of the lease and didn't understand they had actually purchased a permanent license for it.]

According to Martin, DocuWare's three primary vertical markets are manufacturing, local government, and real estate—with real estate and healthcare showing the fastest growth. "Accounts payable is by far our number one horizontal application with HR and sales support rounding out the top three.

Document Imaging Report

Business Trends On Converting Paper Processes To Electronic Format

DIR is the leading executive report on managing documents for e-business.

Areas we cover include:

- 1. Document Capture
- 2. Image Processing
- 3. Forms Processing/OCR/ICR
- 4. Enterprise Content Management
- 5. Records Management
- 6. Document Output
- 7. Storage

DIR brings you the inside story behind the deals and decisions that affect your business.

Vol. 22, No. 21

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DIR is published 23x per year, on the 1st & 3rd Fridays of the month, by:

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"With the advent of the iPad and other portable digital devices, everyone is starting to expect content to be delivered digitally. What kind of impression is it going to make on an organization's customers and partners if they tell them they have to go to a file cabinet to retrieve a paper document?"

It was interesting to note that Martin's talk played

to a full room of approximately 100 dealer representatives. This is a sign that the channel is realizing the importance of adding document management software to their portfolios. One reason is that it creates more opportunity for processional services, which was the topic addressed by



"The first generation [of MPS] really focused on reducing costs per copy and managing fleets of devices. Once customers get that under control, the question is where do they go next?"

-Mark Mathews, president & CEO, TABS

DocuWare's Robin Horner, the ISV's service and support manager.

Horner offered the example of a pair of MFP dealers who are successful DocuWare resellers. Both reported around \$30 million in annual revenue. One reported \$1.5 million in DocuWare software revenue in 2011, including \$400,000 in professional services. The other reported \$2 million in DocuWare revenue, including \$700,000 in professional services.

While software revenue represents only about 6% of these dealers' total revenue, it's my guess that it's a fairly profitable 6% compared to hardware-driven revenue. That said, if a successful dealer is only generating 6% of revenue through software, they most likely need to be at least a mid-size dealer—say \$10 million a year—to generate a half-million in software revenue and make their investment worthwhile.

Horner surmised that a dealership needs to invest in at least two dedicated full-time employees to really make a go of selling imaging and workflow. These employees' duties should be divided among the roles professional services manager, systems design specialist, software solutions specialist, and networking specialist.

Horner and most of the dealers in the audience agreed that one of the biggest challenges for dealers selling software is managing "scope creep." Horner recommended involving end users early on in the process, having documented procedures and change control, and employing a strong project manager.

"Having an internal meeting to discuss the transition from sales mode to implementation is also important," Horner added. "It's important to stress to implementation personnel that if the customer comes up with a suggestion that is not included in the scope—the implementation person can agree that it's a good idea, but they should say they need to discuss it with the project manager before moving

> forward, and that there may be some extra cost involved. One danger with IT personnel is that they will often want to do something extra just to prove they can do it."

Perceptive is currently only selling its ImageNow ECM software through TABS, but during its presentations,

Perceptive's complementary technologies in advanced capture, search, and BPM were discussed, so there may be plans to bring those on board in the future.

Peter Turnbull, EVP of sales and marketing for Drivve, presented on the concept of always being plugged in and how the combination of the cloud and mobile gives users the ability to "communicate, collaborate, and organize from anywhere at any time." Drivve offers a cloud repository that it can sell in conjunction with its MFP capture software. The capture software starts at around \$300 per device with no server charge.

Next generation MPS

Mathews said that while today TABS relies on ISV partners in the capture and BPM space, a future acquisition is not out of the question. "We have done acquisitions in other areas, and definitely have an appetite in the document management market, but we haven't done anything," he said.

Matthews sees imaging and workflow as being increasingly important as TABS customers move into their second generation of MPS contracts. "The first generation really focused on reducing costs per copy and managing fleets of devices," he said. "Once customers get that under control, the question is where do they go next?

"SunTrust, for example, was one of our first MPS customers three or four years ago. Now, its account is coming up for renewal, and we are discussing scanning projects and professional services. Even if document management isn't part of an initial contract, once you've built up your relationship and have your tentacles in an organization, it's often a natural follow-on."

While some of TABS' more successful resellers have taken on the DocuWare product, Mathews said TABS' direct organization is still responsible for the majority of Toshiba's DocuWare sales. Drivve's Turnbull provided similar feedback.

TABS recently beefed up its capacity to deliver document management solutions with the launch of Toshiba Managed Business Services (TMBS) [see <u>DIR</u> 10/12/12]. "TMBS is a high-end professional services

SHOW NOTES

Are rumors of print decline exaggerated?

Is print volume declining? For obvious reasons, this is a question very near and dear to MFP vendors as well as document imaging software developers. While some people have reported declines by as much as 10% annually, others are less pessimistic.

"In the past couple years, we've actually been selling more units and our print volumes have gone up," said Mark Mathews, president and CEO of TABS. "A couple years ago, we really took a hit, but I think that was more related to the recession than business requirements. Our revenue is also being driven up by users switching from black-and-white to color printing—which has a higher cost per page."

An **IDC** analyst we spoke with at last week's TABS' event concurred with Mathews' views. "Basically, if you only have three people working where there used to be five, you're going to be doing less printing," he said. "It will be interesting to see how print volumes trend once the economy recovers."

Innovative e-forms

One of the culprits behind the decline in print volume may be an increasing use of e-forms. *DIR* caught up with **LincWare** CEO Darren Mathis at the TABS event. He was showcasing the integration his company announced earlier this year with **DocuWare's** ECM system. We were introduced to Mathis previously at a **Laserfiche** conference [see <u>DIR</u> 2/3/12].

Once again, Mathis was featuring LincWare's iPad integration that can display and auto-fill forms on tablet devices. The forms can even be completed off-line and submitted when an Internet connection becomes available. LincWare is currently developing an Android app.

Mathis is promoting LincWare's technology as a natural extension of any document management system to handle the "as much as 85% of business that depends on forms."

For more information: https://www.lincware.com/

group, designed to address large national accounts on the direct side and to help dealers with larger deals," said Matthews. "The early pipeline for TMBS has blown me away. There's definitely an appetite in the market for those types of services."

TMBS is also offering services associated with TABS' initiative in digital signage. Digital signage basically involves managing electronic monitors and the messages they deliver. "It's an extension of our goal to manage customers' content," said Matthews. "Digital signage can be anything from kiosks in a hotel lobby to monitors placed throughout a sporting arena.

"It's similar to implementing MPS when you have situations where users often don't know how many printers they have or where they are purchasing supplies. We walked into Qualcomm Stadium [home of the San Diego Chargers] and they had no idea what they had in terms of digital signage, where their content was coming from, and what their overall messaging was."

Mathews added that digital signage is a completely new endeavor for TABS that grew out of Toshiba's point-of-sale (POS) practice. It is being managed separate of POS, and can be brought into accounts by both the POS and MFP sales teams.

Event attendance up significantly

Mathews concluded that he was very happy with the turnout at LEAD 2012. "Overall, we have about 250-300 dealers in the U.S. and representatives from about 40% of them attended," he said. "TABS' sales come about half direct and half through the channel.

"Last year, we really changed the format and tried to focus more on education. As part of that change, we invited some end users, and encouraged dealers to invite their customers. At first, many of our dealers were hesitant, but it ended up going very well. As a direct result of last year's event, we ended up writing millions of dollars worth of business.

"This year, end user participation is up dramatically. We didn't have to work as hard to convince our dealers not to be afraid of us."

For more information:

http://business.toshiba.com/usa/home.html; http://business.toshiba.com/usa/software/document-capture/index.html; http://business.toshiba.com/usa/software/document-management/index.html

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Web-Based Capabilities Drive Growth of Distributed Capture

Several years ago, I remember writing an article for the industry trade publication *Transform* Magazine on the topic of distributed capture. I talked with several end users and came away asking, "Is distributed capture really distributed?" At the time, most people were managing their distributed applications as a series of lower-volume centralized implementations—relying on client/server software that had to be maintained individually on multiple PCs.

This led me to believe that all the talk about the wave of distributed capture sweeping over the industry was more rumor than fact. But, apparently, the market was just going through the proverbial "trough of disillusionment" that precedes the "plateau of productivity" in **Gartner's** hype cycle for technology adoption. Today, driven by the maturation of Web-based technology, true distributed capture is being deployed by multiple organizations.

DIR recently caught up with a trio of resellers of CAPSYS Capture, a Web-based document capture platform. They discussed their recent success with browser-based, distributed capture deployments.

Web-based advantages

"With Web-based scanning, you have one server controlling scanning at distributed sites," said Bud Arkenau of Indianapolis-based **Tronitech**. "There is iust a small plug-in that organizations push out to users' browsers through a Web site. Set up is basically plug-and-play. Any updates can be handled the same way. With a client/server application you need to manage clients on every desktop where scanning is being done."

"We have one customer that recently transitioned from a client/server to a Web-based scanning environment," said Michael Ciabattari, president of Chicago-area IDT. "They are in the food processing industry and have more than 100 remote scanning locations. With their old system, they had a person on staff who they were spending more than \$50,000 a year on to travel and install updates at remote scanning sites. That is no longer necessary."

"It's definitely less costly for IT to upgrade Webbased distributed capture applications than distributed client/server systems," said Peter Klentos, COO and CTO of Irvine, CA-based Tallega **Software**. "When you want to install a new scanner, you basically just click on a URL. We have customers utilizing Web-based capture technologies

in multiple distributed sites worldwide."

A maturing technology

While Web-based capture technology has been available for several years, all three resellers agreed that only recently has it matured to the point where it's a viable replacement for client/server applications. "A lot of times people are reluctant to install any type of Web-based technology because they are worried about speed," noted Klentos. "However, newer Web-based applications utilize technologies like synchronization and caching to run faster. But, you still might run into problems if you have remote offices with lower bandwidth connections.

"Also, a few years back, a lot of thin-client imaging applications didn't have features like image rotation and dynamic enhancement. There were also a lot of capabilities missing related to data capture and validation. You couldn't type in a social security number for example, and then do a database lookup to auto-populate indexing fields."

Extensive integration with some applications in areas like ERP is still difficult with Web-based technology, which is one reason why advanced recognition like data capture from invoices is still typically deployed in a traditional client/server model. "Advanced forms processing vendors have vet to develop Web clients that are fully functioning," said Ciabattari.

Klentos noted that one of Tallega's large Webbased capture customers is utilizing a client/server application from **AnyDoc** for data capture from invoices once the images have been transferred to a centralized processing center. "It's kind of a hybrid implementation," he said.

Arkenau added that some data capture functionality such as QA and key-entry can be accomplished quite efficiently with Web-based clients. "We have a customer that outsources a lot of its data entry to keyers in the Philippines," he said. "They had been sending images to those keyers for processing. They are now utilizing the CAPSYS client and keeping the images on their server. This has reduced their bandwidth overhead."

Some IDR (intelligent document recognition) vendors offer their own browser-based validation stations.

Ciabattari noted that at one time Web-based capture clients essentially represented scaled back versions of thick clients. "It's only in the last four to five years that you've seen full document capture functionality on Web-based clients," he said. "This, along with Internet bandwidth becoming more costeffective, has many large companies finding it more practical to install distributed scanning than ever before."

Ciabattari added that CAPSYS' Web-based functionality has reached the point where some customers have chosen to stand it up for centralized capture. "A large consulting firm recently replaced a traditional client/server environment with CAPSYS," he said. "They are using it to capture 30,000 images per day. The feedback we received is that their performance hasn't declined at all. If anything, they told us it has improved."

Cost and support benefits

Some of the benefits of Web-based capture can be obvious. "We are talking with an organization that is currently spending \$30,000 a month to ship documents from 24 remote branches to a centralized site for scanning," said Ciabattari. "That's \$360,000 per year in shipping costs they can eliminate with distributed capture. The single stupidest thing a company can do is pay an organization to ship its paper from remote sites for centralized scanning. You can capture images for pennies on the dollars you are spending to ship documents from point A to B."

Supporting a Web-based distributed implementation is easier not only for the end user, but typically for the reseller as well. "Basically, you tell the end user, here's the type of browser and version you need to use, and rarely will you have an issue," said Ciabattari. "I think we get about one-tenth the support calls with Web-based implementations that we do with client/server applications."

Klentos cautioned that not every organization has standardized browsers. "CAPSYS relies on an ActiveX plug-in, so the end users need to run IE," he said. "Also, performance can differ depending on what version of IE someone is running."

Arkenau said the biggest support obstacle that Tronitech runs into with Web-based capture is working around anti-virus software. "However, we've found that our customers typically run the same operating system and browsers throughout their organization, so once we figure out how to configure CAPSYS, it will work at all their distributed sites." he said.

Cloud integration

Web-based capture lends itself well to integration with the increasing number of cloud-based applications now available. CAPSYS offers a hosted version of its software and its resellers can also host it themselves. Tronitech, in fact, offers a hosted OEM version of CAPSYS' software, called Tronitech Capture, which integrates with its own VAULTview cloud-based document management system.

"When customers license our cloud-based technology, they typically expect scanning to be included," Arkenau. "We are definitely trending more toward cloud deployments. It's so much easier to set up than traditional document management that we are signing up resellers that have never sold imaging before."

IDT offers CAPSYS' cloud capture solution as well as cloud-based ECM repositories from **Hyland** and **FileBound**. "The cloud model has been very successful for us," said Ciabattari. "Sixty percent of our new customers are now purchasing hosted software.

"There is still resistance by many IT organizations, but we are seeing business unit managers make decisions that circumvent IT. I believe that the cloud will have a bigger impact than anything else on IT in the upcoming years."

Klentos said that Tallega is not seeing a lot of demand for hosted capture. "The biggest driver for distributed capture is having a lot of remote sites,' said Klentos. "We've found that customers that fit that profile are typically fairly large. They often have decent size IT departments and existing infrastructures with enough servers and back-up to effectively run on-premise applications. In those

CLARIFICATIONS AND CORRECTIONS

In our last issue, we stated that **Kofax's** reported net sales of \$60.1 million for its recently completed fiscal Q1 2013 (ended Sept. 30) represented a .8% decline from Q1 2012. To be more precise, Kofax actually grew its total revenue by 2.8%, including revenue generated from acquisitions and not accounting for fluctuations in currency. The .8% decline represents revenue measured in "organic constant currency."

Our article also states that CEO Reynolds Bish said on an investor call that Kofax is projecting Q1 revenue to be about 21% of Kofax's annual revenue for 2013. Bish actually said that Kofax Q1 revenue represents about 21% of what financial analysts expect Kofax to report in FY13.

We apologize for any confusion.

Also, please note that in our masthead we incorrectly listed last issue as Vol. 22. No. 19. It should have read Vol. 22, No. 20.

cases, it's typically not worth fighting the battle for SaaS."

Barriers to Web-based capture

Klentos added that there are also still plenty of opportunities for traditional client/server-based capture. "We are a VAR, and we really focus on the SMB," he said. "Most SMBs do not have remote sites, which is really the key reason for implementing Web-based capture. Even if a user does have remote sites, there are a lot of factors to consider, such as bandwidth. If you are dealing with sites outside the U.S., the performance of Web-based capture might not be acceptable due to low bandwidth issues.

Ciabattari noted that another challenge is that in many cases a distributed capture implementation may force a customer to change its business processes. "Even if a company is utilizing centralized capture, they are often not scanning until their business process is completed," he said. "They are basically scanning on the back-end for archiving.

"If they move to distributed capture, they have no choice but to utilize an electronic workflow. You're not going to receive an imaged invoice at a centralized A/P center and print it for coding. Sure, there can be a lot of benefits associated with electronic workflows, but adding it to a capture implementation also means that the customer now has a bigger project to get approved."

Scanner sales confirm trend

Arkenau noted that the growth of distributed capture is being supported by the continued increase in sales of lower-volume scanners. "We have a hardware business and basically everyone is now purchasing desktop scanners," he said. "Our production scanner sales are going away.

"We have one customer in healthcare that we are selling about 20 desktop scanners to a month. They are installing them to replace their production scanners."

Ciabattari surmised that the image quality on even the most inexpensive devices is good enough for most document imaging applications. "Most document scanner vendors are now offering desktop workgroup models for well under \$1,000," he said. "We're currently in discussions with a retail organization that has 1,600 locations. Each month, they have to submit invoices to corporate headquarters, but each location is only dealing with 200-300 documents per month. Think of the shipping costs for sending the paper vs. investing in \$40 scanners from Best Buy, connecting to a Web site, and scanning the invoices."

MFPs represent another avenue for scanning documents at distributed locations, as most sites already have one installed. Any Web-based capture application should be able to upload images from a network folder that can be set as the MFP's scanning destination. Of course, we've also seen success of dedicated MFP scanning software from vendors like **NSi** in large distributed capture deals [see DIR 10/21/11].

The biggest concern with MFPs has to do with image quality, as historically they have been designed to produce images best suited for printing, but not necessarily the most friendly for capture processes like OCR. However, as most MFPs now offer color scanning, one option is to capture color images to a server where OCR-optimized binarization can be performed.

The vision becomes reality

The bottom line is that the growing adoption of distributed scanning shouldn't come as too big of a surprise to anybody in our industry. Like automated invoice capture, which also took awhile to progress from a great idea to mainstream adoption, it's a technology with clear benefits and a well-defined market. It's just taken awhile for the implementation to catch up with the vision. And the maturation of Web-based capture software to where it's a viable option for many applications has played a big role in making that vision a reality.

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Developing a Successful Model for Subscription Sales

One of the biggest challenges facing vendors and resellers in our industry who are considering offering cloud-based software has nothing to do with the technology. It is an accounting challenge involving a transition from selling software to selling a monthly subscription to a software service.

On the plus side, a SaaS or cloud-based sales model offers a respite from the feast or famine cycle that has historically defined our industry. Ideally, it sets up an ISV or reseller with a steady stream of revenue they can count on each month, which takes some pressure off. On the flip side, it also takes away some of the financial incentive for closing big deals by spreading out revenue and commission over the length of a contract rather than providing a big payoff up front.

Michael Ciabattari, president of document imaging reseller **IDT**, is dealing with this challenge as his company transitions deeper into the world of hosted software. "A lot of businesses don't want to give up a \$120,000 sale for \$5,000-per-month contract," he said. "But I believe end users are going to want to purchase software through a cloud-based model—so we moved ahead with it.

"I pitched it to our sales staff by saying that if I was wrong, then it would be business as usual. But, I thought we should at least offer a cloud option. And if I was right, I said we'd be getting opportunities with a cloud model that we wouldn't have gotten with on-premise software. Basically, some organizations don't have the budget to make capital expenditures for document management software but they may have budget to pay for it as an ongoing expense.

"I think that more often than not this has been the case. I'm not saying there has never been a customer that has forgone a traditional sale after they found out about our cloud offering, but most of the cloud deals we land do not come at the expense of traditional sales. They are typically sales that wouldn't have moved forward otherwise."

IDT cloud customers typically sign three- to fiveyear contracts. "As a business owner, you get sick of waiting for \$250,000 deals to come through the door every year," said Ciabattari. "Each cloud contract we sign increases the guaranteed money that will be coming in each month."

Ciabattari has based his commission model for subscription-based sales on the one used in the insurance industry. "We offer a higher percentage the first year and gradually work our way down to 2% annually, which the salesperson will receive as long as that customer keeps renewing its subscription," he said. "This provides our salespeople with an opportunity to earn some residual income and should help us keep them longer. But, it also gives them incentive to sell new deals."

RICOH DIGITAL IMAGING, FROM PAGE 1

Check 21," he said. "They have significant contracts in specialized areas like process child support payments.

"The plan is for the former members of all three organizations to now work hand in glove to deliver services to customers working with Ricoh's strategic account executives and solutions consultants. We are also able to deliver services to Ricoh dealers through the ChaMPS program.

DIS is currently processing approximately 50-70 million images per month. It has several thousand legal services customers. "The reality is that in the legal market, there is going to be less paper to be processed going forward," said Wangler. "But, we think we can offset this through achieving 10-20% growth annually in the commercial space.

"We see a lot of opportunities in BPO, for example, as organizations seek to move away for managing non-core services. We've done projects that required us to capture 36 million pages in 10 weeks."

For more information:

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