

Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

4003 Wood Street ● Erie, PA 16509 ● PH (814) 866-2247 ● <http://www.documentimagingreport.com>

March 23, 2012

THIS JUST IN!

Due to our extensive coverage from Kofax's recent Transform event, there were several stories we were planning on that we were unable to get to for this issue. We plan more extensive coverage in an upcoming issue:

CVision releases invoice capture

Queens-based ISV **CVision** has released Trapeze for Invoices Processing 2.0, a productized version of the IDR platform it launched in 2008 [see *DIR* 10/24/08]. CVision is making two versions of its new product available, with the basic version starting for as low as \$10,000 and a free trial available on-line. CVision also has some very large installs of Trapeze. The software features line-item capture and has the ability to learn from manual corrections.

<http://www.cvisiontech.com/trapeze/general/trapeze-for-invoice-processing.html>

NovoDynamics Releases IDR product

Ann Arbor-based ISV **NovoDynamics** has released a new auto-classification and data extraction product, called NovoDocufier. It's the next-generation of NovoDynamics' Coronado software which has been featured in *DIR* in the past [see *DIR* 10/8/10]. The new version adds extraction and is currently being targeted at service bureaus because of its ability to be set up quickly for a variety of jobs.

<http://www.novodynamics.com/docufier-2/>

eCopy Integration with EMR

At the recent HIMMS health care technology conference in Las Vegas, Nuance showed how its eCopy ShareScan capture platform can be used to create HL7 Clinical Document Architecture (CDA) files that are accepted by popular EMR systems. This functionality helps healthcare organizations meet the proposed Stage 2 Meaningful Use requirements recently published by the U.S. federal government.

<http://tinyurl.com/NuanceCDA>

Kofax Focused on Capture-Related Software Growth

SAN DIEGO, CA—With document capture ISVs continuing to be bought up by ECM vendors, people in the industry continue to ask, who is going to acquire **Kofax**? Reynolds Bish is not one of those people. To the contrary, fresh off the acquisition of BPM ISV **Singularity**, the Kofax CEO is looking at more acquisitions for Kofax, which he hopes, when combined with organic growth, will drive the company to more than \$550 million in annual revenue by 2016.

“Our goal is to double the size of the company in the next three to four years,” Bish told *DIR* in an exclusive interview at Kofax's recent Transform event held at the San Diego Bayfront Hilton. “Along with that, we'd like to increase our EBITDA (earnings before interest, taxes, depreciation, and amortization) from 16% to more than 20%. An EBITDA of 22%, for example, on \$550 million in revenue would create earnings of \$120 million.



Reynolds Bish, CEO,
Kofax

“We think this is possible as we increase the amount of revenue coming from software. Selling more software enables use to scale our business leveraging the same fixed infrastructure costs.”

So, basically when we asked what Bish thought of **Lexmark** recently paying more than three times revenue to acquire Kofax competitor **Brainware**, he commented, “All that is going to do is drive up the asking prices on some of the software companies we hope to acquire.”

Kofax currently has a market capitalization of around \$415 million on projected fiscal 2012 revenue of approximately \$300 million (Kofax reported \$128.5 million through the first half of its year). We thought it was worth noting that Kofax's market cap did not increase at all following the Brainware acquisition, but

Bish was not surprised. "Investors don't look at things like that," he said. "They are more interested in performance."

That said, during his keynote at Transform, Bish did reiterate his plans to gain Kofax a listing on the Nasdaq. "It probably won't happen before the end of our fiscal year, and maybe not even by the end of the calendar year, but it's definitely on the horizon," he said. "There are more companies in our market trading on the Nasdaq [than the London Stock Exchange where Kofax's stock is currently primarily traded]. There are also more analysts following our market and more interested investors. All of this should add up to a higher valuation."

BPM doubles market size

For now, Kofax is focused on increasing its valuation by improving performance through selling more software. Its current strategy for doing this includes introducing BPM software into its current sales channels. If you remember, when Kofax acquired **Singularity** late last year [see *DIR* 12/16/12], it cited **Gartner** numbers that said the size of the BPM market was fairly close to that of the document capture software market—somewhere north of \$2 billion annually, and growing at the same rate.

Kofax's message was that by jumping into BPM, it had essentially doubled the size of its market, and per Bish's aforementioned strategy, Kofax will go after this larger market without doubling its infrastructure. "The plan is to roll out BPM through our current channels," he said. "Singularity had a great product from a technology standpoint, but it was only sold in the U.K. Our plan is to expand its distribution worldwide through our direct and indirect sales channels."

Martyn Christian, Kofax' chief marketing officer, provided some more details. "With our direct sales force, the first thing we did was audit their skills," he said. "We're in fairly good shape because we have a number of ex-FileNet and ex-Global 360 employees, and others with BPM experience. Currently, we're taking our salespeople in waves and providing them with additional BPM training.

"For our partners, it was our assessment that a large percentage had already deployed BPM utilizing third-part products. During a meeting [at Transform] with about 100 resellers, I asked for a show of hands and about two-thirds said they were doing some BPM integration. We're going to make it easier for them by pre-integrating our capture software with the Singularity BPM.

"Sure, they are receiving professional services dollars for the integrations between capture and third-party software. But, there are higher value services that can be realized by utilizing our combined software platform to set up solutions vs. body shopping integration work."

Christian added that Singularity will give the Kofax sales channel an "industry leading" case management product. "Its framework is set up to be very collaborative and the

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Editor: Ralph Gammon
4003 Wood Street
Erie, PA 16509
PH (814) 866-2247
FX (412) 291-1352
ralphg@documentimagingreport.com

Managing Editor:

Rick Morgan
PH (814) 866-1146
rickm@scandcr.com

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Singularity software can be hooked into **Microsoft** links in Outlook and Dynamics,” he said. “Also, if you have a Microsoft desktop environment and are utilizing SharePoint, Singularity is a great fit for BPM.”

One of Kofax’s competitive differentiators in the BPM space is going to be that it will encourage users to take advantage of SharePoint as their document repository. “If you are building a capture-enabled BPM solution with **EMC** or **IBM**, they are probably going to be asking you to drag in a whole content repository architecture that costs money to buy and even more to maintain,” said Christian. “We think you can deploy a Singularity-solution to solve the same problems for half the price.”



Martyn Christian,
Chief Marketing
Office, Kofax

Added a Singularity executive during a panel discussion on BPM, “We’re not going to sell you a boat anchor of an ECM repository. Most of you likely already have several.”

Developing a services-based platform

Kofax is currently positioning itself as a “capture-enabled” BPM vendor. “Today we have a connector between Kofax Capture and KTM and Singularity’s Agility product,” said Anthony Macciola, chief technology officer for Kofax. “In our next-generation BPM platform, our capture capabilities will be transformed into services that can be consumed under the Agility platform. They will be called on demand. [A validation service for a captured W-2, for example, could be called out during the middle of a loan application process.]

“Our new platform will be a merger of our technologies, rather than a merger of our products. Similar to the way our capture components can be wrapped up today and integrated to other products through APIs, in our next-generation BPM platform they will be integrated through service calls.”

This applies to both the on-premise and SaaS versions of Singularity’s software. “Agility was built from the ground up to be a cloud-ready, multi-tenant SaaS platform,” said Macciola, who added that Kofax has no plans to offer its current capture products as standalone cloud offerings. “Twenty percent of our partners are BPO [business process outsourcing] providers, and we don’t want to compete with them. But, if one of our partners wants to pop our capture software on a cloud today, it can be run there. In future releases, we will

address making our capture products even more cloud friendly.”

Christian noted that Kofax’s capture-enabled BPM pricing will evolve along with the product line. “Initially, we’ve selected the most common and easiest way to price BPM, and that is through named users,” he said. “Down the road, as we release a combined capture/BPM platform, we are considering models along the lines of service-based pricing. A user would buy the core BPM service, then they could add a mobile capture service, for example, or portal capture, or MFP capture. There could also be capture-to-archive and KTM service offerings.”

Mining the install base

Christian said that the initial market for Singularity’s BPM technology will be the large install base of current Kofax capture customers. “That’s the natural place to start,” he said. “We’ve planned several events specifically to help us introduce our BPM product to our end users and resellers.

“In many acquisitions, the first thing an acquiring company looks to do is cut costs. In Singularity’s

DEFINING CASE MANAGEMENT

So what exactly is case management, which is the primary market where Singularity’s technology seems to be taking Kofax? Forrester’s Craig Le Clair offered a few slides of explanation during his keynote. Basically, it involves managing a combination of content, data, people, discussions, policies, events, processes, and behaviors to complete transactions.

It’s probably easier if we just list the three main areas of case management as defined by Le Clair and offer some examples:

- investigations: audit requests, e-discovery, and regulatory queries
- service requests: loan origination, benefits administration, underwriting, customer services, project support
- incident management: patient records, dispute resolution, order exceptions, adverse event reports

Le Clair made an interesting comment regarding the importance of being able to build complex BPM processes with plenty of optional routes. He thinks there is going to be pushback to the increasing amount of automated customer service, and that people are going to demand more human interaction. BPM can be used to make these human interactions as effective and efficient as possible.

<http://www.forrester.com/Craig-Le-Clair>

case, it's been the other way around. They've been building a great product for 15 years that they just haven't been able to really market aggressively. Kofax's first move was to write a big check investing in Singularity's sales and marketing [this includes a re-branding study around the 'Agility' name]. Kofax has enough money in the bank, and the board has approved a business plan that calls for us not to look for cost savings, but to drive additional revenue from BPM solutions."

Bish is projecting Singularity, which reported \$16.1 million in revenue for the 12 months ended Sept. 30, 2011, to generate \$20-25 million in revenue for the calendar year 2012 and perform at a break-even level. He has also projected 100% growth in software licenses for calendar 2013. "The terms of the Singularity acquisition called for us to pay two-thirds of the cash up front, with the rest deferred, subject to sales of the Singularity product [for a total potential purchase price of \$48.1 million]," said Bish. "I expect that by our fiscal 2014, our BPM business could be worth \$40-50 million in annual revenue."

"Initially, we will focus on selling BPM to our current customer base because they have been asking us for this type of capability. Two to four years from now, I expect to be going head-to-head in the BPM market with vendors like **Pegasystems**, **Appian**, IBM, and probably **Open Text**. By that time, we will be going to market with a single

platform for capture and BPM, as opposed to two applications talking to each other."

Maintaining a capture focus

Although there are synergies between capture and BPM, Christian stressed that he does not see the two technologies collapsing into a single market. "BPM is a big and complex space," he said. "You have rules-based BPM systems, for example, that might be processing credit card transaction data received through mainframes. Our focus is on transaction-based BPM, which includes case management. But, even in that area, you might be dealing with a customer where most transactions are initiated through phone calls and there is no paper involved."

In fact, a Singularity executive estimated that only about 25% of the company's legacy install base was using document capture with its BPM implementations. "We expect that percentage to increase going forward, but we are certainly not stepping away from the standalone BPM market," he added

Bish also stressed that Kofax is not going to lose its focus on standalone capture. "We definitely want to continue to leverage our competitive advantages around capture," he said. "Last year, we spent \$32 million in R&D, which is greater than the total revenue of many of our competitors. When

A LOOK AT WORLDWIDE SALES

It's no secret that **Kofax** struggled mightily in Europe during the latter half of calendar 2011 [the first half of its fiscal 2012]. During that time, Kofax saw its revenue from EMEA decline 6%, including an 18% drop in software license revenue. CEO Reynolds Bish has blamed macroeconomic conditions in Europe for the decline, which has met with some skepticism as competitors like **ReadSoft** and **Top Image Systems**, which are based in EMEA, have turned in strong quarters.

"One thing you have to understand is that the way **Dicom** built Kofax over the years meant that we had strong business in countries like Portugal, Spain, and Italy, which were countries that were hit hardest by the European economic downturn," said

Bish. "This makes us different from many of our competitors, not only in the capture market, but in the enterprise software market."

Bish also noted that Kofax has approximately a \$100 million software business in EMEA, which is about the size of ReadSoft's worldwide business and considerably larger than TIS' business. "ReadSoft saw most of its growth in 2011 in what it classifies as 'U.S. and rest of the world,'" said Bish. "Also, I think because of our size, we are involved in larger deals than our competitors, and in the quarter ended Sept. 30 [2011], we definitely saw some cutbacks in capital expenditure budgets in Europe."

"Two large financial services organizations in Germany had their budgets frozen right before they were ready to go ahead with million dollar

implementations. One of them recently had part of its budget loosened and has invested in about a quarter-million dollars worth of software to get started.

"We've now sufficiently lowered our expectations in EMEA and have taken costs out. We have reduced both our number of sales reps and our supporting staff. "

Bish added that he'd like to accelerate Kofax's growth in APAC, which accounted for approximately \$9 million in revenue in the first half of Kofax's fiscal 2012. This represented 22% growth. "APAC should be growing faster than our other geographies because of some of the emerging economies and the investments we've made there," said Bish. "Right now, APAC is at about 5% of our total revenue, but it should be closer to 10%."

competing with larger companies like IBM Datacap and EMC Captiva, we think our focus gives us an advantage.”

Bish said that Kofax will continue to look to broaden its software business, including through additional acquisitions. “Everything we do will be synergistic with capture,” he said. “A couple years ago, we got together and identified five areas we should focus on for strategic growth. BPM was number one. Atalsoft’s Web-based imaging technology was another area.

“One thing we will not do is acquire an ECM ISV. We think the ECM market is being commoditized with the success of SharePoint. Some larger ISVs are basically giving ECM away as part of enterprise software license agreements. One technology we may be looking at is analytics that can be embedded in our solution.”

During his opening day keynote, **Forrester’s** Craig Le Clair, VP and principal analyst serving business process professionals, offered his explanation of where data analytics fits into capture-enabled BPM. His slide showed analytics after the capture process and being used to make decisions about which back-end processes and systems captured documents, e-mails, social media communication, XML files and other types of unstructured information need to be directed to. This certainly fits with Kofax’s goal of increasing its customers’ straight-through processing of transactions.

“We want to reduce our customers’ touches on their transactions,” said Christian during his keynote address. “And the touches they make, we want to make more valuable.”

Positioned for strong growth

Overall, Bish seemed optimistic about Kofax’s prospects. “Including the acquisitions that we’ve made, going forward, we should be reporting revenue growth of around 15% per quarter,” he said. “For the three months that we’ve had Singularity, its revenue has exceeded expectations. In addition, in EMEA [where Kofax has struggled in recent quarters], buying patterns, while not having improved greatly, have at least stabilized and don’t seem to be deteriorating any further.”

Bish cautioned against judging the recent success of Kofax by comparing its revenue from the last six months of calendar 2011 against the last six months of 2010. (From July through Dec. 2011, Kofax’s overall revenue was essentially flat and its revenue from applications software licensing dropped by 9% on a year-over-year comparison.) “The results from the last six months of calendar 2010 were

extraordinary [Kofax reported 20% growth in software revenue in that time period], so it was a very difficult year-over-year comparison. But, ultimately, our software license revenue has to grow on a global basis. That is what is going to drive our overall business.”

For more information:

<http://www.kofax.com/transform/>

Mobile Capture a Hot Topic

While BPM was certainly at the top of the list of topics that **Kofax** wanted to discuss at its recent Transform partner and end user event, mobile capture was at the top of the attendees’ list of discussion topics. If you remember, a couple months before Transform, Kofax Mobile Capture was announced as an extension of the Kofax Capture platform designed to enable document capture from mobile phones and tablets [see *DIR* 1/20/12]. And while Kofax is not shipping a product yet, and only a couple of Transform sessions were devoted to Mobile Capture, it was clearly the hottest topic in town.

“In my time with Kofax, I’ve been involved with more than a dozen product launches,” said Bruce Orcutt, director of product marketing for Kofax. “And I’ve never seen so much interest and excitement as I’ve seen around Mobile Capture.”

Indeed, Orcutt’s Transform session on Mobile Capture had an overflow crowd that was eager with questions about availability, licensing, and capabilities. Basically, here are two important things we learned on those topics: Version one of Mobile Capture should be released some time in the second quarter. There are a lot of capabilities on the roadmap that will not be included in version one.

“We look at the development of Mobile Capture as a journey,” said Anthony Macciola, Kofax’s CTO. “If people think they are going to take our initial technology and deploy it to 100,000 users, it’s not going to work like they want it to. Our first version is more designed for pilots of around 500 users at organizations that want to understand how Mobile Capture works—what is possible and what is not, so they can re-engineer their business processes accordingly.

“We don’t expect the explosion of adoption to occur this calendar year. We expect it next year. By then, we will have gone through another cycle of mobile hardware and 4G will be more prevalent. Also, we will be on version two or three of Mobile Capture.”

Cutting edge technology

Mobile Capture basically consists of two parts: an app, which handles the image capture on the device and a cloud-based service, which ingests images from devices and passes them on to Kofax Capture and/or KTM for further processing and connection with downstream business processes. Kofax will market Mobile Capture as both an application to resellers and end users and an SDK that can be licensed by ISVs. “We are already in talks with a couple large ISVs who market line of business applications for the healthcare and transportation markets,” noted Macciola.

Pricing for end users will be based on a perpetual or annual license fee for the cloud service and a price per named user for the apps. The apps are developed utilizing technology from Boston-based ISV **MobiFlex**, in which Kofax made a \$.5 million investment in last year. Initially, apps will be released for Android and iOS devices.

Macciola said that Mobile Capture, in its current manifestation, is very CPU intensive, which makes it vital to have an app vs. a browser-based interface. “It’s important for our technology to run natively,” he said. “There is quite a bit of communication with the hardware. This is for controlling the camera, the zoom in and out functions, controlling stability, and talking to the GPS. We are also running image processing code, including VRS.”

“The technology is designed to run with the most current hardware platforms. But, mobile technology is moving forward so rapidly that we expect the devices we used in the requirements documents to be obsolete by the time we are ready for production implementations.”

Sample images that we saw at Transform were very impressive—having been converted from multiple colors and conditions into clean Group 4-compressed bi-tonal images. “Running VRS on the device enables us to reduce the size of images from several megapixels to 40-50K before sending them to the cloud,” said Macciola. “Currently it takes about 10 seconds to capture an image. Also, an eight-megapixel camera can capture a full-page image at over 200 dpi, and a 12-megapixel camera can reach over 300 dpi.”

Macciola noted that achieving this type of image quality on full-page documents is more difficult than achieving it on business cards, receipts, and checks. “Those are very constrained documents, which means users can get closer to them with their cameras, improving their resolution” said Macciola. “With full-page documents, you have to hold the camera further out.

“People are saying we’re late to market with Mobile Capture. But, I don’t think that is the case at all. I think we’re pushing the envelope. Who else is capturing full-page documents with mobile devices? In general, there really isn’t a critical mass of enterprise applications in the mobile space.”

There is a quality filter on the Kofax Mobile app that verifies that lighting is good enough and that the app can find the edges of a page. In his presentation, Orcutt stressed how important quality images are because of the potential cost of dealing with exceptions, especially those captured at the “edge of the enterprise” where mobile capture plays. “We’re talking estimated costs of \$100-\$200 per poor quality image,” he said.

There are no indexing capabilities in the initial version of Kofax Mobile, but captured documents can be identified based on the log-in information associated with a mobile user. Macciola discussed how Kofax Mobile is designed to be integrated with Kofax Front Office Server (KFS)—although we’re not certain this capability will be included in version one. KFS is currently used for MFP scanning. “Just like KFS communicates with MFPs and enables users to see shortcuts specific to their personal MFP capture processes, KFS can be used with mobile devices to provide users with a personalized interface,” Macciola noted.

Beyond paper capture

Macciola said that in addition to capturing paper, future versions of Kofax Mobile will be used to capture photos, videos, audio interviews, signatures, credit card payments, and possibly RFID data. “Everyone expects us to do a good job capturing paper,” he said. “But, customers have let us know that paper is just one of several items they want to capture with their mobile apps. As we move deeper in to the capture-to-process market, we have to embrace any type of content that can be used to initiate a business process.”

Macciola said that for multi-page documents, Kofax is developing technology for wireless capture with mobile scanners. “Trying to capture more than two or three documents at a time with a camera phone can be very difficult,” he said.

Some markets Kofax Mobile is being targeted at include human resources, insurance (claims), and transportation (shipping documents). “Our goal with Kofax mobile is to extend adoption of document scanning to all corporate employees,” said Macciola.

For more information:

<http://www.kofax.com/mobile-capture/>

Brainware Helps Round Out Lexmark's ECM Play

Over the past couple years, **Lexmark** has put together some impressive document imaging pieces. Two years ago, the MFP manufacturer jumped into the ECM space with the acquisition of **Perceptive Software**. It followed up last year by acquiring BPM ISV **Pallas Athena**. Then, a couple weeks ago, Lexmark acquired data capture ISV **Brainware**. (Last week, Lexmark actually followed up the Brainware acquisition with a pair of smaller acquisitions—**Nolij**, a U.S.-based document imaging and workflow specialist in the higher education market, and **ISYS**, an Australia-based ISV that specializes in enterprise search.)

Perceptive and Brainware have had an OEM agreement in place since 2010 (signed shortly after Lexmark acquired Perceptive) [see *DIR* 10/22/10], so the acquisition did not come totally out of the blue. The companies have approximately 15 joint customers.

The \$148 million cash acquisition price was somewhat surprising. However, according to **Harvey Spencer Associates**, Brainware ranks higher than **Top Image Systems** in worldwide capture software market share, so this means its annual revenue is likely north of \$30 million. [Lexmark has promised more details on Brainware's revenue in next month's first quarter earnings call.] Basically, our consensus is that Lexmark paid somewhere between three and five times revenue for Brainware, which, by all accounts, was a profitable growing company.

The last time we discussed such matters (a little less than a year ago at the info360 event), Brainware VP of marketing Charles Kaplan told us that in 2010 Brainware doubled its revenue over 2009 and that it had 140 employees. This was up from 60 in 2007, when Brainware came back onto our radar after a multi-year hiatus.

A winding road to success

Brainware, which still has a development team in Germany, was actually one of the pioneers in the intelligent document recognition (IDR) market. It began life as the document recognition arm of German-based ECM ISV **SER**. SER ran into some financial problems, and in 2002-2003, the Brainware technology was spun off along with the ISV's North American arm into SER Solutions—based in Sterling, VA.

SER Solutions had some call center software that came to dominate its operations, but CEO Carl

Mergele saw the potential of Brainware, and, in 2006, with the help of financing from **Vista Equity** partners, he led a spin-off of Brainware. Mergele became CEO of the new company. Since then, Brainware has utilized solid technology and aggressive marketing to grow into one of the leaders in the invoice capture space.

A full ECM suite

Going forward, Brainware will operate as a business unit inside of Perceptive, which operates as a standalone business unit within Lexmark. For the fourth quarter of 2011, Lexmark reported \$31 million in revenue for Perceptive, of which Pallas

Athena is also a part. There is also talk about utilizing Brainware's capture software in MPS (managed print services) deployments as part of Lexmark's Imaging Solutions and Services business.



Scott Coons,
president and CEO
Perceptive Software,
VP, Lexmark

“Brainware will be fit nicely within Perceptive Software,” said Scott Coons, president and CEO of Perceptive and a Lexmark VP. “Adding intelligent capture really rounds out our platform and

provides us with a complete product line. In addition, we've been discussing how we can integrate IDR with Lexmark's MPS offerings.”

Coons noted that the Brainware brand and Distiller product name will be continued. “We will also maintain Brainware's office Ashburn, VA,” he said. “In fact, we will be investing in growth there, as well as at Perceptive's Shawnee, KS, offices.”

The Brainware operation will have the opportunity to take advantage of Lexmark's larger footprint—both in terms of global reach and product offerings. “Historically, we've always hunted big clients, many of which already had large portions of their ecosystems in place in areas like imaging, workflow, and ERP,” said Charles Kaplan, VP of marketing for Brainware. “With Distiller, we can go in and feed those systems.

“While will continue to feed third-party systems, with Perceptive, we will also have the ability to sell a complete platform. We can now go into customers that may not have ECM, BPM, and even managed print services and offer a broader end-to-end suite. This should help us move downstream and into a broader market space.

“We are also looking to take advantage of Lexmark's global footprint to expand some of the success we've had in Europe and North America

into other parts of the world. Lexmark does business in 170 countries.”

Historically, Brainware has done fairly equal parts of its business in Europe and North America, although Kaplan said lately the majority has swung over to North America. Perceptive’s revenue was almost 100% generated in North America prior to its acquisition, and a worldwide push by Lexmark helped it achieve 30% organic growth in the fourth quarter of 2011.

To date, the majority of Perceptive’s success with its OEM version of Distiller has come in accounts payable applications. “That said, we have some deals in the pipeline involving other types of applications,” said Coons. “We are looking forward to utilizing Perceptive’s expertise and traction in markets like healthcare and higher education to help Brainware expand into those markets.”

With the help of Lexmark, the emerging MPS space could also be a new market for Distiller. “At the end of the day, we think Brainware’s technology has the potential to help Lexmark’s smart MFPs run ever smarter,” said Coons. “It can help MFPs become a more effective on-ramp into Perceptive’s ECM suite. We don’t see anyone currently in the output management space that also can manage distributed capture coupled with content and process management, as well as IDR.”

Can it work?

The Brainware acquisition represents another aggressive move by Lexmark to move its legacy hardware business more deeply into the software and services space. With hardware revenue

stagnating and the IDR space predicted to grow at least in double-digits annually for the next few years, we understand Lexmark’s motivation.

There are, of course, some questions, such as did Lexmark pay too much? The answer will likely be “no” if Lexmark can achieve the same level of acceleration of Brainware’s business as it has recently with Perceptive’s. If you take into account that Brainware was probably growing faster than Perceptive pre-acquisition, the stakes will be a bit higher, but so should the number of opportunities.

The biggest challenge seems to be integrating the Perceptive and Brainware businesses. Remember, Brainware has traditionally sold into the Global 2000 market, while Perceptive’s target was more of the mid-market. Fifteen OEM deals in a year-and-a-half of working together is not an overwhelming success story. That said, Lexmark certainly has experience with both Global 2000 and mid-market customers and could be the glue that pulls everything together. In addition, Brainware has repeatedly said its product is easy enough to use for the mid-market, but it just hasn’t had the marketing resources to go after that space. That claim will certainly be put to the test now.

All said, this is yet another step in document imaging’s inexorable march toward the mainstream market, and we look forward to tracking the success of Lexmark as it takes the full plunge into our industry.

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