

# Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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September 7, 2007

## THIS JUST IN!

### VP OF TECHNOLOGY LEAVES SCAN-OPTICS

The management team at high-volume scanning/sorting specialist **Scan-Optics** continues to change. Last week, *DIR* learned that Ramkumar Rajagopalan, VP of technology since April 2005, had resigned. Rajagopalan had overseen day-to-day operations since the resignation of CEO Paul Yantus about a year ago.

Rajagopalan had worked with Yantus previously and joined Scan-Optics as his right-hand man. Jeff O'Brien, who was also brought in by Yantus to serve as the company's VP of sales, left earlier this year. The new CEO apparently is coming from **Patriarch Partners**, the investment firm that foreclosed on Scan-Optics two years ago [see *DIR* 9/23/05].

Scan-Optics had reportedly made significant strides under Rajagopalan, including the release of the new SO 300 Series scanners, as well as shipping the Onyx, which is advertised as the first scanner with in-line OCR to be compatible with ISIS and TWAIN drivers. Related to the Onyx, Scan-Optics had also announced a reseller agreement with capture software specialist **AnyDoc**, while continuing to build its conversion services business [see *DIR* 6/15/07]. Rajagopalan indicated he felt he was leaving the company both in good shape and good hands, and that he was resigning for personal reasons.

For more information: <http://www.scanoptics.com>

**Böwe Bell + Howell Scanners** recently announced it was shipping the Infinity WF 36, a wide-format scanner introduced at **AIIM** [see *DIR* 6/15/07]. According to Steve Hannath of the Web site [www.scanners4cad.com](http://www.scanners4cad.com), there are approximately 25,000-30,000 wide format scanners shipped worldwide annually. "This includes all wide-format devices that include a color or monochrome scanner as standalone, networked, or built-into a copier or printer," Hannath told *DIR*.

## The State of Invoice Processing, Part II

*This issue, we explore topics like the differences between invoice processing in the U.S. and Europe, market penetration, and the future of IDR.*

Welcome to the second part of our special report on invoice processing software. Last issue, we covered topics like the total number of invoice processing installations in North America, extraction of line-item detail, integration with ERP and accounting systems, and defining templates. This week, we explore additional hot topics associated with the implementation of IDR (intelligent document recognition) and its first killer app.

One curious trend we've observed is that although North America has traditionally been the leading market for document imaging technology, there are more invoice processing installations in Europe. Of course, **ReadSoft's** great success in Scandinavia has significant influence on these numbers, but countries like Germany and the UK have also proven fertile ground for automated invoice processing.

**Océ Document Technology (ODT)**, which does business worldwide, estimated that the European invoice capture market is two years ahead of North America. This sounds about right, but we also will tell you that North America is gaining fast.

Why is Europe ahead? The traditional answer has been that labor is more expensive in Europe, thus there is a greater ROI (return on investment) to be achieved by automating data entry processes. Interestingly, none of the dozen leading vendors we surveyed for our report included that opinion in their responses. The most commonly cited difference between European and North American invoices was the VAT (value-added tax) associated with doing business in the European Union.

Apparently, every country in the EU is required to register a VAT number, which makes identifying vendors somewhat easier. Also, in certain European countries, the state requires certain formats for invoices, which

makes processing them more similar to processing structured forms. However, the evolution of good IDR technology for semi-structured forms and tighter integration with ERP and accounting systems is rapidly eliminating many of the differences between the European and North American markets.

Here are the answers we received to the question: "Do you see any significant differences in invoice processing applications in the US, Europe, and rest of the world?"

**Kofax:** There are specific variables that differentiate invoice processing applications in the US, European, and Asian markets. In Europe, by law, a VAT number must be included on the invoice, which designates the originator of the invoice. While there is some degree of standardization in invoice formats throughout Europe, there is not an official regulation. It can vary, depending on the country implementing the system.

In the US market, invoice processing applications are typically implemented by companies looking to reduce costs associated with processing invoices. In Asia, invoice processing applications are more heavily based on time efficiencies and savings. Similar to Europe, in Asia, you will see some differences in invoice formats on a country-by-country basis.

**Océ Document Technologies (ODT):** The market for invoice processing solutions seems two years ahead in Europe. Due to the strong position of **SAP** and their *ArchiveLink* concept, users in Europe prefer solutions with a tighter integration into their ERP systems, whereas users in the US look for more conventional approaches, using front-end data capture solutions. The long-standing custom of data capture outsourcing [in the US] might also have formed the perception of how such systems should work.

**AnyDoc:** Overall, the European installations that we've completed have been much more complex than their US counterparts, due to the additional fees and taxes that are unique to doing business outside the US, such as the VAT. It is important to capture the additional fields required—and validate and balance all the different calculations correctly. And because the European market does not utilize purchase orders (POs) nearly as much as the US, you have to accurately capture data without the benefit of being able to match a PO to an invoice.

Also, the US market seems to be more comfortable with using invoice processing to just capture summary information and create indices, and then pushing the invoice downstream into a workflow for [additional] manual data entry.

**Brainware:** We see a higher use of template-based processing in Europe, perhaps stemming from a greater percentage of nationalized utilities (telecom, energy, etc.). This creates a more standardized, uniform body of invoice forms and layouts.

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3. Forms Processing/OCR/ICR
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### Vol. 17, No. 17

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*DIR* is published 24x per year, on the 1st & 3rd Fridays of the month, by:

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Erie, PA 16509

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<http://www.documentimagingreport.com>

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**Subscriptions:** \$597 (electronic) or \$670 (paper) per year.

**EMC:** There are specific tax implications for processing invoices outside the US, including VAT in European markets and GST (goods and services tax) in Australia and Canada.

**ReadSoft:** There are differences in the artifacts available to recognize the suppliers in different areas of the world, and the rules around taxes also have variations. One structural difference is the concept of “state” as a legal sub-division, which is only of importance in a few areas, such as the US and Canada. In some Asian countries, the whole invoice process is totally different with invoices being issued by the state. Naturally, the languages and character sets differ, as well as how dates and addresses are written in different parts of the world.

**BancTec:** In Europe, there is more of a need for multiple language support, currency conversion capability, and international tax calculations. In addition, the international community is better equipped to handle multiple electronic feeds in a variety of formats.

**Top Image Systems (TIS):** In terms of application, we don’t see any significant differences, only in terms of volumes, which are usually higher in the US applications.

### **Second-generation technology**

The next question we asked had to do with trends in invoice processing. This biggest trend seems to be a wave of “second-generation” applications that are hitting the market. This new technology manifests itself in four specific ways:

- 1) The ability to effectively capture line-item detail for automated comparison against PO data in a two- or three-way (if receiving documents are also included) match;
- 2.) simpler administration that lends itself to mid-market installations;
- 3.) inclusion of more workflow/approval capabilities in the capture app;
- 4.) the ability to handle electronic, as well as paper forms.

Following are the answers we received to the question: **What is the most significant current trend you are seeing in the invoice processing market?**

**ODT:** After most big players have invested in

invoice processing solutions, medium-sized companies are looking for solutions. There is a strong trend toward shared services centers that outsource complete business processes. Some companies already are implementing a second-wave investment in invoice processing, replacing existing solutions that they consider not satisfactory any more.

**Datacap:** More small to mid-sized corporations are looking at scanning and OCR. The larger companies have blazed the trail and now the second wave (a significant one) is breaking. Datacap has OEM relationships to offer on-demand invoice capture and integration with other AP services.

**EMC:** The ability to rely on IDR to identify incoming invoices can

extend the capability of an accounts payable (AP) system into other departments, such as accounts receivable (AR), to form a truly automated ‘cash management’ strategy.

**Brainware:** We see ever-stronger movement toward more visible PO authorization and compliance (including invoices for products/services that comprise only a portion of a PO), using structured workflow processes to ensure PO accuracy and expense authorization before issuing the PO. In addition, more customers are requiring line-item and/or table extraction.

**AnyDoc:** Whereas companies used to be satisfied capturing only summary information, they are now requiring their invoice processing solutions to capture detail line items. More companies are exploring an end-to-end digital capture solution to include matching, database lookups, and auto-population and verification.

**TIS:** Customers are no longer looking for data capture products but for a complete solution that includes the entire approval workflow. In addition, accounting logic and rules must be integrated in the completion process—not only simple data capture.

**Cardiff:** Companies are looking to do more than just invoice data capture. There is a lot of workflow around payables that is very difficult to accomplish in a notoriously difficult to customize system like SAP.

**ReadSoft:** The requirement to receive electronic invoices in different formats, as well as paper

**“Fortune 500 companies are leading the way in recognizing the benefits of automated invoice processing and slowly the mid- to small-sized companies are following suit. Overall, the current market penetration is miniscule.”**

**—AnyDoc Software**

invoices, is strongly increasing.

**BancTec:** Web-based shared services centers.

**Peladon:** The market is becoming very sophisticated, and the customers are shopping around a lot more than before.

### **Still plenty of opportunity**

The next question we asked had to do with market penetration. Based on the answers we received, it's probably close to 20%. This still leaves plenty of upside, which is evidenced by the consistent stream of news releases we receive touting new sales of invoice processing software.

### **How far is this market penetrated?**

**Datacap:** In our own 2006 invoice survey (400 AP Managers participated), conducted with **IOMA AP**,

published last September, results indicated that roughly 25% of companies have implemented scanning and 17% have added OCR. Those numbers may be slightly higher a year later, but the market seems like it still has a lot of upside left.

**Kofax:** Considering the market overall, approximately 40% of firms have implemented invoice processing/automation systems and applications. Of those, approximately 13% have automated data extraction (OCR) capabilities in place. This represents approximately 5% penetration.

**EMC:** Results of a 2004 Financial Automation Survey conducted by **Paystream Advisors** illustrate that AP departments continue to experience problems at all stages of the invoice receipt-to-pay cycle. 40% of respondents indicated that workflow tools to automate approval processing are critical. Need for imaging and document

### **INVOICES CONTINUE TO DRIVE ECM SALES**

Even before IDR became popular for invoice processing, accounts payable (AP) was one of the biggest markets for document imaging because of benefits gained on the back-end through automated workflows for approvals and settling discrepancies. "There are very quantifiable benefits to installing document imaging in AP and AR (accounts receivable) applications," said Doug Bertram, central region sales manager for **Metafile**. "In AP, imaging reduces the number of people our customers need to process their invoices. It also enables them to resolve discrepancies faster by digitally comparing invoices against proof-of-delivery documents. Our customers often expand imaging into other areas of their companies, but AP and AR are the best places to start."

Paul Davis, an executive sponsor for U.S. sales at **Hyland Software**, noted that AP is the most frequently implemented application for Hyland's **OnBase** software. "There has been some fascinating evolution in the capture side of the AP world in the past nine to 15 months," noted Davis.

"From our standpoint, because of higher accuracy rates, we are seeing fewer exceptions being kicked out into our workflow. We are also seeing more sophisticated capture platforms take on more of the workflow burdens themselves.

"That's not to say our workflow business related to AP is hurting. There are still plenty of exceptions involving vendor discrepancies, for example. We are seeing more customers asking up front to install secure extranets that they can use for interacting with their vendors. We are also seeing a lot of workflow steps being added to AP and other financial processes to ensure compliance with regulations like Sarbanes-Oxley."

### **Shared services means bigger opportunities**

Like the IDR vendors we spoke with, Davis noted a shift in AP toward shared-services centers. "Coming on the heels of ERP adoption at the shared services level, this is leading to some larger installations for us, as businesses are centralizing their entire AP processes," he said. "Formerly, they'd have distributed locations processing their own invoices, which typically caused automation to be

adopted at a slower pace."

Metafile's Bertram noted another trend observed by the IDR vendors—a movement by customers toward accepting a higher volume of electronic invoices. "There is a lot of buzz going on in the financial world regarding e-invoicing," he told *DIR*. "It's kind of like the next EDI, but EDI is typically restricted to top-tier vendors, whereas new e-invoicing applications are designed to embrace all vendors."

Davis concluded that there has been a bit of a paradigm shift in the AP space, as capture, which was formerly primarily used to get images into a workflow system where an ROI could be achieved, is now sometimes providing the more immediate ROI. "There is no doubt that ECM is sometimes now riding the coattails of capture for invoice processing," he said. "Users can potentially justify the soup-to-nuts cost of an entire imaging system just with the data-entry labor they save through automated capture. We are very happy to follow along behind our capture partners into those applications."

<http://www.onbase.com/english/index.aspx>;  
<http://mv.metafile.com/>

management solutions were close behind with 27.4% of respondents deeming them essential.

**Cardiff:** Our sense is that only a fraction of the organizations that can benefit from automated document and invoice processing have purchased and deployed the technology. As the technology has become more productized vs. custom, the cost associated with deployment has decreased and opened up the solution to a new class of potential customers.

**AnyDoc:** The market penetration rate varies by company size. Fortune 500 companies are leading the way in recognizing the benefits of automated invoice processing and slowly the mid- to small-sized companies are following suit. Overall, the current market penetration is miniscule.

**Peladon:** It appears that the upper end of the market is much more heavily penetrated than the lower end—represented by smaller companies. There is a bigger potential for a good product at the lower end.

**ODT:** Europe 40%, USA 20%.

**TIS:** 20%-40%, depending on the country.

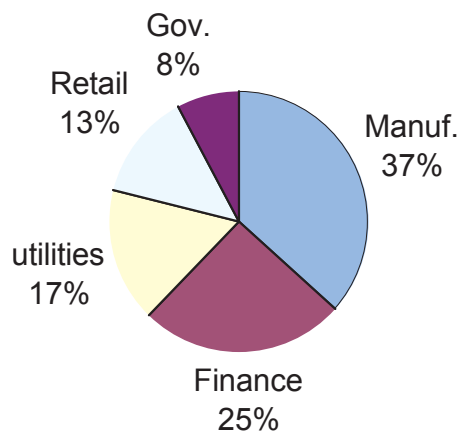
**BancTec:** 10% at the most.

### **Manufacturing is top vertical**

Manufacturing is the hands down leader when it comes to vertical markets for invoice processing. Cardiff described manufacturing as a “purchasing-centric” industry. This obviously accounts for the significance of invoices.

### **What is your top vertical market for invoice processing?**

**Brainware:**



**AnyDoc:** Automated invoice processing is a

solution that spans all industries equally, yet, lately, we've seen more activity in the manufacturing, utilities, distribution, healthcare and retail markets.

**Cardiff:** We see interest broadly in most verticals, but especially from companies that participate in purchasing-centric industries such as manufacturing.

**BancTec:** Manufacturing, oil and gas, retail and financial services, in that order.

**ReadSoft:** Manufacturing is the top vertical, but it's not a vertical solution, so the range is very wide.

**Datacap, TIS:** Manufacturing.

**EMC:** Invoice processing is an accounts payable function that spans horizontally across all industries and organizations. We have customers in insurance, food & beverage, retail, real estate, education and more.

**Peladon:** Our installations range from restaurant chains to purchasing organizations.

**ODT:** For some tactical sales reasons, ODT has a strong position with logistics companies in Germany.

### **The next big thing**

Everybody is looking for the next big IDR (intelligent document recognition) application after invoices. We love ODT's answer as to what is preventing the emergence of the next killer app [see below.] Basically, ODT says that a certain level of investment must be made to develop a new market, and vendors aren't sure they've found a market worth investing in yet. For the past few years, EOB (explanation of benefit forms, which are sent to healthcare providers by insurance companies) have been mentioned as a potential market for IDR. And while there has been some traction in this area, we're guessing the volume of EOBs is significantly less than the volume of invoices per year, so it's simply not nearly as lucrative a potential market.

The new discussion about the future of IDR seems to center on automating the entire “procure-to-pay” process. Invoices represent part of this process, as do POs, with payments being the third link in the chain. OCR/ICR/IDR technology can be applied to all three of those document types, and being able to efficiently process these transactions within the same system has some obvious cash management advantages. Procure-to-pay solutions actually combine two of the hottest drivers in the document capture market—IDR and Check 21. Plus, they present the opportunity to sell more capture technology to existing customers, as opposed to having to develop entirely new markets.

Here are the answers we got to the question: **What is the next big market for IDR?**

**EMC:** As a logical extension of an automated cash management strategy, the next big market for IDR will be within AR. By closing the loop between AP and AR through an automated strategy, businesses can maximize their cash positions for internal re-investment in development, or take advantage of other types of investments which provide income, such as sweep accounts. AR, much like AP, is a high-volume, manually-intensive process that stands between an enterprise and its operating revenue. By optimizing both these processes with automation, costs can be contained, and access to funds can be established more quickly and easily, resulting in a dramatic ROI.

**AnyDoc:** Companies are coming to realize automating their AP department is no longer enough—they are beginning to look for a complete accounting solution to automate their AR department as well. Automated processing of remittances and checks has become a blossoming market in the industry, as companies implement more cost-effective solutions. Because companies are beginning to stray away from making siloed decisions within their accounting departments regarding technology, we are seeing increased interest in our complete accounting solution comprised of *AnyDoc®INVOICE* and *AnyDoc®REMIT*. Other emerging markets include mortgage processing and mortgage auditing, healthcare records management, and processing insurance notices such as renewals and cancellations.

**Brainware:** We project increasing adoption of IDR in any environment where large amounts of information are stored and retrieved (i.e., not necessarily tied to documents). In the document realm, there remains huge market potential in automating the classification and processing of invoices and POs, as well as loan applications, other banking/finance applications, legal documents, health forms (EOB forms, claims), rebates, and so on.

**ODT:** Invoice processing is just one document-based business process. However, there is no real push yet to address other such processes for various reasons. The most important reason is that other documents have less volume and sale potential for IDR suppliers. It requires

investment in document technology as well as in business process understanding. Suites that cover all of the logistics within an organization are offered but they directly compete against established ERP suppliers.

**Datacap:** EOB forms for healthcare providers.

**Peladon:** The least automated and most complex are various loan (mortgage, commercial loans) applications.

**ReadSoft:** Handling more document types such as

### **SOME PRODUCT DIFFERENTIATORS**

As part of our research, we asked vendors to send us a list of differentiators they felt separated their software from the rest of the products on the market. Believe it or not, everybody listed things like line-item capture, ease of set-up, and integration with back-end systems. We did not run product testing to determine whose application worked as advertised, so we eliminated these types of answers, and here's what we distilled:

**Brainware:** *IDC-distiller* was designed "from the ground up" as an intelligent, self-learning solution to handle unstructured data from any source. It automatically understands document content based on only a handful of samples; features proprietary table extraction capabilities; has "Associative Search" methodology to find *contextual* information; *IDC-distiller* captures data based on patterns and context, not keywords or layout.

**ReadSoft:** Largest number of invoice processing installs, capture and workflow combined; global presence for implementations and sales.

**Kofax:** Worldwide market leader in document capture software; document classification and separation capabilities; distributed capture capabilities; scalable to any size organization (from 100 invoices to 10s of millions of invoices).

**AnyDoc:** Low cost of ownership because algorithms are not hard-coded and can be easily tweaked to support evolving or changing business processes, in most cases without any programming.

**Datacap:** Concurrent licensing model (no volume-based pricing).

**TIS:** Each field is recognized by three engines with a unique voting mechanism; developed using the most modern .NET technology to ensure rapid deployment and scalability.

**EMC:** EMC is the only provider to offer solutions that cover the entire information lifecycle, from data capture, to workflow, to storage & archive.

**Peladon:** Setup is simple, so it requires no skills above the data entry operator's skills; COM interface for easy customization.

**BancTec:** Entirely Web-based application; full purchase-to-pay suite.

incoming POs and payment advises. Increased automation that further reduces manual work, for example, sorting documents.

**Kofax:** We have isolated a few key vertical solutions which address real-world business processes and complement our existing product offering. These solutions include highly repeatable capture lifecycle solutions and core banking services (i.e., invoice processing, new account openings, loan origination, etc).

**BancTec:** A blending of integrated technologies providing high-speed multiple reads. This will provide the greatest accuracy rate possible. The mingling of full-text indexing, OCR, zonal and template recognition with AI will be key.

**TIS:** Document classification /mailroom as part of an overall ECM offering

For more information:

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<http://www.peladonsoftware.com/docxp4invoices.htm>;  
<http://www.odt-oce.com/usa/?ul=en>

## Kodak Introduces Scanner/Sorter at TAWPI

**Kodak** continues to expand its footprint in the document scanner market with the recent release of its s1740 capture system. The s1740, which features a flat paper path and in-line OCR and sorting capabilities, is designed to be a lower-cost alternative to competitive scanner/sorters offered by the likes of **IBML**, **BancTec**, and **Scan-Optics**. The s1740 is rated at 110 ppm up to 300 dpi, in color, black-and-white, and/or grayscale, and lists for under \$100,000.

"We see opportunity in [the scanner/sorter] market at this speed range," said Lois Powell, worldwide director of capture solutions for Kodak Document Imaging. "Faster is not always better. It's our belief, after talking to prospective customers, that there are many users who would like [scanning/sorting] functionality, but, for various reasons can't take full advantage of the speed on higher-priced, competitive models. They simply might not have high enough volumes, or maybe their in-line QA processes can't keep up with the scanners. Or,

maybe they want to run multiple scanners with a single operator."

"With the s1740, we are enabling many users who can't afford the higher-priced alternatives to fulfill their scanning/sorting requirements," added Roger Markham, Kodak's product marketing manager for distributed capture and integrated imaging products, U.S. and Canada (US&C).

### Made in Germany

The s1740 is manufactured for Kodak by German scanner vendor **Kleindienst**, which had marketed a similar product in the US through its KLD subsidiary [see *DIR* 7/1/05]. From what we can tell, however, KLD has closed its US offices, and Kodak now has an exclusive agreement to market the devices worldwide, except for in Europe, where Kleindienst is based. Kleindienst also develops the capture software for the device. The s1740 platform is not TWAIN or ISIS compatible, but Kodak will make an API available for integration with capture, imaging, and line-of-business software.

While KLD focused mainly on the mid-sized and community banking market, Kodak envisions a broader range of potential customers. "Anybody that needs sorting can use this device," said Powell. "This includes customers in areas like financial services, healthcare, mortgage loans, education, remittance, and subscription fulfillment."

The s1740 made its debut at the recent **TAWPI** Expo in Boston, where Kodak officials said it was extremely well received. It will be available on a built-to-order basis this month. Kodak officials estimated the devices will be delivered less than 90 days after an order is received.

Four different models of the s1740 are being offered with a combination of two or six full-sized document pockets and zero or six pockets for check-sized documents. The model with two full-sized document pockets only starts at \$69,990, while the model with six full-sized and six check-sized pockets starts at \$95,400. The models are not upgradable once they're configured.

Standard on all models are a continuously reloadable 1,400-page ADF, front- and back-side cameras, OCR-A or OCR-B, optical and ultrasonic double-feed detection at the intake points, and security sensors along the paper path. A MICR reader, bar code reader, enhanced sorting capabilities, and a MICR and regular endorser are available as options.

### An underserved niche

"We listened to the voice of our customers before

deciding to go to market with this type of device," said Bruce Holroyd, solutions business manager for Kodak. "Our high-volume customers have been asking us for features like sorting and MICR reading, and now we are delivering."

The s1740 falls into a market segment, high-volume production, which has been stagnant in recent years and is not projected to grow very much in the next couple years. However, the recent success of the **OPEX AS3600** series, which lists for less than \$50,000 and is used in sorting applications [see *DIR* 2/17/06], indicates there may be pent up demand for lower-priced, lower-volume machines with in-line recognition.

"Kodak's strength has always been in the production arena, and this is one area of opportunity that Kodak has yet to tap," observed scanner market analyst Susan Moyse. "I expect Kodak to give companies like BancTec and Scan-Optics a run for their money. And now, Kodak truly offers document scanning products across the entire spectrum of the market, which no other vendor can claim."

### **A specialized solution**

Kodak recognizes that the s1740 represents a new market, and as a result is being somewhat particular about certifying resellers. "We have a select set of our current resellers who will be allowed to sell this unit," said Holroyd. "We want to make sure our resellers fully understand this particular market, represent Kodak well, and do the right work that needs to be done up front."

"The s1740 will be brought to market through a

single distributor, whom we have not yet named. Kodak will also be providing professional services to help define the proper specifications for each customer and set up the scanner." [Editor's note: We talked with Holroyd previous to TAWPI. In the wake of the event, Kodak VP of Sales for US&C Don McMahan told *DIR*, "Based on the demand we saw at the TAWPI show, we expect to broaden our distribution strategy slightly, as well as our authorized VARs."]

The s1740 will be introduced first into Kodak's US&C markets. Kodak will continue to act as a distributor of IBML's high-volume ImageTrac scanner/sorters in EMEA.

The "s" in the product's name represents "solutions," and the s1740 is the third Kodak Document Imaging product that falls into this category. The first was the check capture system that Kodak introduced in 2005-2006 [see *DIR* 8/19/05]. The second was a photo-scanning system, based on the i1220 workgroup model that debuted earlier this year [see *DIR* 6-15-07]. Kodak executives indicated that at least one more solutions-oriented product would be announced in 2007.

"We are not moving away from selling scanners, as much as we are now offering some broader scanning solutions," said Powell. "We've found that more and more customers are looking for a single vendor to provide them with these types of solutions that include a combination of hardware, software, and service."

For more information:

<http://www.kodak.com/US/en/dpq/site/TKX/name/diNewsroom/type/200002>

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