Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

January 24, 2003

AIRPLANE MANUFACTURERS ASSIST WITH VIEWER'S DEVELOPMENT

TMSSequoia has introduced the latest version of its browser-based image viewer, the *Prizm* plug-in 6.0 for Windows. It features some interesting technology developed in conjunction with two large airplane manufactures who are *Prizm* customers. *Prizm* 6.0 has the ability to view multiple image types in a single document file, to burn annotations into an image file, and to improve the speed of Postscript printing of images—especially for large engineering-type images. *Prizm* has an install base of over 1 million users, including more than 1,000 corporate customers. It is TMS' best selling product.

For its first fiscal quarter of 2003 (ended Nov. 30), TMS reported an increase in revenue of 45% over the first quarter of 2002. The company attributed the increase almost entirely to a $227,278 increase in its Component Product Technologies business, which includes sales of *Prizm*.

"We recognized revenue on two large Component Product Technologies deals in the first quarter 2003," Debbie Klarfeld, president of TMS, said in a company-issued press release. "The deals were the result of several months of funded product development for our *Prizm* plug-in viewing product. We plan to leverage this development effort by commercializing the new functionality in our upcoming release of *Prizm*."

Version 6.0 is available now and can be downloaded from TMS' Web site at www.tmsinc.com. It supports a wide variety of images including TIFF, JPEG, BMP, and several flavors of PDF.

Document Capture Reaches $1 Billion Worldwide In 2002

International research firm, Strategy Partners, releases updated numbers.

Strategy Partners has released its latest numbers for sales of document capture software. A recently completed series of reports includes actual sales numbers through the first half of 2002 and projections through 2005. The figures are down considerably from a preliminary report issued earlier this year. The preliminary report included actual numbers only through 1999 [*see DIR 8/16/02*].

"Like the rest of the IT market, sales from 2000 on have not been what were originally projected," explained John Richardson, projects director for Strategy Partners. "However, in contrast to markets like ERP and CRM, document capture is still showing growth. Even if the worldwide economy doesn't recover over the next couple years, we are predicting a CAGR of 7.5% for the document capture space."
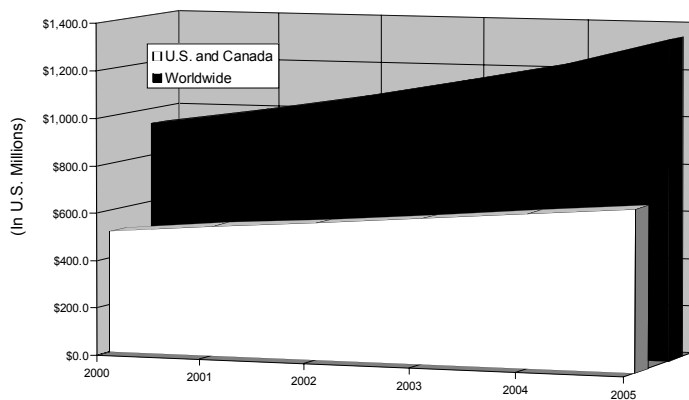
According to Strategy Partners' new report, the worldwide market for document capture software was $937.5 million in 2000, $997.7 million in 2001, and is projected to have been worth $1.067 billion in 2002. By 2005, the firm predicts it will grow to $1.347 billion.

Strategy Partners breaks down the capture space into five segments:
■ document capture for image display and storage
■ document capture for recognition (OCR/ICR and PDF conversion)
■ optical document recognition (ODR) (traditional forms processing)
■ intelligent document recognition (IDR) (unstructured forms processing and automated indexing)
■ engineering/other document capture

Missing from Strategy Partners' new report is the capture from e-forms segment, which in the preliminary report was tabbed as the market's fastest growing segment. "We're not saying, by any means, that there is

Image Capture Market

According to Strategy Partners, even if current economic conditions do not improve, the document capture market will continue to grow approximately 5% to 10% annually from now until 2005. (Data Source: Strategy Partners)

not a market for e-forms," explained Harvey Spencer, Strategy Partners' principal North American analyst for document capture. "However, as e-forms increasingly become embedded in other applications, it is becoming impossible to identify e-forms software as a free-standing product. Online bill payment and ECM are two examples of applications currently embedding e-forms."

Spencer's contribution represents the first time that Strategy Partners has done a document capture report specifically for North America. According to Spencer's figures, the North American document capture market was worth $511.7 million in 2000, $547.2 million in 2001, and is projected to have been worth $575.8 million in 2002. Based on a CAGR of 5.8%, Spencer has predicted the North American capture market will be worth $677.87 million in 2005.

Of the individual segments, document capture for image display and storage is the largest in North America, worth $257 million in 2001. According to Spencer, this segment has held up remarkably well in the face of the IT downturn. "This is a very mature segment, and in our preliminary report we hadn't predicted much growth for it at all," he told *DIR*. "In spite of the economy, it came very close to hitting our numbers, and we are predicting a 4% CAGR for it through 2005."

Spencer said that, although the capture for image display segment may be hurt by the increasing number of documents created and stored electronically without ever being printed, this trend is being balanced by the fact that an increasing percentage of the documents that are printed are being imaged. "In the wake of recent scandals, regulatory bodies are passing an increasing amount of legislation concerning archiving," he said. "This legislation, along with a heightened awareness of the disaster recovery benefits that imaging provides, have increased interest in the capture market. Also, the proliferation of scanning functionality in digital copiers is making capture more accessible and will drive its adoption."

One segment of the capture market that is most definitely feeling the sting of increasing use of electronic documents is the ODR, or traditional forms processing, space. Spencer has

downgraded his original CAGR predictions through 2005 for the ODR space from 24.2%, to 6.1%. Also taking away from this space is the emergence of related IDR technology. Spencer has predicted the IDR market, which was worth $11.3 million in North America in 2001, will grow at a CAGR of 15% through 2005. "IDR technology is attractive because it can be used both for forms processing and document indexing applications," said Spencer. "In fact, I expect IDR to further drive the convergence of the ODR and the capture for image display and storage spaces."

According to Richardson, IDR is catching on even faster in Europe. In 2001, he pegged the European IDR market at $33 million with a predicted CAGR through 2005 of 30% "Europe has less of a penetration of traditional capture technologies," said Richardson. "Its rapid IDR growth represents a lot of businesses leapfrogging right over more traditional capture technologies."

Piggybacking on the growth of IDR will be the market for recognition technology. Recognition technology is relied upon even more heavily in IDR than in traditional image capture and forms processing. Spencer has predicted an 8.5% CAGR for the recognition segment through 2005, the same figure he predicted in the preliminary report.

In addition to predicting overall market size, Strategy Partners' reports include vertical market breakdowns and breakdowns of the leading vendors in each segment. Surprisingly, despite the relative maturity of many of the segments, there are very few dominant leaders. For instance, according to Spencer, **Kofax**, the leader in the North American capture for display and storage segment, has just a 9% share. In the forms processing segment, three vendors contend for the North American lead with between an 11% and 13% share. **ScanSoft** is the only clear segment leader with 35% of the recognition space. Perhaps the emergence of IDR will finally help create a dominant player in the document capture market.

Strategy Partners has compiled a total of four reports: a North American report for vendors that lists at $1,995; a North American report for end users that lists at $995; a European report for vendors that lists at $1,250, and a rest-of-world report for vendors that lists at $1,250.

For more information: **Strategy Partners**, John Richardson, Berkshire, U.K., PH +44 1753 592787, e-mail: john.richardson@strategy-partners.com; **Harvey Spencer Associates**, E. Northport, NY, PH (631) 368-8393, e-mail: admin@harveyspencer.com.▪

FileNET Announces Next-Generation ECM Platform

Rolls Brightspire and Acenza functionality into P8 release.

FileNET is retrenching. With the heady days of the late 1990s well in the rearview mirror, the vendor that grew to more than $400 million focusing on document imaging applications for 15 years, has called in a couple of ill-fated product launches it had hoped to leverage in the new economy. Its Acenza and Brightspire lines are now history as FileNET has rolled their capabilities into its flagship enterprise content management (ECM) line—*Panagon*. The latest release of this platform, which was announced this week, simply has been titled *P8*.

P8 boasts a boatload of ECM features and options. These include document and image management, workflow, Web content management, records management, digital asset management, virtual content management, portal integration, and business analytics. If all these features are not contained within *P8* itself, they can be delivered through partnerships.

A look at the new P8
FileNET has broken down the *P8* platform into four modules:
- *Image Manager* – FileNET's legendary document imaging technology
- *Content Manager* – the document management technology FileNET originally acquired from Saros in the mid-1990s
- *Web Content Manager* – the WCM technology acquired from eGrail last year [*see DIR 4/19/02*]
- *Business Process Manager* – FileNET's workflow technology on steroids

The *Business Process Manager* module gains the most from the addition of the Brightspire technology. This technology should help FileNET compete in the market for standalone workflow software. Acenza, meanwhile, is an applications platform that leverages the capabilities of *P8*. Its envelopment will give FileNET's sales force additional ammunition in markets like accounts payable and claims processing, where out-of-the-box Acenza apps are already available.

The convergence of process, content, and application integration
Brightspire was originally launched as a collaborative commerce platform to help businesses improve processes like e-procurement. Brightspire took FileNET's workflow capabilities to a new level and, according to Chris Preston, director of product

marketing for North America, the company is looking forward to merging Brightspire's advanced workflow features with *Panagon's* ECM functionality.

"If a business is focused on improving a process, sooner or later the content related to that process is going to come into play," Preston told *DIR*. "That's where our content management technology gives us an advantage over traditional workflow vendors. On the flip side, when approaching customers focused on content problems, our advanced workflow capabilities are an advantage, because the real ROI for ECM lies in leveraging content to improve processes."

Leveraging the Brightspire technology and integration with several leading applications platforms, FileNET is promoting *P8* as the combination of content, process, and connectivity technology for the enterprise. "One of the goals of *P8* is to deliver the correct content to the correct user or application at the time it is needed," explained Preston. "Prior to the development of Web services and enterprise integration platforms, this type of connectivity was expensive and took a lot of customized integration."

With *P8*, FileNET boasts support of both the J2EE and .NET Web services platforms; support for leading application server platforms from **IBM** and **BEA**; support for leading middleware platforms; and several direct connections to applications from vendors like **Siebel** and **SAP**. "More and more end users are viewing content management as an enterprise initiative," said Preston. "Even if they are making their initial purchase as a point solution, they want to know they can extend their platform across the enterprise. *P8* is designed to connect with every application in an enterprise, but its modular design facilitates a piece by piece installation."

Preston presented *DIR* with an example of how *P8*'s connectivity and advanced workflow features can be leveraged. "**Ernst & Young** did a study recently showing that a typical commercial lending application requires the same data be input into 11 different systems. *P8* is designed so a lender only has to input that information once. *P8* will not only ensure all the applications are updated, it will update the content repositories. It will also manage any exception processes that might require human intervention."

FileNET's vision leverages its strengths
P8 is clearly some pretty ambitious stuff. But what else should we expect from a company that likes to boast about the number of engineers on its staff? The president of one mid-sized document imaging software vendor recently told *DIR*, "We don't play in

the same world FileNET does."

The fact is, FileNET focuses on the high end of the content management market, which consists of a limited number of companies. Although FileNET stills wins a substantial number of new accounts, the majority of its recent revenue has been coming from service and sales to its impressive list of existing customers. Supporting that type of revenue model requires development of new technology for these customers to buy.

Brightspire and Acenza were good efforts at developing new technology. But like most products launched during the IT boom, they were ahead of the economy. By rolling their capabilities into its ECM platform, FileNET has essentially made two acquisitions for its core business. This should help it keep pace with ECM rivals IBM and **Documentum**, who have been on the acquisition trail of late.

As the market evolves, the magic mix of ECM functionality is still being determined. The release of *P8* shows us FileNET's vision of that mix. Whether end users share this vision will be determined by their spending over the next few years.

For more information: **FileNET**, Costa Mesa, CA, PH (714) 327-3400. ▣

Check Imaging Apps Get Boost From New Regulations

For years, rumors of the death of checks have been greatly exaggerated. Yes, despite the development of alternative payment methods like credit and debit cards, as well as e-payments, the number of checks cashed in the United States has not decreased significantly, if at all. We've seen a similar trend in the document world, where e-commerce was supposed to eliminate the need for paper documents. As you well know—that hasn't happened yet.

There are many reasons why people are unwilling to change from traditional ways of paying their bills. The main one probably centers around the adage, "if it ain't broke, don't fix it." Of course, playing into this, especially when it comes to complex transactions, is the cost of the fix. Especially in today's economy, no one wants to invest in a new system unless it provides a tangible ROI, or they are forced to because of outside forces like regulations.

Fortunately, new regulations concerning archiving seem to be keeping imaging sales ahead of the curve in the IT market. If it were not regulated,

however, archiving alone typically does not cost justify an imaging installation. Industry pioneer **FileNET** developed workflow for its first imaging installation, and imaging's ability to improve transaction processes has been the technology's primary cost justification ever since. Insurance, financial services, and government entities, which are constantly passing paper documents throughout their organizations, have been the main buyers of document imaging.

In the world of checks, however, there has historically been a catch for buyers seeking to improve their workflows through imaging. That has been that the workflow for processing a check often involves exchanging the check with another bank. Whereas document imaging systems have been able to thrive as internal applications, for a check imaging installation to provide optimal workflow improvements, it must extend outside the walls of the institution where it is installed. However, until recently, there were no standards to facilitate this exchange, thus its occurrence was rare.

Recent developments, however, are threatening to change this. There are actually two sets of regulations being implemented designed to facilitate the exchange of check images between parties. The first was the ARC (accounts receivable entry) legislation passed last March by **NACHA** (**National ACH Clearinghouse Association**). The second is the Check Clearing for the 21st Century Act (or Checks 21), which is currently before Congress and is expected to pass before the end of the year.

ARC applies strictly to remittance processing applications. It enables remittance processors to convert checks into electronic payments. This is done by first imaging the check and then constructing a data file with the pertinent payment information. This file can then be transferred to the appropriate bank. The image of the check must be kept in a format that enables a representation of the check to be printed if it is needed.

ARC applies only to consumer checks—business checks, money orders, and other types of payments cannot be processed through ARC. A remittance processor also must receive permission from its customers to process its payments using ARC. According to Mike Tallitsch, product line manager for remittance solutions at **Wausau Financial Systems**, seven of Wausau's 200 remittance processing customers currently are using ARC. Wausau develops check and remittance processing systems.

"**Mellon Bank** is one of our ARC customers," Tallitsch said. "Mellon processes remittances from a wide geographical area. Because of this, ARC helps reduce Mellon's cost for transporting checks and remittance slips all over the country. A local utility, however, which receives checks mainly from nearby residents, does not benefit as greatly from ARC. Although currently to clear an ARC payment through the **Federal Reserve** costs less than half of what it does to clear a check, ARC does not offer the same cost savings in areas like workflow that Checks21 can."

Checks21, formerly known as the Check Truncation Act, sets up a standard for check image exchange among banks. (Like the ARC images, the Checks21 images also must be formatted so they can be printed as a check replacement.) Currently, banks may exchange images of checks only if they have a written agreement. "Under Checks21, any bank listed as an 'image bank' will be eligible to receive images," Bill Robertson, director of Wausau's check product line, told *DIR*. "This will motivate banks to move from centralized check processing environments to distributed ones. Under Check21, converting checks to images as soon as possible will increase capture efficiencies in several ways."

In contrast to ARC, the current Checks21 legislation is designed to apply to all checks. Wausau has set up a pilot program that is designed to leverage this feature of Checks21 in ARC applications. Through the ASP **NetDeposit,** Wausau is offering its remittance processing customers the means to exchange business and other non-ARC checks electronically.

Wausau has also set up a pilot program for image exchange among several banks in the **WesPay** network of banks in the western U.S. That pilot follows the rules outlined in the current Checks21 legislation and is targeted as a replacement for the exchange of paper checks. "There is some crossover between the two pilots in terms of technology," Andy Kurtz, Wausau's technical product manager, told *DIR*. "But really, both are being run under different sets of laws."

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> **Bill Robertson, Wausau**

Robertson added, however, that Wausau's goal is to help its customers process all their transactions more efficiently. "The unifying and compelling aspect of both applications is that they involve processing images rather than paper. With the publicity that Checks21 is getting, we are finding a lot of banks asking us about check imaging, rather than us telling them about it, as we had to in the past. That's a nice change."

So, why again are check imaging trends important to document imaging vendors and users? Well, as we said in our introduction, workflow and process management relating to transaction documents has been the key driver of our industry for the past 20 years. As check imaging evolves from an archiving to a transactions-centric application, it gets a lot closer to our market. Check imaging vendors have long considered document imaging just a step away; now it appears that step is being taken. When you throw in the effect of purely electronic transactions on both markets, it all becomes one interesting melting pot.

In order to stay on top of your market, we suggest you look long and hard at some potential check processing alliances and partnerships. As Wausau's Tallitsch put it, "My relatives would laugh if they heard me say this, but these are some interesting times in the transaction processing market."

For more information: **Wausau Financial Systems**, Mosinee, WI, PH (715) 359-0427. 🖾

Is Your Business Prepared For HIPAA?

If you are currently doing work with a health care provider or insurance company, you've probably already seen the statement. Chances are your latest contract said something about your being required to comply with HIPAA regulations. The contract may have even indemnified you should the hospital or insurance provider you're working with suffer any financial damage due to your breaking of HIPAA regulations. This means if a patient sues an insurance company because her medical information got out, and it's determined your organization was at fault, you could be on the hook for several million dollars. Yup, that's one of the potential consequences of the HIPAA regulations, some of which are scheduled to go into effect as early as April.

So, how do you insure yourself against being burned by HIPAA? According to Jack Anderson, managing director of **Capsicum Group Inc**., a

consulting services subsidiary of **Pepper Hamilton LLP**, employee training, updated policies and procedures, and a check-up of your IT infrastructure could be a big help.

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> **Jack Anderson, Capsicum Group**

Anderson's specialty is consulting business associates of health care providers, clearinghouses, and insurers. Relevant to our industry, these associates include document imaging system vendors, service bureaus, and ASPs. "Healthcare providers, insurers, and clearinghouses are the only entities that are specifically required to comply with HIPAA," said Anderson. "However, many of these organizations work with hundreds of subcontractors who fall under the category 'chain of trust.' Each business in this chain is supposed to have language in its contract saying it understands and will comply with the requirements of HIPAA."

As we've outlined before in *DIR*, there are several sets of HIPAA regulations. The ones most effecting document imaging businesses are the privacy and security regulations. The final privacy regulations were published in August of last year. The final security regulations are expected to be out sometime early this year. "What's ironic is that to support the privacy regulations, you have to implement the security regulations," observed Anderson.

With an initial deadline of April 14, 2003 for compliance with the privacy regulations, knowing how to support the security regulations has become rather tricky. "Granted, most health care organizations have asked for and received an extension for privacy compliance," Anderson said. "However, a lot of them want to complete their compliance early in case they make a mistake. Currently, the best way to account for the security regulations is to make commercially reasonable efforts at complying with what you think they will be. This means doing simple things like establishing firewalls and a system for encrypting data. You need to ask what type of security a reasonable man would use to support the privacy requirements."

In addition to technical matters, Anderson said that

many health care business associates are initiating HIPAA training programs for their employees. "Especially in the service industry, employee awareness is very important," he said. "If someone has access to a personal medical file, that person has to realize they can't misplace that file or talk about it outside of work. This includes both personnel who support in-house systems and personnel from outsourcing firms like service bureaus."

Anderson added that it is very important for anyone working with medical files to have proper policies and procedures in place to ensure the records aren't seen by unauthorized personnel. "For a business doing data entry, this might involve tightly restricting access to the room where medical records are being handled," he said. "It's also recommended that service providers institute measures for tracking which employees worked with which files. Under HIPAA, once a file leaves a hospital it is very important to track who sees it."

Anderson added that service bureaus that scan images for health care entities also have to be careful that those images don't end up in the wrong hands. "If you are providing images to insurance company on a CD, for example, you might want to institute some new security measures," he said. "This could include encrypting the CD and then sending the key in a different package through a different courier."

Anderson concluded by saying no one is exactly sure what the biggest problem areas of HIPAA compliance are going to be. "It's hard to say because the regulations are not in effect yet, and there haven't been any cases brought to bear involving HIPAA compliance," he said. "There's no body of law to reference."

It's our advice, however, that if you are doing work with a health care organization, and you don't want to become part of the early body of HIPAA reference cases, you do your best to protect yourself. HIPAA is a hot topic and there are plenty of experts like Anderson out there who can help you get in compliance. We're also guessing there are plenty of lawyers who can't wait to bring a multi-million dollar suit against someone for non-HIPAA-compliance. What's that old saying about an ounce of prevention?

For more information: **Capsicum Group**, Berwyn, PA, PH (610) 640-5400 e-mail: janderson@capsicumgroup.com.▣

Configuration Management Capabilities Spur Spescom Sales

Originally defined as the combination of Web content management and document management, the enterprise content management (ECM) market continues to evolve. Recently we reported on the potential of e-mail archiving as a component of ECM [*see DIR 12/20/02*]. We also came across another potential ECM component, which, while not as explosive as e-mail archiving, is helping at least one company return to profitability.

About a year and a half ago, **Spescom Software** became one of the few companies offering an

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integrated product data, document, and records management suite. Specifically, Spescom refers to product data management (PDM) as configuration management, but the concept is the same. Both PDM and configuration management deal with information about physical assets managed by a business.

"Configuration management software originated in the aerospace industry," explained Carl Mostert, CEO of San Diego, CA-based Spescom. "An electricity provider, for example, would use configuration management software to track the components needed for building power supply systems. These would include cables, towers, transformers, components of the transformers, casings, etc. A configuration management system tracks each item and its relationship to other items also being tracked.

"Of course, there are documents related to these items," he added. "These include drawings, invoices, receipts, etc. And because the target markets for these combined document and configuration management systems are typically highly regulated, we also offer a records management component."

Spescom released its mostly internally developed iDCR (integrated document, configuration, and records) management suite in mid-2001. After a slow start, due in part to the Sept. 11, 2001 hangover, Mostert said sales have picked up and helped the company reach operations profitability for its fiscal fourth quarter of 2002. "Our success has been coming in markets like utilities and transportation where there are requirements for both configuration and document management," he told *DIR*. "Many of our customers will start out with just one component of our system, but with an eye on expansion as the budget becomes available."

Spescom Software is the former Altris, which gained some prominence in the mid-1990s especially in the document management market for engineering applications. However, interminable delays surrounding the release of its second generation software sent the company into a tailspin, which eventually ended with Altris being taken over by **Spescom, Ltd**, a South African partner that had a PDM software line. After suffering operating losses of more than $4 million through the first three quarters of its fiscal 2002, the momentum of iDCR finally helped the company break even in the fourth quarter. The company's balance sheet, however, remains in a precarious position. When we talked late last year, Mostert said the company was seeking additional financing.

"We plan to continue to focus on the markets where we've had success with iDCR," said Mostert. (This includes recent wins in the railway and nuclear power markets.) "We also plan to leverage our active customer base of about 120, many of whom are undertaking new projects or moving into new areas of business where our software can be utilized. We think we've found a niche that solves a real business problem. We are going to continue to develop our sales in that niche."

For more information: **Spescom Software**, San Diego, CA, PH (858) 625-3000. ▫