

Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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Altec, Version One Enjoy Mid-Market Invoice Success

Invoice processing is clearly one of the hottest markets for document imaging technology. Much of the publicity in this area has gone to high-end installations.

As we've noted in *DIR*, one of the keys to the explosive growth of imaging-related invoice installations has been their tight integration with ERP systems. **ReadSoft** led the way with its 2006 acquisition of **SAP** workflow specialist Ebydos, and other invoice capture vendors have followed suit with SAP and Oracle certification and integrations. However, it's worth remembering that invoices and ERP systems are not restricted to the Global 2000, where vendors like SAP and Oracle typically play. There are literally hundreds of thousands of mid-market businesses in the world that rely on ERP systems from vendors like **Sage**, **Epicor**, and **Microsoft**, and they all also have invoices that they need to manage as part of their accounts payable (A/P) processes. This is where imaging software vendors like **Altec** and **Version One** make their living.

Both vendors have enjoyed tremendous success in recent years image-enabling businesses with mid-market ERP systems. Altec is a Laguna Hills, CA-based company with a legacy in creating pre-printed forms for Epicor applications. In 2001, Altec acquired a document imaging software vendor, and by 2007, its software business revenue was exceeding revenue from its traditional business.

Like Altec, Version One began its life in the output space. Version One, which is based near Manchester and does 90%

of its business in the U.K., was launched in 1989 as a developer of software for electronically managing the archiving and retrieval of ERP output documents. To complement this management of internal documents, Version One introduced imaging to handle paper documents submitted from outside.

"Three years ago, the majority of our customers' document management requirements were based on output," said Lynne Munns, general manager of Version One. "There are a few reasons this has changed. One is that some more modern ERP packages have their own document delivery capabilities. But, what has really been driving our growth in imaging are the benefits it offers in automated data capture (through OCR) and workflow—specifically automating the routing of documents for authorization."

So, what kind of growth has Version One seen? "For 2008, we did about 6 million pounds (\$8.4 million)," Munns told *DIR*, when we spoke in January. "We have approximately 50 employees." She said that despite the economic downturn in the second half of the year, Version One grew 28% in 2008, up from 24% the previous year.

"We had a very healthy year, and the pipeline is as strong as ever," she added. "We are seeing some delays in decision making, as people are more cautious about spending money. Although we are seeing an elongated sales process, our strong ROI message helps keep us on the table. The performance of our top resellers continues to rise."

Altec has also seen impressive growth.

"Our integrated document management business was growing at a CAGR of 40% for 21 quarters, but has slowed [in the second half of 2008]," said Brandt Morrell, president and COO of Altec.

Partnerships key to success

Both companies have leveraged partnerships with ERP vendors and reseller channels to achieve their success. "From the very beginning, we decided we would go through the channel," said Version One's Munns. "The channel gives us access to many customers we'd never reach if we sold directly."

In 2007, Version One's largest reseller partner, the ERP vendor **CedarOpenAccounts (COA)** bought the company. "COA authors ERP and financial software that targets public sector organizations in the U.K.," said Munns. According to a press release, COA and Version One had 250 joint customers at the time of the acquisition.

While image-enabling COA systems is still a healthy business for Version One, currently Sage is its largest ERP partner. Munns estimated that one-third of Version One's revenue comes through integration with Sage applications. Sage offers a range of ERP and financial management software for the mid-market.

"Version One has partnerships with the top 20 Sage resellers in the U.K.," said Munns. "We work closely with Sage. They promote our products, but we don't have a formal agreement in place."

Munns said that when Version One

decides to expand into the U.S. market, it will probably be through its relationship with Sage. "We've already expanded into other countries through Sage," she said. "We attended the Sage Summit in Denver last year to get the ball rolling and will probably be looking to move a bit deeper into the U.S. market in 2009."

One of the keys to Version One's success would seem to be its offer of 50 points on reseller software sales. "We also offer free training and 50 percent of all support and maintenance," said Munns.

The ERP reseller advantage

Of course, when Version One does enter the U.S. market, it will be going head to head with Altec, which also expects about a third of its sales this year to come through Sage resellers. In February, Altec was named an Endorsed Development Partner by Sage's Business Management Division. "We will be included on both their price lists and order forms," Morrell told *DIR*. "We already have a worldwide distribution agreement with Epicor and are going down the same path with Sage."

Altec also integrates its software with the Microsoft Dynamics suite. "The Dynamics market offers a lot of potential," said Morrell. "But it's also a little more challenging to wrap your arms around the Microsoft channel compared to working through the distribution agreements we've set up with Epicor and Sage."

According to Morrell, Altec has 250 North American resellers and is developing an international channel. "ERP resellers are uniquely positioned to take our product to market and excel with it," he said. "They understand the flow of information controlled by their customers' accounting systems and how forms follow function—be it paper or electronic forms. Of course, they also have established customer relationships."

"For many ERP resellers, the last great year for selling accounting systems was 1999, when everyone was upgrading because of Y2K. Now resellers are hungry for additional revenue sources, such as our software, which can often drive the ROI for an entire ERP installation. In fact, one in five of our installations is bundled with a brand new ERP system."

Flexibility fits wide-range of customers

Both Munns and Morrell listed their companies' average deal sizes as \$40,000 to \$50,000, but they stressed that when selling to the vast range of companies that make up the mid-market, it helps to be flexible. "We have customers that use Sage that are only turning over a few million in revenue," said

Munns. "Our software is flexible enough that our partners can carry one product to address all their customers. And if their customers grow or downsize, we have a product that can grow or shrink with them."

According to Morrell, Altec has four different bundles for Sage users. "We sell solutions that start under \$10,000, but we also land much larger deals," he said. "One key we look for is if a business has three or more heads-down A/P people doing invoice processing. We have some clients that are processing fewer than 1,000 images per month, but might lose out on discounts if they can't close their books within five business days."



Lynne Munns,
general manager,
Version One

"Another driver is remote locations. We've had some success in the restaurant vertical because of this. The **McCormick** chain has 90 locations submitting invoices through our software and **Ruth's Criss Steakhouse** has

46. There are businesses that spend more than \$100,000 a year on couriers to get remote documents to a central site for processing."

While Altec does not have a Web-based scanning client, the latest version of its *doc-link* application has introduced workflow and indexing capabilities into its browser-based *Smart Client*. "Basically, once a user uploads an image onto the server, they can work with it however they need to from the remote site," said Morrell.

Broadening their reach

doc-link 2.6, which was introduced late last year, also offers a new *Smart Forms* capability designed to help Altec expand beyond the invoice processing niche. *Smart Forms* builds on the company's "general ledger distribution stamp" technology, which expedites the coding of invoices.

"Basically, the GL distribution stamp enables users, including those at remote sites that might not have access to the ERP system, to point, click, and download account coding information that can be virtually stamped on an imaged invoice," said Merri Jo Clear, Altec's *doc-link* product manager. "Users can then submit the invoice, along with the stamped data, to an accounting workflow for verification."

The GL distribution stamp was basically a hard-coded method for adding meta data to invoices. With *doc-link version 2.6*, the stamp has evolved into a flexible *Smart Form* that can not only be used to set up customized stamps for invoices, but can also

be used to create meta data for other document types. "An insurance company might want to utilize the *Smart Form* to add information about a client making a claim, for example" said Clear. "Our new architecture will enable them to write a DLL that can specify what information they want to download from their line of business application into their data capture screen and how they want that screen to look."

While Version One remains primarily focused on financial documents, once its software is installed at a customer site, the company instructs resellers to look to expand into related areas. "Financial systems have always been our niche, but once a document management system is installed, it will often promote itself," said Munns. "For example, many colleges and universities that utilize our software in their A/P departments, also use it to manage student records. Over 70% of the hospitals in the U.K. use our software, and we are starting to look at patient records. Human resources is another big opportunity for us, as it usually sits along side finances in an ERP system."



Brandt Morrell,
president and COO
of Altec

Beefing up data capture

While Altec relies primarily on its *Smart Form* technology to reduce keystrokes related to data entry, it also accepts images and data captured with third-party applications by vendors like **ABBYY**, **Kofax**, and **Cardiff**. Version One has gone a step further and offers an OEM version of ABBYY's *FineReader*—under the *dbCapture* brand. "OCR for invoices has come a long way in the past few years," said Munns. "Plus, we've done a lot of work to improve the performance of the ABBYY technology within our application. Our original accuracy rates were pretty poor. Now, assuming we're not working dot-matrix printed documents, we can get an 80% accuracy rate."

When we asked if this includes line-item matching capabilities, Munns said that while Version One offers that feature, most of its customer base is not set up to handle it. "If a user has an Oracle ERP system, they can probably do it. But a Sage application, for example, does not typically have the import capabilities to handle three-way matching.

"We find that about 90% of the time, people show interest in line-item-level capture. A lot of them think they want it, but then discover they don't have the infrastructure to back it up. Understanding how three-way matching fits is part of understanding their

business processes and determining what there is to gain. Proving a strong ROI is the most important thing for us in a sale, and most of the time you don't need line-item capture to do that."

Some common keys to success

Altec and Version One represent two of the many successful SMB-focused document imaging companies we have spoken with in the past year. Granted, we talked with both companies a few months back, before anyone was certain of how deep the recession was going to get, but it's worth pointing out they (and several other successful SMB-focused businesses we've talked with) share some common traits:

■ **A narrow focus**—Because invoice processing goes across industries, it's not really a classic "vertical market." However, being able to focus product development, support, and marketing on a well-defined niche is advantageous, especially for businesses like Altec and Version One—that fit into the SMB space themselves.

■ **Strong partnerships**—This includes both vendor partnerships and reseller channels. It's difficult for a single company to market its products to all the hundreds of thousands of mid-sized businesses located around the globe. Big brothers like ERP (and other line-of-business) vendors, as well as VARs, help mid-sized imaging vendors reach customers they could never touch on their own.

■ **Innovative technology and marketing**—Before you get started, you need a strong product line. Both Altec and Version One began life in the output space, but were smart enough to recognize that their future lay in imaging, just as the market was really starting to take off. And since their initial forays into imaging, they have continued to innovate. Altec's *Smart Forms* is one example, and Version One's OEM deal with ABBYY is another.

Yes, it's an old adage in the software industry that it takes 10 times more effort to sell 10, \$10,000 deals than it does to sell one, \$100,000 deal. But, as imaging technology and vendors mature, this is not always the case. Clearly, having an ERP partner bring your software into an existing mid-market installation does not take as much effort as bidding against 10 other vendors on a Global 2000 account. As we've said for years, as imaging technology becomes more mainstream, the mid-market is going to be one of the hottest areas for growth. Vendors like Altec and Version One are proving this to be true.

For more information: <http://www.altec-inc.com/>;
<http://www.versionone.us/>