

# Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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## BancTec Righting Its Ship

August 18, 2006

For almost 10 years, Dallas-based capture specialist **BancTec** has watched its annual revenue decline. However, during the last three quarters, there are signs that trend is reversing. After two quarters of 1-2% growth, the fourth quarter of last year and the first quarter of 2006, BancTec's senior VP of Technology and Portfolio Management Mark Fairchild indicated that the second quarter of 2006 was also solid, with results due out later this month.

BancTec's turnaround can be attributed to growth in three areas: 1) expansion into the business processing outsourcing (BPO) space, 2) continued expansion into full-page document imaging, 3) introduction of a mobile data capture service. Executives previewed BancTec's work in these areas during interviews last year. What follows is an update on BancTec's progress.

### **BPO: full-steam ahead**

BancTec's expansion into BPO hit full stride last month with the announcement of a menu of three imaging-centric BPO offerings. These new offerings were introduced approximately six months after a deal with **EDS** gave BancTec a significant North American BPO customer base. BancTec's plan is to initially market its new offerings to that EDS customer base.

A deal between BancTec and EDS should not be all that surprising, as EDS is a long-time BancTec technology customer and both companies are based in Dallas. Also, BancTec CEO J. Coley Clark and several of his assistants are former EDS executives [see *DIR* 3/18/05]. The deal basically involved BancTec taking over three EDS BPO

centers that were focused on remittance processing.

Remittance processing is, of course, a core competency of BancTec but not necessarily of EDS. "When I last spoke with *DIR*, BancTec had spent a couple months looking at our strategy and decided that BPO was going to be a key part of our future," Fairchild told *DIR*. "The next step was figuring out how to best enter the BPO space. We already had a number of BPO centers in Europe, and to get into the American market, we reached an agreement with EDS. We basically took on their remittance processing centers and the clients they had."

To make the deal work, according to Fairchild, BancTec must run the BPO operations more efficiently than EDS was able to. "Being able to use our own hardware and software, as well as maintenance services, should make us more cost effective right off the bat," said Fairchild. "In addition, we plan to take advantage of agreements with Indian data entry services. Finally, we are looking forward to offering additional imaging services to these customers."

BancTec's new BPO packages include basic storage and retrieval, advanced data capture for applications like invoice processing and legal discovery, and auditing and security options. They are being sold on a tiered basis, with each level of functionality representing a different tier. As has been the case historically, BancTec continues to rely on a mix of its own software and technology licensed from other vendors. It currently has partnerships with the likes of **Convera**, **SWT**, **A2iA**,

**Mitek**, and **ABBYY**.

By our best guess, BancTec already has an annual run-rate of at least \$5 million in BPO revenue in North America, plus a significant amount in Europe—where BancTec has been an established BPO player for some time. Overall, BancTec has four BPO centers in North America and seven in Europe. Fairchild estimated BancTec's BPO customer list is approaching 100.

"Our outsourcing business has evolved from an aspiration to a reality," Fairchild, told *DIR*. "In addition to adding EDS' customers, we've also brought onboard several key executives from EDS' operations. This has given us some strength and experience in managing BPO."

### **Why BPO? Why not?**

Ultimately, BancTec's expansion into BPO is being driven by forces similar to those that have driven Manchester, CT-based BancTec competitor **Scan-Optics** in the same direction. Like BancTec, Scan-Optics has hired a former BPO specialist as CEO [see *DIR* 6/16/06].

"As electronic payments replace paper ones, the volume at many of our customers' remittance processing sites is being reduced," said Fairchild. "This makes it difficult for them to cost-justify in-house scanning operations. There are some cost variables related to staff size that can be reduced. However, there are a lot of fixed costs that can't be reduced enough to achieve cost-per-transaction levels lower than what a BPO provider can offer. A BPO provider creates higher volumes by aggregating several customers in one operation, and

therefore can keep its costs-per-transaction down.

“Also, because BancTec develops its own hardware and software, we have access to all the latest and greatest technology in areas like image quality, OCR/ICR, automated sorting, and ARC conversion. In-house operations, with declining volumes, just can’t justify an investment in new technology.”



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**— Mark Fairchild, BancTec**

Fairchild notes that BancTec launched its BPO business in Europe a few years back, based on the same trends toward electronic payments that the North American market is currently experiencing. “Scandinavia, for example, had totally truncated its paper payments by 1991,” said Fairchild. “That was well before anyone even heard of the Web, so it was pretty revolutionary. The U.K. began to follow suit five or six years later. As a result, to create new revenue streams in those markets, we moved more aggressively into BPO and full-size document processing. We are now following a similar path in the U.S.” [ *Editor’s note: For the first quarter of 2006, BancTec reported \$31.5 million in systems and services sales in the Americas and \$26.6 million in EMEA.* ]

### **Mixed mailroom results**

In regards to full-sized document processing, Fairchild said sales of the company’s DocuScan high-speed document scanner are going well. The device was introduced at AIIM 2004 [see *DIR* 3/24/06] and began shipping later that year. It has been upgraded a couple times since its initial release, and last year BancTec introduced a lower-cost DocuScan 6000. According to Fairchild, BancTec has installed more than 100 DocuScan units to date.

“Service bureaus have been a major market, as well as wholesale remittance processing shops, and even several in-house operations with high volumes of mixed documents,” said Fairchild. “Our success has been spread worldwide. One of our largest installations is with the **Danish Post**, which started with three or four DocuScans and has added from there.”

The national postal service of Denmark offers to image all of an organization’s incoming mail for it, extract the appropriate data through key entry and OCR, and make it digitally available to the addressees by 9 a.m. the following morning. The Danish Post relies primarily on BancTec hardware and

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software. "The Danish Post's installation has gone very well and continues to grow," said Fairchild. "We are in discussions with a number of other postal services, but none have decided to move forward with the digital mailroom yet."

In many ways, the Danish Post installation is a poster child for the digital mailroom—a type of document capture application that was a red hot topic a couple years back [see *DIR* 4/9/04], but whose star seems to be fading. "Overall, the concept of the digital mailroom has been a mixed success," acknowledged Fairchild. "What we've mainly seen is people implementing a subset of the full breadth of digital mailroom technologies. They are using it for a scope narrower than its full potential. That potential is digitizing everything that comes into the mailroom."

### Going mobile

BancTec's mobile data capture initiative is known as *eFIRST Mobile* and was first previewed for us by Fairchild at AIIM 2005 [see *DIR* 7/1/05]. It's no coincidence that it carries the same branding as BancTec's paper capture solution, as it is designed to leverage mobile computers in place of paper forms to capture information at remote sites

BancTec's early success with *eFIRST Mobile* has come with two of the world's largest credit card issuers that have initially implemented it in the U.K. One already has plans for a broader rollout. These companies leverage *eFIRST Mobile* when signing up new customers at places like airports, malls, college campuses, and sporting events. "We've also made some inroads in the housing management market, where inspection data needs to be collected on-site," said Fairchild.

Other markets that BancTec has targeted include mortgage origination, insurance underwriting and adjustment, automotive financing, loan applications, and utility account opening and inspection. Advantages over paper forms include real-time feedback on the validity of data being captured, real-time processing of the forms, and improved security over paper transactions. BancTec currently makes *eFIRST Mobile* available as a hosted service.

"Since we first introduced *eFIRST Mobile*, based on customer feedback, we've upgraded the system in a couple areas," said Fairchild. "The first included improving our security and encryption. We've also introduced better centralized management controls; being able to get real-time feedback on the activity associated with each device can be just as valuable as the mobile data capture aspect."

We mentioned to Fairchild that we've read the

**U.S. Census Bureau** is planning to implement mobile data collection devices in its door-to-door activity for 2010 U.S. Census. We thought *eFIRST Mobile* seemed like a potentially good fit. This is, of course, assuming the Census Bureau gets its requested funding, which as of last month seemed to be in doubt. "I really can't say anything about that particular opportunity," said Fairchild. "I think it would be a good fit, based on its similarities to the housing inspection applications we have discussed. And, **Lockheed Martin** [the prime contractor for the *Decennial Response Integration Systems (DRIS)*, see *DIR* 10/21/05], is a longtime customer of ours."

### What's the future hold?

We know it may sound like a broken record, as we've speculated on this before, but on the top line, at least, it appears BancTec has finally reversed its fortunes. Of course, through March, the company still appeared to be losing significant money. Then again, things like the BPO and mobile initiatives are fairly new, which makes it logical that they should show growth before profits.

There is no question that BancTec has a lot of things going for it, including a significant blue-chip customer base, some solid technology, strong partnerships, and new management that seems gung ho about turning things around. However, a lot of these elements have been in place for awhile, and it was more than seven years ago that BancTec first went private with the hope of turning things around and re-launching the company as a public entity. Obviously, that hasn't happened—yet.

In the long run, however, we think it will. Developments like Check 21 and ARC conversion have forced BancTec into a corner and forced it to move far enough away from its legacy, hardware-centric business that it can focus on potential growth markets like BPO, document imaging, and mobile capture. In other words, BancTec's eggs finally appear to be in the right baskets. It also appears these eggs are starting to hatch.

Can BancTec generate enough growth and profitability to go public again on its own? That prospect is doubtful. However, with companies like **SourceCorp** and **Lason** now private and also likely looking to potentially reinvent themselves, the M&A prospects begin to get intriguing. In addition, BPO players in other markets might look to **ACS'** lead and decide that imaging-based services should play a key role in their businesses. The bottom line is that if BancTec can continue to improve its top line, while getting its bottom line in order, the company has enough going for it that its future should be bright.

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