

Business Leader Interview

David Bailey, President DMD Division, DocuLex inc.

In the ECM sector we are seeing a great deal of growth from small and medium-sized companies in North America and Europe. In fact, many have shown significantly higher growth rates than the large companies. Document Boss's Paul Carman recently sat down with David Bailey, one of the founders of a growing ECM company, DocuLex, to find out more about their growth and their outlook for the future.

Q. Welcome to Document Boss, David. Can you tell us about DocuLex Software and about your business vision and strategy?

A. Thanks, Paul, I would be happy to. DocuLex was founded in 1996 as a software company which provided litigation support, imaging and coding software to service bureaus. Today, DocuLex offers a complete document management package for the capture, security, management and retrieval of both paper scanned and electronic document files. Our business vision and strategy is that our document management solutions are now financially affordable and achievable from an IT maintenance perspective for the SMB marketplace. The choice to purchase is certainly the most popular method for acquiring this technology, but customers are also beginning to take advantage of subscribing to our document management solution as a service. We began hosting our software as a service in late 2006, and added it to our reseller price catalog in the 2007 edition.

Q. Which markets are your key markets and account for the majority of your sales?

A. Our products sell through Office Products companies (copier resellers) so our vertical market is the reseller and their market is horizontal. This works for us because our products appeal to any company with paper or electronic documents to manage.

Q. Where do you have the greatest presence? What is your business percentage per region?

A. 85% of our sales are from the US. Next would be Canada, Virgin Islands, and then Latin America. We have a very small presence in Great Britain and Europe, primarily because we haven't concentrated our efforts there. Certainly those regions are areas of potential.

Q. What do you foresee as some of the growth opportunities available to you? Where do you see the biggest opportunities?

A. Our hosting service (SAAS) is going to be a very good recurring revenue model. I expect significant growth in this area. In the first quarter of 2007, our software will be accessible from the user touch screen panels of two major copier manufacturers. This will increase our exposure to over 1000 office products resellers in the US, Latin America and Canada.

Q. Let's talk about the ECM sector and your thoughts about it. Do you believe the sector is showing good growth dynamics?

A. We believe strongly that the growth opportunities are present and growing, which has also generated much competition for the prospective customers to sift through. Consequently, this delays the purchasing decision of new users, making their first purchase of Document Management software.

Q. Let's discuss the drivers that are at play and how they stimulate customer behavior, and then bring it back to your company to give us a sense of how you've been able to tap into these drivers?

A. Depending on the customer, there are several pain points that motivate a company to manage their documents electronically. For some it is compliance, litigation and disaster recovery, but we hear mostly about the early drivers, which are to save space and increase employee productivity. Most of our clients just want to find their information, when and where they need it. Utilization of the internet has become a wonderful feature for sharing document files among multiple offices, customers and with road warriors. Our product "Archive Studio" allows users to take full advantage of the internet for this purpose.

Q. Looking more broadly at the market, how would you characterize the current business and economic environment?

A. I have been in the information management business for 23 years and my experience has taught me that companies are always looking to streamline their operation and become more efficient. For this reason our business maintains its appeal in both an up and down economy. As stated previously, our recent challenges have been dealing with the vast amount of growing competition, both good and bad. Most customers are not sufficiently well educated, in this business, to identify the differences between products and then apply them to their needs.

Q. The ECM space has seen many acquisitions over the last several years. Can you talk about these and their impact on your results? Is acquisition a strategy you are involved in?

A. The acquisitions we have all seen have not affected our growth as much as venture funded competition. Venture funded competition is tougher to deal with, since they are handed a very large check book to spend to generate market awareness, with seemingly little emphasis on near term profits.

Q. How would you like to see your business develop over the coming 12 or 18 months? Are those objectives likely to be achieved through organic growth or do you have an ear to the ground for acquisition opportunities as well?

A. Our development initiative is targeted to our customer's needs and is moving along as expected. We are increasing our channel sales staff this year to handle more resellers and, in turn, more sales. We would be open to acquisition opportunities if the right fit presented itself.

Q. Are you able to quantify your market opportunities, your target market size and the slice of that market that is available for your solutions?

A. Our market for document management software is huge (billions). I don't pay too much attention to market research reports since this is not a product that is mandatory for a company to have or use. Our offering, as well as others in our industry, is looked upon as a luxury instead of a necessity. In terms of product and support, we stand up to anyone in the industry.

Q. What are the components of your revenue? How much of your revenue comes from maintenance and services?

A. 24% of our revenue is derived from annual maintenance renewals. 10% is services such as installation, setup and training. The remaining 66% is from new software sales.

Q. Let's talk about the competitive landscape? Who do you consider to be your primary competitors?

A. In many ways we have a different view of competition. We strongly believe our primary competition is the prospect doing nothing and maintaining the growth of their paper jungle. Our next competitor is the mind share of our resellers. Our resellers currently keep their doors open by selling copier hardware and service contracts. We are merely add-on products to help them sell more hardware. We must maintain hundreds of resellers in order to get the sales that we need.

Q. What are your thoughts about consolidation? Is it a threat or an opportunity?

A. I believe consolidation is inevitable for this EDM/ECM industry to grow and become recognized as a must-have business tool. To us it is simply a fact of a growing and maturing market.

Q. What enables you to play successfully in this space?

A. Longevity is very important, as we have satisfied customers for over 10 years in the software business of document management. A reseller channel is critical for success also, and we have great channel partners. In addition, a talented and sincere staff helps us grow and be successful. We are also fortunate in that we have had the ability to grow the business without much capital and debt.

Q. Can you give us a quick sense of your financial strengths and your ability to achieve your strategy and growth plans?

A. Up until 2006, we had never needed to borrow money. We acquired a company almost 4 years ago and paid for it over a three year period with cash generated internally. We will most likely need to raise capital this year in order to move the company to the next level.

Q. Has it been a challenge for management to maintain the focus as you've grown and do you have the team in place now to make sure you can execute on your objectives going forward? What are going to be the main challenges for you to overcome?

A. We are a few people short of having our team in place. Our plan for 2007 is to have those positions filled by the beginning of the second calendar quarter. People are our key to success. Getting the right people as we grow will be critical to our success.

Q. The entire field of Document Management, Content Management, and Business Process Management has been set for explosive growth over the last several years. However, growth has actually not matched the predictions. What's wrong? Are vendors not performing?

A. As I stated earlier, our products are looked upon as luxuries and not necessities of doing business. You must have a phone today in order to stay in business, but you don't have to own EDM/ECM software. This is why I don't lend much credibility to the predictions. I also believe our industry has been confusing to businesses. We can't even come up with one phrase to describe ourselves. We are imaging, then EDM, then ECM, what's next?! In spite of this industry confusion, we do market our products as being easy and affordable. Our primary tag line is "instant document access". At the end of the day, the customer just wants to get their hands on their document information ASAP.

Q. Where do you want to take the company in the long term?

A. Long term, the company will become a valued acquisition for some lucky corporation! We have developed and are continuing to develop significant value in our IP, our customer base and in our company infrastructure.

Q. What is the mission and the vision that drives your company?

A. Simply stated, our mission is to build and deliver dynamic products to companies so they can benefit and become more efficient by incorporating them into their work process.

Q. What are the three or four best reasons for investors / customers (as appropriate) to look towards your company?

A. We are a great company to work with, we support our customers and we have great solution! We are honest, we are talented and we have industry maturity.

David, I appreciate your thoughts!

Paul Carman