



Document Communications Industry Trends: 2004 Survey Results

James Watson, Jr., PhD, Doculabs

C. Ranganathan, PhD, University of Illinois, Chicago

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Table of Contents

I. EXECUTIVE SUMMARY	5
II. OBJECTIVES AND METHODOLOGY.....	7
III. FINDINGS AND ANALYSIS.....	9
1. Incremental Growth in Electronically Distributed Documents in 2004.....	9
2. Dollars for Paper Document Production - Modest Increase in 2004	11
3. Firms Divided About Choice of Color Documents	12
4. Growing Availability of Electronic Promotional Literature Via Web Sites	15
5. Firms Embracing the Web for Providing Paper-Based Documents.....	17
6. Document Correspondence via Electronic Mail.....	18
7. Firms Favor Internal Production of Documents Rather than Outsourcing.....	21
8. Critical Issues in Document Communications in 2004	23
9. Top Requests from Customers on Document-Based Correspondence	24
10. Postal Costs	25
IV. CONCLUSION.....	26

Table of Figures

<i>Figure 1 – Sample Demographics by Industry Segment</i>	<i>7</i>
<i>Figure 2 – Electronic Distribution Usage: 2003 vs. 2004</i>	<i>9</i>
<i>Figure 3 – Electronic Distribution by Industry</i>	<i>10</i>
<i>Figure 4 – 2004 Budgets</i>	<i>11</i>
<i>Figure 5 – Document Production Budgets by Industry</i>	<i>12</i>
<i>Figure 6 – Use of Variable Digital Color in 2004.....</i>	<i>12</i>
<i>Figure 7 – Percentage of Documents with Color</i>	<i>13</i>
<i>Figure 8 – Color: Buy-side Industries</i>	<i>14</i>
<i>Figure 9 – Color: Sell-side Industries</i>	<i>14</i>
<i>Figure 10 – Promotional Literature via the Web.....</i>	<i>15</i>
<i>Figure 11 – Email-based Document Correspondence by Industry</i>	<i>16</i>
<i>Figure 12 – Paper Documents via the Web.....</i>	<i>17</i>
<i>Figure 13 – Customers Receiving Documents via Email</i>	<i>18</i>
<i>Figure 14 – Email Documents in Financial Services.....</i>	<i>19</i>
<i>Figure 15 – Email Documents in Manufacturing</i>	<i>19</i>
<i>Figure 16 – Email Documents in Government/Education.....</i>	<i>19</i>
<i>Figure 17 –Internal vs. External Document Production</i>	<i>21</i>
<i>Figure 18 – Future Intention: Internal vs. External Document Production</i>	<i>22</i>
<i>Figure 19 – Top Priorities in Document Communications</i>	<i>23</i>
<i>Figure 20 – Top Customer Requests</i>	<i>24</i>
<i>Figure 21 – Tactics to Address Increasing Postal Costs</i>	<i>25</i>

I. Executive Summary

Survey Snapshot

The findings include:

- Nearly 1/3 cited cost reduction as their top priority for 2004
- Moving to electronic distribution has not resulted in reduced budgets for paper correspondence
- Few have strategies in place to effectively manage postal expenses
- There is lack of agreement on the question of out-sourcing between managers of document production functions and senior executives

During the fourth quarter of 2003, The Electronic Document Systems Foundation (EDSF) conducted a survey of 525 individuals representing a cross section of the “document” industry concerning their future plans for 2004. Never before has such a large sampling of users, vendors, consultants been available to effectively describe the relevant trends and dynamics within our industry. And while many studies have examined the future intentions of buyers within the market, most have been based on anecdotal evidence and lacked the appropriate in-depth analysis.

As part of EDSF’s continuing role in providing leading-edge research and education for the document communications industry, EDSF funded a study conducted by Doculabs and the University of Illinois, Chicago to further clarify the direction our industry is taking. The study found:

- **While the interest in electronic distribution of documents remains significant, the industry struggles with both the timing and economics of transitioning to digital delivery.** For example, the limited success of electronic document distribution for bills and statements and their adoption rates (which are not expected to reach 25% for several years), implies that organizations will have to support both paper and electronic modes of distribution. At the same time, customers are actively demanding access to web-based promotional materials, also under the assumption that “follow-up” hard-copy will be provided.
- **Cost reduction associated with document production, as expected, continues to be the single biggest priority of market participants.** The implications are likely to include: stymied investment in new technologies (software and hardware); reduced payrolls for many in-house production staffs driving them toward employment opportunities within the for-profit service segment; and the need for further manufacturing efficiency gains on the shop floor.
- **While postal costs currently represent approximately 2 to 3 times the cost of document production, few organizations are adequately prepared or have the appropriate mechanisms to manage these costs downward (particularly in light of limited electronic document acceptance).** This becomes more critical as one considers the various postal reform initiatives currently being considered in Washington, D.C.

Taken together, the findings would indicate that the industry is at a critical inflection point. On one hand, we are challenged to meet the diverse needs of document recipients, via a web site, via email and in hard copy. Yet with this diversity comes cost, and there is little corporate appetite for increased funding.

- **Outsourcing print production, as reported by survey respondents, appears to be of limited interest and not likely to grow. This is in direct contrast with numerous surveys in which CEOs and CFOs indicated that outsourcing non-core functions, such as printing, is a priority within the executive suite.** This dissonance between mid-level management directly involved in document design, production and distribution and their senior management is cause for concern. In fact, it may explain the increased interest in “wholesale” outsourcing of entire document-production functions, rather than finding an amicable co-sourcing strategy designed to free up capital and improve flexibility from a financial perspective, while maintaining control at an operating level.

Taken together, the findings would indicate that the industry is at a critical inflection point. On one hand, we are challenged to meet the diverse needs of document recipients, via a web site, via email and in hard copy. Yet with this diversity comes cost, and there is little corporate appetite for increased funding. And until (or even if) a transition is made toward a more electronically oriented equilibrium, the problem will only become compounded.

For example, if an additional 10% of the first-class documents now sent via the US mail are distributed electronically, can the corresponding costs of producing the remaining 90% of the paper-based volume be reduced proportionately? While the economics appear difficult to resolve, so is the timing of industry transition. Will organizations be able to convince customers to accept digital documents exclusively? Will they even want to? The answer, of course, is, “it depends.” This study attempts to shed valuable insight on these important issues, as EDSF continues its role in providing leading-edge research and education for the document communications industry.

II. Objectives and Methodology

EDSF asked members and/or clients from the following organizations to participate:

- The Electronic Document Systems Foundation (EDSF)
- Xplor International
- The Association of Image and Information Management (AIIM)
- Outputlinks.com
- Doculabs

Our objective in conducting this study was to understand a number of key business issues, including:

- What effect will electronic document distribution have on communications in 2004
- How are organizations managing the sheer volume of customer correspondence
- What pressures exist to increase the timeliness for document delivery
- What techniques are being pursued to minimize the laborious process of document production
- How change management is being conducted to address frequent marketplace and regulatory changes
- What efforts are being made to eliminate or reduce costs

In pursuit of these objectives, consultants at Doculabs and faculty at the University of Illinois, Chicago collaborated with EDSF to develop a survey that was administered in November and December of 2003. Solicitations for participation were sent electronically via email to members and/or subscribers of EDSF, Xplor International, AIIM, Outputlinks.com, and Doculabs. Participants completed a survey on-line, via Zoomerang, and in appreciation of their time, were offered a copy of this report and a subscription to the EDSF REPORT, a bimonthly research newsletter. Participants were given the option of identifying themselves or participating anonymously.

In total, we received 525 responses as indicated in the segmentation illustrated in the following chart:

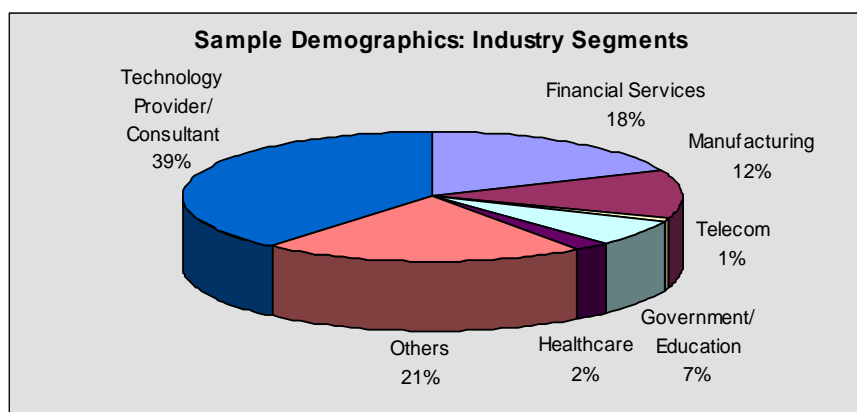


Figure 1 – Sample Demographics by Industry Segment

Industry Segments

To better segment buyers and sellers that were involved in our survey, we grouped participants into:

- “Buy-side”- Financial services, manufacturing, government, education, healthcare, and other industries
- “Sell-side”-technology providers and consultants

For the analysis, we compared the responses from each of the segmentation variables, industry, firm size, title, job function, and where appropriate highlighted these factors in relation to the overall findings. In addition, we examined the responses of “buy-side” participants versus “sell side” participants by aggregating the industry segments of Financial Services, Manufacturing, Telecommunication, Government/Education, Healthcare, and Other (including such industries as Pharmaceutical or Entertainment for example) and compared those results to Technology Providers. Thus our ability to “slice” the data, gives us the perspective of the major users or “buyers” in the industry.

In total, we asked three types of questions: 4 questions on demographics, 9 questions providing “pick from” ranges, and 4 open-ended questions allowing participants to provide text responses. For the open-ended questions, researchers at the University of Illinois, Chicago coded the responses into 15-20 similar categories based on their interpretation of the text. Independently, the same was done by researchers at Doculabs to ensure validity of the analysis. Finally, the authors added their interpretation of the findings and implications where appropriate.

III. Findings and Analysis

This section summarizes the findings and analysis of the study. Our findings cover 10 primary interests within the industry. Each includes relevant statistics from the survey, and where appropriate, analysis that represent the opinions of the authors and not necessarily those of EDSF or its sponsors.

1. Incremental Growth in Electronically Distributed Documents in 2004

Only 17% of “buy-side” firms will dramatically increase electronic document correspondence in 2004. However, over 65% of “buy-side” firms will increase incrementally the extent of electronic documentation correspondence. While firms across “buy-side” industries are likely to improve their electronically distributed documented correspondence, Financial Services and Government/Education firms will be the primary drivers for this incremental increase.

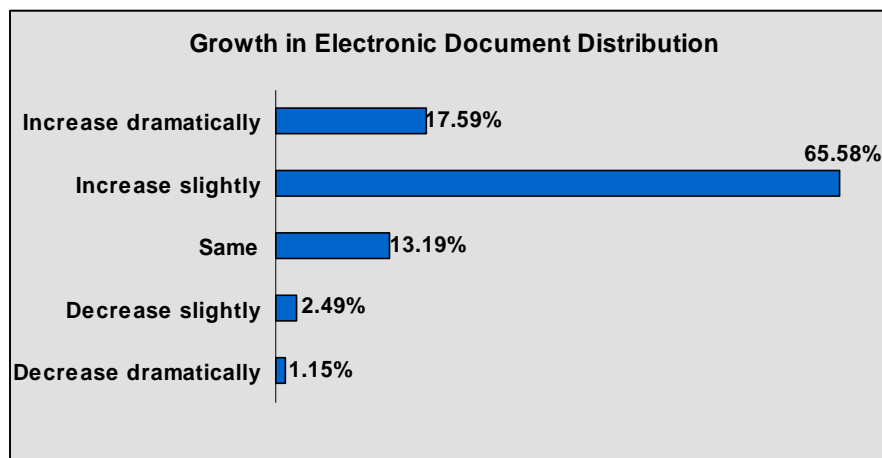


Figure 2 – Electronic Distribution Usage: 2003 vs. 2004

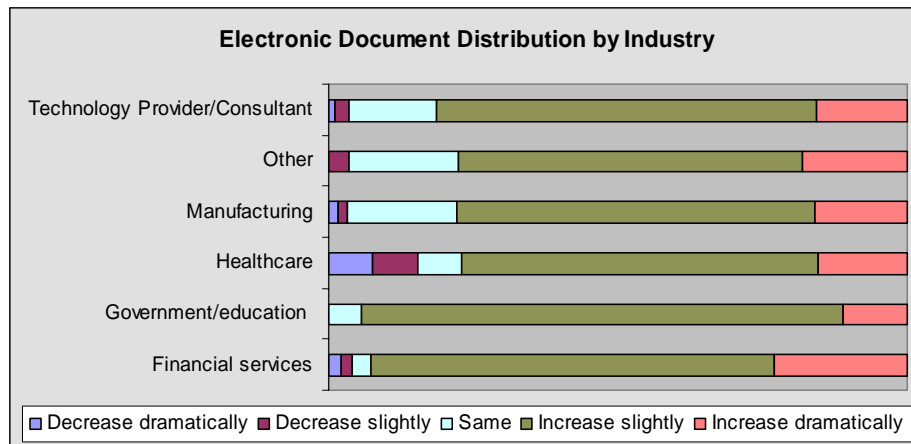


Figure 3 – Electronic Distribution by Industry

The dominance of “increase slightly” across the survey participants is consistent with findings across a wide range of studies conducted by The Tower Group and Forrester Research in recent years. For example, on-line bill presentment is estimated to be just 4-12% currently, depending on population demographics, with none of the forecasts expecting the number to increase above 25% in the next three years.

We should note that this question was specifically written to address correspondence – those documents generally in support of a transaction or interaction, for example, notifying a client of the execution of a trade, or generating a policy and riders for employees receiving health insurance. Many of these documents cannot be produced and distributed exclusively in electronic form due to regulatory restrictions or conservative policies within organizations. Accordingly, we would expect the number of “increase dramatically” responses to be much higher if many of these impediments were removed.

Top Priorities for 2004 (refer to section 9 for detail)

- Cost Reduction (31%)
- Electronic Distribution (26%)
- Diverse Customer Requirements (17%)

2. Dollars for Paper Document Production - Modest Increase in 2004

About one-third of firms are likely to increase their paper document production budgets by approximately 10% in 2004, while nearly 45% of firms will retain the same level of budget as 2003. Among those firms that are likely to increase their paper production budgets by more than 25%, Manufacturing and Healthcare firms drive this increase in budget. Though cost cutting is a major issue across all industries, less than 20% of firms will cut their paper document production budgets by 10% or more.

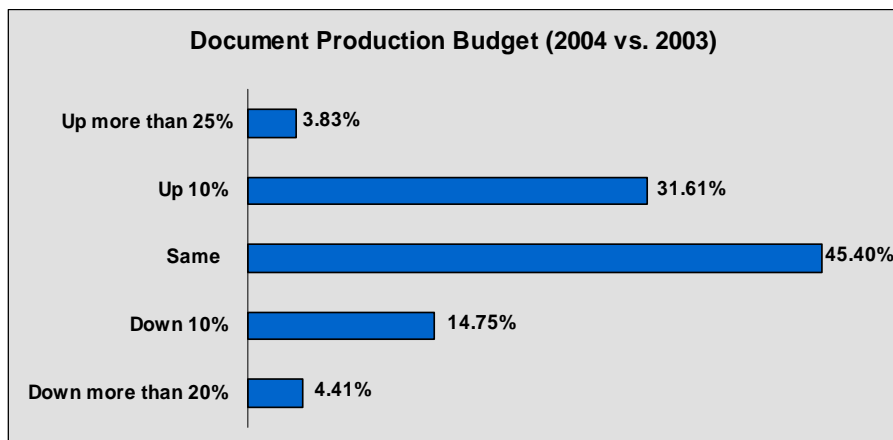


Figure 4 – 2004 Budgets

As we will see later when looking at top critical issues, the need to reduce costs tops the list for nearly one-third of the respondents. This may mean the document production function is not living up to management expectations, as one would expect those same respondents indicating the priority of cost cutting would also have a plan in place to execute on that direction for 2004. In this case, we only find that approximately 15% expect to reduce costs, leaving another 16% of the participating firms indicating cost reduction as a top priority unable to achieve their business goals. In light of this, one could anticipate additional pressure from disappointed management, particularly if this same phenomenon has occurred for several years.

“Of the industries surveyed, manufacturing will be experience the most growth in document production budgets.”

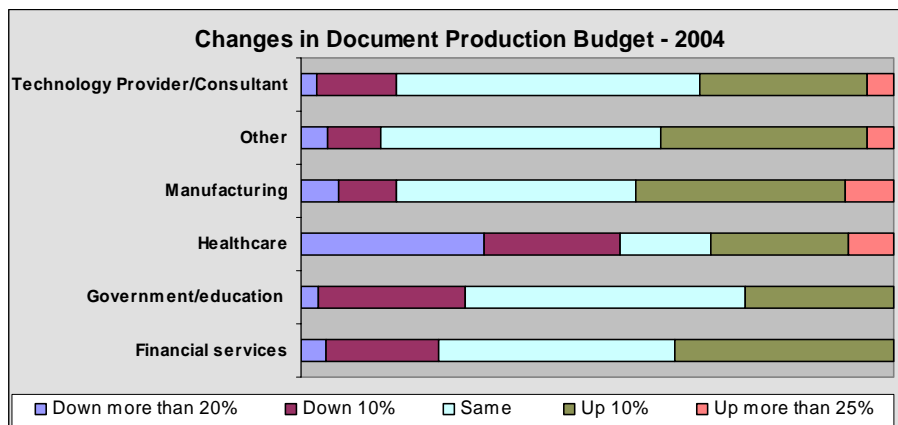


Figure 5 – Document Production Budgets by Industry

3. Firms Divided About Choice of Color Documents

The discussion of digital, variable color across the industry has been debated for several years. On one side is the need to increase communication effectiveness, while on the other is the cost of production. Based on our survey, the use of data-driven color (variable color) applications in print will be higher with 55% of the respondent firms indicating some current or intended-future usage in 2004 at some level. However, 45% of firms clearly have no such plans.

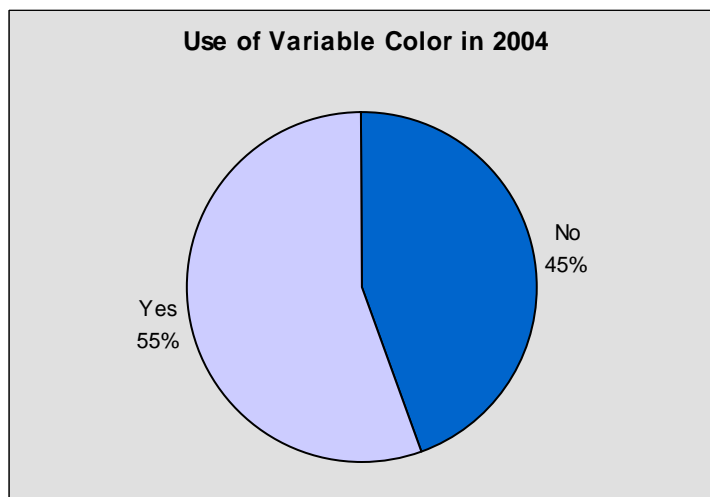


Figure 6 – Use of Variable Digital Color in 2004

But jumping to the conclusion that a majority of firms are actively using color in any significant manner may be misleading. Of those firms that currently utilize data-driven color, one-third produce less than 1% of their documents using data-driven color, while only 11% of firms currently use data driven color application in more than 25% of their document production.

“Of firms that currently utilize color, one-third produce less than 1% of their documents using data-driven color”

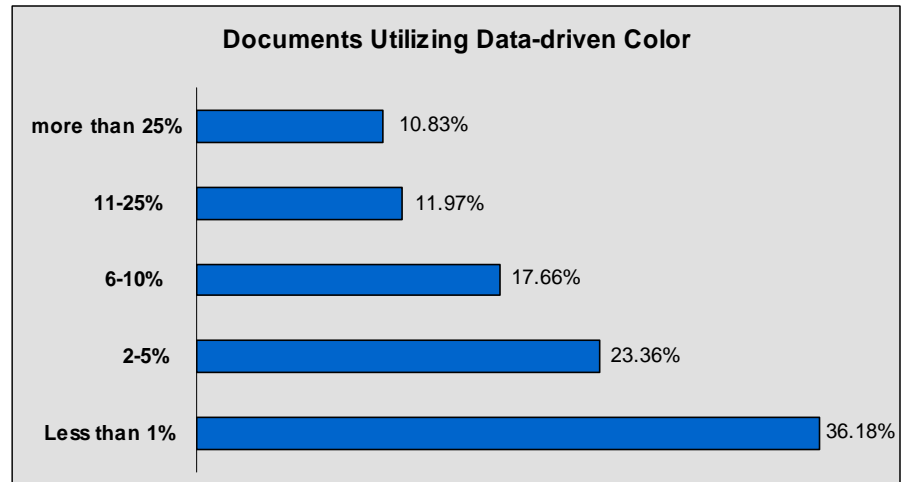


Figure 7 – Percentage of Documents with Color

Clearly our results indicate that color will continue to be a “nice to have” capability, but costs are likely to continue as a restricting factor. For that reason, firms have been selective in their use of variable color; identify a few critical applications and experimenting with select documents. If cost were not a factor, we would expect a much more pronounced and aggressive adoption of color production. Combined with the current economic strength, it will be interesting to see if digital color will finally live up to its touted expectations of being used in a majority of documents over the next two years. When we segmented “buy-side” from “sell-side” responses on this question, we find that sellers tend to be more optimistic on the use of color.

Other Priorities for 2004

Beyond the top 3 priorities, several others were noteworthy, but with much lower response rates:

- Managing Various Media Formats (5%)
- Improving Quality (4%)
- Content Mgmt. (3%)
- Using Color (2%)

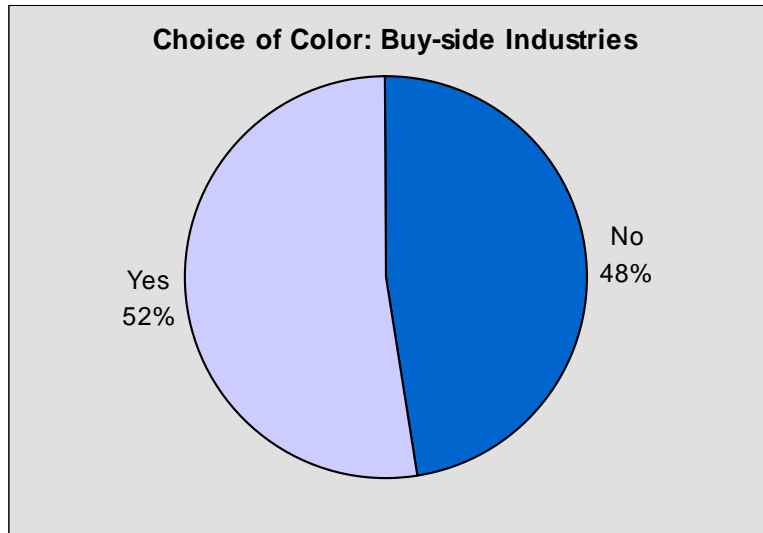


Figure 8 – Color: Buy-side Industries

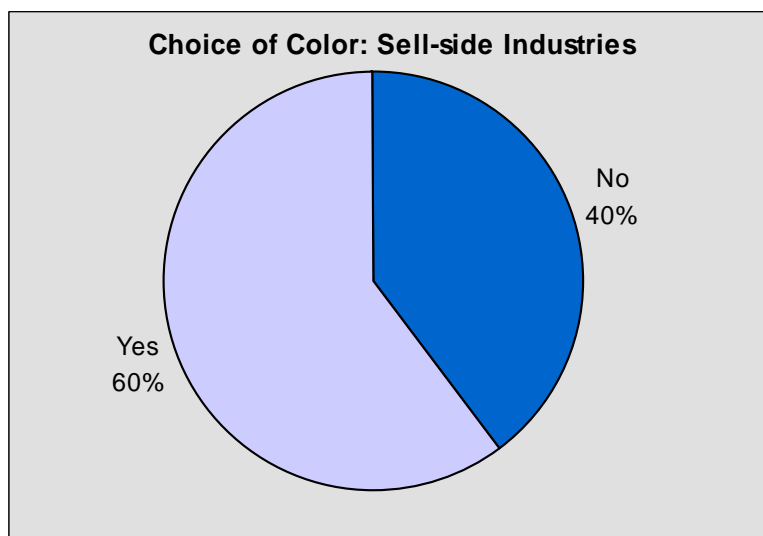


Figure 9 – Color: Sell-side Industries

Finally, it is interesting to again compare the “top priorities” responses to the indications given about color. In fact, just 2.4% of the participants indicated color as one of their top priorities for “04” (and they were given the opportunity to provide three responses), thus this lends more credibility to the argument that color is of interest, but management support and an economic business case are lacking.

“While the use of electronic distribution has grown, we have not seen a reduction in print production budgets”

4. Growing Availability of Electronic Promotional Literature Via Web Sites

When considering the amount of material available electronically over the web, nearly 80% provide this functionality today to some extent.

13% percent of firms have all of their promotional material available in electronic format that can be accessed and downloaded from their web sites and about 18% of firms have digital versions of about 60-80% of their promotional documents. For many in the industry, the concern over digital document distribution as a replacement to hard-copy fulfillment is of interest. And considering that digital distribution has been available to most firms over the last three years, the corresponding decrease in print production budgets would provide support for the resulting substitution. But, as we find in this survey, while the use of electronic distribution has grown, we have not seen a reduction in print production budgets. Thus, we can conclude what many have suspected: making documents available electronically most likely increases the use of their paper equivalents, perhaps because either buyer or seller feel the need to “follow-up” with more traditionally recognized paper-based material.

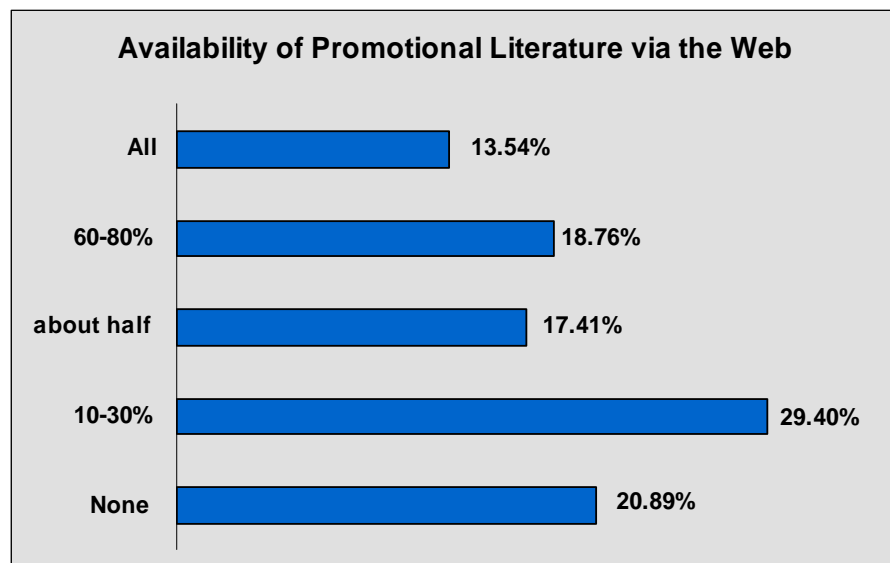


Figure 10 – Promotional Literature via the Web

“Technology providers/
Consultants lead in
digitizing promotional
literature.”

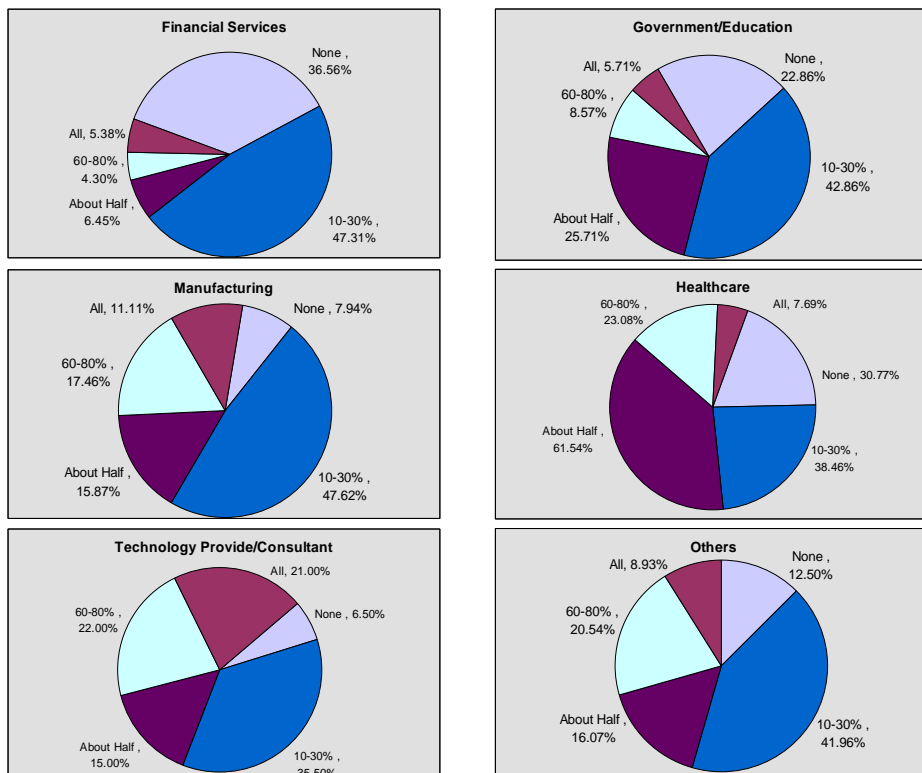


Figure 11 – Email-based Document Correspondence by Industry

From an industry perspective, 20% of financial firms have about half of their promotional material in electronic format, while only about 14% have digitized all of their promotional material. In case of Government/Education sector firms, though 56% firms have only 10-30% or no digitization, over 30% of them have more than 60-80% or full set of promotional literature digitized. Manufacturing firms follow a trend similar to that of Government firms. Technology providers/Consultants lead in digitizing promotional literature. Over 46% of technology firms have digitized about 60-80% or entire set of their promotional literature. Only 12% of the technology firms have not even started digitizing their promotional documents.

Complexities associated with sourcing documents over the web

- The logic to order paper based literature
- Dynamic routing of orders
- Batching orders into fulfillment requests
- Minimizing shipping costs

5. Firms Preparing to Embrace the Web for Providing Paper-Based Documents

Using the web to request promotional paper-based documents seems a fairly intuitive requirement. And fully 56% firms already provide opportunities for their customers to place web-based orders for paper-based promotional documents and literature. But we were surprised to find the remaining 44% not providing this capability. The explanation is most likely due to limited integration between a firm's web site and the document production facilities needed to fulfill such requests. In fact, providing a catalog of PDFs on a web site is standard "out of the box" functionality for most content management and web portal products offered commercially in the market today. But the logic to order paper-based literature, dynamically route such orders, batch them into manageable fulfillment requests, and ensure that shipping costs don't escalate are challenges that explain the many complexities associated with sourcing paper based documents over the web of any significant volume.

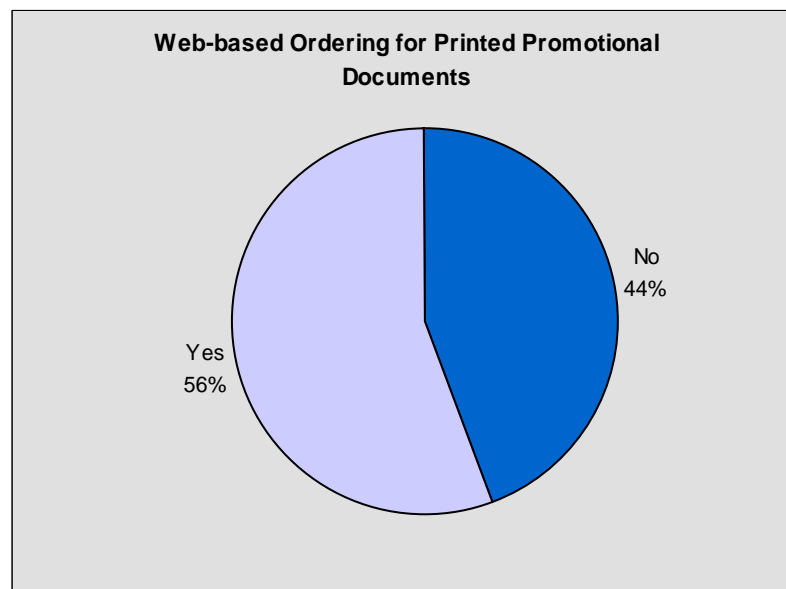


Figure 12 – Paper Documents via the Web

Across the various industries, Financial Services and Manufacturing drive this trend. Over 57% of the firms in these industries provide web-based facilities for requesting promotional literature. Healthcare firms lag behind other industries in providing web-based ordering facilities for paper-based promotional documents.

6. Document Correspondence via Electronic Mail

“13% of firms indicated that all of their customers currently receive documents by email”

On an average, 13% of firms indicated that all of their customers currently receive documents by email. On the other hand, for 15% of firms, no customers receive any documents via email. 10-30% customers receive documents by email in case of 41% of firms.

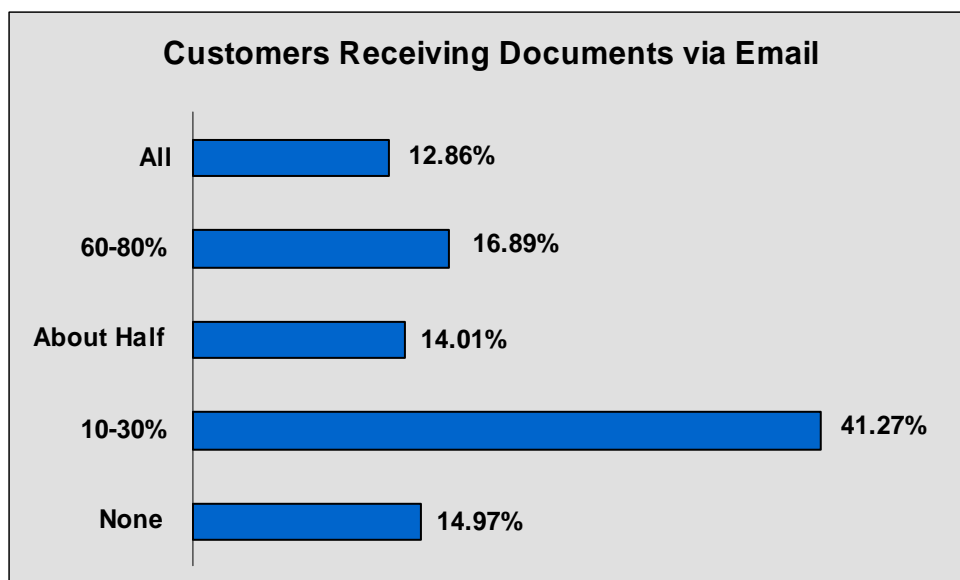


Figure 13 – Customers Receiving Documents via Email

The analysis is worth segmenting by industry. Almost 37% of financial services firms indicated that none of their customers received documents via email. About 47% indicated that the number of their customers receiving documents via email ranged between 10-30%. 5% indicated that all customers receive documents via email. An equal proportion (about 5%) indicated that about 50% of their customers receive documents via email.

In case of manufacturing, only 8% indicated that none of their customers received documents through email. Similar to financial firms, 47% of manufacturing firms indicated 10-30% of their customers received documents by email. 15% indicated that about half of their customers receive documents by email. Regarding Government/education firms, none of the firms indicated all of their customers received documents via email. About 23% seem to have no customers that receive documents by email.

“Within 15% of firms, none of their customers receive any documents via email”

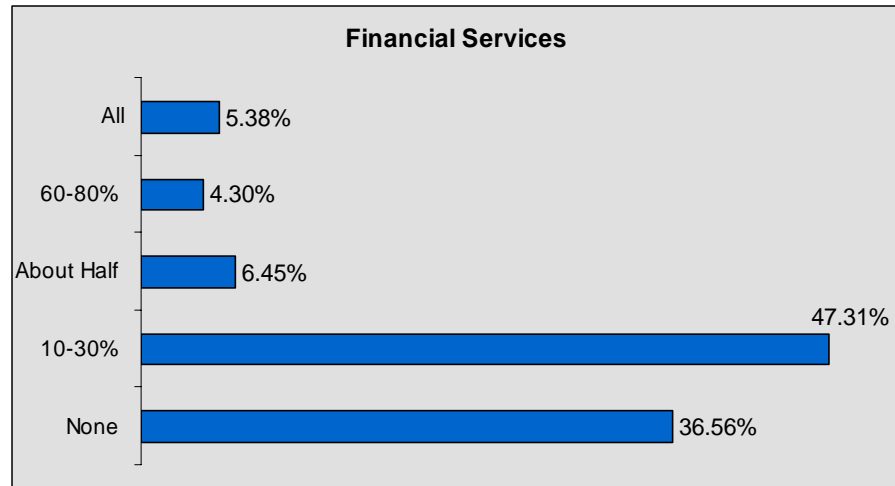


Figure 14 – Email Documents in Financial Services

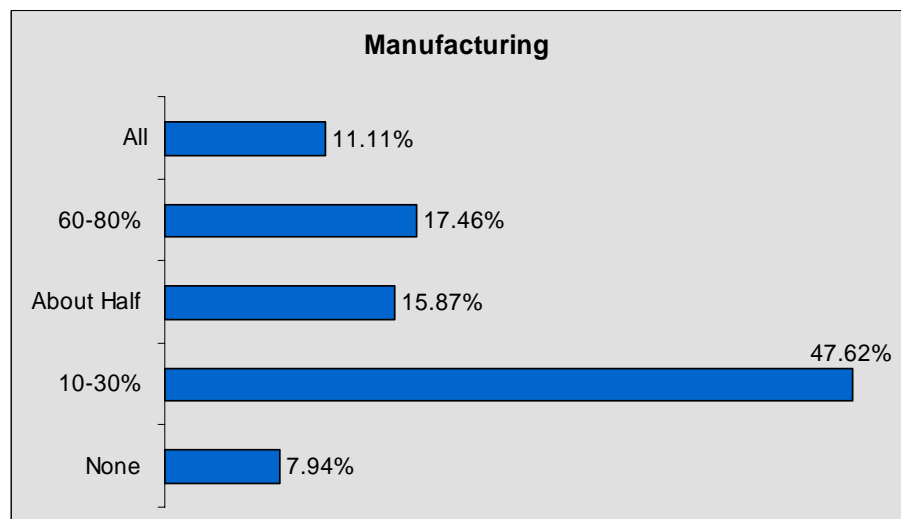


Figure 15 – Email Documents in Manufacturing

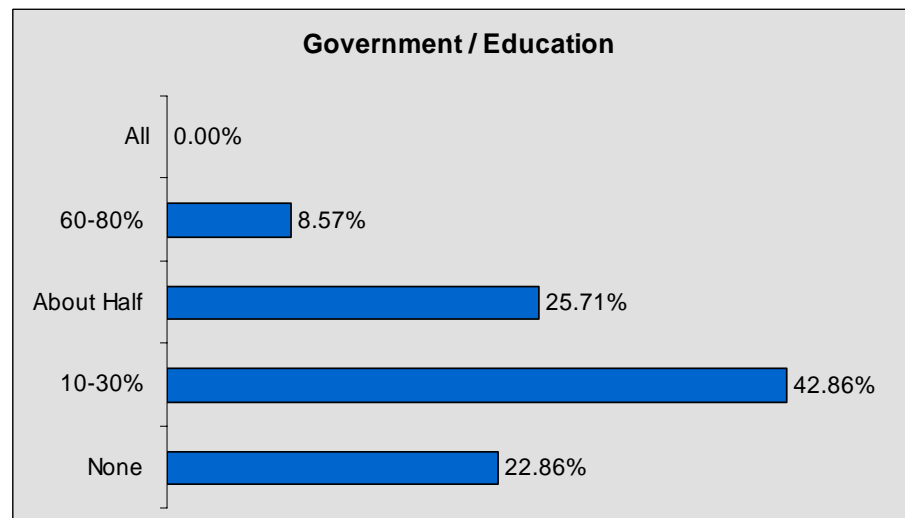


Figure 16 – Email Documents in Government/Education

“Something as mundane as managing address changes in paper-based document production processes explodes when considering email addresses”

Regardless of industry, the growing use of email and the management of inbound and outbound email processing are likely to continue to be significant challenges for organizations over the next five years. Something as mundane as managing address changes in the paper-based document production process explodes when considering email addresses. In addition, the use of email does not always supercede the need for follow-up, paper-based documentation. For these reasons, we expect the multi-faceted use of email and paper-based correspondence to drive costs upward, with any realized savings generated by paper-based document production quickly consumed by the need to manage email.

7. Firms Favor Internal Production of Documents Rather than Outsourcing

"In total, over 70% of firms still have most or all of their work done internally...yet this seems inconsistent with the general trend toward outsourcing"

Over 71% firms indicated that the documents for customer correspondence are almost entirely produced internally within the organization. Only about 10% firms get most or all of their documents produced externally through a third party. This trend also seems to be similar across industries.

Over 77% firms indicated that they do not intend to change their current distribution between internal vs. external production in the near future. While a few firms (15%) tend to favor an increase in internal production, much fewer (8%) indicated their willingness to increase their use of third parties for document production.

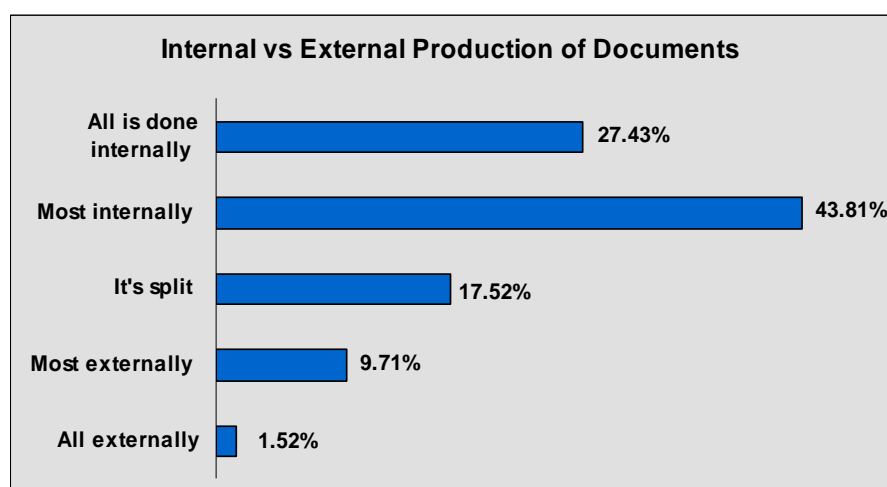


Figure 17 –Internal vs. External Document Production

These findings are certain to cause debate in the industry, and the implications can be interpreted in a number of ways. The first, obvious, conclusion is that there is indeed limited interest in outsourcing document production. The next conclusion may be that there is a disconnection between the participants' perspectives on outsourcing and that of senior management.

It is this conclusion that may be of most interest for several reasons. First, there is a preponderance of data that demonstrates a keen interest in outsourcing for strategic purposes. CFO magazine, the Gartner Group, and others report a management bias toward outsourcing. Yet the term "outsourcing" is widely used in a number of different contexts: off-shore development, Business Process Outsourcing (BPO) of human resource and purchasing functions, and data center or help desk IT outsourcing. Where exactly does print outsourcing fit? The answer is unknown, but most likely the distinction of BPO seems most applicable when one considers the *process* of customer correspondence to include tasks such as enrollment, fulfillment, as well as printing and mailing.

“Is the process of manufacturing paper documents critical to the overall customer experience?”

Next, when considering the tremendous fixed costs, excess capacity as a result of the transition to electronic distribution, and the pressure to divest non-core functions, the question of outsourcing rests squarely in how an organization views customer correspondence. Is it a strategic process? More specifically for example, while a Financial Services firm may consider customer correspondence strategic, is the process of manufacturing paper documents critical to the overall customer experience?

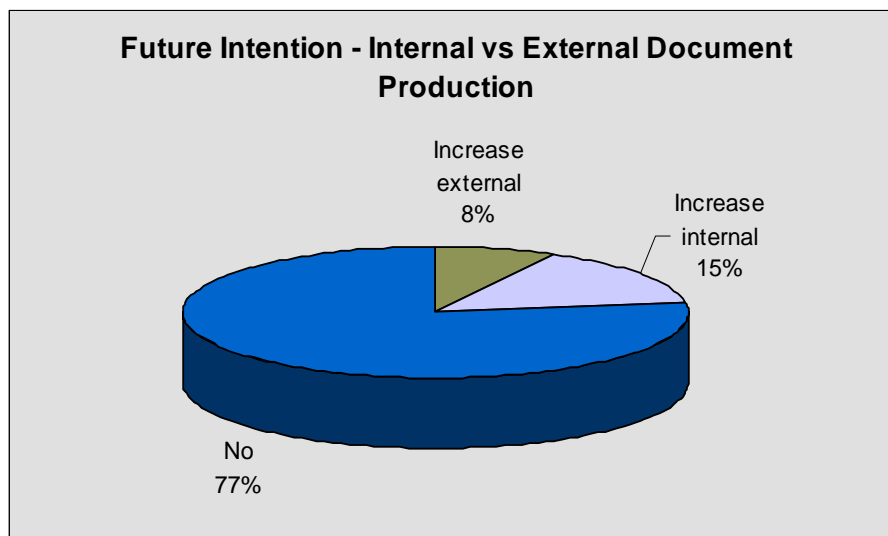


Figure 18 – Future Intention: Internal vs. External Document Production

Finally, there is the question of competitive stimulus. For the 27% of firms that produce work entirely internally, one has to wonder if any organization (internal or external) can maintain a competitive advantage given the diversity of application requirements. For a firm that produces just credit card statements for example, this may be the case. But certainly there are a broad array of complimentary marketing documents, solicitations, and promotional materials that introduce manufacturing complexity which would question whether some form of sourcing would be more appropriate. “Co-sourcing,” a term used to describe a mix of internal and external production, allows a firm and its suppliers to focus on a particular narrow set of applications providing the requisite economic benefits of increased utilization and manufacturing efficiency. This approach is becoming more pronounced in the industry, as over 70% of the firms (those indicating “mostly internal”, “its split”, and “mostly external”) have at least some nominal amount of work spread between their internal function and a supplier.

8. Critical Issues in Document Communications in 2004

Top Priorities

- Cost control and reduction
- Going electronic
- Meeting diverse demands of customers

Of the questions we asked that were open-ended, the most statistically relevant was the question concerning top priorities for 2004. Respondents were given the opportunity to provide three responses. And seldom do we find such concentration around just three responses: cost reduction, electronic distribution (“going electronic”), and meeting diverse customer requirements. In fact, these responses dwarf the others by 3 to 5 fold, clearly indicated some common themes the industry is attempting to address.

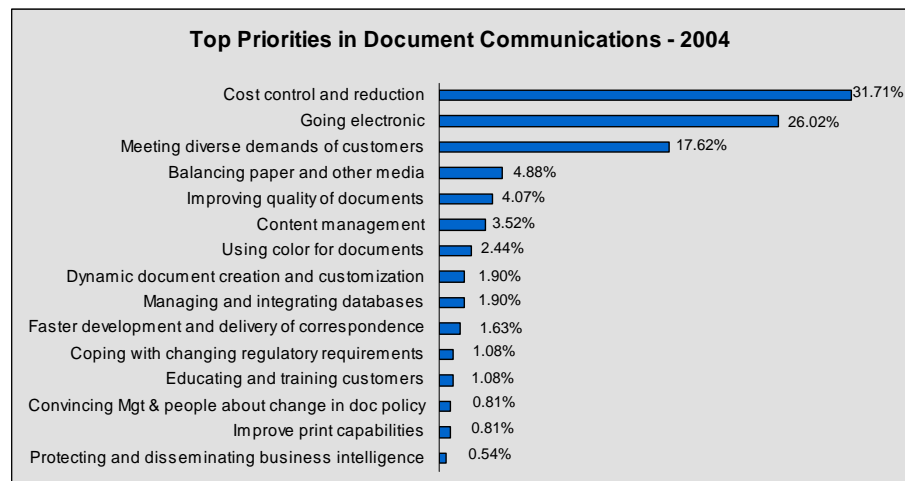


Figure 19 – Top Priorities in Document Communications

What makes these responses interesting is their comparison to the other questions in our survey. As noted before, cost reduction is the top priority, yet budgets appear to be increasing. Or, while the use of color is appealing, only 2.44% selected it as one of their top priorities for 2004. Speed and compliance appear well down the list, as do a number of other issues often discussed in the industry. The explanation may be the difference between strategic initiatives (the top 3 or 4 on this list) and tactical imperatives. Thus, an organization may need to “keep the lights on” by integrating databases to better handle return mail and protect business intelligence by ensuring their facilities are secure. But the strategic need to reduce costs and migrate toward an electronic means of distribution far outweigh these tactical initiatives, and all industry participants should be reminded of this distinction in emphasis. Given the choice to “save a buck” or speed delivery times, the answer will undoubtedly be the need for savings.

“Give me my documents electronically as well as in hard-copy, do it quickly, make sure the quality is sufficient, etc.”

9. Top Requests from Customers on Document-Based Correspondence

When we asked about the requests being made from external customers and examined those responses with greater than 5%, we have 9 fairly intuitive responses. Few in the industry would be surprised by these findings, but perhaps reminded of the document user’s simplicity in satisfaction (“give me my documents electronically as well as in hard-copy, do it quickly, make sure the quality is sufficient, etc.”)

When you compare the previous question on top priorities to these responses on customer requests, it is apparent that a significant “rationalization” is taking place on the part of managers responsible for their firm’s document strategies. In other words, given the 9 most likely requirements in the market, just three priorities are chosen to pursue. The process of rationalization is clearly an indication of resource constraints and strict discipline resulting from the past economic slump.

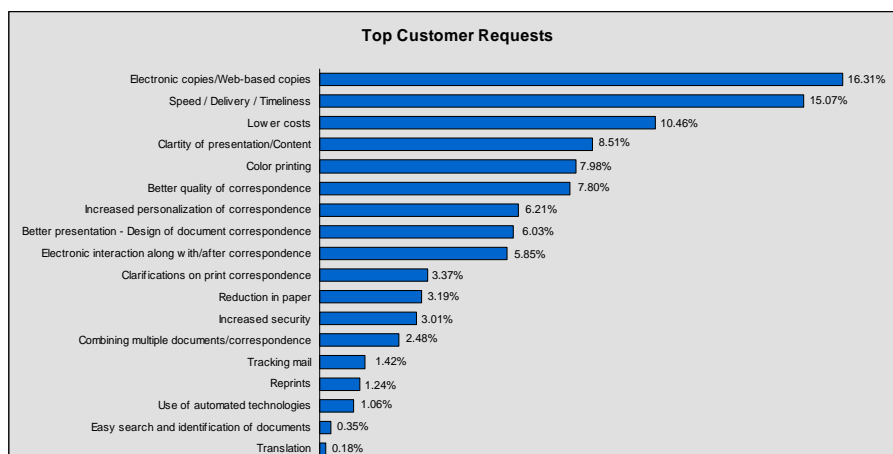


Figure 20 – Top Customer Requests

Two data points relatively low on the list may be worth additional consideration: “tracking mail” and “combining multiple documents/correspondence.” Both offer organizations an opportunity to reduce costs. For example, tracking mail may afford an organization with the ability to more accurately staff its call centers, reducing excess capacity. Or, combining mailings, often referred to as “house holding” is attractive to both the mailer and the recipient (not wanting to open three individual mailing from one provider). The fact that both of these are included as preferences of customers and afford the potential of savings may make both critical issues in years to come.

10. Postal Costs

“Most organizations do not have well formulated plans for addressing postal cost escalation”

Our final question concerning the need to address increased postal costs. The issue is of significant importance because of the recent activity in Washington with the President’s commission on postal reform (available at www.ustreas.gov/offices/domestic-finance/usps/). We included this question to determine what strategies and tactics might be in place to minimize postal spending, or at a minimum slow its growth.

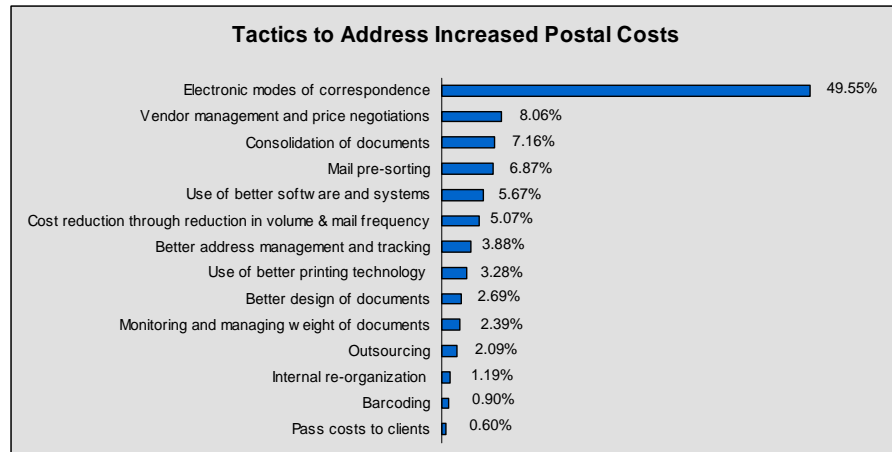


Figure 21 – Tactics to Address Increasing Postal Costs

Overall, there are three key findings: first, that electronic distribution is seen as the simplest means to reduce costs; second, through a series of process improvements, additional efficiencies can be squeezed out, primarily due to the pricing policies of the USPS (such as pre-sorting, first vs. standard classification, etc.); and finally, negotiating with the USPS is seen as a viable approach to gaining price concessions. This third finding is of keen interest to the industry at large, as the monopolistic charter of the USPS is being considered for modification in some manner to take on more dynamic, competitive practices.

Finally, in consideration of the concern over postal cost escalation, was the interesting dynamic that we received the fewest responses to this question compared to other questions on our survey (for example, approximately half of the responses to other questions). This may be because our question on postal costs was the last question in the survey, and respondents were running short on time, but more likely is the conclusion that most organizations do not have well formulated plans for addressing postal cost escalation. This is not surprising, given the general feeling that these expenses are “uncontrollable,” but like several other findings in this study, well worth watching in the years to come.

IV. Conclusion

While this study provides many interesting perspectives on the future of the electronic document communications industry, it raises just as many questions. For example, how will the economic trade-off between funding paper-based and electronic correspondence be managed? Or what is the likely outcome of postal reform and how will it influence the interest in electronic distribution to address escalating costs?

EDSF's leadership in funding primary research and education will continue to examine these and other important issues in our industry and assist in guiding both buyers and sellers in the market to reach their overall business goals. EDSF invites all members of the industry to participate in its efforts by making charitable contributions that are directed towards scholarships and grants within the academic community.

With change comes opportunity. Companies have the ability with new technologies and communication vehicles to position their companies for the future. Concentrating on systems that provide the ease of multiple delivery options (paper, electronic, wireless, etc.) should be a goal for the buy-side companies and the sell side companies to create products and services; reduction of postal costs (which in most cases is much greater than printing costs) should be a number one priority since cost is such an issue: the use of outsourcing to reduce capital expenditures and provide for the most current technology needs to be examined by all companies: and middle management need to work together to have common goals for the company's strategic direction.

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EDSF
24238 Hawthorne Blvd.
Torrance, CA 90505 -
6505 USA
(310) 541-1481

Doculabs
120 S. LaSalle St
Suite 2300
Chicago, IL 60603 USA
(312) 433-7793

**Center for Research and
Information
Management,**
University of Illinois at
Chicago
601 S. Morgan Street
Chicago, IL 60607 USA
(312) 996-2676

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The Electronic Document Systems Foundation (EDSF) is a worldwide, non-profit (501(c)(3)) organization dedicated to enhancing and promoting the value, significance and relevance of document communications to organizations and society. We enable professionals and the public to learn about and derive benefit from paper, electronic and digital documents; especially as documents are continually transformed by emerging technologies. The goal of EDSF is to be a catalyst for education and research initiatives; and, to bring the electronic document industry together to help resolve issues that impact society. EDSF is building a community of mutual interest and support for document communications.

The Foundation serves vendors and users who design and implement document solutions for business applications. The scope of these solutions include the capture and creation of documents, the printing and viewing of documents, the transmission of documents for the purpose of communicating, and the management processes and services necessary for a complete document solution. For more information about EDSF, please visit www.edsf.org or phone (310) 541-1481.

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