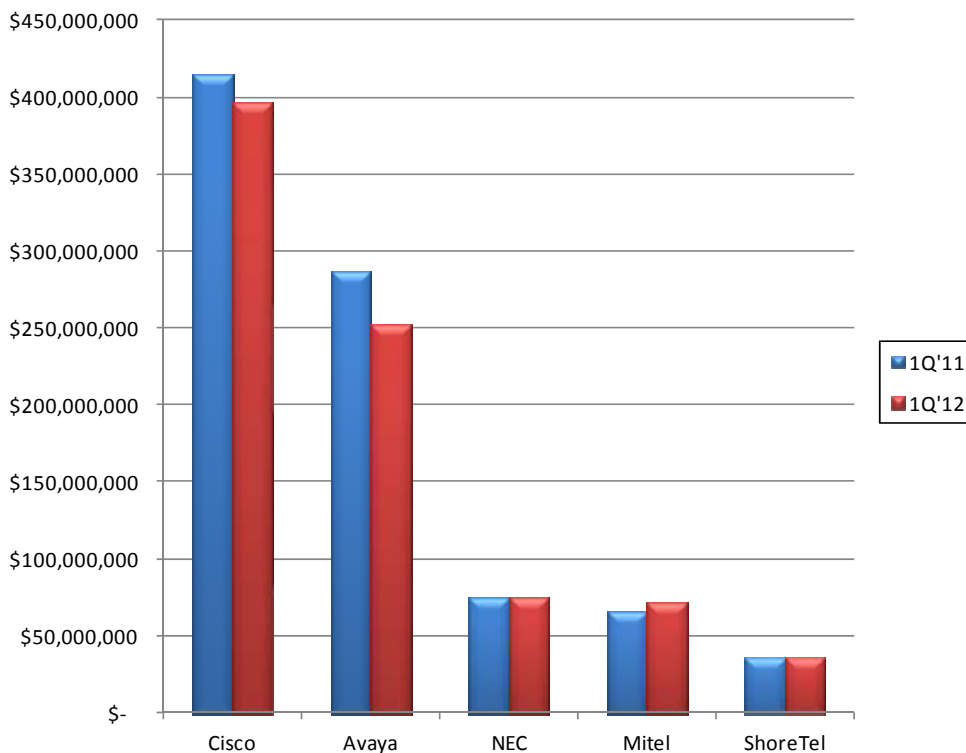


IntelliCom Market Dashboard Spotlight:
Mitel Gains Ground In Turbulent North American Business Communications Market

When North American market results were published in the First Quarter 2012 edition of our *IntelliCom Market Performance Dashboard* report earlier this month, two things were readily apparent. The first was that the market as a whole suffered its worst performance since beginning to emerge from the depths of the recession more than 2 years ago as enterprise decision-making slowed and sales cycles lengthened in an increasingly uncertain macroeconomic environment. The second was that Mitel was alone among the major players in posting a significant year-over-year increase in revenues as a number of its competitors stumbled. (See chart below illustrating how Mitel's 10% annual growth rate contrasted with the remainder of the top 5 players.)

North American Business Communications Revenues (Q1 2012 vs. Q1 2011)



*IntelliCom Market Performance Dashboard*SM, June 2012

I had the opportunity to attend Mitel's business partner and analyst summit in San Diego last week, and there were a number of initiatives and developments highlighted at that event which likely contributed to this performance:

The first was that Mitel has substantially revamped its channel model in the U.S. market over the past year. While Mitel has long been primarily partner-led in other parts of the world, the company inherited a large direct sales force with offices throughout the U.S. when it acquired Inter-Tel in 2007. Although the direct channel worked very well for Inter-Tel and its managed service packaging approach for a number of years prior to the acquisition, Mitel's existing independent channels often found themselves competing with direct sales offices following the merger. This channel conflict proved counterproductive and sales stagnated coming out of the 2008-2009 recession compared to other regions of the world. But over the past 12 months, Mitel has largely transformed the direct force into a "direct touch" organization that supports channels in closing sales rather than competing directly with them for the entire customer relationship. Mitel still maintains full direct relationships with a number of "VIP" customers that demand this level of access, but the percentage has dropped dramatically. At the same time, channel sales zoomed more than

40% over the past year according to Mitel, contributing solidly to the recent revenue growth.

Mitel also has made a number of technology bets in recent years that appear to have been well timed. The company's relationship with VMware has placed it among the leaders in supporting virtualization of business communications applications – including call control – a key factor differentiating its value proposition at a time of rapid adoption of virtualization by enterprise IT organizations. This virtualization support also serves as a key enabler of cloud-based delivery options supported both through Mitel's own AnyWare offerings and services some of its channel partners are launching based on its virtualized applications suite. The underlying software functionality for these cloud offers is essentially the same as that for traditional on-premise packaging, giving Mitel another differentiator to competitors approaching the cloud with entirely separate architectures. Based on a survey conducted jointly by IntelliCom and TMCnet in April of this year, businesses appear to be gravitating toward a blend of premise and cloud rather than exclusively one way or the other, and they highly value flexibility in delivering targeted applications to specific users and the ability to scale capacity up or down as needed. Supporting this range of options with a common software architecture and full license portability as customers move users between premise and cloud offers over time plays well to these evolving customer requirements.

Although not as strong a factor as the channel and delivery model changes, Mitel is also starting to see greater traction from its UC applications portfolio. The attach rate of its UC Advanced unified client has been growing steadily and reached 20% of new call control seats in North America during Q1. While Mitel offers a more basic Express version for free, the Advanced client shipments represent customers paying extra to equip users with a more robust UC client. Continuing to boost this attach rate will be important, as the desktop represents a potential vulnerability that Microsoft and other emerging competitors are trying to exploit in order to better penetrate the installed base of Mitel and other legacy providers. And it is often taking place through decision points elsewhere in the IT organization from those with direct telecom responsibility, potentially blindsiding traditional channel partners that have not broadened their sales discussions.

So continued focus on the channel, and more specifically on evolving its composition to better exploit Mitel's increasingly software-centric delivery models, is likely to be a key determinant of whether the company can extend its recent gains in North America and other regions. The VMware relationship has opened up a new class of channel partners and enterprise discussion points that Mitel now has the opportunity to leverage, but tools and incentives aimed at helping long-time voice partners to adapt their sales approach to better reach broader enterprise stakeholders and expanded marketing efforts targeted to this extended audience will be critical to fully maximize the opportunities created by the technology investments of the past several years now coming to fruition.



Frank Stinson is a Partner and Senior Analyst with IntelliCom Analytics and leads the firm's *IntelliCom Market Dashboard (IMD)* and *IntelliCom Market Performance Dashboard (IMPD)* research programs. In this role, Stinson provides clients with ongoing strategic assessments of the positioning, direction, and market performance of leading Business Communications providers in the context of key trends transforming the industry. The rapidly unfolding shift to software-centric communication architectures now underway is central to this analysis, along with the UC and business application integration initiatives that leverage them.

IntelliCom Analytics is a professional services and business research provider focused on the rapidly evolving Business Communications and Collaboration market. With a broad set of competencies ranging from competitive assessments and benchmarking to highly targeted demand forecasts based on detailed embedded base analyses, IntelliCom Analytics brings a wealth of finely honed skills, expertise and market opportunity insights to client engagements. For further information, visit www.intellicom-analytics.com.

CONTACT
Frank Stinson
fstinson@intellicom-analytics.com