

IntelliCom Market Dashboard Spotlight:

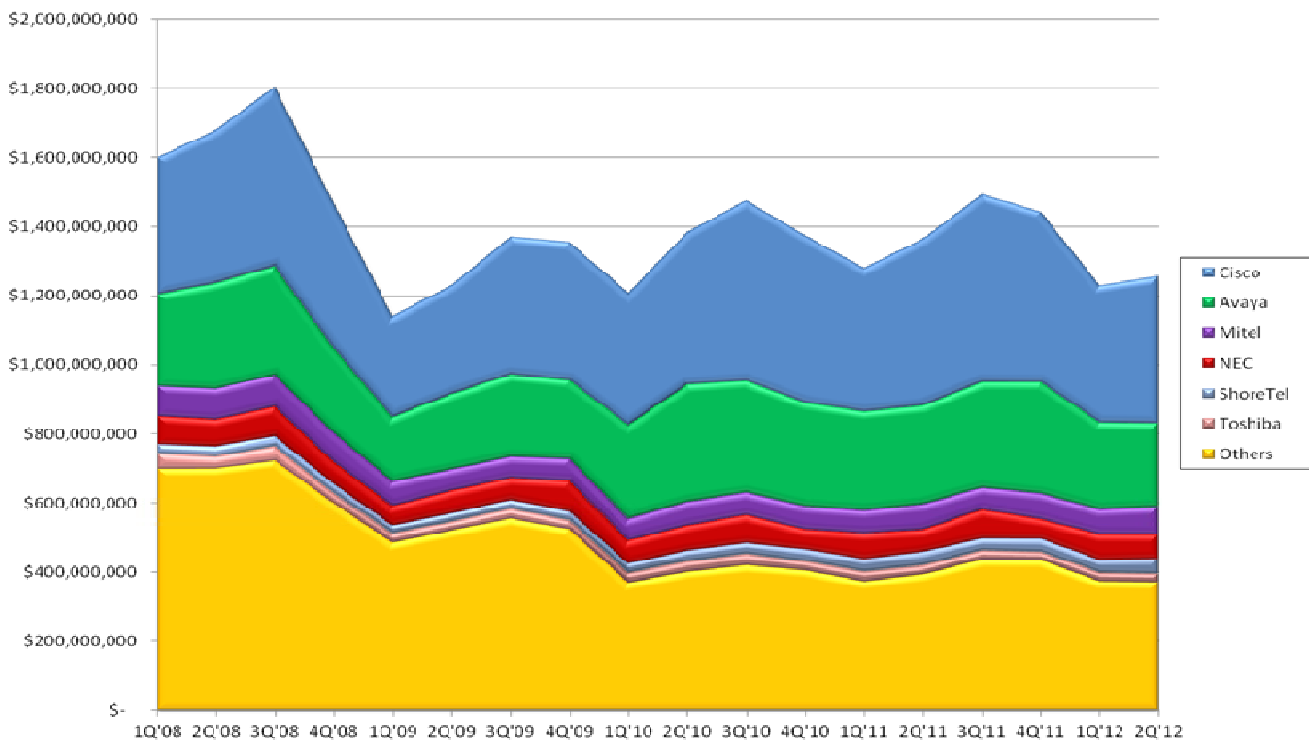
North American Business Communications Market Declines 8% In Calendar Q2

The North American Business Communications market continued to operate in negative territory for the second consecutive quarter in calendar Q2. Based on the *IntelliCom Market Performance Dashboard 2nd Quarter 2012 Report*, total manufacturer product revenues across all voice platforms, end user devices, and traditional and Unified Communications (UC) software applications declined by 8% compared to the same period a year ago.

Macroeconomic uncertainty appeared to be a leading driver for the ongoing industry weakness as enterprise customers delayed new implementation decisions and/or the pace of already active rollouts. As such, the larger business size segments bore the brunt of the decline for the quarter while the SMB segment was somewhat less severely impacted.

The second quarter also produced particularly interesting competitive dynamics with the top two competitors declining by double digits while the remainder of the top 5 posted solid growth for the quarter. Cisco and Avaya, in particular, appear to have been most adversely impacted by tight spending by large enterprise organizations given their traditional strength in this segment. The chart below summarizes these dynamics relative to the historical quarterly performances of the past 4 years.

North American Business Communications Total Manufacturer Product Revenues (1Q'08 – 2Q'12)



Source: [IntelliCom Market Performance Dashboard, September 2012](#)

Specific competitive highlights from the report include:

Cisco remained the overall market leader in Q2 but experienced a 12% decline in total manufacturer product revenues compared to the second quarter of the previous year. While the drop in call control software revenues for the quarter was consistent with Cisco's overall revenue decline, UC client revenues

fell nearly three times faster. This was largely due to the success in previous years of Cisco's CUWL license packaging incenting its installed base customers to incorporate richer UC application bundles in their IPT platform upgrades. With a large portion of the base now having taken advantage of these initiatives, UC client shipments are dropping to a level more in line with new call control platform deployments and expansions.

Avaya continued in the number 2 position in North America in the second quarter, unable to close the gap to Cisco due to the same macroeconomic drivers dampening its enterprise results. Total manufacturer product revenues declined by more than 15% compared to the same period a year ago causing Avaya to lose ground to all of its leading competitors. Avaya's overall revenue share dipped below 20% for the first time since Q4 of 2009 – just prior to the acquisition of Nortel Enterprise Solutions. A number of recent solution launches including the AvayaLive Connect hosted service and a more scalable, server-based version of IP Office will likely have a positive impact in future quarters but did not arrive in time to influence the Q2 performance.

Mitel was number 3 overall in the North American market in Q2 – its third consecutive quarter of solid growth in a tightening market. Total manufacturer product revenues were up by more than 9% for the period. A shift to a direct-touch sales model instituted a year ago appears to have stabilized and returned the U.S. business to growth over the past few quarters as channel-led sales have grown rapidly in the absence of competition from Mitel's direct sales offices. Mitel's leadership in promoting VMware-based virtualization of its enterprise portfolio and the Mitel AnyWare cloud-based offerings also link closely to a number of prominent industry trends impacting both small-business and enterprise customers.

NEC slid to fourth place in the second quarter but still produced year-over-year growth in the 8% range. As documented in previous quarters, NEC's 6-month fiscal calendar typically produces a regular quarterly pattern of alternating stronger and more modest positioning leading to these regular changes in relative ranking. In the enterprise range, strong sales were noted to the healthcare, education, and hospitality verticals by NEC's mainstream enterprise IP-PBX, the UNIVERGE SV8500. NEC's next-generation, software-based UNIVERGE 3C solution became generally available in July and is expected to play a significant role in the high end over the next several quarters, including in the industry verticals that the SV8500 currently targets.

ShoreTel regained its footing in the North American region during the second quarter after a lackluster performance during the prior three-month period. Total manufacturer product revenues for the quarter rose by 11.5% on an annual basis -- the strongest performance among the leading providers. ShoreTel completed its acquisition of M5 Networks during the previous quarter, and this likely created some short-term disruption that slowed momentum in Q1. ShoreTel has been taking an incremental approach to integrating the M5 hosted business so far with the recently-established interoperability with the Agito-based ShoreTel Mobility offers and just-announced new branding of the M5 solution set as ShoreTel Sky. Deeper architectural integration with premise-based offerings may be possible in the longer-term but would require significant development to modify or replace existing platforms.

With two consecutive quarters of negative growth so far this year, 2012 looks like it will be a flat year at best for the North American business communications market – assuming modest improvement in the second half that is by no means certain. While a number of SMB and Mid-Market focused providers have achieved some positive momentum, those focused on large enterprises are clearly struggling against macroeconomic headwinds. And their task will become no easier as Microsoft gears up for its upcoming Office 13 launch.



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

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CONTACT

Frank Stinson

fstinson@intellicom-analytics.com