



Company Profile: Market Understanding and Innovation Equal Success for Interactive Intelligence

Executive Summary

Decision Point:	Customer-Centric Strategies
The Bottom Line:	Interactive Intelligence has become a major player in today's global VoIP business communications software suite marketplace. The company's success is a result of its research and development, entrepreneurial drive and early understanding of customer needs in the rapidly evolving IP telephony marketplace.
Key Concepts:	VoIP, multichannel contact centers, IP telephony software suites
Who Should Read:	CIO, CEO, VP of marketing, contact center manager

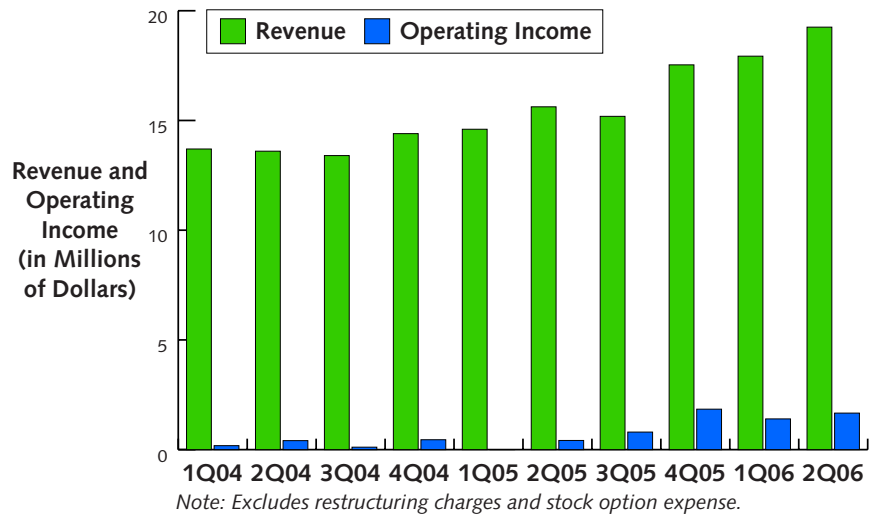
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More than a decade ago, enterprise customers using telecom equipment and services suffered with systems based on closed, proprietary, hardware-based platforms that were expensive to buy and maintain, and difficult to manage. In addition, the proprietary nature of operating systems made integration with other applications a major expense and challenge, if it was possible at all. This was especially a problem for call centers dealing with the expanding modes of customer channel access, driven by the advent of the internet and the host of peripheral best-of-breed applications required for effective customer care. The major telephony hardware equipment providers had little motivation to change this situation.

Exhibit 1.

Interactive Intelligence Financial Results

Source: Interactive Intelligence, 2006



Interactive Intelligence Inc. was founded in 1994 by Donald E. Brown to focus on developing and selling innovative "all-in-one" contact center and enterprise telephony software products that contributed to correcting these issues. Interactive Intelligence provides business communications software solutions for four main markets: contact center automation, self-service automation, unified communications and enterprise IP telephony (the fourth through its Vonexus subsidiary).

The company reported \$62.9 million in annual revenue in 2005, with an approximate 53%/47% product/services revenue flow split. The company is now producing consistent revenue growth (currently above 20%) and sustained profitability, with ten reported consecutive profitable quarters (see Exhibit 1). It has established a global sales footprint with 58% of last year's orders derived from the Americas; 25% from Europe, the Middle East, and Africa; and another 6% from Asia-Pacific and Japan. The remaining 11% of orders were attributable to the Vonexus subsidiary. Yankee Group believes these achievements are significant in a marketplace that has been characterized by customer confusion and technological turmoil for the past 5 years.

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I. Introduction

Interactive Intelligence has become a significant player in today's global VoIP business communications software suite industry. The company's success is a result of its research and development efforts, entrepreneurial drive, well-rounded suite of offerings and early understanding of customer needs in the rapidly evolving IP telephony marketplace.

The company's business stability and consistent profitability position it well for success in the VoIP enterprise marketplace. Yankee Group predicts this technology will soon enter a period of rapid growth and a high level of enterprise penetration.

II. Company Analysis

Strategy and Mission

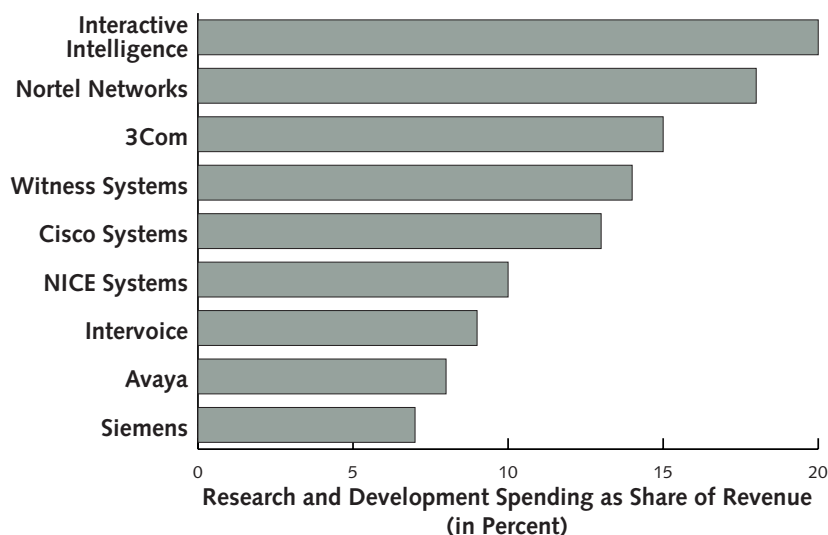
Interactive Intelligence has built its success on a history of identifying market needs and investing in technological research and development to produce new, innovative products and services for small and medium contact centers (centers with fewer than 300 agents). Today, the company has expanded its market focus to include some of the largest multinational enterprises in the world.

Unlike competitors that acquire products to broaden their portfolios, Interactive Intelligence bases its product line on built-in converged applications running on a single, pre-integrated platform. As a result, the pre-integrated suite does not require costly and time-intensive computer telephony integration (CTI) projects, which have become relatively common in the industry.

The company continues to invest an average of 20% of its annual revenue into research and development, which will enable it to remain a technology leader. This level of investment exceeds that of several better known telecom industry names, including Avaya, Cisco Systems, Nortel Networks and Siemens Communications, which all have lower research investment/revenue ratios (see Exhibit 2). The result of this focus on—and financial commitment to—research has paid off with an impressive list of industry firsts for this relatively young organization.

Exhibit 2.
Spending on Research and Development in Telecom Industry

Source: Public Financial Filings



In 1997, Interactive Intelligence developed the first PBX, automatic call distribution (ACD), and interactive voice response (IVR) product delivered on a single platform. In 2001, the company developed the first multichannel skills-based routing application capable of handling voice calls, chat sessions and e-mails. The next year, Interactive Intelligence introduced the industry’s first Session Initiated Protocol (SIP)-based contact center suite, and then in 2003, the first all-software internet protocol (IP) PBX.

This record of innovation—coupled with the company’s first-to-market approach in all-in-one modular enterprise telephony platforms and VoIP and SIP-based offerings—distinguishes the company from much of its competition. Based on its record of innovation and a solid go-to-market strategy, Interactive Intelligence has joined with partner companies and 250 value-added resellers to capture more than 2,000 customers in 55 countries. It achieved this within 8 years of introducing its first product.

Initially, the company aimed to capture the small and medium segment of the contact center marketplace. Although this strategy worked well, Interactive Intelligence realized that long-term success would depend on garnering market share of larger enterprises worldwide. As a result, much of the company’s 2005 growth was due to successful sales and customer expansions in the Europe, Middle East and Africa (EMEA) region. Notable EMEA wins included BMW, Amway and Arcor (the second largest telecom carrier in Germany).

In 2005, the company introduced a SIP media server that can accommodate 5,000 users on a single Customer Interaction Center (CIC) server as well as multisite deployments. These enhancements position the company as a formidable competitor against even the largest, most established enterprise telephony equipment/software providers.

The Interactive Intelligence product line has expanded beyond the boundaries of the contact center. It offers a fully architected SIP solution with multimedia and skills-based call routing, outbound dialing, campaign management, IVR, speech recognition, unified messaging, quality monitoring, voice and screen recording, workforce management, reporting, real-time supervision, network-based pre- and post-call routing, e-mail auto response, knowledge management, web chat/callback, desktop soft phone, and presence management running on a non-proprietary, single platform.

Product Offerings

Interactive Intelligence has an integrated suite of products and applications that focus on providing less expensive VoIP enterprise solutions that work together without major integration efforts, and are easier to manage than the non-integrated, best-of-breed solutions used by many enterprises. The company's products serve four major telecommunications markets:

- **Contact center automation:** The Interactive Intelligence Customer Interaction Center solution is a pre-integrated contact center automation software suite capable of handling multiple media types (voice calls, e-mail, web chats, faxes, text messages, etc.) using one set of business rules and management tools. It is configured on a single, open applications server and can replace disjointed "multi-box" hardware-based communications systems. The latest version of this product (CIC 2.4, released in the fourth quarter of 2005) added increased scalability, improved reliability, new agent optimization features and Mobile Office enhancements for speech-enabled enterprise-wide messaging. Interactive Intelligence has also announced a new workforce optimization module, called Interaction Optimizer, which includes forecasting, scheduling and real-time adherence features.
- **Self-service automation:**
 - **Speech recognition and IVR:** The Interactive Intelligence Vocalité solution is a speech-enabled IVR system offering customer self-service for organizations of all sizes. The product was designed as a less expensive, easier to implement speech recognition-enabled IVR solution that enables enterprises to save time and money on application development, training and deployment while introducing VoIP to the enterprise.
 - **E-mail response management system and web self-service:** The Interactive Intelligence e-FAQ solution is a web-based self-service, knowledge management and e-mail auto-response system for organizations of all types and sizes. The product's natural language and Boolean search techniques offer a simple alternative to self-service products using case-based reasoning. It also eliminates the need for specialized knowledge-base engineers.
- **Unified communications:** The Interactive Intelligence Communité solution is a standards-based, unified communications system offering unified messaging, voice mail and real-time communications services for large organizations, including a vertical emphasis on institutions of higher education. The product is intended as a replacement for "end-of-life" hardware-based voicemail systems, or for companies upgrading their phone systems to VoIP.

- **Enterprise IP telephony:** Although often delivered as additional enterprise functionality of the CIC product, the company's main push into the enterprise market is with its Enterprise Interaction Center (EIC) solution, available from the company's Vonexus subsidiary. EIC is the first standards-based SIP-ready, Microsoft-based IP communications system built on open standards and offering prepackaged IP PBX, auto-attendant, IVR, ACD and messaging functionality, along with Microsoft .NET Office desktop plug-ins. Pre-integrated Microsoft Business Solutions applications include Microsoft Dynamics CRM and Great Plains, along with Microsoft Exchange and Outlook for unified messaging. The latest version of this product (EIC 2.4, released in the second quarter of 2006) added increased scalability, improved reliability, packaging enhancements, new SIP phone features and Mobile Office enhancements for speech-enabled enterprise-wide messaging.

The Interactive Intelligence pre-integrated application suite covers contact center automation, self-service automation, unified communications and enterprise IP telephony. It offers a single point of administration and customization, real-time quality monitoring across applications for end-to-end reporting, the ability to apply business rules across systems for workflow integration, and the provision of both agent and business user applications running on a single platform to cost effectively extend customer service throughout the enterprise.

The Interactive Intelligence software suite offers a cost-effective and seamless migration path to VoIP because it was built as a separate applications layer, offering consistent administrative interfaces, user software, information management and reporting capabilities. In addition, Interactive Intelligence has incorporated the open SIP standard for VoIP into every aspect of its product line, which makes functionality available using all vendors' phones and phone systems.

The Outlook for the Future

The Yankee Group *2005 North American Contact Center VoIP Adoption Survey* forecasts that 47% of all North American contact centers will have implemented some level of VoIP functionality at the agent desktop by the end of 2007. In addition, we estimate that average VoIP penetration of contact center agent seats will approach 60% by the end of 2008. This is good news for vendors of VoIP equipment and technology that have been waiting several years for the shift from the "early adopter" to the "mass market" phase of VoIP adoption. Although larger contact centers were the first to adopt VoIP, our survey data suggests the trend is moving into medium-sized centers and that VoIP will continue its migration into smaller centers.

Yankee Group believes Interactive Intelligence is well positioned to maintain a major role in the conversion of contact centers—as well as the small and medium enterprise telephone switching systems—to VoIP technology. However, there is some risk that converting contact centers and enterprise telephone switching from proprietary, hardware-based, time-division multiplexing (TDM) platforms to software-based applications will lower the barriers to entry for competitive business software vendors and threaten Interactive Intelligence's potential to be a leader in this marketplace. The company must continue to enhance its products through research and development and maintain a high level of customer satisfaction while expanding global distribution and support systems to maintain a competitive advantage. Interactive Intelligence will be able to rely on the maturity of its products, the growing strength of its distribution channel and its reputation in the marketplace.

Company Strengths and Challenges

Interactive Intelligence is well known among small and medium businesses. The company has upscaled its products in terms of size, sophistication and complexity. It has also made major inroads against the competition in attaining a reputation for the reliability of its open architecture-based product line. These efforts have resulted in several recent major account wins in North America and Europe.

To maintain this momentum and achieve a higher and more sustainable level of success across the marketplace, Interactive Intelligence must compete more effectively in environments for replacement systems with larger, better financed competitors such as Avaya, Cisco, Nortel and Siemens.

Also, as its average customer size grows, Interactive Intelligence must enhance support services to match those provided by the larger existing competitors. This will be especially difficult outside North America, where these larger, more globally oriented competitors have more established and better entrenched sales and support organizations. In the short term, North America will provide sufficient growth for the company's VoIP applications, but long-term success will require a major emphasis on strong global expansion.

Yankee Group sees the following as strengths that will assist Interactive Intelligence as it moves forward with its plans and strategies:

- The company is small enough to react quickly to industry requirements and to allow customers to influence product direction.
- It has a history of proven innovation capabilities based on a commitment to research and development, focusing on the IP telephony product and services markets.
- Strong, established and expanding partner relationships exist for sales and support channels.
- Product breadth extends across four growth markets: contact center automation, self-service automation, unified communications and enterprise IP telephony.
- The company maintains a position as a standards-based leader (particularly related to SIP).
- The product family is based on a flexible all-in-one, open architecture, integrated product suite approach.

Challenges for Interactive Intelligence in the near future include:

- The company has limited financial resources compared to the larger, more entrenched enterprise telephony and contact center providers. This could limit its ability to meet the future demands of a growing marketplace.
- It has a relatively small global footprint in terms of sales and service. Given its relatively limited financial resources, larger, better financed competitors may be able to stifle company expansion efforts around the world by focusing on regions where Interactive lacks a major presence.
- The company has global channel issues, including maintaining a well-trained and equipped team of aggressive resellers. With increasing demand and limited global resources available for global support and service of IP equipment, enhancing these channels could be difficult.

- It has limited human resources. This could prove a bottleneck to future revenue growth as the company struggles to add talent at its Indianapolis, Ind., headquarters and around the world.
- The company has a smaller marketing budget, and is challenged by deep discount strategies compared to larger competitors, which could affect its ability to increase market share and presence.

III. Conclusions and Recommendations

Although Interactive Intelligence faces multiple competitive threats from older and more entrenched telephony vendors, and is still relatively small in employee numbers and global footprint, its chances for success remain positive based on its tradition of innovation and its record for meeting customer needs. To maximize its chances for success, the company will have to capitalize on its strengths and meet the above mentioned challenges head-on.

Recommendations for Interactive Intelligence

- **Invest in and expand global support and service capabilities.** This includes identifying new distributor and service channel partners, and building stronger foreign relationships with partners. Customers are demanding homogenous service and support on a global basis.
- **Develop vertical market strategies aimed at high-growth industries.** Yankee Group research indicates an increased proclivity of contact centers in specific vertical markets to move to VoIP technology more quickly than others. Sales programs must focus on specific verticals to take advantage of these variances in end-user buying intentions.
- **Create ROI “proof cases” for integrated contact center suites.** Although the marketplace seems to accept the economic and technical case for VoIP, the business case for all-in-one integrated contact center suites must still be proven through clear and succinct analyses aimed at financial and operational executives.
- **Stress VoIP functionality strong points to capitalize on the shift to VoIP technology in the short term.** The move to VoIP in the contact center will be boosted by end-user needs centering on remote/home agents, management of multilocation sites and the more efficient use of agents across multiple sites. This should be the focus of marketing and sales campaigns in the next 3 years.
- **Develop a long-term strategy to migrate the target market to higher-end contact center customers—including enhancing marketing budgets, creating stronger corporate branding and image—to compete head-to-head with well-entrenched competitors.** Although Interactive Intelligence has begun to make inroads into the higher end of the marketplace, the company is still at a disadvantage in this upper end of the market relative to named accounts, tenure and brand recognition when compared to larger, traditional enterprise voice/data equipment providers.

Recommendations for Competitors

- **Take Interactive Intelligence's threat seriously based on the company's track record for success, its product line and its newfound level of financial stability.** The company can no longer be treated as a second-tier threat and dismissed as a low-end competitor unable to penetrate larger enterprises.
- **Rapidly prioritize global regions for IP telephony penetration to identify Interactive Intelligence's weak spots.** These areas must be exploited before the company can add sales and service resources there.
- **If strategically feasible, larger competitors should consider partnering with Interactive Intelligence** to fill a product line void with proven products in the low and midrange contact center, enterprise telephony, self-service or unified messaging marketplaces.

Recommendations for Enterprises

- **Enterprises evaluating IP telephony implementations should consider Interactive Intelligence a serious competitor in the IP telephony/contact center solution space** and include the company in a short list of vendors capable of providing an all-in-one, tightly integrated enterprise solution for IP-based applications.
- **Enterprises seeking IP telephony solutions should develop a business case highlighting the advantages of an integrated suite of IP telephony applications over a best-of-breed applications approach over time,** including an analysis of TCO including initial purchase price, application integration and ongoing upgrades and maintenance.
- **Enterprises planning to implement contact center, self-service, telephone or unified communications applications should pressure vendors to demonstrate product and support capabilities across the entire application layer**—including a demonstration of ease of integration and operations, reporting and management tools—to truly understand the vendors' capabilities in these areas.

IV. Further Reading

Yankee Group Reports

Migration Costs, Vendor Loyalty and Need for “Agents Anywhere” Define Contact Center VoIP Adoption Plans, June 2006

VoIP in Contact Centers Is Inevitable, but Not Yet Imminent, March 2005

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