# Rising from recession market strategies of cisco systems

Cisco Systems, Inc. is an American-based multinational company that designs and sells consumer electronics, networking and communications technology and services. Headquartered in California, Cisco has more than 65, 000 employees and annual revenue of US$40 billion as of 2010. Cisco is one of the world's biggest technological companies (Bloomberg 2010).

This assignment examines the strategies adopted by Cisco to tackle recession in the US markets during the years 2008-2009. During the recession of 2001, Cisco was caught unaware of what John Chambers called the ' 100 year flood' leading to the write down of inventory worth US$2. 2 billion. The company reported a loss of US$2. 69 billion.

The dot-com bubble was a stock market bubble which burst in 2001. It was fuelled by the rise of Internet sites and the tech industry in general. Many companies folded and those that survived learnt valuable lessons. Investors lost astronomical sums of money on the dot-com bubble.

Several factors combined to cause the dot-com bubble. Low interest rates, the jump in internet-users were seen by most companies, potential customers-this resulted in numerous start-ups. These companies came to be referred to as ' dot-coms', after the . com in many web addresses.

(WiseGeeks 2010)

Many of these companies engaged in unusual and daring business practices with no sustainable business model, all they were hoping to achieve was a bigger slice of a pie; equating bigger pie to bigger consumer base therefore believing profits will follow.

Unfortunately for many companies and investors, the growth of the tech sector proved to be illusory. A decline in business spending (due to a hike in interest rates) combined with market correction to deal a serious financial blow to many dot-coms, and tech companies began to fold, one by one.

(Wise geeks 2010)

Cisco, as mentioned, wasn't spared either. Let us now examine what Cisco could have done, couldn't have seen and/or shouldn't have done, not only did Cisco serve as a ' plumber' to the tech-world, it was a beacon of inspiration for organization leadership and management.

## CISCO'S Environment

Cisco's customer base was not concentrated in any one industry; Cisco's customers fell into one

of four categories:

Enterprise: Large organizations with 500 and more staff requiring complex networking needs across multiple computer systems. Clientele include corporations, government agencies, utilities, and

educational institutions.

Service Providers: Organizations providing data, voice, and video communication

services to businesses and consumers.

Small/Medium-Sized Businesses: Businesses with fewer than 500 employees and a need for internal networks for itself and for its business partners connected to the Internet. These customers were generally limited in their resources, as such Cisco designed and built easy to use and install systems at affordable prices.

Consumers: Individuals with a need for networking devices and services to connect

themselves to the Internet from within their homes.

During the time of the dot-com, Cisco Systems was a decentralized company organized around 3 lines of business. Each focusing on a customer segment as shown above, for the easy communication we will group small/medium-sized businesses and consumers under one LOB.

Each LOB produced customized products for that segment's needs this generated enormous growth during the dot-com years. As we know that came to an abrupt end in 2001, Cisco was forced to lay off 18% of its work force and incurred losses amounting to $2. 69 billlion.

Cisco did survive unlike many other companies, what it then did was make a series of organizational changes that continue to this day.

It centralized functions from each of its LOBs so that heads of each division reported to the CEO rather than the presidents of the three LOBs. Customer focus was maintained by, creating three cross-functional business councils, each responsible for one of the customer segments. A functional head

chaired each council, leading both a function and business council. (Kilman 1985)

This structure is a type of matrix organization called the two-hat model. Cisco used this functional structure to create an appropriate cost basis for the downturn, as functional organizations drop costs in two ways. First, by consolidating engineers into specialist groups, the company minimizes the number of engineers needed, the engineers are placed in a ' pool' where they can be shared across lines.

For example, under the old LOB organization, each LOB might have required two-thirds of a sound engineer. Resulting in Cisco hiring three engineers, one for each LOB. Under a centralized concept, the sound engineering group hires just two sound engineers and works them across the product lines, allowing fewer people to do a given volume of work.

Secondly, functional organizations reduce costs by decreasing duplication and standardizing product and process designs. When revenue is growing and margins are high, redundancy is a small price to pay but when revenue drops and margins shrink, duplication is a good process to do away with.

In the early 2000s, Cisco wasn't able to keep up with the demand for its products and some of its customers were looking elsewhere and those that did wait had to wait up to 15weeks, as Cisco suppliers could not keep up with the high demand, Cisco pushed manufactures and suppliers to stock up on inventory, committing itself to buying stock before having even sold them-This proved fatal when the recession came, leaving Cisco with huge inventories.

At Cisco, duplication was reduced by centralizing the engineers and combining them into common groups. This standardization achieves economies in having one design instead of three. Manufacturing gets volume in producing one high-volume product rather than three low-volume products; procurement gets volume discounts on fewer but common components. (Porter's Value Chain Competitive Advantage: Creating and Sustaining Superior Performance 1985)

Logistics reduces total inventories with one large stock, rather than three smaller stocks. Similar savings can also be achieved in other functions as the number of transactions and processes are reduced.

## (Porter's Value Chain)

In this way, Cisco responded to the downturn by reorganizing, seeing as functional organizations increase efficiency, lower costs all while minimizing the number of people needed without compromising on quality. They worked smarter in achieving better results.

The Cisco cost structure clearly benefited from the reorganization. But Cisco also made sure not to standardize to such an extent that the end-user experience suffered.

## " Focus on the Customer"

Many companies achieve balance over time between standardizing, cost reduction, customizing and customer satisfaction.

Restructuring can waste energy, result in winners and losers, and cause top talent to leave. Fortunately, Cisco did not walk this path and instead

simultaneously organized around customer segments and functions, counterbalancing the biases of a functional structure,

Cisco added cross-function business councils for each customer segment. These councils supported their respective customer segments. The same people who had positions of power in the functional structure staffed the councils, so when the engineers proposed standardizing a product, the salespeople who were representing customer segments had a debate to contest the engineers. (Kast&Rosenzweig 1972), Cisco adopted an open system where feedback was viewed positively.

However, not all product differences are duplications, as some are required by customers.

For example, large organizations would have required more faster servers and products as opposed to smaller business whom neither had the need or want, so there were times when sales needs conflicted with product standards.

Cisco understood that it was important for them to get close to their customers, as it would help them know if recession had impacted their revenues and profits. Cisco worked closely with its customers to expand its technology and business relationship. Cisco and its partners formed strategic alliances a co-operative partnership for mutual advantage. (Miller&Dess 1996; Yoshino&Rangan 1995)

## " Open Communication"

Cisco made much of its corporate information available to its employees and shared

relevant information with suppliers and customers. They shared much more information than anyone thought was prudent. Cisco gave the employees themselves all the information. In a lot of companies, information is power.

At Cisco, information is empowerment. Technology clearly plays a big role in doing

this. The IT infrastructure was both sophisticated and integrated across the company, Cisco opened up the the infrastructure to both its clients and suppliers.

There were business rules codified in the IT infrastructure that described who got access to what

information. For instance, all Cisco employees had access to key information such as customer

satisfaction, overall revenue, and total costs, while more differentiated information was

restricted.

Customers only had access to product information such as how to configure a router,

## " Open Communication"

and suppliers were given access only to the sales data necessary for planning their inventory. (Quantitative Management Viewpoint, Management Information Systems Pg . 56)

For the most part, however, Cisco gave out more rather than less information.

Making information available created opportunities for communication.

For example, the employee directory made all employee information available from the CEO to the newly employed, all contacts and organizational information was available. This allowed Cisco employees to contact anyone in the company without having to go through a chain of command.

## " Empowerment"

Cisco's employees had great latitude in doing their jobs. The goal of the IT is to empower the employee to give them freedom of space, scope and access to all kinds of information. (Herzberg 1966)

Cisco employees were expected to take initiative. For instance, customer satisfaction was

taken quite seriously. Employees are empowered to do right by Cisco and the

customer. They are given full autonomy to make decisions that are customer centric and are

measured on the impact we have had on them. (Richard Hackman&Greg

Oldham 1980)

## " Quality Team" HUMAN RESORCE

Cisco planned on hiring the top 10% of the employees that they interviewed

and release the

bottom 5% annually. Cisco employees were brilliantly driven people.

Cisco not only put effort into hiring good people, but also spent time and

resources

training them.

Cisco had complete and thorough orientation-programmes, specialized

training for

departments like sales, and ongoing training for all employees. A Cisco

employee, on average, attended six training classes a year, a third of which

were web-based.

The meticulous selection process and the investment in training that were

offered were practices that differed from those in other companies.

(Scientific Management Taylor 1985)

## " Integrity"

When asked about the principles that underpinned many of Cisco's policies,

employees

often mentioned trust. Empowerment, communication, innovation and risk taking are clearly all big parts of our culture. Stevenson&Gumpert (1985) entrepreneurial characteristics.

How much trust to give to employees was a topic of discussion early in Cisco's history. They decided from the get go that if we trusted our employees, we were not going to create policies for the bottom . 2% of the employees instead were going to create guidelines for managers to do the right thing, the reinforcement theory has an important implication for management in achieving organizational objectives. (Viller&Hartman 1991)

Cisco was prepared to provide the context in which one makes the right decision by influencing certain parameters. Once hired as an employee, Cisco trusts that the individual has not joined this company in order to steal and that the employee as an individual has the company's best interest and that the individual will attempt to make the best decision possible given all the supporting information.

## (Mcgregor 1964, Theory Y)

The decision to trust employees laid the basis for relationships, trust worked between managers and their employees. Employees were thought to think that everyone was supporting each other working towards that one same goal.

Managers had to make sure that they were providing employees with the right information, the right support bearing in mind not to stifle room for execution and free play. Employees had to believe that their managers were

just and fair, that proper transparent systems of job allocation and

promotions were in place.

## " POLITICAL"

Cisco was also actively pursuing federal government related business in the

area of cyber security and cooperation between public and private sectors.

The company appointed former white house cyber security advisor Melissa

Hatway as a consultant to liaison with the government authorities. She

helped the company identify the product line that could be useful to the

government. (Favorability influence Kotter&1979; Harcourt2003 Political

activity management pg. 91)

## " FINAL ACT"

Cisco came out of the 2001 recession stronger, leaner and more agile. All its

policies are working well and are considered to be works in progress, Cisco

continually seeks to improve and adapt.

By the time Cisco faced the recession of 2008, it had built up its strategic

alliances, based on the collaboration model. Councils and boards were in

place -councils looked at US$10 billion opportunities and boards took care of

US$1billion opportunities, during which Cisco was able to invest on other

companies, for example WebEx Communications Inc to support its

Telepresence project.

## (Bloomberg 2008)

As an example during the recession Cisco focused on existing clients and

noticed their need for infrastructure upgrades on many of the existing

platforms-as the world processes so much more data, existing platforms suffered from wear and tear and overall inability in supporting its businesses. Cisco predicts that by year 2013 infrastructure upgrading was likely to reach US$50 billion. (CISCO 2001)

It is in my expert opinion that Cisco's model is an inspiration to other organizations, Cisco bounced back from recession stronger, leaner and meaner (series of acquisitions). Naturally every model adopted by any one organization is a continual work in progress, however when aided by such open systems, it has the ability to access itself and quickly make adjustments-whenever they may arise or suddenly come.

Cisco focused itself around its customers (externally), they listened to their needs and wants, they engaged them thoroughly, they designed forums within the functional groups to hash out differences in product design-the customers had a voice within the scheme of things, their feedback was seriously considered.

Internal to Cisco they created strategies facilitating open communication, staff empowerment and their human resource is managed effectively, efficiently and fairly as possible. Cisco aspires to hire the right staff for the company-forward thinking and highly motivated individuals. Cisco then believes in providing them with the right tools to upgrade and ' keep on top of their field', Cisco does not adopt a punitive form of management, they believe that they have hired the right person for the job Cisco empowers, places faith and allows the person to ' have a real go at the task at hand'

What Cisco aims to achieve is what I like to believe a hybrid system. The term hybrid was originally coined by Peter Keen in the mid 1980s, but received its most precise and most quoted definition by Michael Earl:" A person with strong technical skills and adequate business knowledge or vice versa …. hybrids are people with technical skills able to work in user areas doing a line job, but adept at developing and implementing IT application ideas" (Peter Keen 1980)

Cisco is a company for the future-it seems well aware of this and it knows how to get there as seen above. The importance placed on training, open communication internally and on their environments (mega and task), human resource- and the need for continuous awareness, systems are in place to keep them in check.

How the future may unfold, will there be a double dip? Will there be a global meltdown? No one can fully predict apart from watching and listening closely for the signs (stock market, key interest rates, etc). Cisco is doing what it can and must do, it has thoroughly engaged its clients and customers, it created a highly synergized working environment where their staff are empowered and entrusted in making the best decision for the future of the company. They are investing in technologies and technological companies that are future oriented they are placing themselves in the future today. They are building a Cisco future for the world. A Cisco you and I inevitably will need and want.

## References and Suggested Readings

Cisco: Strategy is Recession Proof, Reuters, January 08, 2008.

Dr. Jay R. Galbraith: How to manage in a Down Turn, www. cedma-europe. org, August 2009

DotCom Bubble, www. wisegeeks, August 2010

Ellen McGirt, How Cisco's CEO John Chambers is turning the Tech Giant Socialist, www. fastcompany. com, November 25, 2008

Cisco's CEO On How To Weather The Downturn, www. fastcompany. com, December 01, 2008

At Cisco, " Downturn' Screams Long-Term Opportunity, www. businessweek. com, March12, 2009

Stephen Lawson, Cisco's Chambers Sees Hope After Recession, www. pcworld. about. com, May18, 2009

Andy Greenberg, Cisco Preps for Recover, www. forbes. com, November02, 2009.

Reshaping Cisco, The World According To Chambers, www, economist. com, August27, 2009

http://investor. cisco. com

https://newsroom. cisco. com

www. cisco. com

www. bloomberg. com