Investigating the business of cisco systems

Cisco Systems, Inc. was founded by two computer scientists at Stanford University in 1984 to develop and manufacture networking systems; Cisco went public in 1990. Until Cisco introduced its first commercial router in 1986, machines on local networks had been unable to communicate easily with machines outside of that network. The multi-protocol router allowed geographically dispersed local networks of computers, often using different networking protocols, to link together. Cisco quickly became a worldwide leader in networking hardware, software, and services, growing to over 40, 000 employees and annual revenues of $23. 8 billion by the end of 2000, although the downturn in the economy affected Cisco's 2001 revenues and forced Cisco to lay off nearly 14% of its employees (Massachusetts Institute of Technology 2001).

Cisco Systems, Inc. is the worldwide leader in networking for the Internet. Today, networks are an essential part of business, education, government, and home communications. Cisco hardware, software, and service offerings are used to create the Internet solutions that make these networks possible, giving individuals, companies, and countries easy access to information anywhere, at any time. In addition, Cisco has pioneered the use of the Internet in its own business practice and offers consulting services based on its experience to help other organizations around the world.

Since the company's inception, Cisco engineers have led in the innovation of Internet Protocol (IP)-based networking technologies. This tradition of IP innovation continues with the development of industry-leading products in the core technologies of routing and switching, along with Advanced Technologies in areas such as home networking, IP telephony, optical networking, security, storage area networking, and wireless technology. In addition to its products, Cisco provides a broad range of service offerings, including technical support and advanced services. Cisco sells its products and services, both directly through its own sales force as well as through its channel partners, to large enterprises, commercial businesses, service providers, and consumers. As a company, Cisco operates on core values of customer focus and corporate social responsibility (Cisco Systems Inc 2004).

Cisco has a proven track record of successfully capturing market transitions. Beginning in 1997 with the reality that Voice and Video would all be one, moving to the Networks of Networks in 2000 and the Network becoming the platform for all related technologies and the core of customer solutions, and the most recent market transition of Collaboration and Web 2. 0 technologies. As market transitions evolve so do the product offerings – all to best meet customer needs.

Over time, Cisco has evolved from Enterprise and Service Provider solutions to addressing customer needs in many other segments including Small, Consumer and Commercial. The network has truly become the platform for providing one seamless, transparent customer experience. As a result, Cisco and Cisco technology is changing the way they work, live, play and learn. They strive to be " Best in the World" and " Best for the World" – offering solutions that meet customer needs, exceed their expectations and contribute to the world in a positive way. Connecting and collaborating with others is a key element of Cisco's culture. Making the world a smaller place through technology and using it to enhance life experiences. That's the " Human Network" – a place where everyone is connected (Cisco n. d.).

Market Orientation

Jaworski and Kohli (1996) defined market orientation as “ the organization wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organization-wide responsiveness to it.”

Customer and Market Focus

In recent years, market-driven organizations have begun to emerge as the new industry giants. The market-driven formula for success in today’s marketplace is to produce the right product at the right price at the right time. The right product is the one that solves the customer’s problem and delivers the highest value. The right price is what the customer is willing to pay. The right time is when the customer needs the product. Customer needs are continuously changing. Therefore, an organization must know how customers’ wants, needs, and values evolve over time to be successful. To gain the intimate knowledge of the customer, an organization must become focused on the markets and customers it serves and put the customer first in every aspect of the organization. Marketing-orientated companies focus on customer needs (Jobber 2007: 6).

Figure 1: Market Orientation (Jobber, D. 2006: 6)

By putting the customer first in an organization’s mission and goals, market-driven organizations make providing value to the customer a top priority.

This commitment to the customer is evident in Cisco System’s mission statement:

Mission: to shape the future of the Internet by creating unprecedented value and opportunity for our customers, employees, investors and ecosystem partners (Cisco n. d.)

Cisco’s market focus begins with its emphasis on delivering unprecedented value to its customers, as well as other stakeholders, including employees, investors, and environmental partners. Cisco’s mission statement is consistent with market-driven perspective of serving the objectives of all the stakeholders (Bill Barrett 2001).

We believe Cisco’s market orientation emphasizes continuous improvement of the processes since information gathering is one of the main characteristics of a market driven organization. As the market demands and customers’ requirements change continuously, it is extremely essential for such organizations to gather relevant data in all environmental sectors – competitive, political, cultural, economic, technological, human resources and most importantly the consumer. Thus, it can be said that Cisco’s orientation is rightly aligned with its mission statement.

Relationship Strategies

The market-driven concept suggests that putting the customer first in all aspects of an organization results in satisfying all stakeholders, which challenges the belief that multiple stakeholders often have conflicting goals. Market-driven organizations use relationship strategies to form partnerships and alliances with stakeholders to create synergy and minimize or eliminate conflicting goals. Cisco Systems has formed strategic alliances with suppliers and customers to deliver a customer-centric, total solutions approach to solving problems, exploiting business opportunity, and creating sustainable competitive advantage for our customers (Bill Barrett 2001). Cisco and its partners recognized that their products and services, combined with those of suppliers and customers, created a total solution that was more valuable than the sum of the individual pieces (Bill Barrett 2001).

“ Cisco’s strategy is based on catching market transitions-the market transitions that affect our customers. With the proliferation of video and collaborative Web 2. 0 technologies, the network continues to evolve from the plumbing of the Internet-providing connectivity-to the platform that will change the way we work, live, play and learn.” – John Chambers, Chairman and CEO, Cisco (Cisco n. d.)

The most fundamental way in which John Chambers views strategy is around the idea of change, and how change affects customers; in essence, he believes that market transitions that most effect customers, define competitive opportunities for Cisco. Change is recognized as endemic and adaptation considered to be the Darwinian condition for survival (Jobber 2007: 6).

Cisco prepares for market transitions by listening to customers and by taking risks, innovating and investing 3-5 years in advance of a major transition in order to capitalize on it before competitors when the transition is realized in the market (Cisco n. d.). Cisco’s vision and innovativeness can be evidently seen from the above statements that promote its connoisseurship in computer networks and the recent developments of the internet which is a heterogeneous network of networks. Its ability to anticipate and prepare for such market transitions is the key plot of its customers and its own success.

Changing needs present potential market opportunities, which drive the company (Jobber 2007: 6). Cisco takes every effort in its power to work towards its vision by its innovativeness which has provided enormous potential market opportunities. This approach is by far one of the largest contributors to its success in the Silicon Valley amongst its competitors in the industry. It has led to Cisco being one of the big names among industry giants like Microsoft, Apple, Sun Microsystems etc.

Elements of Market Orientation

Customers guide where we go and we stay ahead of market shifts so that we are ready to help our customers evolve, as their industry evolves (Cisco n. d). The customer centric approach is vital to the product development at Cisco. It signifies the presence of market orientation in the organization with respect to the customers' needs and requirements that form the basis of marketing strategies at Cisco.

The most influential market orientation elements are fast response to negative customer satisfaction information, strategies based on creating value for customers, immediate response to competitive challenges, and fast detection of changes in customer product preferences (Pelham 2000). Cisco has been concentrating on the consumer markets as part of their marketing strategies. It transitioned its Linksys subsidiary into a dedicated consumer business group, formed a consumer-focused council, and made key changes in the way it builds consumer products. This change has accentuated Cisco's efforts in building brand awareness among customers worldwide. Another essential factor of creating value for customers resulting in their success is evident from the organizations market concentration.

Cisco has tried to adopt a unified approach to consumer market since it acquired home networking company. It can be seen as a strategy based on creating value for customers and its focus on the much fragmented home networking segment. It implies Cisco's strategy to expand business in the area of home networking since it had believed home networking to be on the cusp of a major market transition.

SWOT Analysis

SWOT analysis summarizes the strengths and weaknesses of the company together with the opportunities and threats it faces. It draws the critical strengths, weaknesses, opportunities and threats from the strategic audit and distils this data to show the critical items from the internal and external audit. The number of items is small for forceful communications, and they show where a business should focus its attention (Kotler et al. 1999: 94).

Figure 1: SWOT Analysis (Excelsia Blog 2009)

On the whole, a formal SWOT analysis not only increases the awareness of the unique situation the firm is in, but also provides a roadmap to maintain, build and to act effectively as well as to eliminate weaknesses so as to capitalize on the opportunities even while defending against potentially wreaking threats.

In the words of a top consultant: " It gives a comprehensive concept of internal and external factors and how to creatively and innovatively develop a strategy that is directional, cost-effective and of course executable" (Excelsia Blog 2009).

SWOT Analysis of Cisco

Strengths

Market leaders

Dedicated Management Team

Strong brand value

Strong financial hold

Weaknesses

Fluctuating global margins

High pricing

Opportunities

Innovation

Services expansion

Threats

Economic slowdown

Price wars

Product substitution

IBM

Dell

Cisco Strengths

Financially, Cisco is debt-free and has about $30 billion cash (Pimentel 2008). It generated around $3. 2 billion in cash flow from operations alone for the second quarter of fiscal 2009, compared with $2. 4 billion for the second quarter of fiscal 2008, and compared with $2. 7 billion for the first quarter of fiscal 2009 (Cisco 2009). The huge turnover not only aided them to fund the critical areas such as R&D or marketing, but also gave them the strength to acquire technology with lower venture capital funding in the market. It also enabled the company to buy back $2 billion in common stock during FYQ1 (Omnivorous 2003).

Cisco's financial strength has complemented its long term vision and strategy since they moved into new market adjacencies in conjunction with prioritizing the existing opportunities (Chambers 2009). Thus Cisco has been working on the simple principle of acquiring new companies and using their existing values to successfully integrate them.

Moreover, Cisco Management is well-respected for its ability to react to adverse business conditions, especially during the downturn. While Cisco was initially hit by the recession, the company was able to refocus much faster and more effectively. " Even in this downturn," says chairman and CEO John Chambers, " We intend to be the most aggressive we've ever been" (Malone M 2009).

The sales management of the company is highly respected. They are used to working with aggressive targets in mind, good international coverage and participation in all key segments — from international service providers (ISPs) to government education and Fortune 1000 distributors (Omnivorous 2003). The one piece missing in their long list of achievements was a strong product offering for small businesses and home, which was filled in by the Linksys acquisition. The Cisco Management also has strong ability to manage channel partnerships, including IBM (storage area networks), Verizon Communications, Telstra, Sony Electronics and others.

Considering the work environment, Cisco was recently nominated to the National Association for Female Executives' (NAFE) list of " Top 50 companies for Executive Women" (Cisco 2009). The list recognizes organizations whose policies and practices encourage women's advancement and whose numbers at the highest levels of leadership, demonstrate that commitment. In the article that accompanied the list, NAFE highlighted their Inclusion Advocacy Program (IAP), which paired high-potential employees with senior executives from other business units, who not only mentor the individual, but also become an advocate for that person's professional development (Cisco 2010). Cisco is extremely proud and feels privileged to be recognized on this list.

Cisco Weaknesses

As is often the case, some strength's are also potential weaknesses. Cisco's high gross margins are not believed to be sustainable, even by management. With the acquisition of Linksys, average gross margins declined by 1% because consumer products typically have gross margins in the 30-40% range (Omnivorous 2003). Analysts feared Dell's entry into the business, using low-cost off-the-shelf components (Omnivorous 2003) to cut down into Cisco's business.

The pricing strategy of Cisco has come under scrutiny as some of the products are highly priced in the market. The customers of Cisco have expressed their perception of the pricing of the individual products as overpriced as compared to Cisco's competitors.

The company has also done some vertical integration, including purchasing chip-maker Seagull Semiconductor in 2000 (Cisco 2000), but with this another problem arises which is, it has become highly reliant on outside vendors who may be capacity-limited during periods of high demand.

Cisco Opportunities

The company is positioned well overall, as IP-based networks that form the backbone of the Internet expand and drive productivity. Howard Charney, in a presentation to Korean customers of Cisco, notes that U. S. non-farm productivity has been growing at an average rate of 3% per year since 1995 (when the Internet and browsers became widely used) — more than double the 1. 4% of the previous 20 years (Add references). Cisco has abundant inputs in respect to this evolving market and can play an important part in this business sector. Specifically, this is opening up the following types of opportunities, according to market research : Storage Area Networks: 16% CAGR (Compounded Average Growth Rate) Voice-over-IP (VOIP): 44% CAGR Security: 20% CAGR Wireless LAN: 18% (Omnivorous 2003).

The company has been seeking to identify 12 advanced technologies that could generate $1 billion per year if markets develop up to the expectations.

According to John Chambers, CEO Cisco, six have been identified and are in the Advanced Technology revenue group (IP telephony, home networking, optical networking, security, storage networking, and wireless) (Add references). The remaining six are yet to be identified.

Finally, the increase in networking speed has offered the company substantial growth. The common standard today is 100Mbps Ethernet (often referred to as 10/100 Ethernet because of its support for the older, slower 10Mbps speed). Christin Armacost, of SG Cowen, believes that growth in that market will fuel Cisco growth, as it's only about 10% of the market — and has an average sale price of $356 vs. $61 for 10/100 Ethernet (Add references).

Cisco Threats

The comprehensive summary report of the company's own analysis of threats realized top three risks as:

1. Uncertain global economy

2. Variability of revenues

3. Product gross margins may not be sustainable (Omnivorous 2003)

Additional threat factors mentioned by analysts and management include the following:

An alliance of Microsoft (as software supplier) and low-cost hardware vendors (Dell, Gateway or offshore PC suppliers) may eat into the market share of Cisco (Omnivorous 2003). There is also a possibility that Juniper Networks, which outsources all of its manufacturing (in contrast to Cisco), is able to build a lower-cost operating model, particularly in the high-speed network arena. Also, potential acquisition of Juniper by a major strategic partner, such as IBM is a hindrance to its strategy of global expansion (Omnivorous 2003). Lately there are plenty of low cost hardware entries in the Wireless LAN market as well, that contribute to significant erosion of Linksys’s profit margins.

Asian markets contain enormous potential but due to inadequate intellectual property protection, Cisco is unable to invest heavily in these markets. Regulatory and logistical issues have prevented the emergence and establishment of new market areas such as voice over IP.

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