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STRATEGIC MANAGEMENT

Analysis of Cisco's Strategy based
on Case Study

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SOFTWARE DEVELOPMENT STREAM

BSC. HONOURS IN COMPUTING YEAR 4



Purpose of the document

The purpose of the document is to conduct an analysis of Cisco's strategy based on the case study, "Cisco's Strategy in Recessionary times" written by Indu P, under direction of Vivek Gupta at ICMR Center for Management Research (Website: icmrindia.org).

Introduction

World's largest manufacturer of computer networking equipment. Cisco is a multinational company founded in December 1984, headquartered at San Jose, California, US.

Vision: *Changing the Way We Work, Live, Play and Learn*

Key People:

At the time of Case Study: *John T. Chambers (CEO)*

Present (Oct 2016): *Chuck Robbins (CEO), John T. Chambers (Executive Chairman)*

Background

Started in 1984, Cisco went public in Feb 1990 and by 1992, the company was featured in Fortune as second fastest growing company in US. In 1993, Cisco acquisition spree began with the acquisition of Crescendo Communications and after that many more and Cisco extended its product portfolio to different areas.

In 1995 it introduced applications for selling products or services on its website the same year John Chambers was named the CEO of Cisco. By 1998, Cisco's market capitalization was at over US\$ 100 B. It had a state of the art supply chain and operated without any inventory. In early 2000, Cisco was one of the most valuable companies in the world flushed with funds. So, Cisco decided to invest more in acquisitions and acquired another 25 companies.

But in early 2000, it was unable to meet the demands for its products and customers had to wait long and customers began opting for competitors products. And Cisco pushed contract manufacturers and suppliers to manufacture and hold inventory, committing itself to buying large quantities from them.

The year 2001, was hard for Cisco as it had to face a recession, its supply chain choked, it had a stocked up inventory, within few months company's growth rate dropped significantly.

By late 2008, its stocks took a beating along with stocks of other companies but, its business continued to be strong with US\$ 26 B in cash. Cisco was one of the few companies to withstand the global economic downturn in the fiscal year 2008-09.

Cisco in Recessionary Times

In late October 2008, Cisco faced a reduced demand for its products in US and the company forecasted that it may face the same challenges in other markets. And the company took steps like cutting down capital expenditure, freezing recruitment, reducing travel cost by teleconferencing where possible, Chambers himself had 200 virtual meetings out of his 260 meetings.

Despite downturn Cisco, showed aggressive strategy in recessionary times and saw it as an opportunity to invest in new emerging technologies and acquiring companies and gaining more market share and adding more to its product portfolio.

Chosen Analytical Framework

"TOWS"

(Threats, Opportunities, Weaknesses, Strengths)

TOWS is a strategic management method that allows to study external environment(Threats and Opportunities) and internal environment(Weaknesses and Strengths).It can be used to think about the strategy of the company.

The reason for choosing "TOWS" is because it allows businesses to understand business better, identify threats, capitalise on opportunities, address weaknesses and take advantage of strengths, develop business goals and strategies for achieving them.

And, I believe "TOWS" will be a useful analytical tool to apply on Cisco's case study as it will reveal extraordinary information which will help understand Cisco's strategies, weakness, strengths etc. at the time of the case study (2008-2009).

Threats

Cisco's one of the biggest threats are its competitors. Since, Cisco entered new markets it has to deal with even more competition. And the more Cisco makes a foothold in a new market they will be stepping into an area that has been dominated by a company that it's

now their competitor. Like IBM and HP have specialised in servers for decades and now Cisco has them as competitors. That's a big threat

Economic slowdown: "The current (2008) economic outlook is poor with economic downturn with no certainty when it will end".

In, 2008 Cisco faced a reduced demand of its products in US and the company forecasted that it would face challenges in the other markets like Europe and Asia. Expenses like recruitment and travel costs etc. were major threats during downturn. And if the measures were not taken to control travel costs, capital expenditure, and recruitment freeze it would have had a negative impact on the company.

Consumer loyalty: Found evidence in the case study's background section that when Cisco was taking more than 15 weeks to deliver its products, customers started opting for competitor products. They could leave anytime when they didn't see value in staying. So, customer loyalty is another threat Cisco had to face, where in case study evidence was found Cisco used downturn to get closer to its customers. So, customer loyalty is a strength and threat at the same time because competitors will always try to take Cisco's customers away with tempting offers.

Price wars and Product substitution: Cisco's products were much more expensive than its competitors. Moreover, cheaper alternatives were available like Skype and phone. Case study provides evidence on industry experts pointing Cisco's video sales, including Telepresence went down by 30% in the fourth quarter of 2009.

New entrants: Threats of start-up, Cisco has a huge market share in networking equipment business and also in other areas, and it's not the only company which acquires other companies. A company established in other business area with good funds can acquire a company with good reputation and flood it with funds and be a strong competitor.

Opportunities

Innovation: In the recessionary times, Cisco saw downturn as an opportunity. In process Cisco, identified 26 growth opportunities and catered resource allocation. Prominent opportunities included Web 2.0, video and visual networking, data Center, telepresence and virtualisation. And, Cisco's new organisational structure helped pace the innovation because the projects/ideas which took months to get approved, now only took few weeks and helped Cisco to deliver more products to market frequently.

Acquisitions: Cisco acquired companies that showed potential and innovation and improved its product portfolio. New markets provided, new exciting opportunities and increased customer base. Cisco's strategy of Acquiring innovative companies expanded and strengthened the company's portfolio and business area.

Acquisition of companies helped Cisco, to enter new markets with already built rapport and brand value and continue from there. And also, reduces the risk of that small company becoming a competitor in future. And also save the effort to build from scratch.

Low Potential entrants in core business: High investment involved in networking equipment production industry, it may take several years to just build the production plants before the company can yield any profits which keeps new start-ups and competitors away and provide with opportunity to have more market share and dominate the market hence less bargaining power to customers, suppliers, high demand of products and more control.

Weaknesses

Distraction: As the case study provides enough evidence about Cisco acquiring different companies in different areas/markets which is opportunity as well as a weakness, hence getting distracted from its core networking equipment business, which gives a sense that the company tried to chew more than it can eat and it may have negative impact on company's business and market share in its core business area in near future and add more competitors.

Brand Recognition: Lack of presence in consumer markets (people's personal use products). Cisco's core is networking equipment mainly aimed to big corporate giants and if it had presence in other markets it is through the acquired brand name not Cisco, which is a weakness for a company as big as Cisco.

High product prices: Industry experts (highly influential people) viewed Cisco's video conferencing equipment was priced too high at around US\$ 500,000. During recession times, companies might not be able to afford this kind of equipment.

Management: Trying to enter different markets at the same time means adding more rivals and established rivals in that market must give Cisco hard time, which in turn leads to bad reputation, loss, lack of focus, mediocrity and other problems, because it's almost impossible for company to be best in every market each pond has its own shark and Cisco invaded the other sharks space which shows few symptoms of mismanagement at times.

Strengths

Experience: From facing several recessions in the past, Cisco was well prepared to face recession.

Chambers game Plan for the Downturn (Table I Case Study)

After facing several recessions in the past, Chambers learnt it required 4 elements for a company to overcome recession. According to him, these were *being realistic, assessing the existing situation, equipping oneself for the subsequent upturn and getting closer to the customers*.

Strong Financials: Experience taught Cisco, "Cash is King". During recession when company was facing problems, it had a cash balance of US\$ 34 billion available to help sustain the bad times. According to Frank Calderoni, Chief Financial Officer Cisco, "*We go into downturns and plan as a company to become stronger and more competitive. Cash is King. It enables us to make bold moves*".

Organisation Structure: In 2001, Cisco changed its organisational structure from top-down to councils and boards. Which helped speed up progress.

Partners and Customers: Cisco cared about their partners and customers, once Cisco was clear out of recession they rescued their allies. Hence, building a stronger, deeper business relationship which provided ultimate strength to the company later when recession was over, Cisco had loyal allies.

Investing in new products and markets provided Cisco with strong product portfolio and strengthen company's reputation and market share.

Looking ahead: Ready for upturn when downturn ends, and focus on long term strategy.

Huge Market share: Market leader in networking and other several industries.

Strategic Alliances: Cisco had partnerships with different allies through which Cisco entered new markets.

What Cisco do very well – “that is good for business”.

Cisco is a market leader in multiple areas, naming a couple – networking equipment, unified communication etc. Despite the fact, Cisco went through several economic downturns in 1993, 1997, 2001, 2003 and (2008-2009) but it emerged even stronger than before and learned from each downturn.

What, Cisco did very well to stay in business was see downturn as an opportunity and its strategy to aggressively acquire company's, continuous focus on innovation, strong management John T. Chambers leading from the front. In Late October 2008, Cisco faced – Reduced demand for its products in US and decided to take appropriate actions immediately and to reduce expenses over US \$ 1 billion over a span of one year by cutting travel costs, freezing recruitment and cutting down on capital expenditure. Cisco saw downturn as opportunity to invest in new technologies and markets and continued its acquisition program and kept building its product portfolio. Cisco identified 26 growth opportunities. Prominent opportunities included Web 2.0, Video and Visual Networking, Data Center and virtualization.

Cisco had strong financials and had a game plan for 2008-09 downturn, focus on innovation, operational excellence and productivity, well positioned on the map (geographically) in customer segments.

One of the major strengths I believe Cisco, had at the time of recession was having John T. Chambers as CEO of the company, his way of thinking, optimism as quoted in case study, strategies and influential personality helped Cisco a lot in hard times.

“When you face an economic challenge, focus on what we can influence, and not over or under react to things we cannot. It’s a question of living in the world as it is, not the way we want it to be”.

John Chambers, Chairman and CEO of Cisco, July 2009

Other Cisco’s strengths/strategy during recessionary times was it has already gone through recession in the past, bitten hard and had learned to still keep moving forward.

Cisco, new that “Cash is King” and in bad times it helps make bold decisions. So, from the previous experiences, Cisco was well prepared financially with a US \$34 billion cash balance.

Another good thing Cisco did was in 2001, they changed their organisational structure from top-down structure and made small groups called councils and boards. By the time Cisco faced the economic downturn in 2008-09, it had built social communities based on the collaboration model. The council's looked at opportunities beyond US\$ 10 B and board took care of US\$ 1 B opportunities. Cisco’s new organisational structure made the executives share responsibility and help each other succeed. Through this pace of innovation increased and help Cisco market more products faster.

Partners and Customers: Cisco acted positively to economic downturn and saw an opportunity to move even closer to customers in recessionary times. And work in close cooperation with its customers to expand its technology and business relationships with them. So, Cisco built strong relationships with its customers in hard times. Chambers started observing stock markets more closely, maintained cash balances and also moved in several areas like networking switching, VOIP (Voice Over IP) etc.

Cisco had over 60000 partners across the globe including small business. In 2008, when recessionary trend showed up it went to its partners to ask them - How it can help?

Looking Ahead – Cisco in hard times had the vision to look into future. It developed its business strategies with a longer term perspective, irrespective of macro-economic conditions. Once Cisco was clear about recession it started to help its partners to survive recession and prepare for subsequent upturn through its initiative called “Navigate to Accelerate” with 4 key strategies (more on 4 strategies Table III Case Study) as following: Focus on Finances, Focus on the Customer Base, Focus on Changing Customer Needs and Focus on the future.

Three Key Developments in Cisco between 2009 and present

By 2009, Cisco had emerged as a pioneer in data management and almost 75% of the digital data across the world was being managed using its equipment. The company had major presence in different areas of web infrastructure like switches, gateways, and other hardware and also network management software. With the fiscal year 2008-09 ending July 2009, the company had recorded sales of US\$ 36.1 B and a net income of US\$ 6.1 B.

The three key developments in Cisco from 2009 to present (2016) are -

Change of CEO 2015

John Chambers who led the company for 2 decades facing up and downturns stepped down as CEO. His Successor is Chuck Robbins, a 17-year veteran and formerly head of worldwide sales. Robbins ended the councils and boards organisational approach that Chambers put in place as CEO of Cisco in the past.

Cisco still dominates when it comes to selling networking equipment to big corporate customers or government organisation all over the world. But through innovation and aggressive tactics, Chinese competitor Huawei and French giant Alcatel-Lucent have slowly started to eat into Cisco's business. Maintaining leadership is no guarantee in today's hyper-competitive tech world.

In 2014, Cisco reported an almost a 20% decline in earnings per share to \$1.49. At the same time, sales declined 3%. But Cisco's last earnings report shows Cisco has made up for some of the drop. During its latest quarter, Cisco's revenue rose 5% to \$12.1 billion compared to \$11.5 billion during the same time period last year. Meanwhile, its earnings per share rose 15% to \$1.72

New Strategic Alliances and Acquisitions:

October 2016, Cisco Systems acquires Heroik Labs Inc - a privately held company headquartered in San Francisco, CA . Worklife team will report into the cloud collaboration technology business unit under SVP/GM Jens Meggers

September 2016, Cisco and Salesforce(leader in CRM) announced global strategic alliance. Collaboration integrations are expected to be available in second half of 2017 . IOT integrations are expected to be available in second half of 2017 and pricing will be announced at that time. Cos to develop, market solutions that join Cisco's collaboration, IOT, contact centre platforms with Salesforce sales cloud, IOT cloud, service cloud.

August 2015, Cisco completes acquisition of OpenDNS - a privately held company that provides advanced threat protection for any device, anywhere, anytime.

And many more in the past it is not possible to list all.

Laying off 14 Thousand Employees 2016

Cisco is laying off 14 thousand employees, nearly company's 20% network equipment makers global workforce. Technology news site CRN reported, citing sources close to the company, the report said, as the company transition from its hardware roots into a software-centric organization.

Cisco has been investing in new products such as data analytics software and cloud-based tools for data centres. Cisco increasingly requires "different skill sets" for the "software-

defined future” than it did in the past, as it pushes to capture a higher share of the addressable market and aims to boost its margins.

The company has already offered many early retirement package plans to Cisco’s employees, according to CRN.

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