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### Cisco's Strategy in Recessionary Times

*This case was written by **Indu P.** under the direction of **Vivek Gupta**, ICMR Center for Management Research (ICMR). It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

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## Cisco's Strategy in Recessionary Times

*"We are confident that our aggressive strategy of investing in the business during the downturn and our focus on innovation, operational excellence, and productivity are driving our momentum and growth in the market. We believe that we are extremely well-positioned – by geography, in our customer segments, and in our key product categories – as economies around the world continue to improve and our customers increase their technology investments."*<sup>1</sup>

- **John Chambers, Chairman and CEO of Cisco, in February 2010.**

*"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."*<sup>2</sup>

- **John Chambers, Chairman and CEO of Cisco, in July 2009.**

### INTRODUCTION

For the second quarter that ended on January 23, 2010, the US-based Cisco Systems Inc. (Cisco), the world's largest manufacturer of computer networking equipment, reported net revenues of US\$ 9.815 billion and a net income of US\$ 1.853 billion. The results showed an improvement in the company's financial performance after four consecutive quarters of decline. Commenting on the results, John Chambers (Chambers), Chairman and CEO of Cisco, said, "Our outstanding Q2 results exceeded our expectations and we believe they provide a clear indication that we are entering the second phase of the economic recovery. During the quarter, we saw dramatic across the board acceleration and sequential improvement in our business in almost all areas."<sup>3</sup> **(Refer to Exhibit I for the details of Cisco's quarterly financials).**

Analysts were of the view that Cisco's results showed that the economic recovery was underway, as growing demand for routers, switches, and other equipment, areas in which Cisco had a major presence, indicated that technology companies had begun upgrading networks. According to Erik Suppiger, Analyst at the Signal Hill Group, "The results were very strong, better than we were looking for, and an incremental improvement from the last quarter when they noted their visibility into the second half of the fiscal year was limited and they didn't want to suggest a recovery was underway."<sup>4</sup>

Experiencing an economic downturn was not something new for Cisco Systems, which had witnessed five downturns over a span of twenty years, in 1993, 1997, 2001, 2003, and 2009. With prior experiences of facing economic downturns, by the time the economic crisis of 2008-09<sup>5</sup> started to show its adverse impact, Cisco was in a strong position to face it. The company faced

<sup>1</sup> "Cisco Reports Second Quarter Earnings," <http://money.cnn.com>, February 03, 2010.

<sup>2</sup> Michael S Malone, "Cisco's CEO Says Internet 2.0 Will Drive Productivity Growth in the New, New Economy," <http://online.wsj.com>, July 28, 2009.

<sup>3</sup> "Cisco Reports Second Quarter Earnings," <http://newsroom.cisco.com>, February 03, 2010.

<sup>4</sup> "Cisco Quarterly Results Soar Past Estimates," <http://in.reuters.com>, February 04, 2010.

<sup>5</sup> The global financial crisis, said to be the worst since the Great Depression, began in 2007, due to a liquidity shortfall in the US banking system. The crisis resulted in a decline in consumer wealth and economic activity.

downturns with huge cash balances, which helped it not only face the crisis successfully but also to emerge stronger. According to Chambers, “Each time we emerged out of it a stronger company, with more market share and we moved into more [adjoining] markets.”<sup>6</sup>

## BACKGROUND NOTE

Headquartered at San Jose, California, US, Cisco was incorporated on December 10, 1984. The company was founded by a group of computer scientists, who designed a software named IOS (Internet Operating System), which could send streams of data from one computer to another. This was loaded into a box containing microprocessors specially designed for routing. In 1985, the company started a customer support site from where customers could download software over FTP<sup>7</sup> and also upgrade the downloaded software. Cisco, on its site, also provided a database that contained information about potential software problems to help both customers and developers.

In February 1990, Cisco went public and by the year ending July 1999, it had recorded sales of US\$ 69.8 million and a net income of US\$ 13.9 million. By 1991, Cisco’s support center was receiving around 3,000 calls a month, and this increased to 12,000 by 1992. To deal with the large volume of transactions, it built an online customer support system on its site. Cisco entered into joint marketing agreements with MCI International<sup>8</sup> integrating the company’s routers with telephone lines. It entered into agreements with other telecom companies like Bell Atlantic Corporation<sup>9</sup>, the US West Information Systems Inc.<sup>10</sup>, and Pacific Bell<sup>11</sup> for supplying routers. Cisco also entered into agreements with European telecom players including British Telecom, Alcatel, Siemens AG, Olivetti, etc. By 1992, Cisco’s sales had reached US\$ 339.6 million. In that year, the company featured in *Fortune* as the second fastest growing company in the US.

In 1993, Cisco installed an Internet-based system for large multinational corporate customers. The system allowed customers to post queries related to their problems. The company also installed a trigger function called the ‘Bug Alert’ on its website. The ‘Bug Alert’ sent e-mails on the software problems within 24 hours of their discovery.

Cisco’s acquisition spree began in 1993 with the acquisition of Crescendo Communications<sup>12</sup> for US\$ 95 million. In 1994, it acquired New Port Systems Solutions<sup>13</sup> for US\$ 93 million in stock **(Refer to Exhibit II for Cisco’s acquisitions till 2007)**. The acquisitions helped it extend its product portfolio to areas like local area networking switching, VoIP, home networks, etc. Many of the companies that Cisco acquired went on to prosper and companies like Linksys, Scientific Atlanta, and WebEx went on to garner revenues of over US\$ 1 billion. This was possible as most of the acquired companies were run as separate entities by their existing management even after they had been acquired.

<sup>6</sup> Michael S Malone, “Cisco’s CEO Says Internet 2.0 Will Drive Productivity Growth in the New, New Economy,” <http://online.wsj.com>, July 28, 2009.

<sup>7</sup> Acronym for File Transfer Protocol. It is one of the oldest and most popular methods of sending files across the Internet.

<sup>8</sup> MCI was a US-based telecommunications company that was acquired by WorldCom in 1998.

<sup>9</sup> Bell Atlantic Corporation was formed in 1983 when Bell broke up into several companies. It merged with another Bell operating company to form Verizon in 1997.

<sup>10</sup> The US West Information Systems Inc. is a subsidiary of the US West Inc., a communications company.

<sup>11</sup> Pacific Bell referred to Bell Systems’ telephone operations in California.

<sup>12</sup> Crescendo Communications was involved in Copper Distributed Data Interface products and in development of ATM technology.

<sup>13</sup> New Port Systems Solutions was involved in LAN2LAN software used to link local area networks.

In 1994, Cisco launched Cisco Information Online, a public website that offered not only company and product information but also technical and customer support to customers. In 1995, it introduced applications for selling products or services on its website. In that year, Chambers was named the CEO of Cisco. In 1996, the company introduced a new Internet initiative, 'Networked Strategy' to leverage on its enterprise network to foster interactive relationships with prospective customers, partners, suppliers, and employees. By the mid-1990s, Cisco had a presence in Japan, Australia, Europe, and Hong Kong.

By the year 1998, Cisco's market capitalization was at over US\$ 100 billion. During 1999, the revenues were at US\$ 12.15 billion. In early 2000, Cisco's market cap crossed US\$ 450 billion, which made Cisco one of the most valuable companies in the world. Flush with funds, Cisco went in for more acquisitions and in 2000, it acquired around 25 companies. Cisco had a state-of-the-art supply chain, through which it could take orders, immediately inform suppliers and manufacturing partners, and then build the required products within a short span of time. It operated without any inventory and followed Just-in-Time delivery practices. In the early 2000s, Cisco could not meet the demand for its products and customers had to wait for more than 15 weeks for its switches, as suppliers could not meet the high demand for them. Due to the long wait period, customers began opting for competitors' products. Cisco then pushed the contract manufacturers and suppliers to manufacture and hold inventory, committing itself to buying large quantities from them.

The year 2001 was a difficult one for Cisco as it had to face a recession. The company was unable to spot the economic downturn and stocked up inventory, while the demand fell. It failed to notice that the revenues of dotcom companies had started to decline rapidly, by mid-2000, as did that of telecom companies. Several of Cisco's orders were cancelled. This led to choking of the supply chain and within a few months, the company's revenue growth rate dropped significantly. Cisco had to write down inventory of US\$ 2.2 billion during the third quarter. At the time of the dotcom crash, in 2001, Cisco was developing advanced technologies like unified communications and those were far from fetching profits for the company. In order to save costs, Cisco slashed around 8,500 jobs. In the third quarter ending April 28, 2001, it reported losses of US\$ 2.69 billion.

Then Chambers went on to reduce the number of resellers and suppliers. The company also slowed down the pace of acquisitions. Cisco recovered in the next few quarters and by the fourth quarter of 2002 ending July 22, it reported a net income of US\$ 772 million as against the US\$ 7 million it had reported in the fourth quarter of 2001.

Cisco maintained its growth momentum over the next few years. Though by late 2008, its stock took a beating along with the stocks of other companies, its business continued to be strong, with US\$ 26 billion in cash and more than 20 products in the pipeline. 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 a major presence in different areas of web infrastructure like switches, gateways, and other hardware and also network management software.

Cisco was one of the few companies to withstand the global economic slowdown successfully in the fiscal year 2008-09. For the fiscal year ending July 25, 2009, the company recorded net sales of US\$ 36.1 billion and a net income of US\$ 6.1 billion (**Refer to Exhibit III for Cisco's three-year financial statement**).

## CISCO DURING RECESSION

In late October 2008, Cisco faced a reduced demand for its products in the US. The company forecasted that it would face challenges in markets like Asia and Europe too. At that time, Chambers announced that Cisco would take appropriate action proactively to face the downturn and adjust its strategies according to the changing situation. The company also decided to reduce expenses by over US\$ 1 billion over a span of one year by freezing recruitment, reducing travel related expenses, and cutting down on capital expenditure.

Cisco saw the downturn as an opportunity to invest in new technologies and emerging markets. The company decided to continue with its acquisitions program through which it could further build up its product portfolio. According to Chambers, “We have been through this four times before, in ‘93, ‘97, 2001, and 2003. Each time we’ve gained market share and we have kind of, if you will, a playbook for how we deal with it. So we’re going to be very aggressive through this downturn.”<sup>14</sup> In the process, Cisco identified around 26 growth opportunities that catered to the changing needs of the customers. It then prioritized resource allocation across these opportunities. Prominent opportunities included Web 2.0, video and visual networking, data center, and virtualization.

After experiencing several recessions in the past, Chambers learnt that it required four elements for a company to come out of recession. According to him, these were being realistic, assessing the existing situation, equipping oneself for the subsequent upturn, and getting closer to the customers **(Refer to Table I for Chambers’ game plan for the downturn)**. He said, “We’ve learned our lessons with each downturn in this company’s history, and we’ve fine-tuned them as we’ve gone along. Now we have our playbook, with its four key elements, and we’re going to run that game no matter what the short-term situation looks like.”<sup>15</sup>

According to Chambers, companies needed to gauge how much of the challenge was caused by the economic downturn and what share was due to internal causes. Then they needed to determine the duration and the intensity of such a recession and develop plans to help the company survive and thrive during the downturn. Though many experts were predicting that 2010 would witness the end of recession, Chambers was optimistic about the recession ending even before that, mainly due to the stimulus packages that were being implemented by the governments across the world and the activities of central banks across many countries to spruce up their economies.

Chambers opined that organizations must ready themselves for the eventual upturn by aligning their resources with the new opportunities and by maintaining a high degree of financial management. Cisco was ready to benefit from the economic upturn and in the process gain market share. According to industry experts, the company was well positioned with its process driven vision, strategy, and unique organization structure to move rapidly and take advantage of the opportunities that occurred during the upturn.

During the 2001 recession, Cisco understood that it was important to be close to the customers as it would help them know if recession had had an impact on their revenues and profits. Another area that indicated recession was the stock markets. Before the 2001 crisis, the stock markets had been showing a downward trend for almost a year, a sign that was neglected by many companies. Cisco worked in close cooperation with its customers to expand its technology and business relationship with them. The company was of the view that this would ultimately benefit the customers as it would help them in managing future growth and achieving greater flexibility in managing downturns and taking benefit of upturns.

<sup>14</sup> “One of One with Susie Gharib,” [www.pbs.org](http://www.pbs.org), March 05, 2009.

<sup>15</sup> Michael S. Malone, “Cisco’s CEO Says Internet 2.0 Will Drive Productivity Growth in the New, New Economy,” <http://online.wsj.com>, July 28, 2009.

**Table I**  
**Cisco – Game Plan for Downturn**

**Being realistic about the cause of your challenges:** Is it primarily the macro environment or your strategy? We believe our long-term strategy is working very well and we will stay focused on its continued implementation.

**Determine the length and depth of the downturn and respond appropriately:** As we were one of the first to discuss last quarter, we felt this downturn was occurring quicker and with more severity than many of our peers. The length of the downturn is still in question, and being very candid, no one, including us, really knows how long it will last. The majority of our customers are guessing 2010, while a smaller group sees the upturn toward the end of 2009. Given the coordinated activities of global central banks and the extremely large stimulus packages that are being implemented in almost all major countries; I tend to be a little more optimistic than most of my customers. Time will tell if that optimism is appropriate.

**Prepare for the upturn:** We believe this is the time to differentiate ourselves from our peers and be aggressive in ways that will position Cisco for future, profitable growth and stronger market leadership. This is the area that I believe we can uniquely position Cisco with our process driven vision, strategy, and execution combined with our organizational structure around Councils and Boards that will allow us to move with speed, scale, flexibility, and with a replicable process as the upturn inevitably returns.

**Expand customer relationships:** We are attempting to move very rapidly across the majority of our service provider, enterprise, and government accounts to dramatically expand both the technology relationship as well as the business relationship as it relates to the customers' future growth and their own flexibility in managing through the downturn while preparing for the upturn.

Source: <http://newsroom.cisco.com>.

From the 2001 crisis, Cisco learnt that it was important to have more cash balances in hand, and when the company was facing problems in 2009, it had a cash balance of US\$ 34 billion. 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."<sup>16</sup>

Chambers opined that the recession presented opportunities in the areas of virtualization, video architecture, TelePresence, collaboration, and network-enabled technologies for Cisco. In the wake of recession, the company extended its presence into areas like business servers, collaboration software, etc, as a part of its Cisco Unified Computing System. The system united network, storage access, and virtualization resources under a single system to reduce IT infrastructure costs (**Refer to Table II for the benefits companies can derive from the Unified Computing System**).

Cisco reduced its travel expenses with its own TelePresence video conferencing technology, which was used to carry out virtual meetings. As of mid-2009, there were 550 TelePresence points in the world and these were estimated to grow rapidly, as companies tried to control travel costs. Chambers himself claimed that out of the around 260 meetings that he had had in a span of few months, 200 had been through TelePresence.

<sup>16</sup> John Swartz, "Cisco Powers Through the Recession," [www.cio-today.com](http://www.cio-today.com), January 18, 2010.

**Table II**  
**Benefits of Cisco Unified Computing System**

- **Reduces total cost of ownership:** Up to 20 percent reduction in capital expenditures (CAPEX) and up to 30% reduction in operational expenditures (OPEX).
- **Improves IT productivity and improves business agility:** Provision applications in minutes instead of days. Shifts the focus from IT maintenance to IT innovation.
- **Increases scalability without added complexity:** Managed as a single system, whether it has one or 320 servers with thousands of virtual machines.
- **Improves Energy Efficiency:** Significantly reduces power and cooling costs.
- Provides interoperability and investment protection through industry standards-based infrastructure

Source: <http://newsroom.cisco.com>.

## ORGANIZATION STRUCTURE

After the crisis in 2001, Cisco realized that one of the reasons for its problems was its hierarchical structure. According to Chambers, “In 2001, we were like most high-tech companies, with one or two primary products that were really important to us. All decisions came to the top 10 people in the company, and we drove things back down from there.”<sup>17</sup>

In August 2001, Cisco was reorganized around small groups called councils and boards. Each group was dedicated to a fast moving product and was managed independently. When a project was initiated, the company defined its short-term goals, formed a cross-functional team and this team worked together until the task was complete. In this way, the company was not directed by the commands of the top management flowing down the hierarchy but by the goals of the organization that centered around and were driven by the customer. The structure that was formed in 2001 was modified and refined in the subsequent years.

By the time Cisco faced the economic downturn in 2008-09, it had built social communities based on the collaboration model, in place of the standard top-down structure. Forming a part of these were councils, boards, and working groups. The councils looked at opportunities beyond US\$ 10 billion while the boards took care of US\$ 1 billion opportunities. The working groups extended support to the councils and boards and at the same time addressed specific topics or problems. The employees at Cisco were grouped into small temporary groups (two to ten) that worked on the individual projects. These working groups looked for opportunities in their respective areas and brought these to the boards.

Each board had around 14 people on an average and included a senior vice-president or a vice president. While 43 boards reported to the councils, four boards reported to the operating committee. Each council comprising around 14 people on an average, two of which were senior vice-presidents or vice-presidents, reported to the operating committee. The operating committee comprised 15 top executives of the company including Chambers.

The various initiatives of Cisco were managed by a number of committees that comprised cross-functional, interdepartmental, or even international teams of executives. These executive “volunteers” worked on boards and councils organizing themselves around major initiatives or

<sup>17</sup> Ellen McGirt, “How Cisco’s CEO John Chambers is Turning the Tech Giant Socialist,” [www.fastcompany.com](http://www.fastcompany.com), November 25, 2008.

specific product lines.<sup>18</sup> Commenting on how this new approach worked, Chambers said, “Cross-functional leadership is about doing a replicable process with a business model that can be enabled by technology, and each of the functional groups being able to implement that. So whoever serves on each of these councils and boards and working groups, from each functional group, has to be able to speak for the whole group. Not go back and ask permission, but has to be able to speak for the group. Secondly, they’ve got to understand the implications of their decisions across all the functions.... And third, you select who goes on these councils and boards by the leaders of the group, which originally were my executive VPs and senior VPs.”<sup>19</sup>

Each of the top executives of Cisco, including Chambers, was involved in multiple councils and boards. Chambers opined that in tough times marked by the economic downturn, an organization such as Cisco would be very effective as it had ‘a distributed idea engine where leadership emerges organically, unfettered by a central command.’<sup>20</sup> By late 2009, there were 750 people involved in decision making functions as a part of different boards and councils. This helped the company enter several new markets and to spread rapidly.

Cisco’s new organization structure made the executives share responsibility and help each other succeed. Through this, the pace of innovation increased and helped Cisco market more products faster. For example, a business plan that used to take around six months to be approved took only a few days. Executives’ compensation was based not on the performance of individual units but on how the collective business functioned. The new organizational structure helped Cisco increase its new projects ten-fold in 2008. At the same time, even amidst a tech-boom, Cisco was able to save on the operating expenses, which were at 38% during the early 2000s to 35% by 2008.

## PARTNERS AND CUSTOMERS

Cisco made efforts to assess how big the recession and its duration would be and to plan accordingly. The company viewed the recession as an opportunity to move closer to the customers and partners. According to Chambers, “In 2001, we went to our customers in energy, manufacturing, and automotive, to name a few. We asked – how are you handling this?”<sup>21</sup> From then on, Chambers started observing stock markets more closely, maintained cash balances, and also moved into several areas like networking switching, Voice over IP, home networks, etc. aggressively.

Cisco had over 60,000 partners across the world, and these included several small businesses. In 2008, when the recessionary trends started to show, Cisco went to its partners to ask them how it could help them face the recession successfully. Once Cisco was clear about the recession, it went on to help the partners survive the recession and also to prepare for the subsequent upturn through its initiative called ‘Navigate to Accelerate.’ This consisted of four key strategies that partners were required to adopt in a challenging economy (**Refer to Table III for the four strategies**).

To help partners face the recession successfully, Cisco made more credit available to them, even as other companies were reducing credit to their channel partners. The company added US\$ 2 billion to the credit facility it had already extended to its partners. To help them save money, on-site audit requirements were also reduced. Cisco also helped the partners extend 0% financing to the end users in some of the regions.

<sup>18</sup> Ellen McGirt, “How Cisco’s CEO John Chambers is Turning the Tech Giant Socialist,” [www.fastcompany.com](http://www.fastcompany.com), November 25, 2008.

<sup>19</sup> “McKinsey Conversations With Global Leaders: John Chambers of Cisco,” [www.mckinseyquarterly.com](http://www.mckinseyquarterly.com), July 2009.

<sup>20</sup> Ellen McGirt, “How Cisco’s CEO John Chambers is Turning the Tech Giant Socialist,” [www.fastcompany.com](http://www.fastcompany.com), November 25, 2008.

<sup>21</sup> Michael S Malone, “Cisco’s CEO Says Internet 2.0 Will Drive Productivity Growth in the New, New Economy,” <http://online.wsj.com>, July 28, 2009.



To help the partners prepare for the upturn and be ahead of the competitors when the economy turned healthy, Cisco looked at two elements. The first was Web 2.0 and collaboration technologies, which the partners were required to adopt to improve business processes. Through the use of these technologies, Cisco's partners were able to collaborate better with the company and the customers to deliver products that met their demands. This also facilitated partner to partner collaboration. Cisco also provided the partners with training, expertise, and communication and collaboration tools to help the partners collaborate. The second element was services, which referred to full lifecycle services from basic implementation, maintenance, support, operations, consulting, and business transformation. Cisco provided its partners with the Cisco Industry Solutions Partner Network that equipped them to deliver all these services.

**Table III**  
**Navigate to Accelerate – Four Key Strategies**

1. **Focus on Finances:** Maintain financial discipline, manage cash flow and credit.
2. **Focus on the Customer Base:** Leverage existing customer relationships to drive profitability and loyalty.
3. **Focus on Changing Customer Needs:** Elevate the strategic role by helping customers adapt to new consumption models and solutions that promote productivity and cost reduction.
4. **Focus on the Future:** Make strategic investments in technology and partnerships that will help prepare for the upturn.

Source: <http://blogs.cisco.com>.

Another area which Cisco focused upon during recession was its existing customers' IT infrastructure, where it found several opportunities for upgrading. There were several customers whose IT infrastructure was more than five years old, and required upgrading. This also helped Cisco enter into a strategic relationship with the customers. According to Cisco, the market for infrastructure upgrading was likely to reach US\$ 50 billion by 2013.

## NEW PRODUCTS AND MARKETS

In spite of the recession, Cisco continued to acquire several companies (**Refer to Table IV for Cisco's acquisitions during 2008 and 2009**). The company entered sectors like sports and entertainment, electricity grids, consumer networking, etc. It entered the sports technology arena in a major way through StadiumVision, which allowed the stadiums to display digital and video content along with targeted advertising. Cisco entered into contracts with New York Yankees<sup>22</sup>, Arizona Cardinals<sup>23</sup>, and Dallas Cowboys<sup>24</sup>.

Another such product was MediaNet, a network platform that could carry video and other media on TVs, PCs, and mobile phones. It was an end-to-end video enabled network solution that helped in providing a rich media experience on any device, anytime. The platform was developed within 120 days with an initial investment of US\$ 25 million. The final product was available in the market within one year.

Cisco entered into the smart grid<sup>25</sup> to bolster its presence in this field. The company partnered with GE and Florida Power & Light on a smart meter project in Miami. The global smart grid market was estimated to be at US\$ 170 billion by 2014 and Cisco planned to have a major presence in the market. Cisco partnered with companies like GE for the smart meter rollout in Miami. It partnered with Duke Energy for a smart grid network.

<sup>22</sup> New York Yankees is a professional baseball team based in New York, USA.

<sup>23</sup> Arizona Cardinals is a professional American Football team based in Tempe, Arizona, USA.

<sup>24</sup> Dallas Cowboys is an American football team based in Irving, Texas, USA.

<sup>25</sup> Smart grid delivers electricity from suppliers to consumers through digital technology.

**Table IV**  
**Cisco – Acquisitions in 2008 and 2009**

2009		
Set-top box business of DVN	Nov. 2	Technology and market leader in digital cable in China.
ScanSafe	Oct. 27	Web security products
Starent Networks	Oct. 13	Mobile infrastructure products
Tandberg	Oct. 1	Videoconferencing.
Tidal Software	April 9	Specialist in data-center tech.
Pure Digital Technologies	March 19	Creator of Flip video camera
Richards-Zeta Building Intelligence	Jan. 27	Middleware tech.
2008		
Jabber	Sept. 19	Messaging service expert
PostPath	Aug 27	E-mail and calendaring software maker
Pure Networks	July 23	Home-networking management tools
DiviTech	June 10	Video-network management technology
Nuova Systems	April 8	Data-center specialist

Source: [www.cisco.com](http://www.cisco.com).

According to Chambers, the future of the Internet was in video and collaboration tools, which would help in spreading social networking further. Chambers wanted Cisco to have a major presence in this field. Hence, the company entered the video technology and home entertainment business. In October 2009, Cisco acquired videoconferencing equipment maker, Norway-based Tandberg, for US\$ 3.4 billion. Tandberg generated revenues of US\$ 839 million for the fiscal year ending June 2009. According to Chambers, “Video is at the heart of (Cisco) moving from the plumber (of the Internet) to a thought leader for sports stadiums, set-top devices, music, and other areas.”<sup>26</sup>

Cisco also acquired Pure Digital for US\$ 590 million. Pure Digital was involved in manufacturing flip video cameras. These cameras could be used to film video clips and upload them on the computer. The cameras were highly popular and P&G provided them to all the top management personnel to help them record their ideas and remain connected with their team members. The acquisition of Flip video cameras added to Cisco’s capabilities as the cameras could be used to record brief video messages, which could be uploaded and distributed across the world. To complement this, Cisco also planned to unveil automated video translation software in twenty languages, in the second half of 2010.

Cisco also benefited from the fact that several companies were cutting down on travel plans and opting for teleconferences. Not only companies but several governments too acquired Telepresence systems from Cisco.

<sup>26</sup> John Swartz, “Cisco Powers through the Recession,” [www.cio-today.com](http://www.cio-today.com), January 18, 2010.

## LOOKING AHEAD

Even in recessionary times, Cisco looked at expanding into new markets. The company predicted an annual growth of between 12% and 17% till the year 2015. It always developed its business strategies with a long-term perspective, irrespective of the macro-economic conditions. Chambers said, “I don’t make any decisions on the next quarter or the next year. I make my decisions three to five years out so I do not adjust my strategy based on what’s spending going to be next quarter or three quarters. I make my decisions on three to five years. My view is that if we execute well as a company, 12 to 17 percent growth is foreseeable for the future. Will there be times we go above it? Probably. Will there be times we go below it? Probably.”<sup>27</sup>

In the next few years, Cisco planned to launch a unified hardware-software platform – The Cisco unified computing system — to run the data centers of companies. The market for online video was expected to reach US\$ 50 billion by 2013 and the company estimated that it would have a significant presence in this market.

Chambers was fairly optimistic about the networking business in the near future. He said, “It’s the capability of consumers to access any content on any device at any time from any location on any kind of network. It does not matter whether the movie is on your Flip [video camera], in the [Internet storage] cloud, on your home server or with Disney, all you want is to get the content on your device... you don’t want to know where it is.”<sup>28</sup>

Cisco was also actively pursuing federal government related business in the areas of cyber security and cooperation between public and private sectors. The company appointed former White House cyber security advisor Melissa Hathway as a consultant to liaison with the government authorities. She helped the company identify the product line that could be useful for the government. According to John Stewart, Cisco’s chief security officer, “We have the opportunity in Cisco to transform how we do defense, build up critical private and public networks, and improve information sharing among government and private networks.”<sup>29</sup>

By establishing a presence in different markets ranging from sports to servers, Cisco, according to analysts, was spreading its business too thin and it could be a problem, as such companies were not well versed to cater to the consumer markets. Cisco would also face competition from competitors who had expertise in their respective areas. For example, Cisco entered the servers market, competing with companies like HP and IBM. Other areas which Cisco planned to enter included home stereo networking, through the Linksys brand.

Industry experts were of the view that video conferencing equipment from Cisco was priced too high at around US\$ 500,000. During the recession, where investments in IT equipments had reduced drastically, companies might not be able to afford this kind of equipment, they said. At the same time, the equipment could be mostly used to connect within companies and could not connect between different companies. Moreover, cheaper alternatives were available in the form of Skype and mobile phones. They pointed out that Cisco’s video sales, including TelePresence, had gone down by 30% in the fourth quarter of 2009. They were of the view that Cisco should come out with lower priced equipment for small and medium business enterprises.

<sup>27</sup> “Cisco: Strategy is Recession Proof,” Reuters, January 08, 2008.

<sup>28</sup> Tim Weber, “Can Cisco Turn the Downturn into Opportunity?” <http://news.bbc.co.uk>, April 13, 2009.

<sup>29</sup> Richard Adhikari, “Cisco Guns for Burgeoning Government Security Market,” [www.technewsworld.com](http://www.technewsworld.com), February 09, 2010.

**Exhibit I**  
**Cisco Systems – Quarterly Financial Statement**

(In US\$ Millions)

	Qtr Ending 23-Jan-2010	Qtr Ending 24-Oct-2009	Qtr Ending 24-Jan-2009
<b>Net Sales</b>			
Product	7,976	7,200	7347
Service	1,839	1,821	1742
Total net sales	9,815	9,021	9,089
<b>Cost of Sales</b>			
Product	2,815	2,486	2737
Service	668	647	629
Total cost of sales	3,483	3,133	3,366
<b>Gross Margin</b>	6,332	5,888	5,723
<b>Operating Expenses</b>			
Research and development	1,247	1,224	1279
Sales and marketing	2,110	1,995	2155
General and administrative	467	440	380
Amortization of purchased intangible assets	138	105	136
Total operating expenses	3,962	3,764	3,950
<b>Operating Income</b>	2,370	2,124	1,773
Interest income	155	168	222
Interest expense	(158)	(114)	-63
Other income (loss), net	(12)	61	-64
Interest and other income (loss), net	(15)	115	95
Income before prov. for income taxes	2,355	2,239	1,868
Provision for income taxes	502	452	364
<b>Net Income</b>	1,853	1,787	1,504

Source: <http://investor.cisco.com>.

**Exhibit II**  
**Cisco Systems – Acquisitions (1994-2007)**

<b>Year</b>	<b>Company</b>	<b>Year</b>	<b>Company</b>
<b>1994</b>	LightStream Corporation,	<b>2000</b>	PixStream, Inc.
	Kalpana Inc.		IPCell Technologies, Inc.
<b>1995</b>	Combinet, Inc		Vovida Networks, Inc.
	Internet Junction Inc.		CAIS Software Solutions -
	Grand Junction Networks, Inc.		Active Voice Corporation
<b>1996</b>	TGV Software, Inc		Radiata, Inc. -
	StrataCom, Inc		ExiO Communications, Inc.
	Telebit Corp.	<b>2001</b>	AuroraNetics, Inc.
	Nashoba Networks, Inc		Allegro Systems. Inc.
	Granite Systems, Inc	<b>2002</b>	Hammerhead Networks, Inc.
	Netsys Technologies, Inc		Navarro Networks, Inc.
	Metaplex, Inc.		AYR Networks, Inc.
<b>1997</b>	Telesend,		Andiamo Systems, Inc.
	Skystone Systems Corp		Psionic Software, Inc.
	Global Internet Software Group,	<b>2003</b>	Okena, Inc
	Ardent Communications Corp		SignalWorks, Inc
	Dagaz xDSL		Linksys Group, Inc.
	LightSpeed International, Inc.		Latitude Communications, Inc.
<b>1998</b>	WheelGroup Corporation	<b>2004</b>	Twingo Systems, Inc.
	NetSpeed, Inc.		Riverhead Networks, Inc.
	Precept Software, Inc.		Procket Networks, Inc.
	CLASS Data Systems		Actona Technologies, Inc
	Summa Four Inc.		Parc Technologies, Ltd
	American Internet Corporation		P-Cube Inc.
	Clarity Wireless Corporation		NetSolve, Inc.
	Selsius Systems Inc.		dynamicsoft Inc.
	PipeLinks, Inc.		Perfigo, Inc.
<b>1999</b>	Fibex Systems		Jahi Networks, Inc.
	Sentient Networks, Inc.		BCN Systems, Inc.
	GeoTel Communications Corp.		Protego Networks, Inc.
	Amteva Technologies, Inc.	<b>2005</b>	Airespace, Inc

Year	Company	Year	Company
	TransMedia Communications, Inc.		Topspin Communications, Inc.
	StratumOne Communications Inc.		Sipura Technology, Inc.
	Calista Inc.		Vihana, Inc.
	MaxComm Technologies Inc.		FineGround Networks, Inc.
	Monterey Networks, Inc.		M.I. Secure Corporation
	Cerent Corporation		NetSift, Inc.
	Cocom A/S		KiSS Technology A/S
	WebLine Communications Corp. -		Sheer Networks, Inc.
	Tasmania Network Systems, Inc		Nemo Systems
	Aironet Wireless Communications, Inc		Scientific-Atlanta, Inc.
	V-Bits, Inc		Intellishield Alert Manager
	Worldwide Data Systems, Inc.	2006	SyPxxx Networks, Inc
	Internet Engineering Group, LLC		Audium Corporation
	Pirelli Optical Systems		Metreos Corporation
2000	Compatible Systems Corp		Meetinghouse Communications Data
	Altiga Networks		Arroyo Video Solutions, Inc.
	Growth Networks, Inc		Orative Corporation
	Atlantech Technologies Ltd		Greenfield Networks Inc.
	JetCell, Inc.		Tivella, Inc.
	infoGear Technology Corp.	2007	IronPort Systems, Inc.
	SightPath, Inc.		Five Across, Inc.
	PentaCom Ltd.		Reactivity, Inc.
	Seagull Semiconductor, Ltd.		NeoPath Networks
	ArrowPoint Communications, Inc. -		WebEx Communications, Inc.
	Qeyton Systems		SpansLogic, Inc.
	HyNEX, Ltd. -		BroadWare Technologies, Inc.
	Netiverse, Ltd.		Cognio, Inc.
	Komodo Tehnology, Inc.		Latigent, LLC.
	NuSpeed Internet Systems, Inc.		Navini Networks, Inc
	IPmobile, Inc.		Securent, Inc

Adapted from [www.cisco.com](http://www.cisco.com).