Cisco’s Video Solutions Group Acquisition

A plan for an assessment of the IT investment

Business Value of IS
IMKM 2020 Group 11

Roadmap

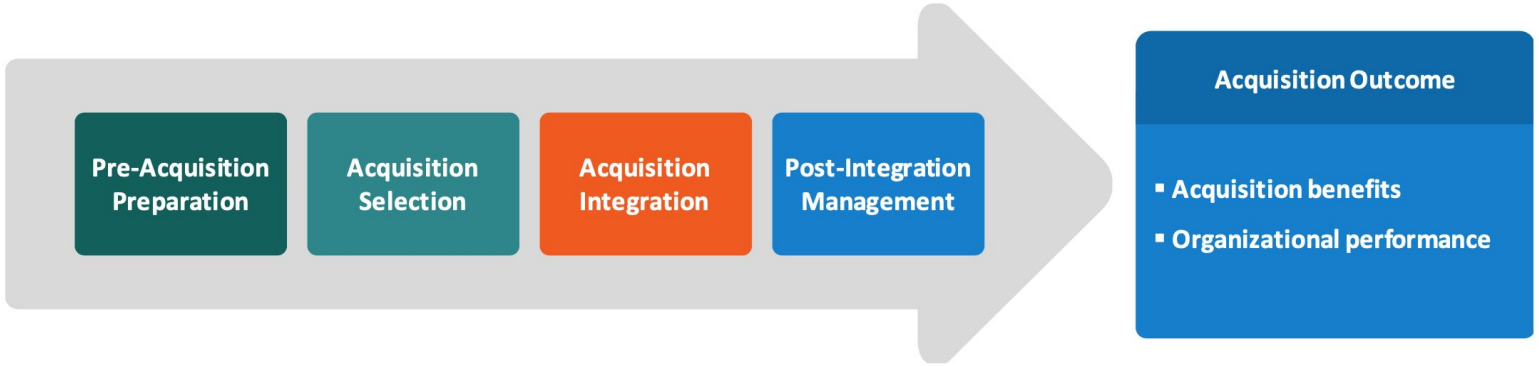
- Introduction into case
- Acquisition as an IT investment
- Taxonomy
- Performance Measures
  - Productivity
  - Market Performance
  - Accounting Performance
  - Intangible Benefits
- Measuring IS Performance
  - Type of IS Asset
  - Methods
  - Influencing Factors
- Value of IS Performance
- Conclusion
- Discussion Questions
- References

Cisco

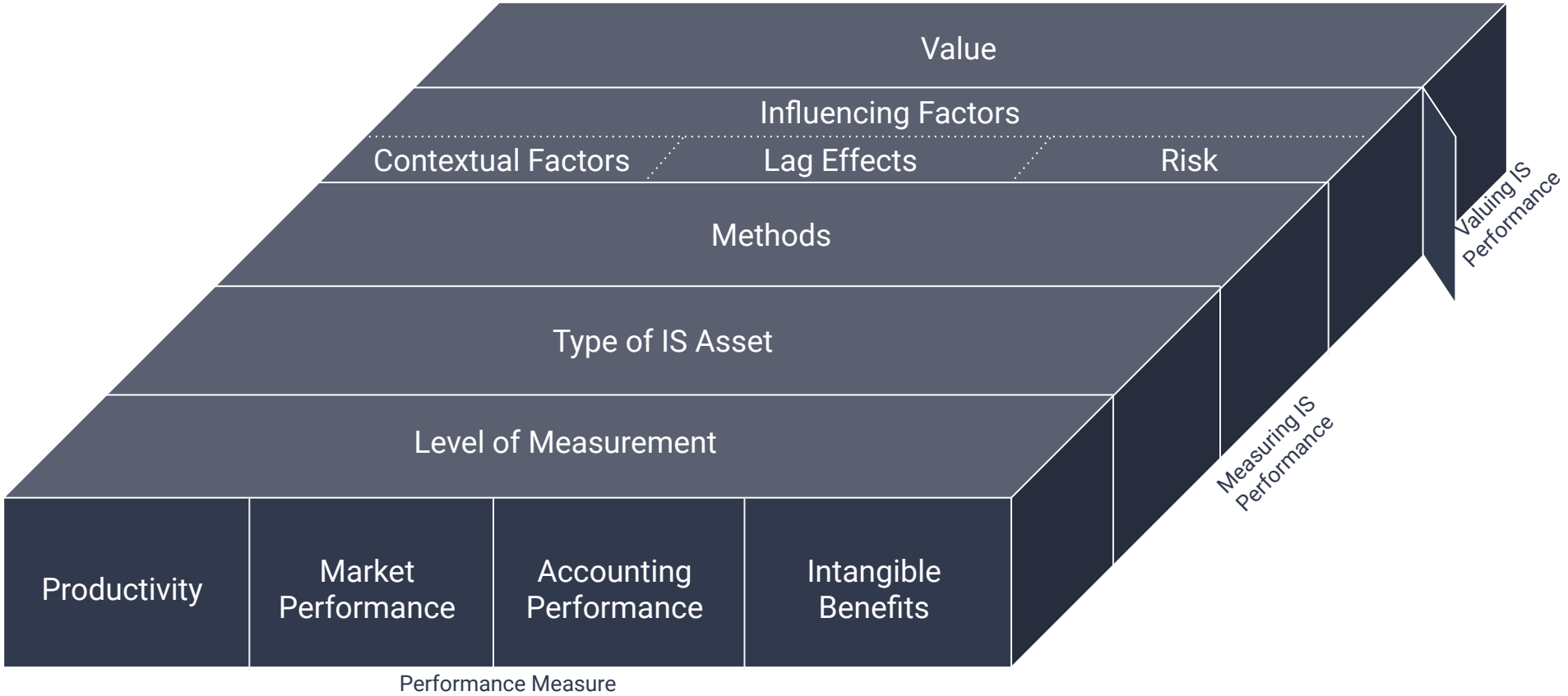
- Multinational technology company
- **Growth-by-acquisition strategy**: Acquiring smaller organizations to expand Cisco's business areas
- 2012: Acquisition of the Video Solutions (VS) group, a provider of video software and content security solutions
- Motivation: Extending Cisco's product offerings in video services and gaining access to markets in China and India

Acquisition as an IT investment

- Small companies with highly innovative technology are acquired to integrate them into Cisco's existing offerings
- Large organizations are acquired to complement Cisco's products or to gain new ways of competing in areas where Cisco already had a significant presence



Cisco's four-phase acquisition process



Taxonomy of IS Business Value Research (Schryen 2010)

Performance Measures

	Process Level	Firm Level	Micro/Project Level	Industry/ Competitive Level	Macroeconomic/ Country Level	Customer Surplus
Productivity	Compare* integration times with changes made after acquisition to EA.	Compare cross-department communication times (VS & old Cisco video communication team)	Assess time spent per customer (VS's direct communication process)	-	Assess expandability possibilities in Asia	-
Market Performance	-	-	-	Compare industry market shares (video communication)	Compare performance in respect to higher overall market share (China, India)	Compare customer numbers
Accounting Performance	Compare costs per acquisition with new EA capabilities	Compare capital structure (equity, credit)	Evaluate cannibal costs. Compare cost per customer	Compare revenue	Compare cost structure (per country)	Compare revenue, cost per customer
Intangible Benefits	Compare knowledge level on the acquisition process (new team for reversed integration)	Compare organisational structure, knowledge base	Assess employee satisfaction	Assess industry knowledge base increase	Assess recognition in different countries (China, India)	Compare market prominence, network effects & customer satisfaction (pricing models, better support for standard offerings)

* All comparisons should be conducted in regard to pre- and post- investment periods

Type of IS Asset

"...better insights in the way IS investments induce superior business performance require a breakdown of IS investments into single IS assets." — Schryen (2010)

Examples for IS Assets:

- Software & Hardware:
  - IT Infrastructure
  - Production-oriented software
  - Interorganizational information systems
  - ERP systems
  - E-commerce systems
  - Supply chain systems
  - Knowledge management systems
- Orientation
  - Production
  - Supply Chain Management
- Other:
  - IS personnel & training expenditures

Cisco Case:

- Video and security software of VS
- Reverse integration of the security solution of VS by Cisco
- Expansion with the VS customer base and two new markets with China and India
- Integration of the VS knowledge base into the Cisco knowledge

Methods

Methods for measuring IS performance

- Discounted cash flow
- Net present value
- Cost of ownership
- **S**imple **M**ultiple **A**ttribute **R**ating **T**echnique (SMART)
- Traditional capital budgeting
- Accounting measures
- Market-based measures
- Value analysis
- Analysis based on critical success factors (CSF)
- ...

Cisco Case:

- Short-term success criterias
  - Retain 100% of employees
  - Sustain the acquired company's current product and service revenues
  - Launch new products based on the acquired products and technologies
- Performance measurements:
  - Time to orderability
  - Time to completion
  - Cost savings
- Documentation on integration and acquisitions to evaluate the impact on the IT infrastructure

Influencing Factors

	Risks	Example from Cisco's case
Contextual Factors	Firm, industry and economic factors: Risk to the company's growth strategy and performance if core competencies and operations do not align	Organizational design: plans were developed for absorbing VS employees and assets (e.g. customer & financial data) into Cisco's corresponding functions, entire VS teams were relocated
Lag Effects	Delayed effects need to be considered, it might take years for an investment to bear advantages -	A large infrastructure project, that was being carried out at the same time, was prioritized
Risk	Economic risks due to uncertainty of future and states IS investments are regarded as riskier than non-IS investments	VS has direct relations with its clients in contrast to Cisco who uses partners to sell its solutions, so they verified that it would be possible to support the different consumption model with Cisco's existing systems

Value of IS Performance

Definition by the taxonomy (Schryen 2010)	Value of the acquisition in the Cisco case
● Sustained competitive advantage, determined by the level of inimitability of organizational resources ● Difference between economic outcome and the value that is derived	● Usage of VS's capabilities in the security area to launch **added services** within Cisco's existing products ● Update to Cisco's **standard acquisition practice** to also cover highly customized solutions → faster integration of future acquisitions with such an offering ● Extension of **customer base** in China and India through VS's established customer footprint

Discussion Questions

- What are the potential negative effects of an acquisition-based growth strategy? Both for the company and the market.
- How important are reverse integration possibilities for an acquisition? Does an acquisition without any potential reverse integration make sense? (Security solution in case of Cisco)
- Why are IS investments riskier than other investments?
- How do you evaluate the high standardization of the acquisition process by Cisco? What are the downsides?

References

Schryen, Guido. (2010). Preserving Knowledge on IS Business Value: What Literature Reviews Have Done. Business & Information Systems Engineering. 2. 233-244. 10.1007/s11576-010-0232-4.

Toppenberg, G., Henningsson, S., & Shanks, G. (2015). How Cisco Systems Used Enterprise Architecture Capability to Sustain Acquisition-Based Growth. MIS Q. Executive, 14.