**Strategic Memo Outline**

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**Introduction**

Cisco faces the difficult task of reinventing itself from being a leader in hardware and ethernet switching to becoming a company known for innovative software networking solutions. With its headquarters located in the heart of Silicon Valley, Cisco System (CSCO) operates on a global scale with a current market capitalization of $241 Billion. While the company suffered from stagnation in the past five years, the tech giant finally showed signs of life in 2018 with an impressive growth of 22.69% in stock price (Yahoo Finance). While Cisco has started to take action to better itself, Cisco still faces the major problem in its current reliance on hardware sales for its main source of revenue. Cisco will need to adapt to the changing tech landscape and follow a strategy that will allow it to maintain its position as a leader in technology.

**What Cisco Provides for Customers**

Cisco provides a wide variety of products and services to an equally diverse customer base, which consists of enterprise businesses, commercial businesses, service providers and the public sector. The company’s primary focus is in ethernet switching, routing, and networking solutions, with these divisions totaling to 57% of the company’s revenue in 2018. Cisco provides this to customers through both hardware and software options, with the company investing heavily in the latter. Cisco Systems also provides a collaborative environment on the cloud, consisting of services such as Voice over IP, web conferences through WebEx, and database management. In addition, Cisco offers cybersecurity protection software, with integration and compatibility with Cisco’s other products and services. Lastly, the company provides software and switches for data centers and server virtualization. In conclusion, Cisco provides numerous products and services for its consumers, with the advantage of integration and compatibility within their product network.

**Cisco’s Competitive Situation**

Cisco faces significant competition in the routing and switching sector, mainly from Huawei, Arista, Hewlett-Packard and Juniper Systems. In recent years Huawei and Arista in particular have been gaining market share, with Huawei increasing from 23.7% market share in 2017 to 28.7% in 2018. Despite these advancements from competitors, Cisco has remained the industry leader with a solid 51% of market share at the end of the 2018 fiscal year. In addition, the overall market for routing and switching has increased as demand continues to grow in both developing and developing markets due to the digital transformation. Another factor affecting Cisco is the hardware to software transition, where the entire IT industry is shifting away from hardware to software. Cisco, being a hardware-focused corporation, faces the challenge of adapting and rethinking its business model.

Cisco has remained an industry leader despite facing competition for several reasons. The first is Cisco’s ability to continually innovate, powered by its own in-house research and development coupled with the company’s aggressive acquisition strategy. A second key strength of Cisco is its ability to adapt and be flexible, which derives from CEO Chuck Robbins’ future-oriented decision making and the company culture he created. Robbins quickly identified key issues with Cisco after his inauguration in 2015, shuffling the executive team and also making the decision to strive towards software over hardware. Some of his other contributions also include focusing on the Internet of Things and 5G Technology, both of which will be pinnacle to technology in the upcoming years. His leadership has single handedly revitalized Cisco and allowed the company to reach newfound success. Lastly, another strength is their size and long experience as industry leaders, allowing the company to understand what it takes to be market leaders and the strategies to maintain success.

**The Extent of Cisco’s Competitive Advantage**

The intangible resources Cisco has which allows them to have strong sustainable competitive advantage is their overall goal. Their goal is to automate and simplify everything. The process of automation continues to and always have been evolving by means of innovation and new technology. Simplicity and automation in products is continuously sought after by everyone from businesses to consumers. As a result of their goal as a company, Cisco has successfully developed positive branding, known as a company producing quality products. Their branding will serve as an extremely strong competitive advantage over their competitors in trust from customers and in quality.

The tangible resources of Cisco reflect and improve their competitive advantage. Cisco’s stocks are currently valued at $54.94 (as of 05/03/2019) per share, whereas Juniper, their top competitor, is valued $27.65 (as of 05/03/2019) per share. The share value reflects how much shareholders believe in the value of the company and their future. Therefore, it is clear Cisco’s intangible resources have been recognized by shareholders that it will serve as a strong competitive advantage for the company.

To further Cisco’s competitive advantage Cisco had to think of ways to support its way of further innovation and deliver greater business value. To do this Cisco’s IT organization had to figure out how to serve employees and partners in a better way. Cisco had to change a lot to achieve these goals, they had to change the processes and mindsets as well as the legacy IT systems. The company generally had a waterfall culture and it lead to slow processes, lots of documentation, and long lead times. To achieve better competitive advantage Cisco decided to go with an Agile approach with the help of CA Agile Central. With Cisco taking an agile approach with IT they have been able to improve the efficiency and productivity of their teams. By going agile the company has been able to reduce the cost of ownership of their products. They have also increased employee satisfaction and accelerated innovation throughout the company.

To sustain competitive advantage Cisco has also changed the way it’s company culture is. An internal factor that Cisco has changed for competitive advantage is how the overall cultural structure is. The company moved from an hierarchical culture to a adhocracy culture. They moved from a system where items were ranked from importance to a system where they value adaptability and flexibility. Adhocracy culture consists of values in innovation, creativity, entrepreneurship, and adaptability. As for Cisco external culture, they have a strong desire to deliver results and accomplish goals.

The main reason Cisco has be able to sustain a competitive advantage is because of their ability to obtain acquisitions. Cisco has a growth strategy which is to identify and drive market transitions. By identifying market transitions Cisco is able to acquire other companies so that they can help with the transitions. Cisco bases acquisitions into three parts, market acceleration, market expansion, and market entry. With new acquisitions it enables Cisco to be at the forefront of technological advances. Every company Cisco acquires brings new assets including technology, products, solutions, and talent. Having these new company be a part of Cisco also enables them to outsource products. “Cisco seeks acquisitions where there is not only a strong business case but also a shared business and technological vision, and where compatibility of core values and culture foster an environment for success.” (Acquisitions)

**Cisco’s Basic Guiding Policy**

Cisco as a company has five basic guiding policies which lead their employees. The first is virtualization. By virtualization, data and even services are easily accessible from anywhere. Quick accessibility to information has become a very strong tool for businesses. Virtualization has also allowed people to work from home and save time from traveling all the way to work. Instead of keeping a desktop at work, virtualization allows users to create a desktop computer within a server, allowing users to quickly access their virtual desktop from anywhere with internet connection.

Automation is their next guiding policy. Automation plays a large part in simplifying tasks. Cisco aims to even make deployment for automated technology simple and easy. By doing so, in theory, a person without technological knowledge would be able to simply deploy an automating product Cisco offers. Cisco aims to make management for automation simple as well. Simplifying management should allow anyone to easily make changes in the automation programming when needed. Easy maintenance should allow for anything broken or make fixes in the automation process or hardware defects. Cisco’s goal in automation paired with simplicity is highly attractive for many businesses and consumers.

Cloud based servicing is another guiding policy for Cisco. Cloud based servicing will allow customer service to easily help their clients without having to physically be in the same location. Sending someone to diagnose and fix a problem is not as efficient for Cisco and creates frustration for the customers. By use of a cloud based servicing management system, problems are resolved much quicker than physically sending a person to resolve a problem.

Flexibility is their final guiding policy. Cisco believes their products should be modifiable at every level. By being modifiable at every level, customers will be able to change anything to make the product work in the best way for themselves. Flexibility within the company itself allows for quick decision making and aids in making changes. Many changes happen within and outside of kany business and flexibility helps the company adapt to those changes quickly.

**Is Cisco’s Guiding Policy Good?**

The future of networking lies in two major categories, these are reported by Cisco as: Wi-Fi 6 and 5G. Developments in these technologies are expected to massively impact the networking field and fundamentally change the way that businesses and their employees connect with one another. Firstly, Wi-Fi 6 which is otherwise known as the 802.11ax protocol will massively increase the efficiency of all existing Wi-Fi bands, and adding a new 6GHz band. The new protocol’s greatest improvements are in the density of devices that will be able to cohabitate in a single space. Greater densities of device will increase wireless speeds accordingly instead of hindering them. Secondly, carriers will begin implementing 5G in limited amounts which only a small number of devices presently support. The advent of 5G fixed wireless technology brings improved speed and battery life to smartphones, and competes with wired connections in terms of performance.

As previously mentioned, currently Cisco’s largest revenue streams are in routing and ethernet switching; combined these make up a substantial 45% of Cisco’s total revenue. Both of which, are also markets challenged by the new move towards software-defined networking, posing the greatest long term threat to Cisco’s main business. They had created sustained competitive advantage and maintained their dominant market share through their proprietary hardware and large switching costs, on the back of the adoption of the internet. However, Cisco recognizes that the trends in technology are shifting and how important it is to have a more flexible infrastructure now more than ever. This attitude is reflected in their basic guiding policy, and illustrated by the diversification towards smaller software businesses through a large number of acquisitions within the recent years. Cloud based servicing is closely tied to Cisco’s approach to 5G. Cisco 5G PowerX is based around delivering high speed, flexibility, and connectivity control. It also emphasizes the unification of automated and reliable services under a single architecture that benefits from Cisco’s investments into cybersecurity. Cisco has differentiated using a three step realization plan that will help users to determine the viability of a 5G system to their business, and create a 5G-ready infrastructure to prepare for the future. Cisco’s investment into 5G has already yielded in real world deployments.

Cisco’s guiding policy is extremely well geared towards preparing for the future of 5G. The aspects of their current guiding policy all indicate that they are preparing for the coming changes in the networking field. With Wi-Fi 6 and 5G technology tied closely together; Cisco predicts that by 2020, the technology should be available for use at least an enterprise level. Furthermore, the average consumer should also be able to experience 5G by the end of 2020. Although the end of the traditional router is more than highly probable, for a more effective system that integrates that functionality into IoT devices. Whether or not Cisco is able to market their future software as successfully as their present hardware is yet to be proven. And it is not one of the major reasons Cisco has been able to maintain their competitive advantage for so long.

**Alternative Strategies**

To continue growing and maintaining the large market share that Cisco has, alternative strategies must be taken into consideration. Globalization has created and developed substantial advancements for companies within different markets. Cisco’s focus on globalizing and venturing overseas should be prioritized. With the ability to further develop markets, Cisco can successfully expand by taking advantage of implementing their technology to fulfill future rising needs within these different countries. There is great potential in rising countries since the future in technology lies there. Bringing Cisco’s already successful services and products overseas to these new upcoming markets is of best interest. Developing a wider customer base ultimately adds value to the brand further increasing their market share and revenue growth.

Acquisition proves to be the way to maintain competitive advantage within the industry. Cisco can continue being the innovative brand they are known to be by acquiring smaller companies that can help develop new ideas. However, Cisco must be strategic with this alternative since acquiring too many companies can lead to stagnation. The risk in revenue loss is also prevalent because acquiring many business does not directly mean their market share will grow. The focus on specific brands who are qualified with high potential to be innovative are to be sought after. This ensures quality over quantity. Developing these acquired companies to aid them in maintaining an innovative hold on industries they are already in is beneficial. Cisco’s strong presence in the switching and routing market can be re-established and even transformed through the acquisition of high potential companies with the ability to help them innovate and transform this industry.

Putting focus on their educational investments also fuels their presence and succeeds as another alternative strategy. By implementing their brand into educational facilities especially those in grades K-12, initiates the development in familiarizing the youth with Cisco. Through this, Cisco can establish itself as an industry standard through their use of technology. This investment creates future value as younger students grow with preference towards the companies products and software. Cisco can provide special personalized ways of learning for different people through their technology. Putting things into perspective, schools have transitioned to using technology within their classrooms already, such as smart-boards and tablets. Taking advantage of this rise in tech-teaching and focusing on their education investments will allow Cisco to remain prevalent with the public and increase revenue.

**Important Implications for Cisco’s Future**

Cisco has already begun preparing for future technology by investing into development of cloud services, Internet of Things, and 5G technology. Although the company was facing stagnant growth in the past few years, we believe the company is moving in the right direction to remain leaders of the technology sector. They are switching business models to a subscription-based model to their software services, compared to one-time sales of their hardware. This will allow the company to receive a steady influx of recurring income, greatly increasing their revenue. In addition, the company is continuing to grow through their steady acquisitions and have a heavy potential to grow in subfields such as cybersecurity and database management.

One project Cisco is planning to implement with the technology they are working on is called Cities and Communities. Cities and communities is a project which will have smart city solutions. “Smart city solutions drive connectivity, productivity, and security for your communities. “ (Cities and Communities) The project consists of many solutions which will make cities globally more innovative. Their solutions will affect areas include lighting, environment, parking, safety and security, urban mobility and waste management. This one example of how Cisco’s innovations could leave a lasting impact on the future.

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