Cisco's Acquisition Strategy Analysis

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Abstract

As the world's leading provider of network connectivity solutions, Cisco has internationalization rapidly under the implementation of its acquisition strategy. But with the development of 5G networks and the changing international environment, Cisco faces many challenges. Therefore, how to better implement the acquisition strategy to promote further develop Cisco is an important issue.

Keywords

Cisco; Challenges; Acquisition strategy.

1. Introduction

In order to understand Cisco, this chapter mainly introduces information of Cisco, brief introduction to Cisco’s strategy, Cisco’s strategy analysis, and recommendation.

2. Information of Cisco

2.1. Brief Introduction of Cisco

Cisco Systems (Cisco) is the world's leading provider of Internet connectivity solutions. In December 1984, Cisco was founded in the US by a faculty couple--Leonard Bosack and Sandy Lerner. The couple designed a "multi-protocol router" network device to integrate incompatible computer LANs on campus to form a unified network. The generation of routers is considered to be the real sign of the networking era. With its continuous development, in 2020, Cisco ranked 15th among Forbes top 100 brands and 211th among the Fortune 500.

2.2. The Key Milestones since Internationalization

"Either we're subversive or we' re being subverted," says Cisco's former CEO John Chambers. Cisco was founded in 1984, CEO and president John Morgridge listed it in 1990, starting the internationalization process. Since then, its rapid development laid three key milestones.

2.2.1. Establishment of Cooperation Mode of Production and Finance

Sequoia, as a major shareholder in Cisco, brought in executives, such as Chambers, to successfully transform Cisco from engineer-led to marketing-led company. Sequoia specially built a acquisition fund, meanwhile, Cisco in advance as a minority shareholder to intervene in the superior new company and recommend to Sequoia. Then, Sequoia is in charge of incubation and tracking. if the new company entering the A round, indicating that the company is good, Cisco will buy, otherwise, finding a channel to deal with.

2.2.2. Success of the first acquisition

In 1993, Cisco had only one product-the router. At that time, Boeing Aircraft Company and Ford Motor Company stated that they would stop purchasing routers and replace them with Crescendo converters. To retain the two major customers, Chambers invested in the acquisition of Crescendo. Cisco thus transformed into a network equipment company. Due to the high profits it brought, this acquisition was regarded by industry insiders as "the most wise decision

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in Cisco history." Since then, it has provided case support for subsequent acquisition strategies. Cisco is now the craziest acquirer in the technology industry, having acquired more than 200 companies so far, an average of six weeks.

2.2.3. Application of Virtual Supply Chain

Cisco focuses on becoming a distribution platform for innovative technology products. In 1999, Cisco became a model for using the Internet to implement a virtual supply chain. More than 90% of the company's orders come from the Internet, while no more than 50% of the orders directly handled by Cisco staff. It is this huge distribution channel that has ensured a long-term leadership position in the industry. And the company's use of the Internet as its core business strategy is one of the key reasons for leaving its competitors behind.

2.3. Status of Development of Cisco

Chambers once said frankly: "We knew our strongest opponent 25 years ago must be from China. "For Cisco, the Asia-Pacific market, especially the Chinese market, accounts for a large amount of revenue, but Cisco's presence in the Chinese market is declining in recent years. With the rapid development of 5G networks, although Cisco has acquired many cloud service companies, it still faces many difficulties to catch up.

In the era of big data, as the world's largest Network equipment manufacturers, Cisco is still far behind Amazon, Google. Cisco’s distribution channels are over-saturated and encounters rivals such as HP on low-end networks. Suffering from matrix structure, senior executives are tired of meeting with multiple jobs, causing decision-making to lag behind the rival company. Investors are more pressured than users, and ultimately violates the concept of user needs. Integrated talents are difficult to fight as a whole.

3. Brief Introduction to Cisco’s Strategy

3.1. Value-creation Strategy

The determinants of enterprises value are profitability and profit growth. The former can be achieved by reducing costs, adding values and raising prices while the latter can be realized by selling more in existing markets and entering new market.

Value Creation means performing activities that increase that value of goods or services to consumers. The more value customers place on a firm’s product, the higher the price the firm can charge for those products. Customer’s reservation price shows individual has different assessment of the value of the product, so the firm need to adopt the differentiation strategy.

Two basic strategies for creating value and attaining a competitive advantage in an industry are low cost and differentiation. For Cisco, the most dedicated value creation strategy in the international market is the acquisition strategy to low cost.

3.2. Acquisition Strategy

Acquisition strategy refers to the acquisition purpose and the way to achieve this purpose, including determining the acquisition purpose, selecting the acquisition object and so on. According to the different functions of the acquisition or the characteristics of the industrial organization involved in the acquisition, acquisitions can be divided into three basic types: horizontal acquisition, vertical acquisition and mixed acquisition.

The underlying assumptions of Cisco's acquisition strategy are the drivers including:

1)Expanding the scale of the enterprise and realize the scale effect;

2)Increasing market share ratio and lowing the cost;

3)Significantly increasing the visibility of the company;

4)Obtaining excellent resources;

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5)Realizing a diversified development model and reduce investment risks.

3.3. Perspectives of Cisco's Competitive Advantage Theory

3.3.1. Industrial Organization View

The I/O View focus on the structural forces in an industry, the competitive environment of firms, and how these influence competitive advantage, which mostly come from Michael Porter, including the following proposals:

1)Five industry forces determine the average profitability of an industry, which will in turn influences the profitability of firms within the industry.

2)Getting and keeping competitive advantage means analyzing external forces and basing strategic decisions on what is happening there.

3)The I/O view is external.

4)The competitive advantage relates to competitive positioning in the industry.

5)Managers make sound strategic choices by understanding what makes an industry attractive, choosing an attractive industry in which to compete, and then choosing an appropriate competitive position within that industry.

3.3.2. Resource-Based View

RBV says that a firm's resources are most important in getting and keeping a competitive advantage. There are some key assets (resources) that will give the firm a competitive advantage. An organization will be positioned to succeed if it has the best and most appropriate resources for its business. Managing strategically involves developing and exploiting an organization's unique resources and capabilities. Resources include all of the financial, physical, human, intangible, and structural/cultural assets used by an organization to develop, produce, and deliver products or services to its customers.

4. Cisco's Strategy Analysis

4.1. Macro-environmental Analysis: PEST Framework

4.1.1. Political Factors

The political environment in China is relatively stable. Broadened foreign investment channels, optimized investment structure, and continuous improvement of foreign investment laws and regulations provide a favorable investment environment for foreign companies.

Global economic uncertainty caused by Brexit and Sino-US trade agreements has prompted some customers to suspend spending plans. The changing game of Sino-US relations and the hidden trade friction bring pressure to the development of Cisco.

4.1.2. Economic Factors

China's economy is developing steadily and rapidly, and the demand for network information services has grown substantially; the country's 13th Five-Year Plan has deepened the adjustment of industrial structure and economic upgrading, and promoted the deep integration of information and industrialization.

China's economic growth rate is stable under the environment of slow global economic recovery. The government pays different attention to information construction and the level of local economic development. The gap makes it difficult to improve the uneven distribution of the market in a short time.

4.1.3. Social Factors

While maintaining economic growth, the government has strengthened green environmental protection and created a more harmonious industrial environment. In addition, China's

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Internet users continue to expand, Internet consumption awareness is maturing, and shown a steady recovery momentum.

Historical and cultural traditions to some extent affect the consumption decision preferences for foreign enterprises; some industries with unreasonable structure and low added value rely much on low-cost elements, excessive consumption of resources and energy, and serious environmental pollution will take some time to solve.

4.1.4. Technological Factors

The network market demand is strong, information sharing, resource integration and application collaboration become internal requirements; cloud computing will bring huge application innovation and create more demand for IT resources.

Emerging technology transformation challenges domestic operators in terms of operational management personnel skills, large-scale deployment and operation and maintenance IT resource system experience, service borderless characteristics and regional organizational structure matching.

4.2. Industry competitiveness analysis: Porter's Five Force Model

4.2.1. Rivalry Among Competing Sellers

Huawei is Cisco's strongest competitor in the Chinese carrier network market. Huawei’s R&D strength and independent innovation ability with great cost advantage, newly developed products are first used with the help of industry relations; enterprises are not listed and there is no stock market pressure from capital market; moderate price system with high cost advantage, taking into account brand effect, profit level and market. However, Huawei lack of core patents, inadequate architectural planning and top-level design capabilities, technological innovation is a short board.

4.2.2. Buyer's Bargaining Power

At present, the buyer's bargaining power poses a certain threat to Cisco in the situation of fierce and persistent competition in the network equipment industry and increasingly falling into the dilemma of price war.

4.2.3. Suppliers’ Bargaining Power

Cisco has huge upstream supplier resources, adopts supplier diversification strategy to purchase globally from low-cost countries, has the initiative in purchasing negotiations with upstream suppliers, and has little bargaining threat to Cisco.

4.2.4. Substitute Products

Alternatives often have competitive advantages such as low price, high quality, new function and good performance. Cisco products are relatively expensive and cost-effective, so price-sensitive users or projects are more likely to switch to alternatives. Cisco benefits from the locking effect far, but the replacement of new technology form will bring some threat to Cisco. At present, the probability of router being replaced is high, which will pose a threat to Cisco's profit margin.

4.2.5. New Entrants

The huge potential of the network equipment and solution market has attracted more enterprises to participate in the competition for market share and profit with existing enterprises. At present, Cisco's potential competitors in China are Chinese enterprises and New business enterprises and existing multinational companies. The former are limited by technology and management level. In the short term, they will adopt price competition tactics to compete in the low-end market. Or, they will impact the high-end market. For the latter, due to the combination of geographical culture, technology and market share, this part of the enterprise is not large, usually will adopt a specific product strategy to compete.

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4.3. Strategic Options -- SWOT Analysis

4.3.1. Strengths

1) Cisco has a professional acquisition team;

2) Senior managers have a strong sense of innovation management;

3) Cisco has a good product ecosystem;

4) Cisco has a good integration system;

5)Financial situation is pretty good;

6)The corporate culture is healthy, and the employee incentive mechanism is extremely effective.

4.3.2. Weaknesses

1)Over-saturation of distribution channels results in waste of resources and no profit;

2)The matrix structure consumes energy, and executives tend to lag behind other companies in decision-making;

3)Cisco is entering many new businesses, dragging down profit growth;

4)Integrated talents are difficult to fight as a whole.

4.3.3. Opportunities

1)In the current Internet era, the market is open, and Cisco's development has more possibilities;

2)The continuous innovation of communication technology has broadened the breadth and depth of the industry;

3)The market share of cloud computing increases, and network communication business will obtain huge business opportunities.

4.3.4. Threats

1)Amazon and Google are developing fast and occupy a favorable market position;

2)Brexit causes some Cisco users to cancel orders;

3)Affected by the epidemic, Cisco's core business has been significantly reduced;

4)Under the Matthew Effect, Cisco's cloud service market growth is difficult to accelerate;

5)The U.S. election also had a certain impact on Cisco.

4.4. Cisco’s Acquisition Strategy Analysis

4.4.1. The Need for an Acquisition Strategy

Reasonable and correct technology mergers and acquisitions are an important means to enhance brand competitiveness. Cisco uses merged companies and purchases technology to reduce the company's development cycle. Cisco has acquired many well-known companies in the Internet field. , And most of those companies that have not been acquired have also reached strategic cooperation agreements with Cisco. Cisco CEO Chambers commented that “over 70% of Cisco’s acquisitions are successful acquisitions,” which can be considered a miracle in the acquisition case. If Cisco enters the Internet industry by relying on routers, every progress and development after this is inseparable from its correct merger and purchase, such as Cisco's well-known Catalyst switch series products, IP phone products, and WLAN solutions produced by the acquisition. A series of successful acquisitions for linksys, Webex, Scientific Atlanta, and telephone have promoted the development of Cisco's Internet technology in various aspects of home and work.

4.4.2. Elements Analysis

Acquisition strategy has two-sided effects. It has three positive elements, while there are four negative elements. Positively, acquisition strategy is quick to execute and to preempt their

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competitors, and also less risky. Negatively, there are pressures and risks on the overpay for the assets of the acquired firms, cultural clash between the acquiring and acquired firms, time of the integration of the operations often longer than excepted, and inadequate pre-acquisition screening.

In fact, this is analyzed from the perspective of market entry strategy. There is some balance between positive and negative elements. For example, although the acquisition requires a large amount of capital, because it can quickly execute the acquisition, it can seize the opportunity and repel competitors.

5. Recommendation

5.1. Actions to Strengthen Its Value Creation

5.1.1. Think with 4C Theory and Act with 4P Theory

One of the main points of value creation is to think what customers do and do what customers think. This means that value creation needs to be based on corporate capabilities to meet customer needs. Mainly start from the following three aspects: First, continue to focus on the research and development of core products, and develop core business around the core interests of customers. Second, to develop actual products around core interests. Third, to actively research and develop extended products to provide customers with additional services and benefits.

5.1.2. Analyze External Conditions and Consolidate Internal Foundation

The basis of the differentiation strategy is the core difference capability, which is reflected in importance, uniqueness, superiority, exclusivity, affordability, and profitability. Cisco objectively analyzes the differentiated value needs of customers in order to enhance the company's own core differentiation capabilities to achieve the goal of meeting four types of customer needs, namely traditional customers, marginal customers, new customers, and opposing customers. To achieve this goal, products need to be deepened, mainly from the following five directions: one is product differentiation, the other is employee differentiation, the third is image differentiation, the fourth is service differentiation, and the fifth is channel differentiation.

5.1.3. Innovate to Create R&D Products and Acquire Products

First determine the type of new product strategy. That is, aggressive strategy, follow-up strategy, risk-taking or entrepreneurial strategy, maintaining position or defensive strategy. As a mature company, Cisco can choose to maintain its position and defense strategy, or adopt an aggressive strategy based on its inherent advantages. Secondly, set up a special new product strategy organization to promote the proposal and implementation of the new product strategy.

5.1.4. Use Brand Equity to Strengthen Brand Management

Brands are the darling of perceptual consumption, and brand competition in the market is essentially a struggle between the minds of customers. To this end, Cisco should increase brand awareness to increase market share, strengthen product perception quality to consolidate the brand foundation, strengthen brand associations to form brand psychological advantages, and maintain brand loyalty to continue to increase brand equity.

5.1.5. Improve Matrix Structure and Integrate Executives Resources

On the one hand, the executives under the matrix structure are lacking in many tasks. Cisco should improve the matrix structure and adjust the work of executives to improve decision-making capabilities. On the other hand, strengthen the team consciousness of integrating talents to fight as a whole.

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5.2. Possible Impact of Recommendations on Financial Performance

5.2.1. Financial Performance

Financial performance evaluation is usually based on profit and return on investment. The former means the amount remaining after all expenses are deducted from total revenues, while the latter is measured by dividing profit by assets.

5.2.2. The Possible Impact of Recommendations on Financial Performance

The suggestions put forward in this article start with customer needs, corporate core differentiation capabilities, new products, brand effects and talent mechanisms. Combined with financial performance related theories, I think these suggestions may have the following effects on financial performance.

1)Increase Profit

In the short term, meeting customer needs and improving their core capabilities and developing new products will help companies improve their short-term profits. This is because total revenue will increase substantially, and the rate of increase in expenses is only affected by R&D. Overall, corporate profits will increase.

2)Increase Return on Investment

In the long run, the brand effect, the effect of the talent mechanism, and the effect of its own core capabilities will also help increase the return on investment of the enterprise. This is because the brand effect, the effect of the talent mechanism and the benefit of its own core competence are slow to manifest, and the realization process is more complicated. Most of its investment is human resources, and the application of financial resources is less. Therefore, it can obtain more profits, and the return on investment can increase under the condition of unchanged assets.

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