

AMI SMB Perspective

Cisco's end-to-end strategy for a connected world

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News

If the current global financial crisis is teaching us anything, it would be about how we are increasingly and deeply connected, and how consumer confidence and spending have been a fundamental reason for any boom or gloom. Starting from the collapse of the sub-prime market in April 2007, the financial crisis has spread throughout the world and across industries. Instead of being decoupled from the West, as some observers have maintained, Asia's economy is feeling the pain of lower exports, economic slowdown, and rising unemployment. Likewise, the information and communications technology sector is looking to chalk up slower worldwide spending growth in 2009.

In the midst of collapsed banks and struggling companies, Cisco appears confident, prepared, and optimistic about the future. On 5 November 2008, Cisco announced its financial results for the first quarter of fiscal year 2009, with an 8% year-on-year increase in revenue of \$10.3 billion, and around \$27 billion in cash and investments. A day later, Cisco announced a \$100 million global strategic investment to provide dedicated support for small businesses with 5 to 99 employees, furthering its commitment to this fast growing technology adopting market segment.

A few days later, on 11 November 2008, Cisco announced its new flagship edge router ASR 9000 with a capacity up to 6.4 terabits per second – apparently six times higher than its competitors' comparable products – and a line-card speed of 400 gigabits per slot. This pure Ethernet aggregation service router allows service providers to reduce power consumption and carbon footprint that is equivalent to 88 tons of coal per year per unit, to cope with the exponentially increasing video and mobility data, and to deliver non-stop video experience and seamless mobile handoff to customers.

Perspective

Twelve years ago, on 11 November 1996, Cisco entered the service provider market amid its success with enterprises. In April 1997, Cisco reorganized and aligned its products and solutions into three customer segments: enterprise, small and medium business (SMB), and service provider. Since then, Cisco has been very successful with enterprises (companies with more than 1,000 employees and multiple branches), mid-market businesses (companies with 250-1000 employees), and service providers.

In March 2003, Cisco entered the consumer and home networking market by announcing the acquisition of Linksys – a leading provider of networking products for consumers and small businesses. This was followed by Cisco's acquisition of Scientific Atlanta, a global provider of set-top boxes and end-to-end video distribution networks, in November 2005. With these strategic acquisitions, Cisco successfully entered the consumer market from both ends – via PCs with Linksys' home networking solutions, and through televisions with Scientific Atlanta's set-top boxes.

The acquisition of Linksys was Cisco's first foray into the consumer market, and signaled its intent to concentrate more on the high-growth SMB market. Four years after Linksys acquisition, in March 2007, Cisco acquired WebEx, the market leader in on-demand collaboration applications for businesses on the Web. By keeping WebEx's subscription-based service strategy, which was particularly appealing to SMB market, Cisco has become a provider of business services, instead of just a pure hardware and product-related services player. In effect, Cisco is strategically and aggressively moving into the small business, home, and consumer space to achieve an end-to-end product, geographical and market coverage.

Analysis

Cisco's move into the consumer and SMB market is strategically prudent for several reasons. First, focusing only on the high-end market and ignoring 'perceived' low-end markets is costly and dangerous. For example, IBM's concentration on business mainframes allowed Microsoft to capture the personal computer market, and that, as we know, changed the whole IT industry. Similarly, IBM's and Oracle's focus on enterprise databases and applications created a vacuum in the lower-end market for Microsoft and other vendors, which have since moved up to the higher-end market, and is now competing with Oracle and IBM in their traditional territories. By acquiring Linksys, the market leader in consumer and small business market, Cisco has become a dominant player in the consumer segment, and at the same time has reduced potential competition in the business markets.

Second, video looks set to be a killer application for consumers and enterprises, and Cisco has invested heavily in this technology. For consumers, video is mainly for entertainment; and Cisco forecasts that nearly 90 percent of the consumer IP traffic in 2012 will come from Video on Demand, IP television, and Internet TV. For enterprises, video conference solutions like Cisco's TelePresence are already helping to reduce travel expenses and increase collaboration. To accommodate more than 32 exabytes of consumer IP traffic, nearly 10 exabytes of business IP traffic, and more than 1.2 exabytes of mobility IP traffic every month in 2012 (compared with a total IP traffic of 7 exabytes in 2007), major network upgrades will be required from service providers. With its end-to-end market coverage from consumers to enterprises and service providers, Cisco looks likely to reap a good profit by serving these markets and creating demand at the same time.

Third, the SMB market is simply too large to ignore. "In 2007, there were 64.6 million small businesses (1-99 employees) worldwide, and they spent US\$328 billion on information technology. Combined with the \$195 billion spent by 698,850 medium businesses (100-999 employees), the total IT spending of the SMB segment is \$109 billion higher than that of the large business segment," says David Yew, Vice President of Asia-Pacific Research and Consulting, AMI-Partners. "And SMBs grow a lot faster than large businesses," he added.

However, like any brilliant vision and strategy, success depends heavily on execution, and in this case, on how well Cisco understands these diverse consumer and SMB markets, and how well it can reach them. For the consumer market, Cisco's Linksys division may be doing well as the market leader, but the difficulty has always been in trying to reach the SMB market.

The main challenge with the SMB market comes from its inherent geographical and cultural diversity. SMBs in different countries have different priorities and buying behavior. Even within a country, SMBs in large cities behave differently compared with SMBs in lower-tier cities. Therefore, the most effective way to approach the SMB market is through good local channel partners. Unfortunately, the integration of Linksys' channels into Cisco's channels has been slow and confusing for some time.

More than a year after the acquisition of Linksys, in September 2004, Linksys and Cisco launched a "Linksys to Cisco Trade-Up Program" to allow businesses to trade up their eligible Linksys products to Cisco products. Linksys business customers, therefore, could protect their investment by upgrading to Cisco solutions. However, Linksys and Cisco were still maintaining their own channel partners. Obviously, having two separate channel systems and two different brands for the same market was costly and self-conflicting. However, it is only three years later (in June 2007) that Linksys and Cisco announced their intention to align their partner programs to increase efficiencies and drive growth.

A year later, on 12 August 2008, Cisco announced the "Linksys-Cisco Partner Program" to integrate Linksys's business products and its business channel partners into Cisco's SMB portfolio and channel program. In terms of product line, "Cisco SMB Solutions" would serve small and medium businesses with a long-term networking focus, while "Linksys by Cisco Business Series" aimed to serve price-sensitive small businesses. Then in a swift move, on 6 November 2008, Cisco announced that all of its new small-business offerings would be named "Cisco Small Business" or "Cisco Small Business Pro," with the latter targeting customers with more sophisticated technology needs. Through this, a clear line between Cisco's consumer and business segments was drawn. The Cisco brand will serve service providers and businesses – from SMB to enterprises – while the Linksys brand will solely focus on consumers.

It looks like after more than four years of deliberation, Cisco has come up with its strategy for the SMB market and moved into full gear. In fact, Cisco now has a new Small Business Council, a new Small Business Technology Group, a new World Wide Small Business Sales Organization, and a Global SMB Channels Program. The company has also established a new worldwide contact and support center as part of its new \$100 million global strategic initiative dedicated to small businesses.

"Given the current global economic slowdown, Cisco has to persuade and help SMBs to invest in their networks and buy Cisco products, so even if Cisco completes all of its internal preparations for the SMB market, it may still not be enough," says Gina Luk, AMI-Partners Manager of Research and Consulting. "By helping SMBs in this crisis with financing loans, good deals, and quality support, Cisco can position itself as an understanding business partner, and not just another product vendor. This is especially important for Asian markets, where SMBs are brand loyal."

If Cisco can successfully consolidate its channel partners and establish its reputation in the SMB market, it will have a predominantly end-to-end product, geographical and market coverage compared to its competitors. With that, Cisco should be able to emerge as the preeminent vendor when the next boom arrives.

About Access Markets International (AMI) Partners, Inc. (AMI-Partners)

AMI-Partners specializes in IT, Internet, telecommunications and business services strategy, venture capital, and actionable market intelligence — with a strong focus on global small and medium business (SMB) enterprises and extending into large enterprises and home-based businesses. The AMI-Partners mission is to empower clients for success with the highest quality data, business strategy perspectives, and “go-to-market” solutions. Led by Andy Bose, the firm has built a world-class management team with deep experience cutting across IT, telecommunications, and business services sectors in established and emerging markets.

AMI-Partners has helped shape the go-to-market SMB strategies of more than 150 leading IT, Internet, telecommunications and business services companies over the last eleven years. The firm is well known for its IT and Internet adoption-based segmentation of the SMB markets, its annual retainership services based on global SMB tracking surveys in more than 25 countries, and its proprietary database of SMBs and SMB channel partners in the Americas, Europe and Asia-Pacific. The firm invests significantly in collecting survey-based information from several thousand SMBs annually, and is considered the premier source for global SMB trends and analysis.

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