

Cisco Systems Case Supplement ¹

1 Case Summary

1. Read the case.
2. Various articles on Cisco appear in the popular and semi-academic literature. Reading 1-2 of these recent articles can help you in your write up.
3. Write a paragraph to summarize the case.
4. Write at least one paragraph on the most surprising and significant information that you found in the case or articles on Cisco. This can be one of Cisco strategies that you were not aware of before. Or it can relate to Cisco's supply chain / product development practices. It can also be about the size of the operations Cisco runs on its own or with suppliers. Explain why this information is new and important for you.

2 Comprehension Questions

1. Make a list of types of Cisco product families. For example, router is a product family and ASR 9000 is a product in that family. What is the difference between a router and a switch?
2. What do *overlapping circles* refer to in Cisco's organization? What is the purpose of organizing in such a way?
3. Cisco reduced the number of its contract manufacturers in the 2000s down to four, what are the benefits and risks of *fewer contract manufacturers*?
4. Dell uses a *pull (lean) system* to allow customers to customize computers. Is *customization* important to router (individual or business) customers, explain? Cisco Lean intends "to convert Cisco and its extended supply chain to a system in which product was built only after a customer has actually ordered it". Does this pull system conflict with the practice of using overseas contract manufacturers, explain.
5. Each ASR 9000 chassis is a box that can accommodate up to eight slots inside for line cards or circuit boards. How does Cisco facilitate *postponement* through these generic chassis? Which inventory benefits from this postponement in the sense that it can be reduced due to aggregation of demand, is it the chassis inventory, line card inventory, circuit board inventory, or any other inventory, explain.
6. Cisco seems to be very worried about the launch of the Viking router? Is Viking the most complicated product that Cisco has ever launched? If not, why is Cisco so worried, explain.
7. What is Jabil? What is the relationship between Cisco and Jabil? According to the case, what is Jabil's involvement in Viking router manufacturing?

¹This supplement is prepared by Metin Çakanyıldırım (metin@utdallas.edu) to complement/update Stanford Graduate School of Business case Cisco Systems, Inc., # GS-66. The ideas presented here are for class discussion so they do not relate to any Cisco policy.

3 Case Study Questions

After the Conclusion, the case write-up has 4 questions. Answer those.

4 Long-Term Risks of Single Sourcing

Cisco is committing to produce Viking at a single source Foxconn. Moreover, the Viking production mostly takes place within two-hour driving distance of the Hong Kong fulfillment center. “Cisco ran the risk of being overly dependent on a single supplier and whatever financial and operational constraints it had”.

What are the potential risk factors in and around Hong Kong? Some risk factors are natural disasters (flood, tornado, earthquake), medical emergencies (bird flu or similar outbreaks that halt trade), accidents (fires), sabotage, political unrest. Can you add to this list? Discuss which of these adverse events are more likely.

Suppose that a severe typhoon damages the infrastructure (power lines and bridges) in Hong Kong and Guang Zhou, and makes it useless for three months. What actions can Cisco take to satisfy customer needs for routers? Organize your thoughts/discussion/proposed plan in 2-3 items so that it can be briefly presented to executives in an executive summary.

5 Report Format

Once you are done with above questions, you are ready to write an executive summary to discuss Cisco’s contingency plans to handle a 3-month disruption in the Viking supply chain. Please include additional ideas or points you feel that are relevant to make your judgement. But put these into the main body of your report not into the executive summary. Executive summary is for you to clearly express your suggestions. Do not delve into justifications in your executive summary.

You are encouraged to use printed or online resources besides the case write up. There are plenty of reports on Cisco on the Internet. Moreover, you can use UTD library, newspapers and journals to gain insights and formulate ideas. For any resource that you use, you must provide the associated reference. For online resources, please refrain from dynamic links (which include characters like “?”, “&”) as much as possible.

Put your executive summary onto the first page. Then have at least 3 parts in the body of your report. The first part should deal with questions in Section 4 and should justify your suggestions in the executive summary. The second part should concentrate on questions in Section 3. The last part should have your summary of the case, the significant and new information you found out about Cisco, and answers to the comprehension questions posed in Section 2 above. You should spend more time and effort on the discussion of the questions in Sections 4 and 3. Comprehensive questions are also important but they can be answered in a couple of sentences.

The body of your report (including all the figures and tables, but not the executive summary or references) should be at most 8 pages. If something is not relevant, do not put it into your report. You should be able to write short and to-the-point, and present ideas as sharp as possible. Feel free to edit and revise your report multiple times before submission.

The case report is a group exercise. You should do it in groups of 3 to 5. If you cannot arrange to be in a group, please inform the instructor in advance of the report’s due date. Please put all of the group member names and e-mail addresses on the report.

6 Refocusing on a Simpler Cisco: 2011 Update

Cisco reports quarterly earnings on Nov 9, 2011. Cisco recently has focused on five of core businesses: routing & switching; collaboration & telepresence; data center virtualization; video; business transformation architecture. Its annual report calls 2011 as one of the most transformative years at Cisco.

Cisco has reduced its workforce by 15% and aims to reduce 2012 operating expenses by \$1 B. This is a significant target for a company that has earned about \$43 B in fiscal year 2011. The revenue has increased 8% over a year. 80% of the revenue comes from products and 20% comes from services. Revenue from services grew at 14% while revenue from products grew at 6%. Revenue from switches were flat while router revenue increased by 6%. The growth in router revenue is driven by high-end routers (ASR 1000, ASR 5000, ASR 9000). (Cisco Annual Report 2011).

The company sits on a pile of cash: \$44.6 B in 2011. Nevertheless, there is uncertainty about where to invest this. It has recently acquired Starent (router manufacturer) and Tandberg (video-conferencing vendor).

In other efforts to generate growth, Cisco over recent years attempted to enter new markets that are loosely related to the core business of networking. A case in point was consumer video cameras. “They were living a lie” according to Brian Marshall, ISI Group. These efforts caused Cisco to lose its core markets to competitors: Hewlett-Packard, Juniper Networks and Alcatel-Lucent. “In many categories, Cisco’s share losses have stabilized. But investors will be watching the company’s margins to see if sales are coming as a result of price cuts. The company recently introduced some new products, which should help. But there are still some areas where ‘Cisco dropped the ball completely,’ says Nikos Theodosopoulos, the UBS analyst.” (Worthen 2011).

One competitor that Cisco has not fought head-to-head is Hua Wei, the Chinese manufacturer. Hua Wei is said to have its sights on large businesses, an important and loyal market for Cisco. When Hua Wei targets this market, it will gain market share from Cisco unless Cisco can find creative ways to fend this off.

References

B. Worthen. 2011. As Cisco scales back, investors watch closely. Wall Street Journal, Nov 7, 2011.

Cisco Annual Report. 2011. Downloaded from http://www.cisco.com/web/about/ac49/ac20/about_cisco_annual_reports.html.