INFO TECH

Cisco Seizes The Moment

It's plunging into new markets to keep sales growth high. But the strategy could alienate key partners

By Peter **Burrows**

Pulled up close to a conference table at Cisco Systems headquarters in San Jose, CEO John T. Chambers talks about what feels to him like a tipping point in the company's history. In recent weeks, Cisco has cut deals with customers looking to use its technology in more expansive ways than ever before—Major League Baseball teams that want fully wired stadiums, the city of Miami as it develops a smart power grid. "It's been like that for the last 120 days," Chambers says. "We're in the right place at the right time."

Chambers is betting big that Cisco can capitalize on such opportunities. While many companies retrench, the tech giant has strong profits and $33 billion in cash in its coffers. More important, in Chambers' eyes, is Cisco's position as the dominant provider of the networking gear that runs the Internet. Just as the tech world revolved around IBM's mainframe computers in the 1970s and Microsoft-powered personal computers in the 1980s and '90s, Chambers believes Cisco has an opportunity now to make its digital networks the platform on which new innovations

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are built. "There's an inflection point happening," he says. "Cisco and the network are at the center of it."

Investors certainly hope so. Cisco's stock, now $18 a share, is at the same level it hit in 1998. Although Chambers has assured shareholders that Cisco can increase revenues 12% to 17% annually, that looks increasingly difficult now that the company has grown to $39.5 billion in revenues.

To hit that growth target, Chambers is hastening efforts to move beyond the core business of selling switches and routers. This year Cisco hiked the number of new markets it is targeting to 30, so it can offer everything from digital billboards to stereos and video surveillance systems. Chambers also is using the company's cash to buy his way into other markets, as he did in March with the purchase of the Flip video recorder maker Pure Digital. Chambers tells *Business Week* that Cisco likely will hit a total of 50 fresh markets within a year. "We're moving into new [areas] with a speed nobody has ever attempted," he says.

Such frantic expansion comes with risks, and not just the danger of losing focus. The biggest concern is that Cisco will alienate key partners that as a group deliver more than 80% of the company's sales. IBM, Dell, and Hewlett-Packard, for example, sell billions in Cisco gear each year as they help companies build tech systems. But Cisco's move this spring to sell its own servers makes it more of a rival to those three, which sell similar products. "They definitely risk relationships [with IBM, HP, and Dell]," says Greg Simpson, chief technology officer for General Electric. HP and Cisco already have begun to spar publicly.

BIG BLUE'S TURF

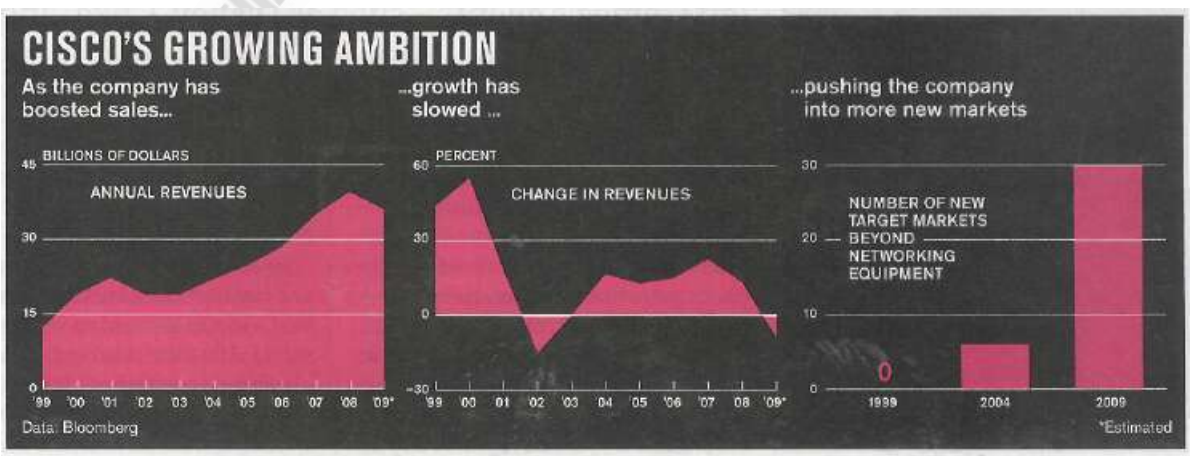
Tensions also appear to be rising with IBM, which resells about $3 billion in Cisco gear to clients, analysts say. The spat started when Cisco swooped in to buy Internet conferencing company Webex Communications in 2007, after IBM had thought it had sealed the deal. But the big blow came when Cisco unveiled its new servers, which are designed for the operators of so-called data centers, a prime piece of Big Blue's business. "[Chambers] is known for trying to find a win-win," says one tech CEO. "This isn't a win-win. It's a declaration of war."

Both IBM and Cisco insist the relationship is fine. But since word of Cisco's plans leaked, IBM has cozied up to Juniper Networks, which makes routers that compete with Cisco's. IBM also inked a deal to sell routers from Brocade Communications Systems under the IBM brand—a possible signal to IBM sales staff to move those products. "Cisco and IBM can downplay this all they want," says Zeus Kerravala, an analyst with Yankee Research Group, "but they're competing much more than they ever have before." Analyst Erik Suppiger of securities firm Signal Hill says Cisco could lose half of the $4 billion in gear sold each year by IBM and HP. IBM and HP declined to comment.

Cisco does appear more able to go it alone than in the past. It has increased its sales force from 13,000 in 2004 to more than 23,000. And the company is using these direct links to customers to forge a more strategic relationship with the biggest players. Filippo Passerini, Procter & Gamble's chief information officer, says P&G "[talks with Cisco salesmen] less about when do you refresh your routers and much more about what new business models can we explore." One example: P&G plans to install more than 75 of Cisco's high-end Telepresence videoconferencing systems in 55 countries by the end of the year to lower travel costs and hold more global consumer focus groups.

Chambers says there are big advantages to entering so many new markets. If Cisco gear is used to create, process, and transmit digital content, then the company can make everything work together in new ways. For instance, Cisco plans to incorporate inexpensive videoconferencing services into the set-top boxes it sells for cable TV service. One day Dad may be able to plug a Flip camera into a set-top box while talking with Grandma and show her footage of little Sally's dance recital. "No other company touches the content, the carrier, and the consumer—and the best part is they all drive each other," says Padmasree Warrior, Cisco's chief technology officer.

Chambers says nobody has to lose



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