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TECHNOLOGY ACQUISITION UPDATE

Cisco's Powerful Acquisition Strategy

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Cisco's acquisition approach is a remarkable example for technology companies facing rapid growth in turbulent markets. Cisco Systems has experienced unparalleled growth in the last five years due in large part to its aggressive strategy for building and acquiring technology to keep up with its customers' fast changing requirements.

Cisco has migrated from producing routers to LAN switches and hubs to telecommunications networking equipment. Eighty percent of the world's Internet traffic uses Cisco equipment. Cisco holds the number one or number two market share in virtually every market segment in which it participates. Hardly a household word a few years ago, Cisco has grown to a colossus with a market cap of $180 billion, eleven times greater than it was only four years ago. Cisco is now the third largest company on NASDAQ.

In achieving this transformation, Cisco has acquired 22 companies since 1996. The companies that Cisco acquires are usually not very big -- the values range between $50 million and $300 million. The major thrust of each acquisition is to try to fill gaps in Cisco's technology.

Cisco's growth has occurred at a time when products are getting more complex and time-to-market is critical. The turbulence of technological change has pushed Cisco to move quickly to meet the demands of its customers. This market is moving much too fast for a standalone strategy.

STRATEGY FOR GROWTH

In 1993, Cisco's management team realized that the market was changing rapidly. With the advent of faster and more intelligent "internetworking" devices like switches and hubs, and the growth of the Internet and Intranets, Cisco needed expertise beyond its current capabilities. Cisco sensed an opportunity to become a major telecommunications player and plotted a strategy to take the company into LAN switches and the broader telecom market. Cisco decided to play very aggressively in an attempt to accomplish in the networking industry what Microsoft did with PCs and what IBM did with mainframes.

To dominate this fast-growing market, Cisco knew that internal development could not produce the range of technology that customers would require. Management decided that if they could not develop a technology quickly enough in house, they would look outside to acquire it. Cisco became an acquirer of both technology and talent.

TIME TO MARKET

Acquisitions are considered only after management has looked at the internal R & D budget to see if in-house development is feasible. If not, management looks to current partners to see if teaming with one of them could accomplish the objective. If these two options do not provide sufficient time-to-market returns, Cisco considers funding a company or acquiring a company for quick entry into a market.

This notion of time to market is an essential part of Cisco's goal of being the industry leader. In the words of Cisco's Ammar Hanafi, "the sooner that Cisco can get into a market, the better we can understand what the needs and problems are and the better able we are to deal with them and work through them, thus the higher benefits Cisco will receive by being there first."

EARLY STAGE ACQUISITIONS

By scooping up smaller companies in the early stages, Cisco can capture technology and move into a new market much earlier than its competition. Often the companies that Cisco is looking at are in the early stages of their life cycles. unfortunately early stage acquisitions have minimal validation from client bases or revenues. Cisco carefully reviews the fit between the core competencies of the new company and Cisco's internal team, projecting what the early stage company can become with Cisco's resources behind it. In these instances, it is really the talent that is being acquired.

A major part of Cisco's acquisition rationale includes acquiring the people who will keep the technology evolving. Keeping technology on the leading edge means retaining the people who can grow the technology. Cisco prides itself on its rate of employee retention and uses retention as an important measure for successful acquisitions.

Once Cisco decides to acquire a company, it mobilizes a dedicated team whose sole purpose is the integration of the new company into Cisco. Cisco's integration process is extremely focused. Cisco realizes that if the integration is poor, they will lose key employees, the product may miss its time-to-market advantage and the purpose of the acquisition has been voided.

Cisco's approach sets a great example for any technology company that is looking to grow rapidly in fast changing markets. The message: set your sights boldly on where you want to go and if you cannot develop products fast enough, be aggressive in acquiring the technology and talent required to conquer the markets and build long-term competitive advantage.