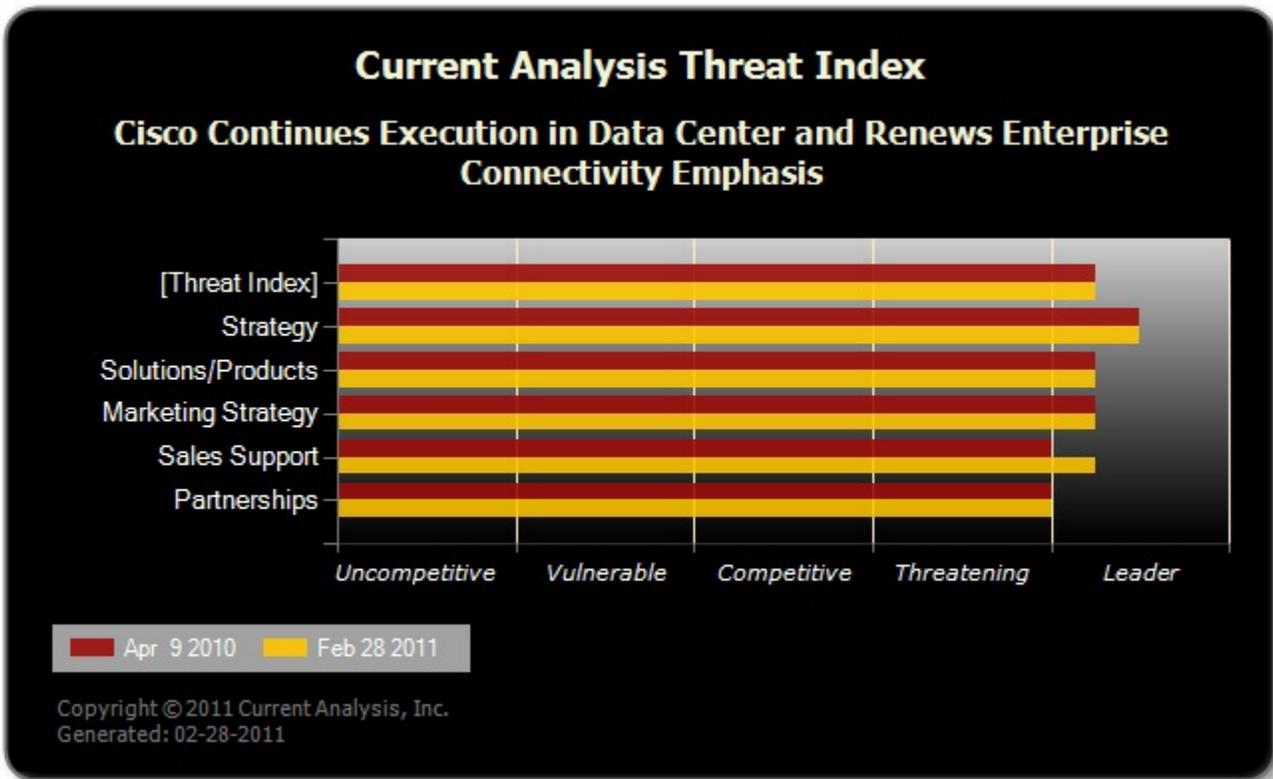| Company Assessment (Enterprise):	**Cisco - Enterprise Networking & Data Center**
Report Date:	February 28, 2011
Analyst:	Spanbauer, Mike
Service:	Business Technology and Software
Market:	Data Center Technology , Enterprise Networking

Current Threat Index

Rating Update Summary

While Cisco continues to improve market share with the Data Center portfolio, the most significant news in this update is the increased emphasis of Cisco's Enterprise Connectivity offering to "Borderless Networks."

Strategy

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Cisco Systems' ultimate strategy is to build and market the network itself as the enabler and nucleus for all communications, productivity, and recreational pursuits from consumer to enterprise to service provider. Cisco is adept at recognizing technology inflection points and delivering a story and architecture to reinforce these shifts – with a sharp focus on how the network enables that vision. Cisco continues to place an emphasis on branching out beyond its Enterprise & Service Provider strongholds, embracing more consumer-side technology, as well as continuing its data center push. In addition, Cisco continues to aggressively place bets on markets adjacent to its core technology offerings in an attempt to diversify its revenue streams and provide a more complete "all-in-one" package.

Solutions/Products

In the enterprise Ethernet market, Cisco's Catalyst and Nexus switching families are its most well-known

products. Within this portfolio the Catalyst 6500 remains the multi-tool of functionality and the Nexus family embraces converged storage and data Ethernet for its data center fabric. In the data center market, the marriage of the Nexus switching family and the Unified Computing System (UCS) provides customers with next-generation automation and integration that is part of the ultimate promise of the utility data center. As part of that transition, Cisco is a strong advocate of 10 Gigabit Ethernet and see's the convergence of storage and data networks through Ethernet standards such as FCoE, iSCSI, etc. as pivotal to the data center play. This effort ensures the network can keep up with ever-increasing workloads and the demands of virtualization, while also providing traffic reliability beyond traditional requirements and meeting the stringent requirements of storage networking administrators.

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Marketing Strategy

Cisco's marketing is split between consumer and enterprise. For the public, it uses its "Human Network" message to stress how Cisco itself is enabling technology that the everyday Joe uses. In the Enterprise, Cisco has three focal points for marketing strategies. These are Collaboration, Data Center/Virtualization, and Borderless Networks. The unifying theme behind all of them is Cisco's take that the network is the platform central to enterprises. For the data center, the DC 3.0 offering has evolved into an application and experience centric vision called DataCenter Business Advantage. Articulated as much more than a network fabric the DCBA framework utilizes Computing, Network, and Services which offers businesses to innovate with IT, instead of being supported by. This message gets customers thinking about next generation of technology, how that technology will be used, and what preparations are required. Obviously, Cisco cannot predict everything, but its marketing strategy gets customers to look from today to tomorrow and back again and associate Cisco with being able to get them there. Message tagline: "The power to say yes."

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Sales Support

Cisco does the majority of its sales via channel partners, but it maintains a high-touch direct sales force for high-end customers, and the direct sales force also works with channel partners when it makes sense. Cisco invests a great deal of effort into its channel programs, providing marketing support, training, sales support, and nearly anything a channel partner would need. Cisco's TAC support organization is widely considered to be one of the best in the industry, and it has the respect of many customers. Cisco puts a lot of effort into its support structure, not only to provide service to the standard enterprise customer, but also to provide support for SMBs and service providers.

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Partnerships

Cisco has a broad partnership base that spans multiple technology sectors and markets – from facilities to storage to applications to virtualization and compute. EMC and VMware are some of Cisco's biggest partners, but others include NetAPP, Microsoft, Intel, and many more each veritable heavyweights in their own domains. In particular, VMware's relationship with Cisco enables customers to maximize the promise of virtualization with greater efficiency, higher performance and reduced costs. With the release of the UCS system and the DataCenter Business Advantage framework, Cisco has continued to expand partnerships with Microsoft, Red Hat, and SAP, among others. Some relationships are contentious, as competitive elements often collide with areas of collaboration. Cisco will continue to develop and expand alliances with a wide range of independent software vendors (ISVs) for its expanding portfolio of computing and application delivery solutions. With Cisco's rich partnership history, it's clear that it has been and will remain a key element in their go to market strategy.

THREATENING

Perspective

Current Perspective

We are taking a positive stance on Cisco in the data center and enterprise infrastructure markets. Cisco has continued to evolve its switching products with new Nexus data center offerings, and renewed focus on enterprise connectivity with its Borderless Networks. Cisco's foray into the server market with its Unified Computing System is maturing, going up against industry heavyweights such as Hewlett-Packard, IBM and Dell. Cisco is weaving a vision of the data center that incorporates computing and network resources, along with the help of EMC & NetApp storage. Over the last year, Cisco has been aggressively working on establishing new relationships with key Global Systems Integrators and Cisco is committed to succeeding in the data center.

Cisco is focusing more on end-to-end solutions for companies rather than the components that are in the middle.

Cisco's "Human Network" advertising strategy is an outgrowth of solutions selling that shows customers the result of a Cisco-powered network. Cisco faces increasing competitive pressure on a number of fronts in the enterprise, including security, switching, and WLAN. Competitors such as HP, Juniper and Alcatel-Lucent have security frameworks. Cisco's wireless LAN business is also under attack from Aruba, HP & Motorola. With HP's acquisition of 3Com last year and other competitors coming on strong, Cisco must remain vigilant.

Ratings

Market	Perspective	Market Perception	Momentum	Vision	Innovation
Enterprise Networking	Very Positive	Very Positive	Positive	Very Positive	Positive
Data Center Technology	Positive	Moderate	Positive	Positive	Positive

Strengths and Weaknesses

Strengths

• Cisco remains the leader in market share across the breadth of its product solutions for enterprise networking, as well as beginning to grow notable share in the data center. Cisco also has many other key components an enterprise requires: VPN, firewall, and wireless LAN components, as well as IP telephony, video, broadband, server, storage networking, WAN optimization, and access router components.

• Cisco's financial position enables the company to progress its technology with a very well-funded R&D program and strategic acquisitions. With a nearly 9% R&D investment, Cisco spends a great deal more than most technology companies on its research and development, which is one of the key reasons it is able to grow in so many adjacencies simultaneously. In addition, it retains partnerships with Tier 1 channel partners and attracts high-profile clientele. Cisco has also done "spin-ins" by creating outside companies and spinning them back into the company at a later date. The UCS and MDS SAN storage products are the result of this successful strategy.

• A Cisco trademark and attribute it has been known for is that it is not afraid to pull the trigger that makes or breaks relationships, as it remains proactive in its approach to competition. Cisco continuously assesses the value of partnering versus acquiring, as well as forging or dissolving alliances as needed in the changing market. This strategy of re-evaluating changing market conditions has allowed the company to remain on top or among the leaders in its core markets and become an early provider to emerging ones.

• Cisco continues to make shrewd investments in critical emerging technologies, such as convergence, security, storage, unified fabric, video and wireless. In addition, because of Cisco's penchant for purchasing promising companies, it has become adept at integrating other organizations with its own in addition to retaining the key management and talent of the organization. This is a skill that sets Cisco apart from many in business today.

• Cisco has made a major investment in the converged data center network market with the release of the Nexus switching product lines and the ongoing integration of storage and data traffic through unified fabric architectures on Nexus and MDS products. The Nexus is a next-generation, high reliability, low-latency switch family designed to serve traditional data and storage to the high-speed data center on a single unified Ethernet network that Cisco sells as Unified Fabric.

• Cisco's entry into the data center compute market, with its Unified Computing initiative, offers the ability to expand Cisco's presence further in enterprise data centers. Cisco's precise entrance into computing altered the landscape and is forcing traditional compute vendors to react aggressively to compete. The tight integration of network services & infrastructure with server technology places Cisco as one of the few one-stop shops for complete enterprise data center solutions, minus actual storage.

Weaknesses

• Cisco's premiere Catalyst 6500 switching platform, while robust and highly expandable, is burdened by its own flexibility. The Nexus 7000 offers higher performance but far fewer modules to expand the system's capabilities. Rivals such as HP, Brocade, Extreme and Enterasys sell products that compete with the Nexus and outperform

the Catalyst 6500 at a comparable price for data connectivity needs.

• Cisco introduced Ethernet switching and IP telephony products to the SMB space with an eye towards ease of use. However, Cisco still faces an perception challenge in the SMB space, as its brand is commonly perceived as being synonymous with complexity and high cost. It has been difficult for Cisco to shed that image, despite recasting its entire SMB offering 2-3 years ago. It must compete with established SMB competitors such as Netgear, D-Link, and 3Com/HP, which are established providers to smaller companies.

• Cisco's entry into the server market has created not just a furor, but an immediate response from IBM, Dell and Hewlett-Packard. All of the "Big Three" server vendors now consider Cisco a competitor. As a result, all three are offering their own Ethernet solutions (home-built or OEM) against Cisco. There has also been a market backlash, with competitors claiming that Cisco's UCS is just another way to lock customers into Cisco solutions.

• Cisco security technologies, while very rich and complete, are also complex and expensive. Cisco depends on multiple platforms for end-to-end security. These elements add up to a security infrastructure that, in some cases, has a higher total cost than the LAN itself. This proliferation is not due to necessity, but rather because Cisco has acquired each of these technologies and largely failed to integrate them cleanly into an easily managed offering. Additionally, Cisco has seen uneven success in some security market segments, where it has jettisoned its endpoint product, Security Event Management product and flip-flopped on NAC.

• Cisco's management software is a result of many acquisitions and multiple purpose built management platforms, which have not been well integrated. In both the Enterprise connectivity market as well as the data center, network health and visibility are critical. At the same time, more and more network teams are tasked with managing both, which is difficult when the management systems are not well integrated. As Enterprise network administrators often have to monitor all networking elements from a single Network Operations Center (NOC) using 10+ consoles requires a very observant and alert operator or a set of complex scripts to compile all alerts and events into a single console. This attribute isn't unique to Cisco, however, as no network hardware vendors possess the ability to consolidate all into one today.

Recommended Actions

Recommended Vendor Actions

• Cisco must continue to expand on its server offerings and continue to work on the fully integrated nature of those products with the key partners already identified, cloud visibility in particular. Increased server offerings will entice more customers, and Cisco must maintain the lead it has on integration between the server and network architecture. IBM, Dell, and most of all HP, will not allow that market advantage to stand for long.

• Cisco should continue to tout the value of integrated, fully managed, multi-level networks in the data center. There is a market perception that because of performance gains from 10 Gigabit Ethernet, the network should remain "a big dumb pipe," or that the network can work as a two-layer affair in the long term. History shows that available bandwidth is consumed quickly and usage usually requires adding aggregation layers to the network to handle the bandwidth. Ten Gigabit Ethernet may seem huge now, but 40 Gigabit and 100 Gigabit Ethernet await and with reason.

• Cisco must continue to aggressively compete with its former partners, particularly HP. Cisco needs to continue to cultivate mind share amongst server administrators, with the assistance of their networking advocates. Not only are the "Big Three" server vendors gunning for Cisco, but Cisco's other competitors in the Ethernet switching market are closing gaps between compute and networking, especially in virtualized environments.

• Cisco should continue to develop and push its policy management solution, with a specific focus on workload management assigning policy to people and positions rather than technology. Cisco also should extend this platform out to more customers, offering free Cisco-device policy management for download and turnkey policy management for sale.

• Cisco should continue to concentrate on creating management tools that are highly effective and functional, as well as offering an architecture for scaling management from one to one thousand without having to institute radical changes. The Cisco Security Management Suite is a step in the right direction, but versions with additional

policy elements (to bring user and identity into the management fold) are necessary. A lightweight version should also be considered for smaller enterprises.

Recommended Competitor Actions

• Market momentum is growing supporting a multi-vendor environment once more and competitors should leverage success stories and customer references everywhere they can, in press and sales deals, highlighting benefits. This pendulum swings back and forth and currently it's swinging away from single vendor solutions so competitors would be wise to press the advantage while they can for it is a finite window of opportunity historically speaking.

• Extreme, Avaya, Alcatel-Lucent, and Enterasys should focus on ways to bring the value of telephony, switching, and routing closer together by integrating cross-functionality between infrastructure components and the telephony solution. Some of these efforts are in place (such as Link Layer Discovery Protocol support), but additional and continual focus on integration is key. Cisco focuses on integration between the network and VoIP platform, and competitors need to do the same.

• HP needs to continue its integration of technology from the 3Com/TippingPoint acquisition, especially in the data center. Now that HP possesses a portfolio that competes with Cisco across most of the enterprise network, HP needs to continue to focus on getting into every bid and gaining mind share across the vast Cisco trained community around the world. HP is the only company to offer servers, services, networking and storage all in-house – but integration work remains.

• Alcatel-Lucent should change its enterprise selling tactics when facing Cisco. Alcatel-Lucent has a very mature and feature-rich IP-based telephony solution, but it often must fight Cisco on the telephony front due to Cisco customer loyalty. Alcatel-Lucent should use its infrastructure division to sell into markets where Cisco is less strong, including the Far East and South America, and lead with its IP infrastructure as a key part of its overall telephony offering.

• Best-of-breed competitors that plan to continue challenging Cisco for data networking market share must expand their presence to offer the integrated features that Cisco offers. Many competitors have made progress in integrating some virtualization visibility and ease-of-deployment technology, but more work remains to enable an enterprise to readily distance themselves from their Cisco solution that works today.

• Juniper is going to have to be very aggressive with its marketing and sales tactics in order to make a dent in Cisco's armor or even carve itself out a niche beyond its own router customers. Juniper succeeded competing with Cisco for in the router market, but a shift in tactics may be required to effectively break past the $500 million per year barrier that so many have faced in the past while taking on Cisco.

Recommended End-User/Customer Actions

• Users should evaluate Cisco based on their technology needs. Cisco is not a leader in every market. Just because a company has a Cisco data infrastructure does not guarantee that Cisco is going to win the IP telephony or storage networking installation, and end users should remember to weigh best-of-breed value considerations against Cisco's proposed end-to-end network-of-networks propositions.

• Small businesses and SOHOs should consider Cisco, given the newer products and emphasis Cisco is placing on the small business market. Cisco provides both a number of solutions and a path for growth across a range of technologies, and it is constantly improving and simplifying the management of its products. SMB customers should not get caught up in the name brand or features that they may not need, and they should review cost, support and warranty options from other vendors.

• Medium-sized businesses should compare Cisco's products to those of other competitors in appropriate markets, where Cisco may have a price and/or performance disadvantage. Competitors such as Extreme, Brocade, Enterasys, HP, Avaya, and Alcatel-Lucent offer competing solutions across the market and may be positioned to provide a better level of direct service as well as more competitive pricing.

• Larger enterprises should view Cisco as a strategic partner. Cisco has a history of developing product plans, presenting them to its customer base early, and following through even if market conditions change. Cisco also works with its largest partners to develop products specific to that customer market, and this influence can mean

competitive differentiation for customers.

• Given IBM and Dell's presence in the network infrastructure market with OEMed Brocade and Juniper products, enterprises with a strong IBM or Dell relationship should consider those vendors as a potential networking competitor to Cisco. At the very least, using IBM or Dell as a challenger to Cisco in bids may help gain better pricing from Cisco.

• With HP's acquisition of 3Com complete now and the resulting comprehensive portfolio, customers should consider HP a competitor to Cisco's offering in LAN and DC. And whether the solution meets their needs or not, it may influence pricing in both networking and servers from Cisco.

Overview

Company Description

Company Name	Cisco Systems
Locations	Worldwide
Primary Markets	Enterprise and service provider networking infrastructure, servers, Web services, and consumer networking products
Revenues	FY 2010 net sales: $40 billion
Employees	70,700 as of January 2010
Founded	1984 in San Francisco, CA
Management	John Chambers, Chairman and CEO
Key Partners	EMC, VMware, NetApp, Oracle, Accenture
Product Lines	Catalyst Ethernet switching products, Unified Computing Systems, Nexus data center switching products, MDS Series Fibre Channel switches, ACE load balancers, WAAS WAN optimization, WLAN products, Scientific-Atlanta, WebEx

Related Company Assessments

Cisco - Conferencing & Collaboration
Cisco - Digital Media Infrastructure
Cisco - Enterprise Security
Cisco - Fixed Access
Cisco - Mobile Access
Cisco - Telecom Vendor Services (*)
Cisco - Transport and Routing
Cisco - Unified Communications & Contact Center
Cisco Systems - IP Services Infrastructure

YellowBRIX News and Financial Data

Recent News/PR	Financial Summary

[Feb 22, 2011] GTRI to supply Cisco Systems services for TriMet

[Jan 14, 2011] UBM TechWeb's Cloud Connect Announces 2011 Keynote Speakers and New Programs ; Event Features Executives from Amazon.com, Cisco Systems, eBay, Netflix and Yahoo.com

[Dec 07, 2010] Large Trades Made by Insiders in Cisco Systems, Symantec Corp, VeriSign, U.S. Global Investors, Occidental Petroleum, & F5 Networks; Reported by Insiderslab.com

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Stock Symbol: CSCO

Quarterly ($ mil)	2Q 01/2011	1Q 10/2010	4Q 07/2010	3Q 04/2010	2Q 01/201
Sales	10,407.0	10,750.0	10,836.0	10,368.0	9,815
CGS	3,662.0	3,555.0	3,559.0	3,382.0	3,108
SG&A Exp.	2,896.0	2,860.0	2,946.0	2,757.0	2,577
Operating Income	6,745.0	7,195.0	7,277.0	6,986.0	6,707
Operating Margin	66.6%	67.4%	67.9%	68.2%	68.3
Net Income	1,521.0	1,930.0	1,935.0	2,192.0	1,853
Profit Margin	17.9%	18.9%	19.4%	18.3%	17.1

Worldwide, aggregate corporate financial data

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