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Executive of the year

Cisco superstar John Chambers blazes new trails

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If you want a lesson in how to weather an economic downturn — even the catastrophic one of 2009 — ask John Chambers for a peek at his playbook. The **Cisco Systems Inc.** CEO operates his company like a basketball coach calling for the fast break at Internet speed. His ability to time market transitions, change directions on a dime and capitalize on downturns has become legendary in Silicon Valley.

These days Chambers is upbeat, saying Cisco should make its annual revenue growth target of 12 percent to 17 percent in its core product. His confidence comes from what he's hearing from customers. It's the customers' needs that have always been his barometer; he sees them as the harbinger of change. It's why Cisco looks very un-Cisco-like these days, as "the plumber of the Internet," known for its routers and switches, acquires a number of businesses that are consumer-focused.

Cisco bought seven companies in 2009, including Norway-based videoconferencing equipment maker Tandberg for $3.4 billion. It has homed in on the virtualization market — cloud computing — partnering with companies such as **VMware Inc.** and **EMC Corp.** and setting its sights on data centers. Then there is Cisco's recent venture into the energy marketplace, with its creation of a Smart Grid Business Unit.

Chambers continues to diversify Cisco's direction, and he says repeatedly that technology is not a religion. When a company falls head over heels for its product, it sinks itself. He saw it happen to his two former employers, **IBM Corp.** and **Wang Laboratories Inc.** He watched IBM's refusal to move away from its mainframe product cause it to miss the market transition and fall three decades behind. He saw it at Wang, which was so smitten by its minicomputers that it never recovered from the market's shift and went bankrupt. That's why Chambers describes Cisco's culture as "technologically agnostic."

"You have to move on market transitions. They wait for no one," he says. "That doesn't mean we don't have a healthy paranoia that makes Andy Grove (**Intel Corp.** founder) look relaxed."

Chambers views this approach of never remaining static as Cisco's strength, and his formula has paid off for his employees, shareholders and customers. Since he took over as CEO in 1995, the company has grown from $1.9 billion in revenue to $36.1 billion in 2009. Over that same period there was only one year, 2001 — the dot-com bust that Chambers equates to the "100-year-flood" — when the company reported negative net income of $1 billion. Recently the company tendered $5 billion of notes in a debt offering that quickly sold out. The additional capital will help strengthen its already cash-rich piggybank and aggressive acquiring.

With his track record and uncanny ability, even after 137 acquisitions, to maintain a No. 1 or No. 2 market share in the sectors he enters, Chambers is the Business Journal's 2009 Executive of the Year.

Cisco continues to evolve

Under Chambers' leadership, Cisco has grown to more than 65,000 employees worldwide. But Chambers has his critics. Some analysts who follow Cisco question whether he is spreading the company too thin. They question whether he is moving Cisco in too many directions at once — security, collaboration, virtualization, entertainment and energy.

Chambers responds, "At first people were saying, 'You are not innovative enough.' Now they are saying, 'Are you moving too fast?' You always want to listen to your critics because there is always an element of substance. But actually I feel the reverse. I feel like we should be moving faster, not slower."

To quicken the pace, Chambers continues to acquire companies he believes will enhance Cisco's core business of routers and switches. At the moment, the big push is toward video. Cisco believes that by 2013, video will make up close to 60 percent of all data moving across mobile networks.

Helping to push up those numbers is Cisco's internal product incubator. The effort created Telepresence, a high-definition videoconferencing technology that rolled out in 2006. It was developed, tested and perfected in-house. The face-to-face product is beginning to make inroads into various markets, including health care and entertainment, with a cost between $34,000 and more than $300,000 depending on the model.

The Telepresence technology also helped launch StadiumVision, now operating in 10 sports venues, including Yankee Stadium and the Cowboys Stadium in Dallas.

The average stadium has 1,100 to 1,200 IP high-definition screens using StadiumVision. The digital media goes beyond broadcasting the game. Screens can provide up-to-date scores, trivia and news as well as offer stadium information and touch-screen phones to order food or merchandise.

David Holland, senior vice president of Cisco Sports & Entertainment Practice, says, "The goal is to create a constant recurring experience anywhere, any time and any way you want it, and have it enabled through the network."

Part of that goal is to bring the experience into the home. To meet that plan, Cisco bought **Scientific Atlanta Inc.** in 2006 for $6.9 billion. The company was a leading maker of set-top boxes and will help integrate Telepresence into the home environment.

Thinking outside the box

Rob Enderle of the Enderle Group, an analyst who covers technology companies, says Cisco has a certain advantage over companies such as **Hewlett-Packard Co**. because Cisco's technology goes directly to the cloud. He describes Chambers as a "shark."

“Chambers continues to run on a very aggressive pace,” Enderle says. “This has been a tough market for them because there was so much overpurchase from the dot-com era. Yet they weathered that storm reasonably well and have come out more powerful than they were during the dot-com years.”

Chambers cites six market downturns since joining the company — 1993, 1997, 2001, 2003 and 2008-09 — and says each time Cisco gained market share, moved into new markets and came out stronger than its peers.

Chambers says two years ago Cisco saw troubling signs in the economy.

“In 2007 we outlined that something was wrong with the finance industry and everyone says that’s unique to Cisco,” he says. “In 2008 we said the downturn was going to be bigger and longer than people think. Others said, ‘We don’t think so.’”

But in the most recent quarter, which ended in October, Cisco’s numbers point to an economic turnaround.

“Our numbers in the U.S. went from negative 20 percent in large enterprise two quarters ago to up 10 percent last quarter. Those are trends that are undeniable,” Chambers says. “That doesn’t mean we couldn’t level out, and it doesn’t mean we couldn’t have a jobless recovery and go back down. Those are very much a possibility.”

But he says companies need to have the “courage” to add head count and grow when the market starts to improve.

The right positioning enabled Cisco to move through the current economic crisis. Chambers says the company was able to commit the necessary resources and reduce its expenses by 10 percent. Employee salaries were not cut, and through a restructuring employee layoffs were held to 2 percent to 3 percent, or between 1,500 and 2,000, of its work force. A significant amount of resources went toward new market “adjacencies,” Cisco’s lingo for new areas of growth. Cisco is working on 30 market adjacencies simultaneously, including the areas of entertainment, health care and energy.

“We are the most aggressive we have been in our history, in the middle of what everyone thought was the height of the downturn,” Chambers says.

In a recent interview Chambers said the company plans to hire a signficant number of employees in 2010.

Management style changes

To manage all that activity, Chambers changed the company’s managerial style. He took the company from the traditional command-and-control structure, where everything is dictated from the top down, to a collaboration and teamwork approach. This restructuring, which took six years, is now part of the company’s culture.

Chambers says the change was controversial, but needed, as Cisco moved farther away from being a high-tech company with one or two products. He saw an opportunity to capitalize on market adjacencies that relied on network connectivity, and to do that Cisco had to be much more productive, innovative and effective in its execution. He created a system of councils, boards and working groups to handle individual projects. The councils and boards were responsible for markets ranging in size from $1 billion to $10 billion.

Rajan Varadarajan, a vice president at Primary Global Research LLC in Mountain View, says this approach makes sense for Cisco, which has always been known for its entrepreneurial culture.

Varadarajan, who worked at Cisco from 1994 to 2000, says, "The decentralization of management can be a good working model in a high-tech environment. It allows the team to move fast and not get stuck on one thing. That's why Chambers is known as being a technology agnostic."

Chambers also put a "replication model" in place about eight years ago, another culture change. It's a process that encourages collaboration and innovative behavior through his "decentralization" of management approach. The idea is to develop new ideas swiftly to avoid missing a market transition.

"Today I can come up with a new idea, challenge a team to give me the business case on it," Chambers says. "They come back to me in 45 days with a business plan, and I can submit it to the board two weeks later."

The process initially took a year.

Varadarajan says that's what makes Cisco unique for a company of its size.

"Although it's a very large company, there are different pockets within different groups, and they still act very entrepreneurial and operate like a small company," he says. "That's a great character in my view for growth."

That's what Chambers brings under his leadership, he adds.

Future of Chambers and Cisco

So where does Chambers go from here? The "electrification of the Internet," he says, his description of smart grid technology. Chambers is passionate and excited about the potential.

"That might be the biggest opportunity we are going after," he says. He describes it as the "new frontier."

Chambers envisions a significant reduction in power as the smart grid connects every device in the home and office, eliminating the patchwork system now in place. It's tailor-made for the Internet, he says, calling it "phase one" of the Internet all over again. The buildout is well suited for Cisco's networking hardware.

For Chambers, the excitement comes in the undertaking, which will be massive and complicated. There are 3,000 utility companies nationwide, according to Laura Ipsen, who is the general manager for the recently created Smart Grid Business Unit. But Cisco fully intends to lead the pack. Like every push it has made into a new market, the decision was led by its customers.

Jennifer Greeson, spokeswoman for Cisco says, the Smart Grid Business Unit has been given an unlimited amount of resources, although she can't divulge what that translates to in dollars. She confirms that it meets one of the key tenets in Cisco decision-making: "Cisco does not enter markets it doesn't think it can lead in."

That has always been Chambers' goal — to build, invest, acquire and lead. To get there, he continually asks his employees to set stretch goals. Yet the ultimate stretch goal is the one he has set for himself: "To become the top communications and IT company in the world."

At-a-glance

John T. Chambers
Title: Chairman and CEO, Cisco Systems Inc.
Age: 60
Birthplace: Cleveland, Ohio; grew up in West Virginia
Family: Married, two children
Residence: Los Altos
Education: Bachelor of arts and juris doctor from West Virginia University; master's in business administration from Indiana University
Career Path: Worked in sales at IBM Corp. from 1976 to 1982. Worked at Wang Laboratories Inc. from 1982 to 1990, holding various positions including executive vice president. Joined Cisco in 1991 as senior vice president, worldwide sales and operations. Became CEO in 1995.

Cisco deals under Chambers

Cisco has acquired 133 companies since Chambers became CEO in 1995. It has acquired a total of 137 companies, of which 70 percent meet or exceed what they were bought to do.

2009	7
2008	5
2007	11
2006	8
2005	12
2004	12
2003	4
2002	5
2001	2
2000	23
1999	18
1998	9
1997	6
1996	7
1995	4

Cisco acquisitions 2009

Richards-Zeta Building Intelligence Inc. — Jan. 27
Price: Undisclosed
Market opportunity: Software technology that enables businesses to integrate building infrastructure and IT applications over a common network.

Pure Digital Technologies Inc. — March 19
Price: $590 million
Market opportunity: Pure Digital is the creator of the best-selling Flip Video which pioneered easy-to-use pocket-sized mass-market video cameras.

Tidal Software Inc. — April 9
Price: $105 million
Market opportunity: Management software such as job scheduling systems and applications that automate and control business processes, helping companies reduce operational costs.

Tandberg — Oct. 1
Price: $3.4 billion
Market opportunity: Broad range of video conferencing products.

Starent Networks Corp. — Oct. 13

Price: $2.9 billion
Market opportunity: Products that help wireless telecommunications companies ship large volumes of data to phones and computing devices.

ScanSafe Inc. — Oct. 27
Price: $183 million
Market opportunity: Security software-as-a-service

DVN (Holdings) Ltd. set-top box business — Nov. 2
Price: $44.5 million
Market opportunity: Digital set-top boxes for the Asian market.

What you might not know about John Chambers

What you might not know about John Chambers:
• He works in a 10-by-10-foot office.
• He loves to fish, and he takes his executive team to Alaska every year to do this.
• He is passionate about Duke University basketball.
• He is a huge sports fan and has season tickets to watch the San Francisco Giants, San Francisco 49ers, San Jose Sharks, Oakland A's (his favorite), Golden State Warriors, and Stanford University football and men's basketball teams.
• He has a duck-caller whistle in his office, which he uses to bring out the "country boy" from West Virginia.

Other John Chambers facts:
Best biz book you've read: "Wikinomics," by Don Tapscott
Biz hero: Jack Welch
Hottest gadget you own: Flip video camera
Favorite authors: Thomas Friedman ("The World Is Flat"), Colin Powell ("My American Journey"), John McCain ("Character Is Destiny"), Jack Welch ("Winning")

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