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Cisco's CEO vows 'bold changes' as investors worry

April 6 2011, By JORDAN ROBERTSON , AP Technology Writer

(AP) -- Cisco Systems Inc. CEO John Chambers is calling his company's recent missteps "unacceptable" and is vowing to take "bold steps" to narrow Cisco's focus.

A memo to employees that Cisco posted on its corporate blog Tuesday suggests that major changes are coming for the world's biggest maker of computer-networking gear, but it was short on specifics.

Cisco shares rose 16 cents, or 0.9 percent, to $17.22. The stock had fallen 38 percent since its 52-week high of $27.74 on April 30 of last year.

The company is under pressure after posting three worrisome quarterly reports that raised fears about its heavy reliance on weakened state and local governments and its overall place in a shifting networking market. Analysts say it's losing ground in some key markets.

Chambers, who has been Cisco's CEO since 1995, called Cisco's strategy "sound" but criticized its execution.

"We have been slow to make decisions, we have had surprises where we should not, and we have lost the accountability that has been a hallmark of our ability to execute consistently for our customers and our shareholders," he said. "That is unacceptable. And it is exactly what we will attack."

Cisco, which is based in San Jose, has branched out beyond its core business of selling routers and switches that form the backbone of the Internet. It has moved into related areas such as cable set-top boxes and digital cameras that have made the company more visible to consumers.

But the $40 billion-a-year company is facing stronger competition from rivals in its core business, and is facing questions about whether it's spread too thin - a question that frequently comes up for highly acquisitive technology companies.

Analyst Rohit Chopra with Wedbush Securities said Chambers' comments indicate that Cisco is willing to take "a necessary first step in order to reinvigorate growth."

As for restructuring moves, Cisco may wind up exiting parts of its consumer business while boosting investment in areas such as security and application delivery, Chopra wrote in a note to clients.

Since Cisco's relationship with Hewlett-Packard Co. is likely "permanently impaired" - the two longtime partners are now competing in both servers and networking equipment - Cisco should cozy up more with IBM Corp. and Accenture PLC, which are experiencing strong demand for technology services that help Cisco sell its products, Chopra said.

"We think a combination of organizational restructuring, divestures, and targeted acquisitions along with efforts to improve collaboration in the partner ecosystem can allow Cisco to regain its leadership and growth positioning but we anticipate that the process will likely take several quarters before the company's current trajectory is significantly altered," Chopra wrote.

In his memo, Chambers said Cisco will focus on 5 key areas: routing, switching and services; collaboration; data center "virtualization" - which refers to building servers that can handle multiple operating systems and applications at once, instead of just one at a time - and so-called "cloud" computing; architectures; and video.

"We will take bold steps and we will make tough decisions," Chambers said. "With change comes disruption, and you will see this necessary and healthy disruption as we make meaningful decisions in a timely, targeted and measureable way."