Cisco grabs for 'No. 1 IT company' crown

December 7 2012, by Peter Svensson

(AP)—Cisco Systems Inc. isn't content to be the world's largest maker of computer networking gear. It says it wants to become the "No. 1" supplier of information technology to big businesses by broadening its offerings of services and software.

But when Cisco says "No. 1 IT company," it doesn't mean that it's going to be the biggest-selling company. That goal is out of reach, as IBM Corp.'s revenue is twice that of Cisco.

Rather, Cisco CEO John Chambers says he wants the company to loom largest in the minds of its customers and to be the one setting the pace in the industry. Being No. 1, he says, means having the best customer satisfaction and the best profit margins for products.

The strategy statement, articulated Friday at a presentation for Wall Street analysts, follows some lean years that have seen Cisco retrench from even broader goals, which included trying to establish itself as a consumer brand and buying a maker of camcorders. The new direction will be supported by a global advertising campaign with the slogan "Tomorrow starts here." The ad campaign starts Monday.

"The play sounds a lot like the IBM story," Raymond James analyst Simon Leopold said. After the maker of mainframe computers struggled in the 1980s with the rise of cheap microprocessors and rapid changes in the industry, IBM successfully transformed itself into a company that combined consulting services, software and hardware.

For Cisco, the new playbook comes as Chambers, who is 63 and one of the longest-serving CEOs in Silicon Valley, is nearing retirement and looking to hand over to a successor in two to four years. There are two chief candidates, who appeared with Chambers on Friday: Rob Lloyd, the head of sales and product development, and Gary Moore, the chief operating officer.

"Both Rob and I are prepared to be the CEO," Moore said, adding that whoever wasn't chosen would accept the board's decision and remain with the company.

Chambers told analysts that Cisco pulls in about $6 billion from software per year and plans to double that in the next three to five years. That's not a figure the company usually breaks out, as most of its software is deeply integrated into hardware such as routers and switches, which shunt data through networks.

Analysts at the meeting were unsure how to incorporate the figure into their models, and the company didn't give a lot of specifics on how it hoped to achieve that.

Analysts also questioned how Cisco hopes to be the top player when it doesn't sell the massive storage arrays that big companies need for their data. Chambers said Cisco will keep partnering with companies that do sell storage products, including IBM and EMC Corp.

Apart from IBM, Cisco's chief competitors for the "No. 1 IT" throne are Microsoft Corp., Oracle Corp., SAG AG and Hewlett-Packard Co. Cisco partners closely with them, except for HP.

Chambers said the company is sticking to its forecast of growing sales by 5 percent to 7 percent per year and its earnings slightly faster, at 7 percent to 9 percent per year. Both figures represent pullbacks from the past two decades, when the San Jose, California, company often grew sales by more than 10 percent per year.

Cisco's stock fell 15 cents, or 0.7 percent, to close Friday at $19.33.

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