The Economics of Collaboration at Cisco

Cisco Is Enabling Anytime-Anywhere Productivity for Employees, Resulting in Significant Business Benefits

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Collaboration is one of the most important tools available to organizations today. Even in the current volatile economic climate, where it can be difficult to gain a competitive edge, executives are finding that by empowering employees through collaboration, they can increase their organizations' agility and deliver new levels of productivity.

Fundamentally, collaboration hasn't changed—it's still about people working toward a common goal. Old methods of improving productivity (business process optimization and web-based applications), however, no longer meet today's business challenges. The Internet is now about applying collaboration rigorously to produce an impact that will result in fundamental change. By linking people together and introducing new ways of working, organizations can transform their business.

Enabling new ways of working is essential today because of a radical shift in the location and communication behaviors of employees. Global economics have caused the workforce to become more distributed through outsourcing and new market expansion. By 2010, the Economist Intelligence Unit predicts that 62 percent of employees will work with teams in different locations, and by 2011, 30 percent of the global workforce will work remotely. New technologies are enabling people to work and access information from anywhere, including home, coffee shops, and, most important, when they are with customers. Collaboration technologies enable employees to remain highly productive, no matter where and when they work.

Collaborative companies are:

- **Building communities:** using platforms to contribute knowledge and share ideas
- **Moving toward open innovation:** driving results by being more open and inclusive
- **Embracing new leadership models:** forming cross-functional groups
- **Supporting new ways getting together and communicating:** holding virtual events and virtual meetings

Cisco Internet Business Solutions Group (IBSG)

A whopping 84 percent of average enterprise costs are employee-related. From salaries to accommodations, phone services to computers—all of these costs are directly related to the number of people required to perform any given task. It is imperative, therefore, that we ensure our workers are as productive as possible.

The challenge for today's workers, however, is they move! We never know from one moment to the next where someone will be—at his or her desk, in the car, at the coffee shop. We simply do not know, and that makes it awfully difficult to find, connect, and work with people. This is, by far, the biggest challenge to corporate productivity in today's technologically enabled, mobile workforce.

Investing in collaboration capabilities is a critical and highly profitable strategy, with a short payback timeframe (less than one year in many cases). Collaboration can increase a firm's overall employee productivity by 3 to 5 percent over five years and is also expected to be the main driver of corporate productivity over the next 10 years. Firms that fail to implement collaboration capabilities will be at a significant competitive disadvantage.

Cisco has long been a leader in using the web to improve business performance. As the web has evolved to "Web 2.0," with a shift to collaboration, Cisco continues to lead in adopting new Web 2.0 collaboration solutions.

## Web 1.0- and Web 2.0-based Strategies Make an Impact for Cisco

Cisco is achieving new levels of efficiency and effectiveness by focusing on optimizing human interactions, enabling people—employees, customers, partners, and suppliers—to work together no matter where they are located. New tools and technologies are producing a step change in what is possible:

- Using platforms to contribute knowledge and ideas
- Accessing real-time information
- Using shared workspaces
- Making decisions in real time
- Finding the right people quickly

Cisco is already realizing impressive business results from its collaboration strategies.

Beginning 10 years ago, Cisco began transforming its business by moving from paper- to electronic-based systems. The early days of e-business were primarily about achieving cost avoidance and gaining efficiencies by comparing web-enabled processes to non-web enabled processes. Cisco's benefits from these Web 1.0 Internet capabilities reached $3.7 billion/year in FY08, and continue to grow.

Figure 1.   Cisco's Productivity Journey
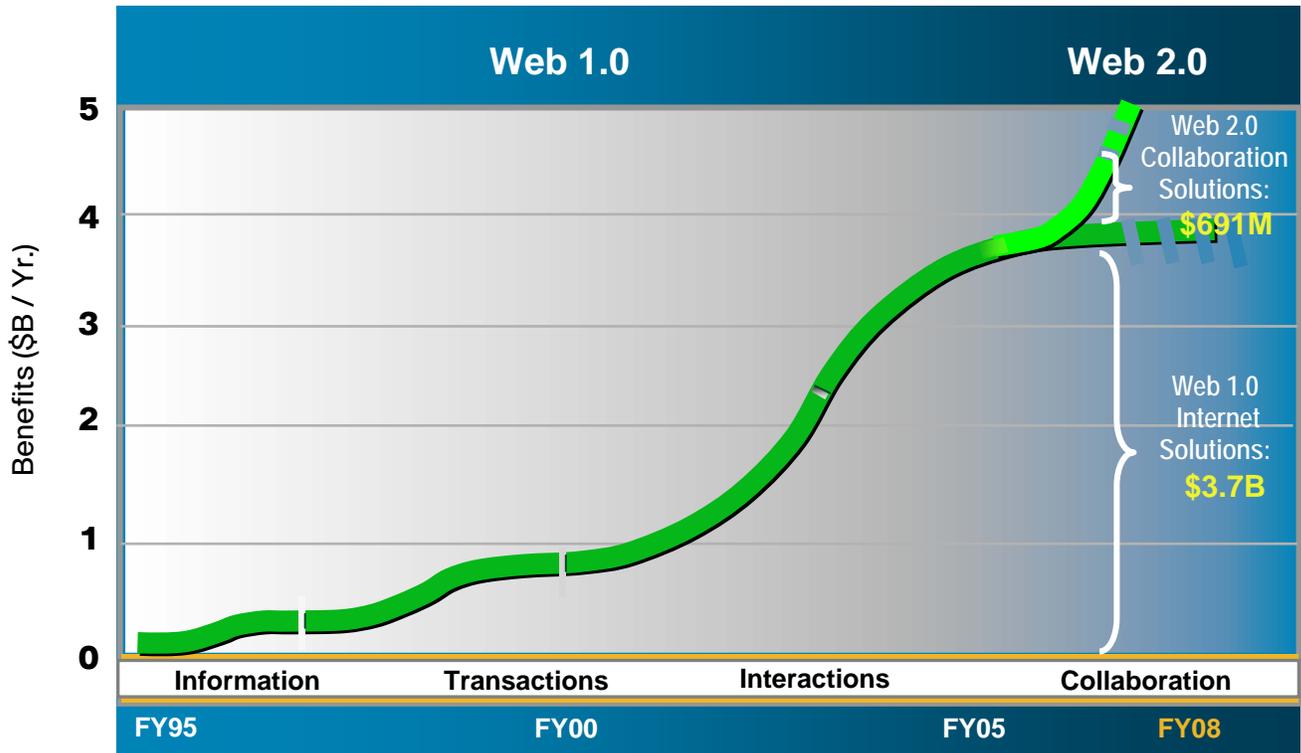
Source: Cisco IBSG, 2009

Cisco's web-based capabilities have moved beyond simply automating transactions, to enabling information exchanges through interactions. In this next phase of the web—Web 2.0—interactions are moving to the next level: true collaboration. With collaboration, employees, customers, suppliers, and other partners are working together much more closely than ever before to achieve shared outcomes.

Cisco IBSG analysis shows that Cisco realized net benefits of **$691 million/year** through its Web 2.0 and visual collaboration investments in FY08. This is in addition to the Web 1.0-based benefits of $3.7 billion, for a total of **$4.4 billion** in FY08 benefits. The collaboration benefits enabled a short payback period of less than 12 months for Cisco.

While we are now in the second wave of the web (Web 2.0), we will continue to see modest growth in benefits from the first-wave (Web 1.0) initiatives. In the future, however, we expect that the largest opportunities for value creation will be around this new, collaborative web.

Areas of Greatest Impact—Solutions Driving Benefits

Cisco's collaboration initiatives fall into three categories:

- **Enhancing existing collaboration activities.** This is where collaboration was already occurring, but Cisco has found ways to save time in communicating (e.g., through Unified Communications), by adding richness (e.g., video versus audio only), or by speeding up processes (by integrating UC into the existing workflow).

- **Establishing new ways of collaborating.** Here, little or no collaboration was occurring before the solution. Examples include expert location capabilities, web spaces where teams can collaborate, and online communities.
- **Transforming the organization.** This is the category that will potentially have the greatest impact on Cisco over the long term.

Figure 2. Cisco Web 2.0 Collaboration Initiatives: FY08 Benefits and Costs ($772M - $82M = $691M net)

Initiative	FY08 Benefits, $ Million	FY08 Costs, $ Million
Remote Collaboration (TP/WebEx/UC)	$378	$75
Telecommuting	$277	Included in Remote Collaboration
Specialist Optimization (SOAR)	$62	$1
Sales Productivity (NEW)	$26	$3
Connected Workplace	$13	$2
Deal/Order Acceleration via UC	$2	<$0.1
Mac Wiki	$4	<$0.1
C-Vision and Video Blogs	$10	$0.5
Total	**$772**	**$82**

Source: Cisco IBSG, 2009

While some of Cisco's initiatives build on one or two of these capabilities, others like Specialist Optimization (SOAR) are broad programs with multiple components that address many of the capabilities. We expect that comprehensive programs utilizing the broad range of new collaboration capabilities available today will ultimately create the most impact on our business performance.

Cisco's Web 2.0-based benefits accrued in three areas: cost reduction, increased margin through revenue acceleration, and time savings. In FY08, Cisco used collaboration technologies to reduce costs by $251 million/year, to increase margin by $142 million/year, and to generate time savings for employees worth $380 million/year, for total benefits of $772 million/year. Remarkably, these benefits were achieved at a cost of only $82 million/year, resulting in a short payback period of less than a year and an exceptional return on investment (ROI).

These benefits were driven by the following strategies and solutions:

- Enabling remote collaboration through the use of TelePresence, WebEx, and Unified Communications greatly eliminated the expense and time of travel, and increased our responsiveness to customers, yielding benefits of $303 million/year.

- Enabling telecommuting or employees' ability to work from home generated $277 million in productivity.

- Establishing Connected Workplaces facilitated communication while reducing real-estate costs by $11 million/year. But this is only the beginning. As we roll out Connected Workplaces across Cisco, we project bottom-line benefits in excess of $1 billion.

- Increasing expert productivity and face time with customers by building platforms for contributing knowledge, sharing ideas, and locating experts in real time generated benefits of $75 million/year. Experts can now engage customers all over the world without ever leaving their office, increasing their effectiveness and decreasing the personal stress and strain of constant travel.

- Improving salesforce productivity through Unified Communications yielded $23 million/year. In these challenging economic times when our competitors are cutting back on the amount of time they can afford to fly sales staff around the world to be with customers, Cisco is increasing customer face time and reducing the costs of doing so. Customers receive a higher quality of service, and that results in more—and faster—sales.

The benefits of $691 million from Web 2.0 and visual collaboration represent a **4.9 percent productivity increase** for Cisco. We believe this is just the beginning of the value creation we will see around the new collaborative web.

The monetary benefits, however, only tell only half the story. These solutions achieve their remarkable benefits by removing the costs and inefficiencies with which our employees have been struggling. Eliminating these inefficiencies not only brings financial benefits to the company; it also increases employees' work/life balance, reduces stress and fatigue from extensive travel, and increases job satisfaction.

These efficiency improvements, coupled with a dramatic increase in productivity, are what enable Cisco to outpace the competition. Quite simply, we are able to widen the gap between ourselves and our competitors so quickly that it becomes increasingly difficult for them to catch up.