

## How Cisco IT Standardizes the Acquisition Integration Process

Cisco IT develops standards for assimilating newly acquired companies rapidly, consistently, and with minor disruption

**Cisco IT Case Study / Business Management / Cisco Acquisition Integration:** Cisco's acquisition of more than 115 companies since 1993 could have meant a significant challenge for integrating networks and other IT elements. Instead, Cisco® IT has developed a standard set of principles and processes to help accomplish these integrations rapidly, consistently, and with minor disruption. Cisco IT continuously improves its integration expertise by applying the standards to each new acquisition. For Cisco as a company, these standards mean shorter time to gain the value expected from each deal and the ability to pursue more acquisitions, more quickly and at lower risk. Cisco customers can draw on Cisco IT's real-world experience in this area to help support similar enterprise needs.

**“ With our standards for the IT infrastructure and elements, we can execute our integration plan much faster because everyone knows what to do. We only need to work on identifying and resolving the exceptions to the plan, and that is a huge difference for our ability to complete the integration quickly and smoothly.”**

—Tim Merrifield, Director, Technology Innovations, Cisco Internet Business Solutions Group

### Challenge

Cisco executives view the acquisition of other companies as an important strategy for offering new products, reaching new markets, and growing revenue. Since 1993, Cisco has acquired more than 115 companies, presenting Cisco IT with the challenge of how to integrate those new networks, IT systems, and applications with their Cisco counterparts. “Each decision that each internal organization makes about integrating an acquired company has a ripple effect on other organizations, so you have to work carefully,” says Tim Merrifield, Director, Technology Innovations, Cisco Internet Business Solutions Group.

With multiple acquisitions occurring each year, it was essential for Cisco to develop standardized processes for integrating the new companies in each of the company's major functional areas, including IT. “Given the number of companies that Cisco has acquired, it would have taken too much time to analyze each acquisition, gather IT requirements, submit an integration plan for approval to an IT governance committee, and each time reinvent the many other tasks involved in an integration,” says Merrifield. “We wanted to have a proactive approach to integrating acquired companies, not the reactive approach that is the usual case.”

This case study describes the integration practices that Cisco IT has followed for companies that are merged into existing Cisco organizations. Cisco has also acquired large companies—such as Linksys and Scientific Atlanta—that are separate divisions from a legal, operational, and governance perspective. The Cisco IT strategy for supporting those acquisitions is necessarily different from the total integration strategy described in this case study.

## Solution

Cisco IT has developed core principles and a process-driven approach for integrating the networks, data centers, systems, and applications of acquired companies into the Cisco IT infrastructure. Throughout each project, the Cisco teams consider how the integration activities may be a catalyst for change within the new company in order to increase the acquisition's value.

### INTEGRATION PRINCIPLES

Cisco IT has defined several principles that cover the core issues for successfully merging IT infrastructures and services, as well as decision-making and organizational activity.

**Infrastructure and application architecture.** Define the baseline standards and plans for integrating network transport, voice services, applications, data centers, client computing, systems and network security, and management of external service providers and other vendors. The plans are based on three key mandates:

- Merge all acquired sites onto the single Cisco corporate network
- Deploy Cisco products and technologies at the new sites, replacing existing equipment as appropriate
- Follow consistent rules for all user IDs and service entitlements

"Cisco does not view IT integration as simply making a physical connection of networks. It also means combining systems for voice messaging, e-mail, and other applications to gain the most consistency and efficiency, both for IT and employees," says Merrifield.

Where exceptions are allowed for IT infrastructure or applications, Cisco IT creates a partial integration and works toward the long-term goal of increasing the integration and adoption of Cisco standards. "Integrations can be optimized if you start with the assumption that the standard process will always be followed unless there is a valid business reason for making an exception," says Merrifield.

**Organizational alignment.** Based on the parameters and business goals of the deal, clarify how Cisco IT and the IT staff from the acquired company will work together. For example, clearly define the roles and responsibilities for all involved IT staff both during and after the integration activity. This organizational alignment must also consider differences that may be necessary in certain geographic areas or company divisions.

**Financial models.** Establish clear agreements about which department will pay for which expenses and how those costs will be recorded in corporate budgets and accounting records. These decisions cover one-time, recurring, and long-term integration costs, which are funded either as part of the deal terms or from an existing Cisco budget. One-time costs cover items such as:

- Capital equipment purchases to support Cisco IT standards, such as deploying Cisco products to maintain an all Cisco network
- Resources required to support the integration event
- Depreciation of fixed assets, software licenses, and other elements that will be discontinued after the integration is complete
- Recurring expense allocations cover the employees, network circuits and services, and other ongoing costs. Financial resources may also be required for long-term costs to cover extended application integration activities, delays in infrastructure integration activities due to contractual agreements, and similar tasks.

**Governance.** Clarify decision-making participation, processes, and authority for employees in the newly combined Cisco IT organization, covering issues such as:

- Strategic planning
- Architecture oversight and enforcement
- Application development methodologies
- Data and information security policies

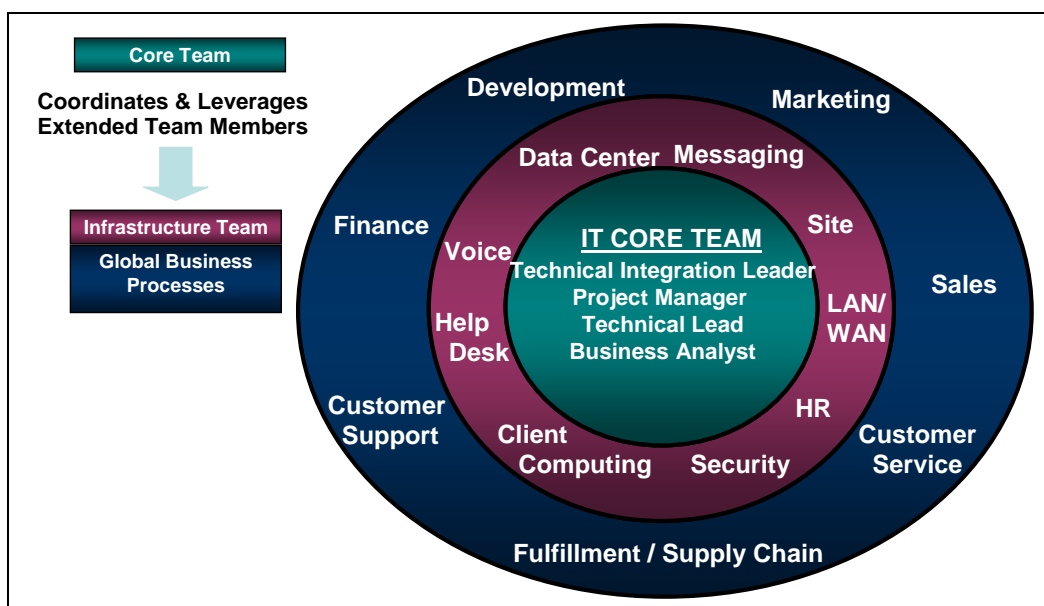
- Legal and regulatory compliance (e.g., Sarbanes-Oxley, data privacy)
- Internal audit alignment and accountability
- General policies for IT services, processes, procurement, contractual obligations, and setting priorities

**Communication models.** Proactively plan appropriate, relevant, and targeted communications about the integration plans and timelines. Communications plans should allow for customization based on the nature of the acquisition and the integration activity. These plans should also consider cultural norms in the new company about the content and delivery method for information.

**Team Structures.** Cisco IT has also defined three standard teams for handling integrations. In most cases, the same employees serve on these teams, which yields two significant benefits for Cisco. First, the employees bring the wisdom of prior experience to each new integration effort, which saves time and reduces problems. Second, these employees expand their knowledge with each integration, for continued improvement of practices and processes.

The Cisco IT core team typically includes a technical integration leader, project manager, technical lead, and business analyst. The infrastructure team includes Cisco employees who address issues and needs in specific areas of the IT infrastructure. The global business processes team defines the broader business issues that affect the IT integration (Figure 1).

**Figure 1.** Three teams of Cisco employees from IT and other departments, plan and execute the integration of each acquired company. (Diagram source: Cisco Internet Business Solutions Group)



### INTEGRATION PROCESSES

The integration principles inform the process-driven approach developed by Cisco IT for integrating a newly acquired company. These processes are grouped into conceptual stages that correspond to the major deal milestones. (The milestones are established by the Cisco employee designated as the business development lead in the corporate integration function.) (Table 1)

**Table 1.** Stages of the Cisco IT process-driven approach to integrating an acquired company.

Stage	Deal Activity	Tasks
1	Preparation	Scope assessment, business modeling
2	Pre-Announcement Planning	Detailed due diligence and initial integration planning
3	Pre-Close Planning	Final integration planning

4	Transition	Activation of employees, resources, and integration activities
5	Integration	Planned integration activities are completed and measurement initiated
6	Monitoring	Ongoing measurement and action initiated toward new activities that increase the value obtained from the acquisition

### Stages 1 and 2: Discovery and Due Diligence

The processes in Stages 1 and 2 are completed before the pending merger or acquisition deal is publicly announced. A Cisco integration team begins to gather essential information, prioritize tasks, and plan communications and schedules. A scope definition process uses checklists and questionnaires to identify:

- The integration goals and business drivers
- The new company's sites and special facility needs; business applications and systems; and security requirements
- Customer commitments, regulatory issues, and legal considerations
- Contracts for original equipment manufacturer (OEM) products, services, and outsourced functions
- The new company's IT team expectations, employee assignments, governance practices, relationships, and policies
- Determination of whether a "shadow" IT presence or separate IT control will be necessary on a temporary or permanent basis
- Evaluation of short-term procurement decisions and interim processes
- Key stakeholder interviews—often held at the new company's site—also identify integration concerns and company cultural issues.

The due diligence processes lead naturally into the planning of actual integration activity. This planning starts just before the deal is announced and continues until the day when the deal closes.

### Stages 2 and 3: Integration Planning

Integration planning begins with an assessment of the existing IT infrastructures, elements, and services in the new company. Initial decisions are made about whether the major IT components will be fully integrated into the Cisco environment, partially integrated, or remain separate with limited if any integration (Table 2).

**Table 2.** The initial integration plans assess all key areas of the new company's existing IT infrastructure.

IT Infrastructure Area	Assessment
Transport	Global and regional LAN/WANs; IP migration status and plans; network connectivity (wired and wireless).
Voice	Existing systems, services and contracts for voice telephony, voicemail, and mobile phones.
Data Center	Locations, utilization policy, and capacity planning, identification of data center elements such as servers and storage; business continuity and disaster recovery capabilities
Client Computing	Standards and support for desktop and notebook PCs as well as related email, calendaring, file sharing, and printing services. Also defines user entitlements for remote intranet access, personal digital assistants (PDAs), and other advanced IT services.
Security	Policies and deployments for firewalls and other security elements.
Vendor Management	Existing contractual obligations, planned capital purchases, and business plans that will create new requirements for IT.
Applications	Core financial, human resources, and project tracking applications; employee portals; sales applications such as lead tracking and customer relationship management (CRM).

During this stage, the Cisco teams develop detailed plans for integration resources, costs, and schedules. Cisco IT may also provide limited consulting to the acquired company's staff about contracts, purchases, and vendor relationships that may be established prior to the deal's closing date. Any exceptions to Cisco IT standards are identified and the decision is made about whether the integration will be completed as a rapid cutover or as a gradual

migration.

One part of the planning addresses what will happen on the first day after the acquisition closes and the new company begins to operate as part of Cisco. This effort is conducted as joint IT and business planning, and covers:

- Meeting the central processing and communications needs of sales, finance, operations, and customer support groups
- Deploying core communications and collaboration systems for voice, data, contact center, and messaging
- Launching IT leadership and governance activities
- Delivering information and training to the new employees
- Managing PCs and user accounts as well as employee and contractor access to the network, applications, and IT services

#### **Stage 4: Execution**

In Stage 4, the integration plans are finalized and the integration processes begin when the acquisition deal closes. These processes include:

- Activating resources to begin the tasks identified in the final integration plans.
- Deploying interim services for core communication and collaboration activities, such as interim network access through a wireless LAN or VPN.
- Delivering onsite training and support as needed, including special support for selected personnel or tasks.
- Transferring client computing and LAN support to Cisco's internal support groups.
- Taking responsibility for vendor management and control of the acquired company's fixed assets.

#### **Stages 5 and 6: Ongoing Operations**

After the initial integration activity is complete, the acquired company operates as a part of Cisco. Work continues as needed to resolve any remaining issues related to the IT integration activity, vendor relationships, or management and governance.

The integration team conducts a post-integration analysis and review to identify lessons learned and additional focus areas for future integration efforts. A formal turnover meeting is held for each IT service and application to resolve any remaining issues around ownership, accountability, or alignment. The team also reviews client satisfaction surveys and prepares all required legal documentation for proper retention.

If an office or other site of the acquired company is to be closed, the team follows standard processes for appropriately terminating the affected assets, services, and contracts; archiving data; and decommissioning systems.

#### **Results**

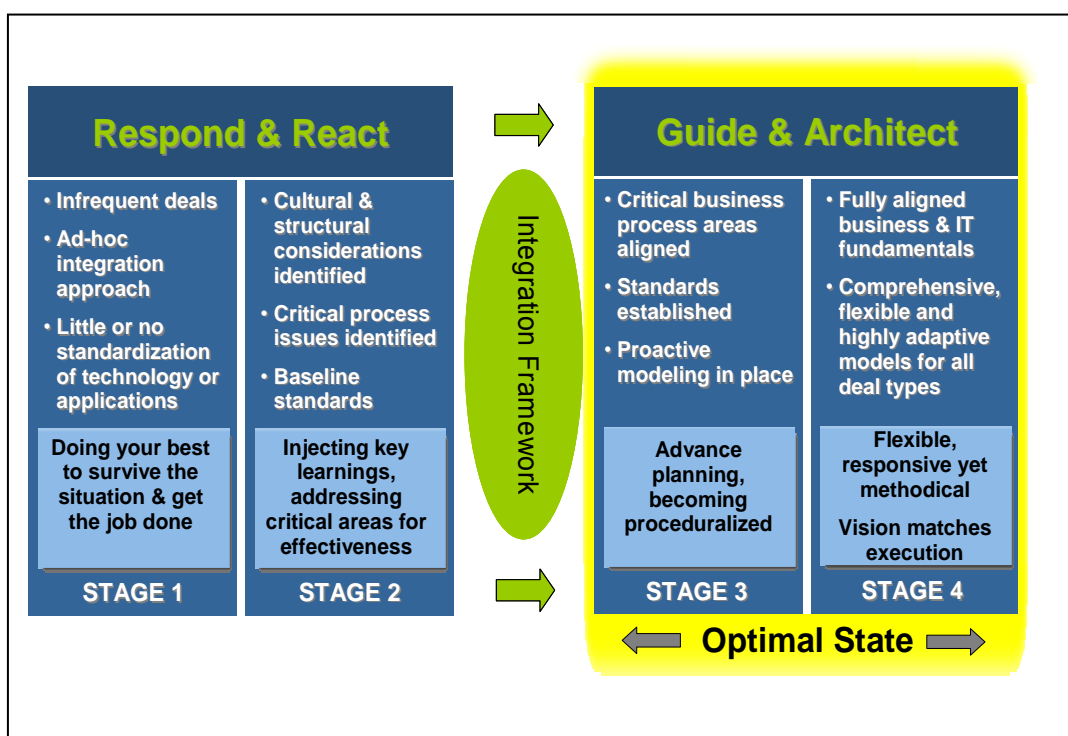
Defined principles, standard processes, and consistent actions and decisions for integrating acquired companies have yielded significant business and technical benefits for Cisco. The major business benefits include:

- Shorter time to gain the value expected from each deal
- Ability to pursue more deals, more quickly and at lower risk
- Faster and less disruptive integration efforts
- Increased cultural integration and sense of inclusion for employees of the acquired company
- Increased probability for achieving the synergies and value expected from the acquisition
- Decreased complexity and higher efficiencies for integration activity
- Deepening of an organization's integration experience

“If you develop a proactive integration competency, you can increase your business portfolio by acquiring more companies, help ensure the success of deals by making the acquired companies effective quickly, and gain additional cost savings through more effective collaboration and knowledge sharing,” says Merrifield.

Framework elements tie together the success of Cisco’s business and IT integration activity. These elements provide a proactive, “guide and architect” approach to integration planning compared to the traditional approach of “respond and react.” By using this framework, Cisco is able to accelerate future integrations and achieve economies of scale, cost reductions, and business process flexibility (Figure 2).

**Figure 2.** An integration framework helps Cisco IT maintain a proactive approach to assimilating a newly acquired company. (Diagram source: Cisco Internet Business Solutions Group)



The major technical benefits of the Cisco IT approach to integration include:

- A single corporate network and a standard IT infrastructure and application architecture, which reduce operating costs as well as management and support requirements.
- A fully aligned IT organization and well-defined governance structure that helps to clarify roles and responsibilities and simplify decision-making.
- Repeatable, scalable processes that can be reused in most new acquisition integration projects, reducing the time and disruption involved.

“With our standards for the IT infrastructure and elements, we can execute our integration plan much faster because everyone knows what to do,” says Merrifield. “We only need to work on identifying and resolving the exceptions to the plan, and that is a huge difference for our ability to complete the integration quickly and smoothly.”

### Lessons Learned

From the experience gained from more than 100 integration projects, Cisco IT has identified several lessons as valuable for handling new acquisitions.

**Treat acquisition integration as a normal business activity.** “Most of the time, IT hears about the acquisition after it has been announced and then pulls together a different, ad hoc team for each integration effort,” says Merrifield. “Our executives set the tone that integrating an acquired company is a normal part of how Cisco conducts business and we have built standard teams and processes in Cisco IT to support this activity.”

**Apply a holistic approach.** Approaching integration planning holistically significantly increases the probability of success. This approach means involving all parts of both companies in a single, high-level team (e.g., finance, human resources, IT, operations, sales), not distinct groups working on separate functional areas with minimal interaction.

**Follow a structure to integrate quickly and consistently.** Rapid and structured integration of acquired companies helps to achieve the expected business value. “When you apply standards, strategies, and processes consistently, you gain internal discipline and the integration activities are in alignment. This means that you will not have a functional organization deviating from the plan and committing to something that IT cannot deliver and vice versa,” says Merrifield.

**Build integration expertise.** A post-project analysis identifies lessons that can be applied to future integration plans and activities. Consistency in processes and team membership also build integration expertise with each new acquisition.

### Next Steps

As Cisco continues to expand its business through acquisitions, Cisco IT will continue to apply, as appropriate, the integration practices and processes described in this case study.

### FOR MORE INFORMATION

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