

How Cisco Applies Companywide Expertise for Integrating Acquired Companies

Faster, smoother integrations help to realize acquisition value.

Cisco on Cisco Case Study/Business Management/Cisco Acquisition Integration: Acquiring companies that offer attractive technologies, products, or market opportunities has been a major growth strategy for Cisco®. To help integrate these companies rapidly, consistently, and with minimal disruption, Cisco has formed cross-functional teams, defined common principles, and developed standard processes. This well-established approach to integration allows Cisco the ability to quickly gain the value expected from the acquisition, among other benefits. Cisco customers can draw on Cisco's real-world experience in this area to help support similar enterprise needs.

CHALLENGE

Acquiring other companies is an important strategy for Cisco to rapidly offer new products, reach new markets, and grow revenue. Since 1993, Cisco has acquired more than 120 companies, from small startups to large, well-established firms such as Linksys, Scientific Atlanta, and WebEx.

Integrating the employees, products, services, operations, systems, and processes of acquired companies can be a daunting effort. With multiple acquisitions occurring each year, it became clear that Cisco could not approach the integration effort in an improvised manner, with different personnel and activities engaged each time. Instead, acquisition integration needed to become a standard way of doing business for Cisco employees. Cisco needed an integration approach that would be consistent across the company, repeatable for each new acquisition, and adaptable as Cisco began to acquire large companies with different operational parameters.

“We centralize acquisition integration for several good reasons: It is efficient, and it allows us to capture best practices, use our skills and resources most effectively, and apply discipline and oversight to the entire acquisition process.”

– Graeme Wood, Director, Acquisition Integration, Cisco Business Development Group

“Cisco acquires only companies that will help to grow our business, so we always ask how we can protect and grow the value that we expect to obtain from an acquisition,” says Graeme Wood, director of acquisition integration in the Cisco Business Development group.

SOLUTION

Cisco has developed—and continues to evolve—a well-defined approach to integrating acquired companies. This approach encompasses the following elements:

- Formalized and centralized integration management through a designated team in the Cisco Business Development group.
- Cross-functional teams for each acquisition that plan, manage, and monitor integration activities across Cisco.
- Standard principles, metrics, tools, methods, and processes that can be repeatedly applied to new integration efforts, yet are adaptable to the unique issues and parameters of each deal. These standards are defined both at the corporate level and within the many Cisco departments involved in acquisition integration.

- Extensibility of the acquisition integration model to other major change events, such as divisional consolidations, divestitures, or acquisitions by Cisco divisions.

“We centralize acquisition integration for several good reasons,” says Wood. “It is efficient and it allows us to capture best practices, use our skills and resources most effectively, and apply discipline and oversight to the entire acquisition process.”

He continues, “If you get mired in the simple integration activities, and a lot of companies do, you never get around to resolving larger business issues that come with an acquisition. Standard processes allow you move quickly through the straightforward tasks of integration with clear responsibilities and minimal finger-pointing.”

A Companywide Approach to Integration

Cisco’s integration activities occur in three broad phases, corresponding to typical events in an acquisition deal (see table).

Table 1. Cisco Process-Driven Approach for Acquisition Integration

Phase	Deal Activity	Example Integration Tasks
1	Discovery and planning	Scope assessment, business modeling, detailed due diligence, and integration planning
2	Execution	Ensuring operational readiness Activation of employees, resources, and integration tasks
3	Monitoring	Ongoing measurement and adjustment of the integration activity

Within each phase, the central and cross-functional teams work together for a companywide approach to integration. The central acquisition integration team broadly defines methods, tools, and processes that can be standardized across Cisco departments and business units. For each acquisition, the central team also manages the overall integration activity and provides a leader for the deal’s cross-functional integration team.

The cross-functional team then manages the planning, execution, and monitoring of specific integration activities in each phase as they are carried out by the appropriate Cisco departments. The same Cisco employees often serve on the integration teams, with representation from all company departments and functions.

Integration Principles

The following principles guide Cisco acquisition integration activities:

- **Alignment.** Set common standards so that all internal organizations and integration activities are aligned to achieve the business goals of the acquisition.
- **Communication.** Enhance cross-functional communication to highlight interdependencies, overlaps, and gaps in activities and schedules, and to encourage cooperation on integration tasks.
- **Operational effectiveness.** Continually improve integration capabilities across Cisco by:
 - Promoting consistent, repeatable processes that can reduce integration project setup time and assist with resource and capacity planning
 - Adapting integration standards to accommodate different business models as Cisco acquires large companies and those offering different types of products and services
 - Incorporating the lessons learned from each acquisition

“For typical acquisitions, we can standardize between 70 percent and 80 percent of the integration processes for each functional area,” says Wood. “But specific integration and business issues come up in every deal that you can’t anticipate in advance. For those issues, you need people on the integration teams who have the experience and creativity to develop the right solution for the business.”

EXECUTIVE SUMMARY

CHALLENGE

- 120+ companies acquired since 1993
- Integrate acquired employees, products, services, operations, systems, and processes rapidly and smoothly
- Maximize the value of acquisitions

SOLUTION

- Formal, central integration management
- Dedicated, cross-functional teams from departments and business units
- Standard principles, metrics, tools, methods, and processes
- Meetings conducted with Cisco collaboration solutions

RESULTS

- Ability to realize acquisition value and pursue diverse acquisition types
- Faster, smoother integration of acquired companies
- High levels of employee retention
- Continuous development of integration expertise
- Efficient integration activity throughout the company

LESSONS LEARNED

- Centrally manage integration activity
- Follow consistent practices and approaches
- Build integration expertise
- Anticipate country-specific differences

NEXT STEPS

- Continue to apply and refine integration best practices

Integration Tools, Methods, and Processes

Cisco integration teams have developed many standardized processes to support rapid and consistent integration activity. These repeatable processes also define roles, responsibilities, dependencies, deliverables, and timelines for the numerous integration tasks that must be performed in each Cisco department.

In addition, each department has its own well-defined approach and processes for acquisition integration, which can evolve easily to reflect changes within the department.

To conduct their work, the integration teams use standard information-sharing and collaboration tools such as Cisco MeetingPlace® conference calls, WebEx online meetings, e-mail, online document sharing, and project management software. Collaboration will be enhanced as Cisco implements a new online project management tool that will be used by all employees involved in integration activities.

Cisco TelePresence virtual meetings facilitate discussions with remote integration team members and employees of the acquired company who are in a distant location. “Because the participants can see each other, Cisco TelePresence will help us catch the nuances of understanding and communication that are difficult to detect when you are conducting a sensitive discussion in an audio conference call,” says Wood.

Integration Metrics

Cisco uses a variety of qualitative and quantitative metrics to measure the success of each acquisition integration effort. Typical metrics include the following:

- Retain 100 percent of the employees who transition from the acquired company.

- Sustain the acquired company’s current product and service revenues (as well as current levels of service and support) during and after the transition to Cisco.
- Launch new Cisco products based on the acquired products and technologies.

As part of the integration approach and plan, Cisco applies the following tactics to enhance the customer experience:

- Repackage and rebrand an acquired product or technology as a Cisco product when appropriate.
- Identify potential new product and service revenue opportunities within the acquired company’s existing customer base and sales prospects.
- Provide the new customers with a single interface for product support and service and maintain customer satisfaction.
- Integrate the sales channels and services functions of Cisco and the acquired company as appropriate.

Department-Level Integration Practices

Each major Cisco department assigns an employee team assigned to acquisition integration activities. This section presents as examples the integration practices of five Cisco departments: human resources, sales, manufacturing, customer service and support, and finance.

The Cisco IT department, is not discussed here. Instead, details about Cisco IT integration practices are presented in a separate case study, which is available at www.cisco.com/go/ciscoit

Human Resources. “What will happen to my job?” is the first question asked by employees when their company is acquired by Cisco. Employees are a critical part of the acquisition strategy, because they hold the key to the next generation of the product.

The Cisco human resources (HR) acquisition team has designed the integration strategy around employee concerns to help facilitate and expedite acceptance of change by the new employees. Cisco HR applies the following principles and practices to these employee transitions:

- Cisco has a goal of retaining 100 percent of employees who transition from acquired companies. The Cisco HR team works with executives from the acquired company to help map employees to Cisco’s employment structure for salary, stock options, and benefits.
- Cisco HR works with internal resources to handle routine transition tasks such as employee setup in HR and payroll systems. These tasks adhere to the standard processes defined by the HR integration team. Cisco HR also outsources some of the due diligence and project work related to individual acquisitions, which is especially effective for rapidly processing large companies with thousands of employees.
- To reduce the disruption and anxiety of the transition process for new employees, HR staff are among the first Cisco representatives onsite at the acquired company when a deal is announced. Because communication is critical during the early integration phase, an internal Website is created for each acquired company to present detailed information and updates about the employee transition process, and to provide links to Cisco training resources.
- The Cisco HR acquisition team provides employee transition letters and hiring documents online to improve the efficiency of employee processing and create electronic personnel files that are easier to update and manage.
- The Cisco HR team hosts a new-hire orientation for all new employees at the time the acquisition deal closes. This orientation gives the acquired employees the information that they need to work at Cisco. Other training sessions address employee concerns such as immigration and company stock. The training sessions are formatted to meet the needs of the global audience and are delivered through online videos, in WebEx online conferences, and video conferences.

“We must act as quickly as possible to make decisions and inform the new employees about their job status, because we know that until employees have that information, they will not be able to focus on their work,” says Shari Yocum, director of acquisitions in the Cisco Human Resources department. “Our goal is to have the new employees fully transitioned and ready to work as Cisco employees from the first day after the deal closes.”

Sales. Many companies experience a decline in sales during an acquisition because of turnover and uncertainty among sales personnel. For Cisco, avoiding this decline and maintaining the acquired company’s current revenue stream is the first sales challenge.

Another challenge, merging sales processes and teams, can be the most lengthy and complex in the acquisition integration effort. This challenge encompasses issues such as:

- Identifying the details of sales compensation plans for the acquired sales team and for the Cisco teams who will sell the acquired products.
- Training all sales personnel, promoting the new products, and coordinating sales logistics in each world region.

- Planning and executing the specific integration tasks, which are handled by more than 10 operations teams and five global regional teams within the Cisco sales department.
- Merging customer and prospect data from the acquired company's sales tracking systems.
- Integrating the sales channels of Cisco and the acquired company.

The Cisco sales department addresses these challenges by initially focusing on alignment of sales efforts, with full integration developed gradually over time. During this alignment period, the acquired sales team focuses on selling the acquired products, while the Cisco account manager continues to maintain the overall relationship with individual customers.

A separate Cisco channel integration team resolves issues such as overlap of territories and customers among individual channel partners, partner compensation, and which partners are authorized to sell specific products.

A key tool used by the Cisco sales integration teams is a milestone document, which details the typical integration activity for every sales function and region. Given the large scope and complexity of integrating sales activity, the integration team tracks the activity milestones for up to two years after the close of the acquisition deal.

According to Pat Belotti, senior manager of sales acquisition integration in the Cisco Worldwide Sales Operations group, "The most important benefit of our standard integration processes is that we can avoid a dip in revenues. In fact, we can increase revenues quickly by applying Cisco resources to help the acquired sales team reach their full potential."

Manufacturing. A product's time-to-market and availability are vital aspects of customer satisfaction and value drivers for Cisco. "We are trying to shorten the time-to-market and time-to-revenue as much as possible for acquired products," says Steve Williams, director of operations for Cisco Worldwide Manufacturing.

For the Cisco manufacturing department, maintaining this timeliness of product delivery presents a multidimensional challenge when integrating an acquired company. Specific dimensions of this challenge include integrating with Cisco's enterprise resource planning (ERP) systems as well as manufacturing and supply-chain processes.

Some of Cisco's large acquisitions, such as Linksys and Scientific Atlanta, have well-established manufacturing processes, systems, and suppliers. "In the case of large companies, a key integration activity is to identify alignment and collaboration opportunities, such as leveraging our expenditures and preferred supplier strategies, in order to gain benefits and reduce risk for Cisco," says Karen Frazer, manager of the acquisition integration team in Cisco manufacturing.

To meet this goal, the Cisco manufacturing integration team has developed a phased approach and an overall framework to speed and simplify the integration of acquired products.

For example, the team uses a defined framework of predictable, scalable, and repeatable processes for introducing new products into the supply chain. The steps to introduce an acquisition product into the Cisco supply chain are similar to those used for a Cisco-developed new product, with specific tasks and responsibilities. The manufacturing team also works closely with the acquired company to transition products and processes while using Cisco's internal tools for supply-chain management.

"The consistency of the acquisition integration process with our familiar processes for new product introduction is critical for maintaining the productivity of our employees and suppliers," says Williams. "Our standard processes and internal tools for supply-chain management allow us to gradually migrate production to our preferred suppliers, which creates cost savings and scalable operations as the product's sales increase."

Customer Service. The Cisco Customer Advocacy group develops, sells, and delivers service and support offerings for Cisco products. These services help customers plan, prepare, design, implement, operate, and optimize Cisco technologies.

When Cisco acquires a company, a primary challenge for the customer advocacy group is migrating the new customers to Cisco's standard service programs. In some cases, the group must develop a new service and support

program for the acquired product. At the same time, Cisco must continue to meet the obligations of existing service contracts and offer new services to the acquired customers.

New product and service models, such as the subscription-based products offered by WebEx, present significant differences in service terms and how support programs are structured and sold. These acquisitions may mean the customer advocacy group develops new types of service offerings.

“The consistency and repeatability of the acquisition integration processes helps the customer advocacy group clarify the requirements of new service programs and ensure customer satisfaction. Even for acquisitions that bring new business models to Cisco and require new service offerings, you can be consistent and scalable in your service operations,” says Clare Markovits, senior manager of the acquisition integration team for Cisco customer advocacy.

Integration of customer contact centers is another acquisition integration challenge. Cisco’s long-term goal is to consolidate all contact centers, to the extent possible, into a single Customer Interaction Network (CIN) to lower internal operational costs and help ensure a consistent customer experience. The contact centers operated by acquired companies initially continue as standalone operations. However, interaction with Cisco contact centers is established through call routing, call system interoperability, and connections between back-office systems. Over time, the call center resources from the acquired company can be integrated into Cisco’s contact centers.

“For customers, our integration efforts provide service continuity and often increase their level of satisfaction with Cisco,” says Markovits.

Finance. Proper accounting and financial reporting for an acquisition is important to meet regulatory requirements and to determine whether the expected value of the acquisition has been realized. The three primary requirements for the Cisco finance department when integrating an acquired company are alignment of fiscal calendars, financial policies, and compliance with Sarbanes-Oxley requirements.

As a publicly traded company, Cisco must file a single set of quarterly and annual financial reports with the U.S. Securities and Exchange Commission, incorporating the data from all divisions and subsidiaries. At the corporate level, this means acquired companies must report their financial data according to a single global calendar.

“We have fixed dates when financial data must be reported, which means that we can benefit from anything that helps an acquisition integration proceed quickly,” says Daisy Ng, a controller in the Cisco finance department. “To help, our department has developed standard policies and calendars as well as repeatable processes for internal and external reporting of financial data.”

The department follows a similar approach to meet the regulatory requirements of the U.S. Sarbanes-Oxley Act. A single certification is maintained for Cisco Systems, Inc., with a single coordinator at the corporate level and standardized processes for certification adherence in Cisco’s internal departments.

Additional challenges for the financial integration of an acquired company include different sales models, differences in the chart of accounts and financial systems, integration of systems for payroll and stock option tracking, and variations in the employment laws and benefits that apply to employees located outside of the United States.

“Aligning acquired companies with our standard processes helps us to solve these diverse challenges. We can also avoid lost productivity because we do not need to reinvent the procedures with each new company,” says Ng. “We are now evolving our integration approach to better handle the differences involved with acquiring large companies and companies located in other countries.”

RESULTS

Defined principles, standard processes, and consistent yet adaptable activities for integrating acquired companies have yielded significant business benefits for Cisco.

Benefits for Cisco As a Company

Ability to realize the value expected from each acquisition. Because the integration tasks can be completed quickly, the transition of a company to ownership by Cisco creates less disruption in sales and productivity levels.

Employees in the Cisco business units and functional departments can instead focus on bringing the new products to market and other activities for maximizing the value Cisco gains from the acquisition. Metrics that track the value gained by Cisco from its acquisitions are monitored over time.

Faster, smoother integration of acquired companies. With decision-making and execution capabilities centralized in one team for each acquisition, the integration activity can proceed with greater speed and ease than would be the case for decentralized efforts. Clear guidelines and objectives for all areas of the company also produce faster and less disruptive integration efforts in the departments and business units.

Easier cultural integration. The internally developed processes reflect Cisco corporate culture, which facilitates clearer communications and easier collaboration among the integration teams. Deep experience in acquisition integration helps Cisco to increase integration of the corporate cultures and the sense of inclusion for employees of the acquired company.

High levels of employee retention. In the first two years after an acquisition closes, Cisco retains nearly 100 percent of the new employees. Long-term retention levels are also high, at 85 percent from 2002–2006 and 45 percent since the early 1990s.

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Optimized operational infrastructure. The integration effort can identify opportunities for optimizing Cisco’s operational infrastructure. For example, acquired companies migrate to the Cisco corporate network, standard IT infrastructure, and application architecture, which reduces operating costs as well as management and support requirements.

Maximized sales structures and channels. By consolidating sales forces and channels, Cisco can expand its customer base and sales opportunities while avoiding overlap in sales activities.

Solid foundation for acquisitions. The foundation of

standards and a well-defined integration process support a strong, active Cisco acquisitions team that can pursue more deals, more quickly and at lower risk. This foundation also gives Cisco the confidence to enter new markets and acquire companies with diverse operating models.

Continuous development of integration expertise. Because the same Cisco employees typically serve on multiple acquisition integration teams, this expertise can be developed, sustained, and deepened throughout the company. The teams also strive to continually improve integration practices based on the lessons learned from each deal.

Efficient integration throughout the company. Defined processes and standards allow all teams to work efficiently and effectively and sustain focus on high-priority activities.

Benefits for Cisco Departments

Individual departments within Cisco have also benefited from the company’s standardized approach to acquisition integration (Table 2).

Table 2. Examples of Benefits Gained by Cisco Departments from Standard Acquisition Integration Processes

Cisco Department	Benefits
Human Resources	<p>Department supported transition of 3500 employees, located in 25 countries, from companies acquired by Cisco in fiscal year 2007</p> <p>High levels of employee engagement help to sustain productivity throughout the transition</p> <p>Standardized compensation and benefits plans across the company yield cost savings for Cisco and increase employee satisfaction</p> <p>Automated tools, standard processes, and use of outsourcers make the transition process faster, simpler, and more consistent for the HR department and less confusing for employees</p> <p>Automation and well-defined processes allow most acquisition integration efforts to be handled by a small team of HR representatives</p>
Sales	<p>The decline in revenues from the acquired products are minimized during the transition</p> <p>Sales teams can pursue new revenues quickly while the acquired company is being integrated</p> <p>Sales department employees can work more efficiently by following standard, consistent procedures</p> <p>Retention rates for acquired sales employees remain high, which helps to maintain customer relationships</p>
Manufacturing	<p>Manufacturing representatives participate in the business development teams to anticipate the impact of new product types and volumes on manufacturing operations</p> <p>Process consistency helps suppliers accommodate the acquired products quickly and easily</p> <p>Cost savings and scalable production are achieved by migrating products to preferred suppliers</p>
Customer Advocacy	<p>Customers experience service continuity while transitioning their service and support agreements to standard Cisco offerings</p> <p>Cost savings are realized from contact center consolidation</p> <p>New opportunities to increase levels of customer satisfaction, renew existing service contracts, and sell additional services</p>
Finance	<p>Financial reporting can be consolidated and meet Cisco's accounting close deadline can be met for each fiscal period</p> <p>Clear processes make it easy to explain roles and expectations to employees of the acquired company</p> <p>Compliance can be achieved with Sarbanes-Oxley requirements</p> <p>Communications within the department and training for new employees are easier</p>

LESSONS LEARNED

"The way that we integrate acquisitions is a competitive advantage for Cisco. We have invested in a centralized acquisitions team, we have learned from each deal, and we have been consistent in our approach to acquisitions and integrations over time," says Wood.

Based on experience gained from more than 120 integration projects, Cisco has identified several lessons as valuable for handling new acquisitions.

Centrally manage integration activity. Central management of integration activity is vital to help an acquired company transition quickly and easily to Cisco ownership. Two types of central teams manage acquisition integration within Cisco: a companywide team and a team within each department. This structure improves communications and coordination of efforts, assigns responsibility for key tasks, and allows easier monitoring of progress and results.

Build integration expertise. From each acquisition lessons learned can be identified that can be applied to future integration plans and activities. Consistency in processes and team membership also builds integration expertise with each new acquisition.

Expect country-specific differences. Standard integration processes and methods may need to vary in each country in order to meet differences in local laws and business practices.

NEXT STEPS

As Cisco continues to expand its business through acquisitions, integration teams will continue to apply and adapt the best practices and standard processes described in this case study.

FOR MORE INFORMATION

Cisco IT case studies about Cisco IT practices for integrating acquisitions and about the Cisco Customer Interaction Network are available at www.cisco.com/go/ciscoit

For additional Cisco IT case studies on a variety of business solutions, visit Cisco on Cisco: Inside Cisco IT www.cisco.com/go/ciscoit

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