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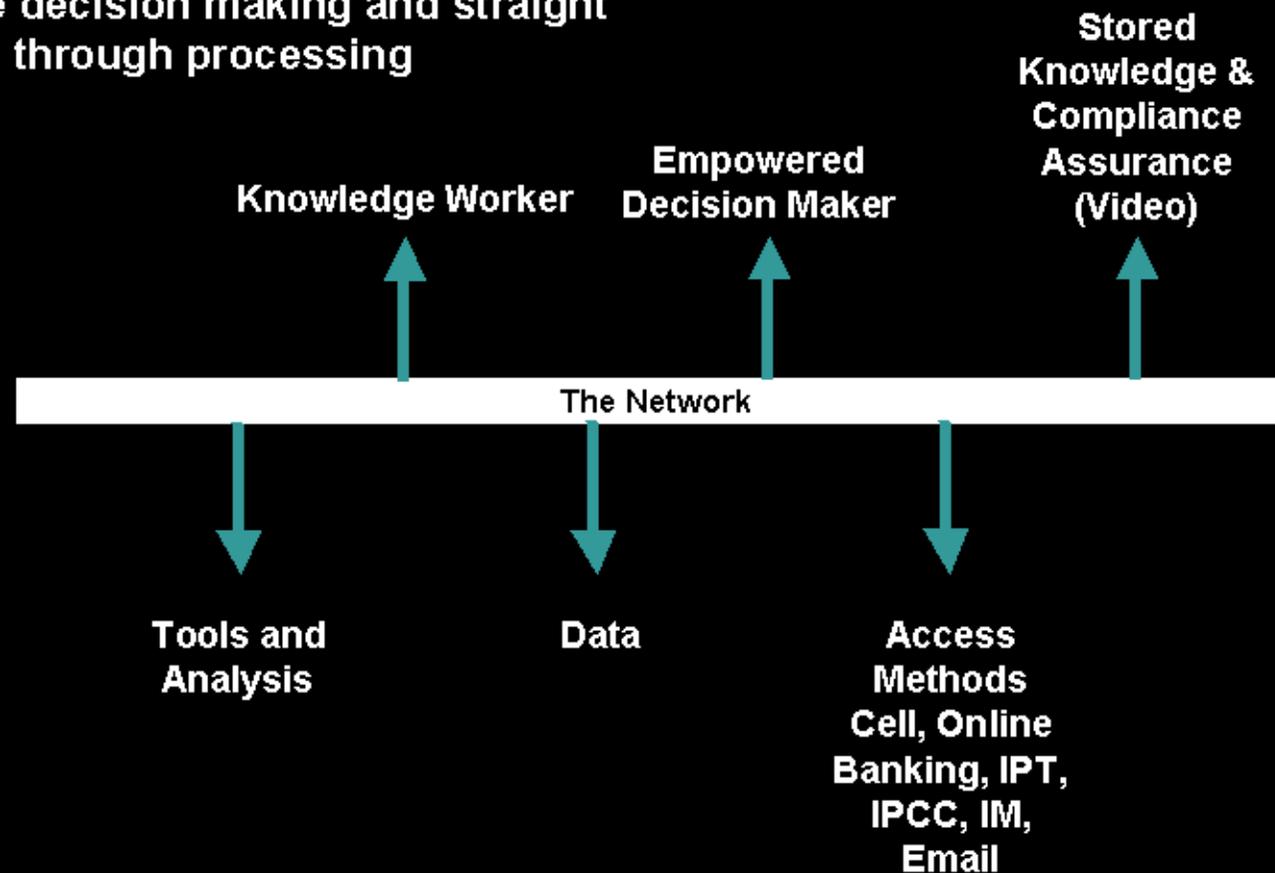
# **Best Practices and Lessons Learned in moving to a Converged Network**

**Gerald W. Hayden  
Cisco Systems Corporate Marketing**

# Converged Networks Business Process Capabilities View

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Real time decision making and straight through processing



# Network Financial Performance

## Voice of the CIO

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### THE SEVEN POINTS

Network Operations &  
Skill Set Gap

Off the General Ledger Costs

Accrued Network Expenses  
& Asset Quality

Outages & Transfer Costs

Strategic Architecture  
and Cash Flow Impact \*

Security, Self Insurance &  
Risk to Capital

ROI & Business Process  
Management Funding

Helping the CIO  
Overcome the  
Financials and Link  
Business Strategy to  
IT Investments

\* Current Cisco Capital  
Emphasis

# Those who aim at nothing hit it with amazing Accuracy...

## Typical Network Objectives and Requirements

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### Desired Result "Objectives"

- Benchmark as lowest cost Network Provider

- Provide high Availability

- Enable Business Strategy in timely manner

- IT Linked with Business Strategy



### Desired State "Requirements"

- Standard Architecture and Operating Standards

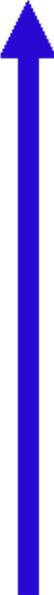
- Strong Networking Knowledge & Network Asset Quality

- Integrate Advanced Technology over time and on Planned Basis

- Link IT Assets to Business Process

# Evolutionary Value of IT

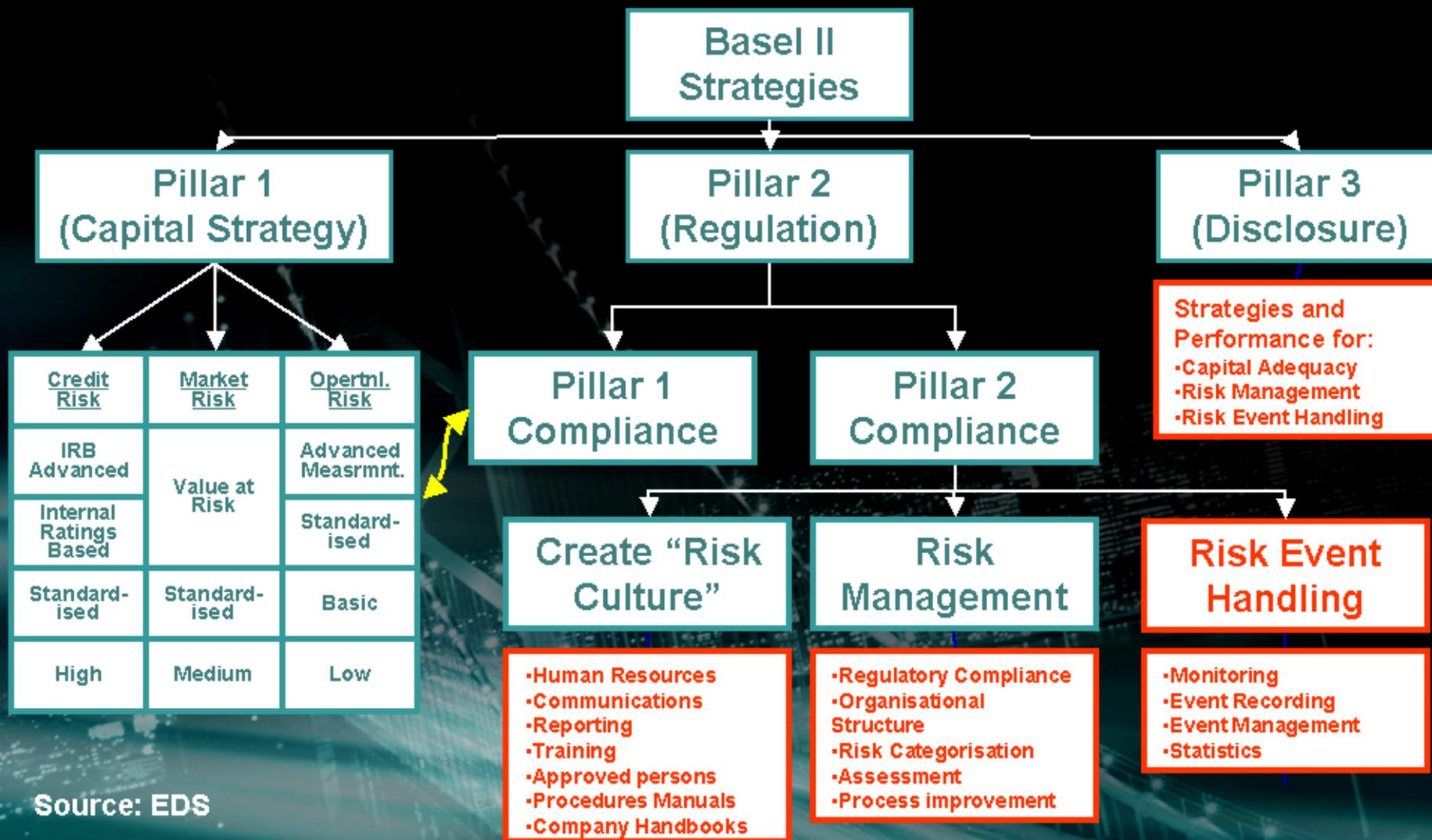
## Closing the Business IT Gap

		IT Value Phase			
		Functional Role	Time Spent On	Desired Outcome Focus On	
Increasing Financial Value of IT Research & Development 		<b>BUSINESS ADVISOR</b> Outcome Defined	Enhances and Enables Business Strategy	Overall Financial Performance	4
		<b>COLLABORATOR</b> Output Defined Process	Defines & Manages to Success Metrics	Return On Investment	3
		<b>SUPPORTS BUSINESS</b> Input Defined Process	Integrates Bus Pro c Change & Strategy into Technology	Cycle Time, Cost Reduction & Service Quality	2
		<b>TECHNICAL ADVISOR</b> TechnologyFo cus	Performs Techni cal As ses sments	Techni cal Performance	1



# BASEL II Summary

## The Role of IT and the Network



Source: EDS

# Converged Networks

## Risk Assessment Asset View

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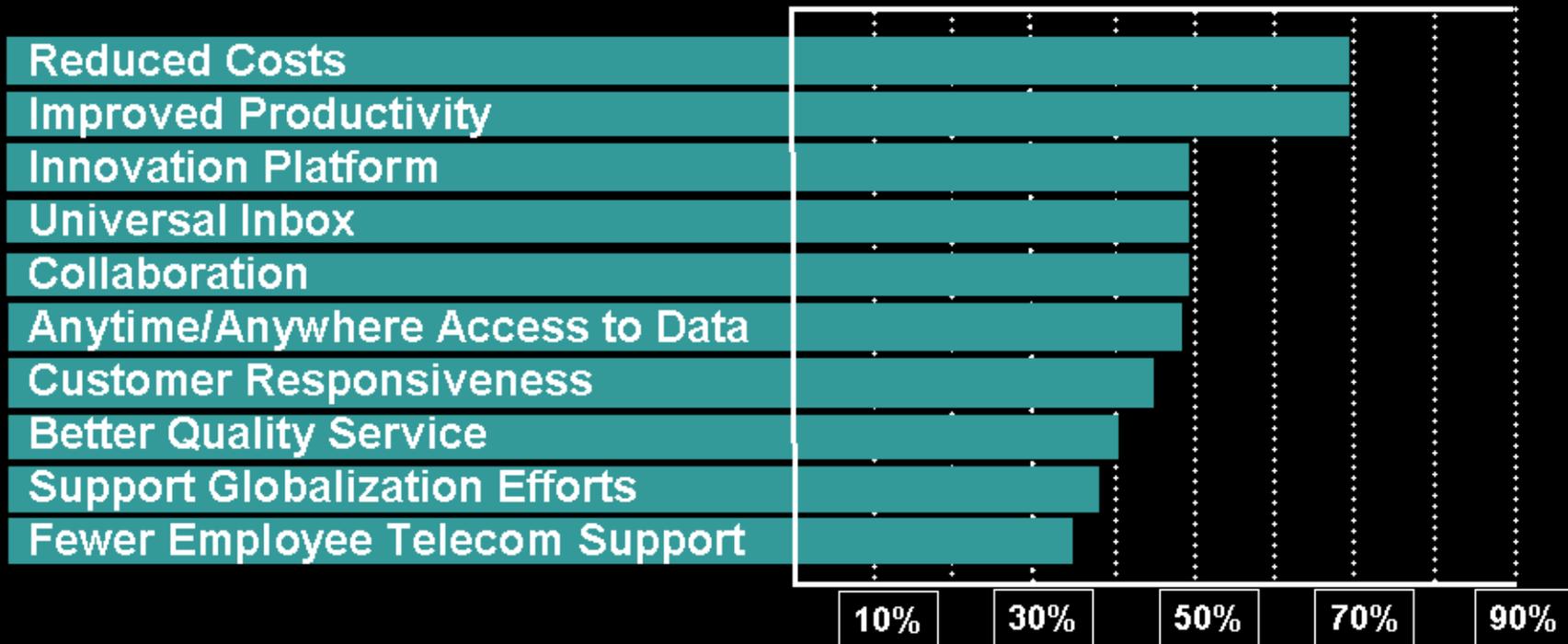
Places of the NW should be reviewed for Access Control Failure, DOS, Inability to Operate hits one of these places.

The following Assets should be examined:

- **Data Asset (Cost of intellectual Capital Loss or ID theft)**  
Business process should be examined for employee theft as well.
- **Production Asset - Ability to process both in terms of OT for recovery and loss of Production Asset.**
- **Downstream Effects such as lost Funds Availability, Uniform Commercial Code violations losses (Stops, NSF).**
- **Recovery Capability.**

# Why VoIP (Converged Networks) IP Survey of its Future Value

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Source: Information Week VoIP Study October 2004

# The Networked Virtual Organization

## Success Factors

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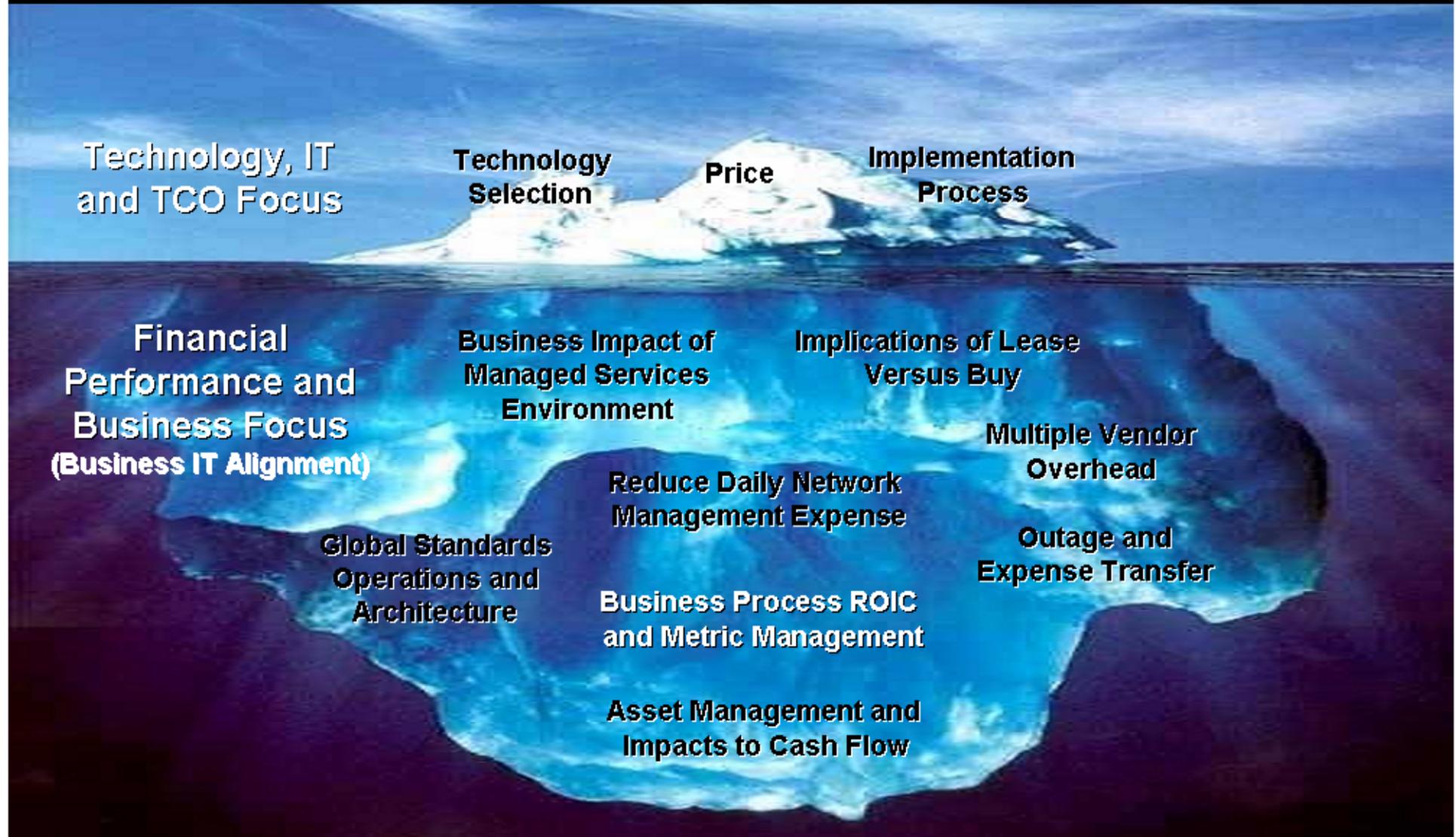
**Banks with more profitable businesses tend to share three common traits.**

- 1) IT Investment is Customer Driven. Best results occur when Business Process is improved before automation.**
- 2) Standardization.**
- 3) Understand Core versus Context.**
  - **Segment Strategy**
  - **Life Event Strategy**
  - **Straight Through Processing**

# Network Financial Implications

## Significant Impacts on Financial Performance

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# OVERALL FINANCIAL PHILOSOPHY

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**If Network is an Asset with largely  
Constant Fixed Cost, then it is  
imperative to leverage it to maximize  
Financial Return.**

# Network Financial Implications

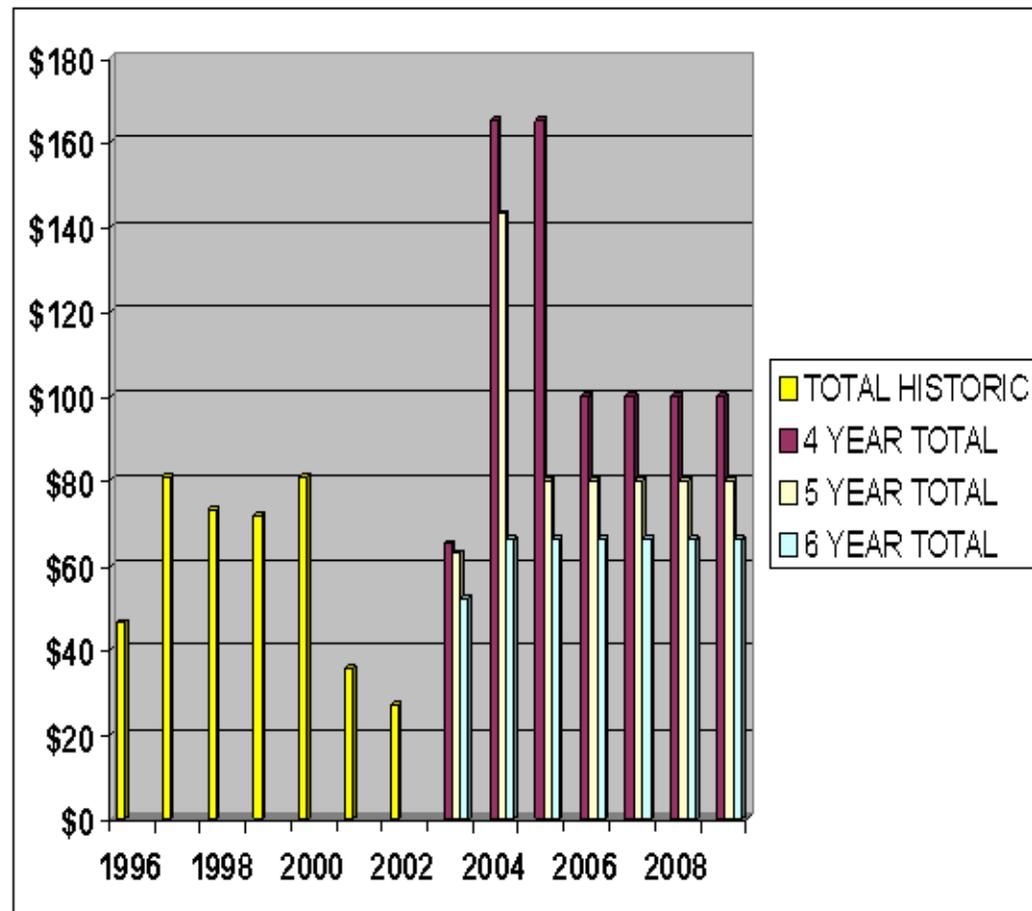
## Cash Flow Impacts of a Deteriorating Network

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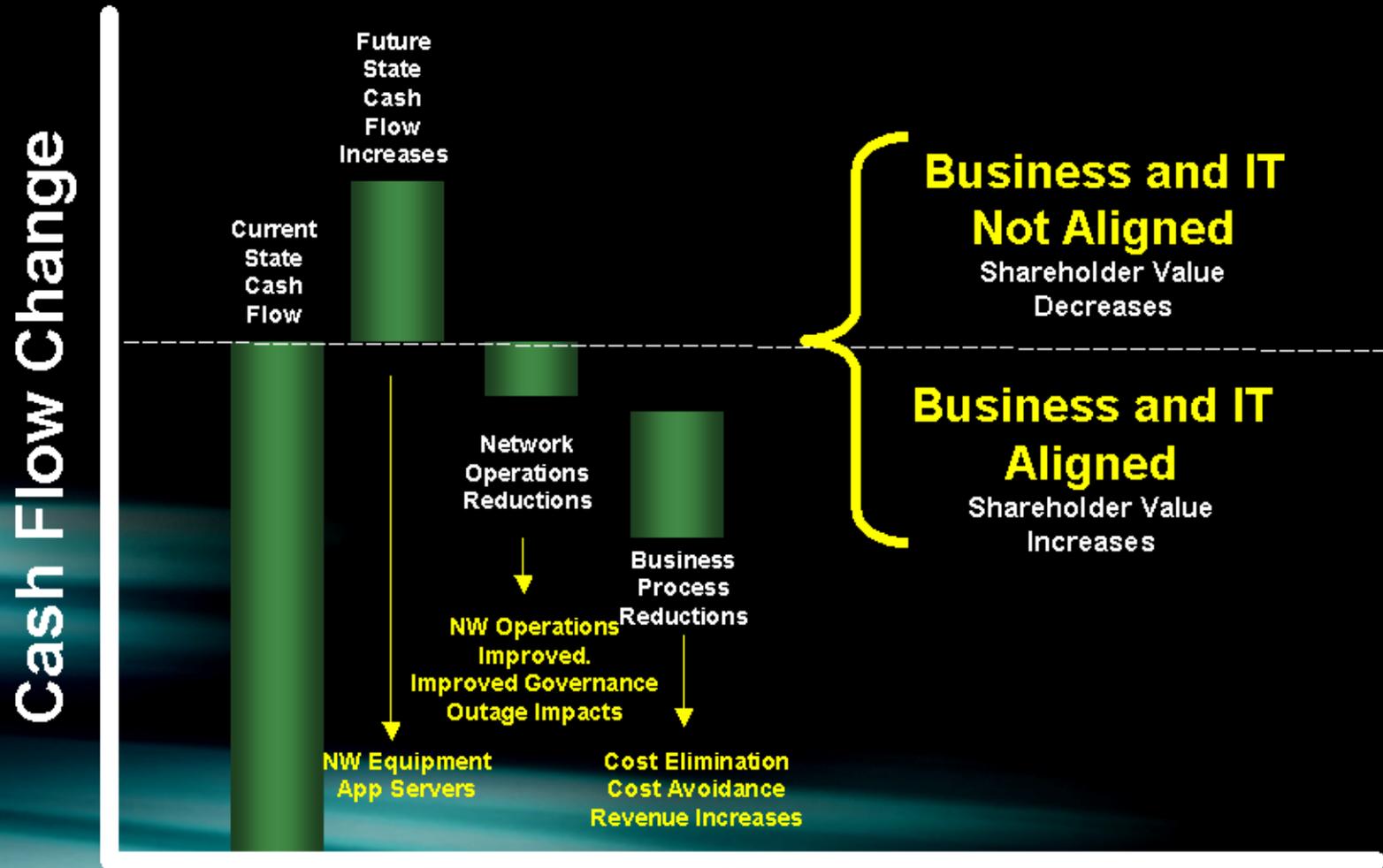
### Key Contributing Factors

- CIO Bonus based on expense management.
- No linkage between Business Process Change and Assets (TCO vs ROIC).
- Loss of technical skills due to Network Outsourcing.

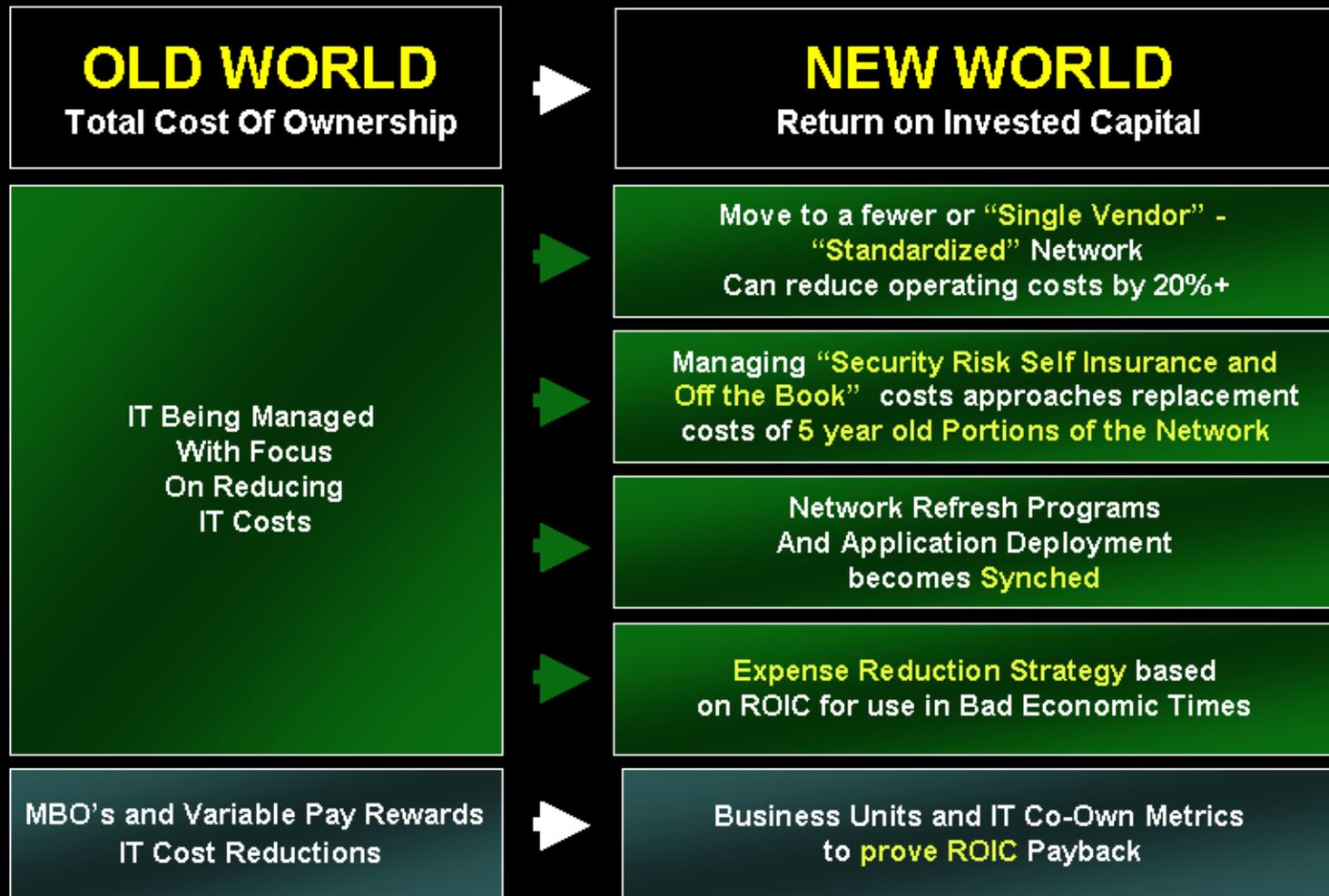
**Note: Also Significant Lost Opportunity of Benefits of Business Process Change (not shown).**



# Business IT Alignment Quick Test



# Network Management TCO versus ROIC Approach



Source: Cisco Systems Corporate Marketing Analysis from Global 150 Company Experiences

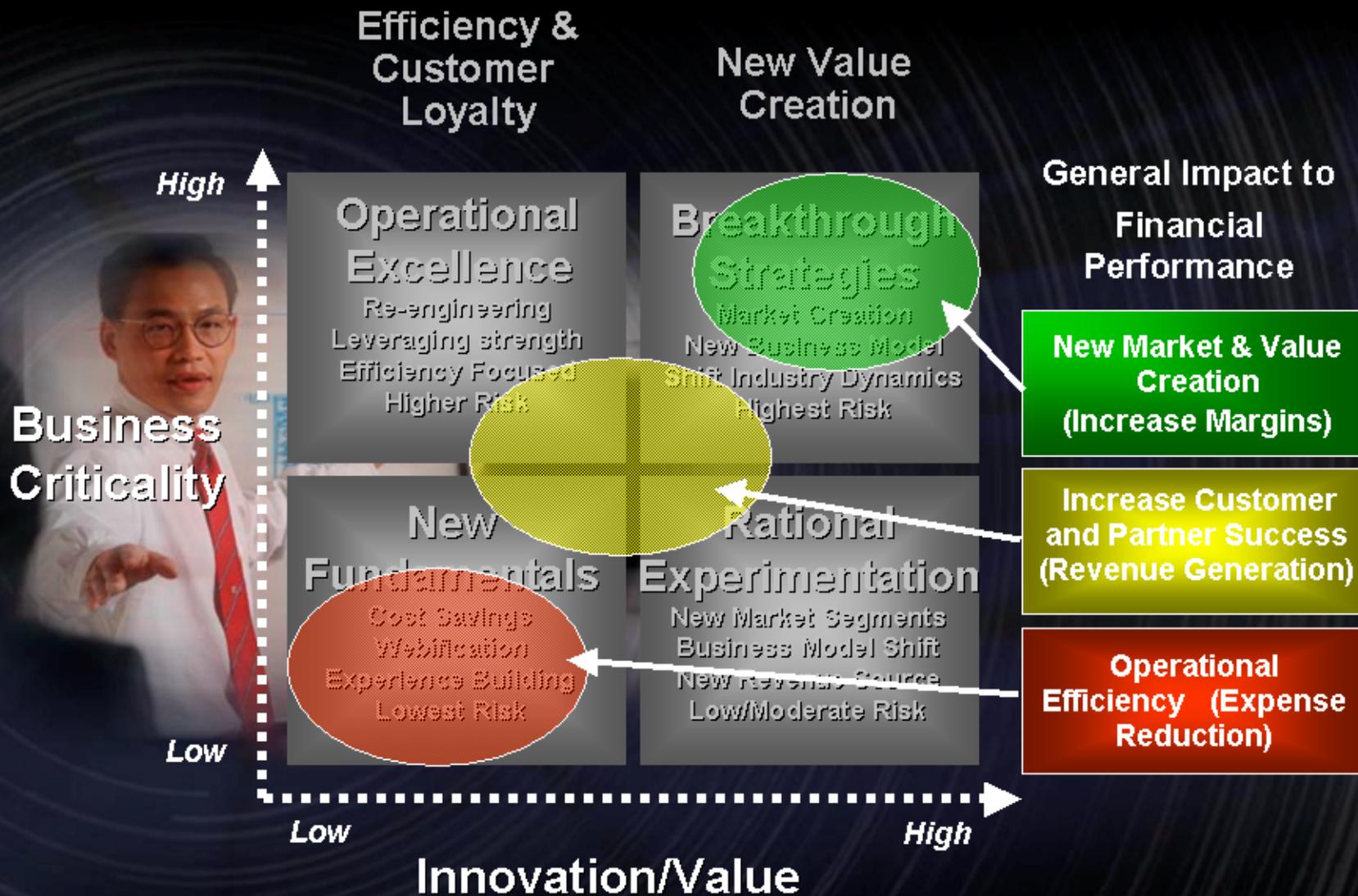
# BUSINESS PROCESS RE-ENGINEERING (BPR)

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**BPR benefits should be viewed as revenue to IT infrastructure spend and measured for ROIC and ROA.**

# Financial Performance Technology Phases of Converged Networks

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# Operational Risks

## Risk Model Considerations

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### Define your Levels of Risks:

Define phased Architecture which accounts for fiscally responsible behavior in terms of:

- a) Corporate Capital Plan Alignment and smooth cashflow. Use outside leasing where it can reduce capital plan needs, smooth cashflow or accelerate tax advantages/credits.
- b) Use spend management Purchase Methods to ensure operational efficiencies and standards adoption.
- b) Uses BP and Value Changes where necessary to drive Risk Adjusted ROI. Never do it to fix a Capital expenditure issue by itself or you will be in conflict with Shareholder needs and the Street.
- c) Assign costs to Risk Categories probability factors, including;
  - Self Insurance
  - Mitigating Insurance
  - Capital Reserves (5%-7%) Note: Base it on Basel II Complex and Sophisticated Model for unexpected losses.
- d) Define "off the book" expenses to create an apples to apples comparison of Capital Plan.
- e) Advise Investors of Risks and Possibilities of unexpected losses. Use Stock Price multiplied by trailing earnings to calculate possible Street Impact.
- f) Understand this is a Business Financial Decision not an IT issue and the CFO, CEO and Board should be making it.

# CISCO SYSTEMS



## QUESTIONS?