Cisco Systems: Case Study in Alliance Best Practices

Leveraging Alliances for Economic Performance in a Challenging Economy

At a time of economic contraction, budget cut backs, and job reductions, many organizations cut very deep into their alliance and partnering capability. Many perceived alliance organizations as an expendable 'cost of doing business' during rough times and a strategy for market expansion that is irrelevant during a time economic challenge.

But the traditional reason to partner has always been that partnering is economical because of the leverage that can be achieved over going it alone with staffing buildups and direct expenses. So why hasn't it been obvious to many more companies that maintaining an alliance investment was a smart strategy to weather a downturn, to maintain markets and or find new sources of revenue?

Cisco Systems was significantly impacted in the .dot bomb burst, yet Cisco made the decision to maintain and even modestly increase their investment in strategic alliance partnerships and saw greater business productivity, access to new markets and new sources of revenue as a result.

While Cisco has been recognized as a leader in alliance management for some time, their recent achievements are particularly noteworthy as they have successfully driven their alliance investment into a turnaround strategy to grow revenues in a challenging economy. The metrics of this investment are stunning. While Cisco company earnings have held steady over the last two years, the revenue attributed to alliances has grown dramatically. In the fiscal year 2003 ending in July, Cisco reported a 12% increase in revenue generated together with and through its strategic alliance partners. That revenue represented approximately 14% of Cisco's $19B in total revenue.

By formulating joint solution initiatives with key partners and building cohesive go to market programs around them, the Cisco teams representing the technology organizations, Corporate Marketing, Channels, Strategic Alliances and others, were able to exceed even the stretch goals they had set for themselves for the year.

The evolution of increasing emphasis on partnerships and alliances as an element of Cisco's strategy was a gradual one. Partnering has been a part of Cisco's culture since the company's earliest days. In the early spring of 2001, however when, Cisco's senior executive staff was called upon to make some tough decisions, partnerships and alliances assumed an even more prominent role in the company's strategy. 6000 employees were let go along with 2500 contractors. Major budget reductions were implemented across the organization; however, the company realized that there was leverage and efficiencies in partnering and so staffing and resources invested in strategic alliances were held essentially flat that year and gradually increased over the next two.

Sustainable Partnerships

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Cisco embraces a core set of overarching corporate goals. One of these is employee productivity. The company achieves a very respectable revenue to employee ratio of $530K per employee overall. The Strategic Alliances organization achieves a ratio of nearly $18M, far better than the average and the best in the company.

“Our mission is all about delivering significant, new value,” said Steve Steinhilber, Cisco’s vice president, Strategic Alliances. “Value for our customers in terms of whole solutions to complex business challenges. And value to Cisco and our partners through mutual success in the marketplace.”

So how has Cisco’s success at alliances been achieved?

- Support from executive management and functions throughout the company
- Consistent and clear vision in building truly strategic alliances.
- Intelligent and well considered investments in partner infrastructure and resources.
- Fostering a partner culture to drive execution on a grand scale.

Support from executive management

Successful alliance programs have support across the organization and at the highest levels of management. The importance of this investment is recognized at the top management levels in Cisco. Executives from John Chambers on down can clearly articulate where strategic alliances fit in with the corporate strategy and understand the value to the company.

“We prefer to partner…strategic alliances, if done right, will be one of the key factors separating companies.” John Chambers, CEO and Chairman of Cisco Systems, January 2003 investor conference.

Clear vision in building truly strategic alliances

Cisco focused their partnering efforts in building truly strategic alliances that brought the strengths of their partners together with Cisco technology to form solution initiatives. These initiatives elevated the sale from a simple commodity purchase into a solution sale addressing customers’ business problems, accelerating adoption of emerging technologies.

For example, Cisco and IBM strengthened their existing alliance through a new initiative, Branch Transformation Networking, which targets retail bank branches and aligns IBM's On Demand Computing practice and financial industry expertise with Cisco's core competency in networking. Both companies invested significantly to create proof of concept demo centers to test and tune the solution. Aggressive go-to-market campaigns and coordinated selling have resulted in the team working with 20 banks worldwide to upgrade and integrate their existing network infrastructures.

Another example of the relationship itself creating customer value is a project where Cisco and HP collaborated with T-Mobile in deploying wireless hotspots in Starbucks coffee shops across the country. Starbucks realized a significant number of people came into their shops with laptops and often wireless networking capability. They saw an opportunity to enhance the customer experience by making wireless access easier. The Cisco/HP alliance itself was a strategic differentiator to Starbucks and their ISP T-Mobile. This was a new venture; time to market was crucial; and the scale of implementation was enormous. Starbucks had confidence in the expertise and ability to deliver of the Cisco/HP team. Cisco provided the network expertise and

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design and HP provided an extensive team of Cisco certified engineers to manage and deliver the implementation. Over 2200 Starbucks sites now have wireless access and it has created positive growth impact on the company. People come more often, stay longer and buy more coffee. Importantly, people come after 9 a.m., after the traditional morning coffee rush, clearly providing new business.

Customers benefit from these partner solutions in that they are fully tested and debugged prior to installation, reducing risk in the deployment. Applications can be tuned for optimal performance on the network. The partner team model reduces complexity for the customer and reduces the amount of resources required for the customer to manage the solution implementation. The solution approach also provides tangible business benefits that cut costs and grow new revenues.

Intelligent investments

In order to execute these solution initiatives, additional investments were made throughout the alliance organization.

- Technical staff were added to conceive and integrate the solutions.
- Field business development managers were hired to assist the direct sales force in engaging partners and to lead with a solution sale.
- Marketing staff and budget was increased to build go-to-market programs and to execute them.
- Alliance managers of key strategic alliances were elevated to Director positions to ensure a depth of experience and skills required to manage resources across functions and to interface effectively with partner executive management.

New training was developed to hone alliance management skills and promote best practices. Training for joint business planning, business case development, alliance metrics and solution co-funding, among others, was created. Personal effectiveness and communications training is also offered.

Investment was made in piloting a referral program. The program pays a fee to consulting alliance partners when they make recommendations that result in a sale to Cisco. This program creates new and accelerated sales for Cisco and represents a significant investment and commitment.

Fostering a partner culture

Building a partner culture needs to start with getting buy in from cross-functional groups throughout the organization on how partnering helps the company achieve its business objectives.

"Without the support and close partner engagement of these other functions, such as product development, Marketing, Channels, Sales and our Internet Business Solutions Group, we couldn't be successful," said Steinhilber. "Best-in-class partnerships have a strong level of engagement and trust throughout the executive tier."

Training was extended not only for alliance managers but for other stakeholders and functions across Cisco involved in partnering initiatives with alliance partners. It is one thing to expect alliance managers to have the necessary skills and concepts but alliances require support from other organizational functions, engineering, marketing, sales, and sometimes finance. If these key managers in these functions do not clearly understand the mission and the practices behind successful alliance management, it is that much more difficult to realize successful results. Cisco

Collaboration is a culture

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strongly encourages these other functional managers to be trained on alliance best practices to ensure success.

Understanding that alliances must deliver value and benefits to both parties as well as to the customer is key to sustainable alliance success. So is having a scalable field engagement model for those partnerships with a strong go-to-market component. Yet field engagement must be sufficiently flexible to adjust to often widely varying customer situations and requirements. Balance of Trade is an important metric in Cisco's practice of alliance measurement. Both parties need to realize strong ROI in the alliance if it is be successful and the appropriate levels of resources must be allocated by both parties to execute on the alliance business plan.

Building a partner culture within an organization as large and complex as Cisco is not a simple task. Initially Strategic Alliances had to justify solution selling with partners to gain strong mindshare with the sales force. But the tides are beginning to change. Direct sales now ask how to lead with a partner solution. At a recent sales meeting, partner selling was included in 13 out of 14 industry vertical and application segment discussions.

"Few investments are as critical to alliance success as building and growing a culture that embraces partnering," said Steinhilber. "Organizations with true partnering cultures are able to recognize early opportunities for collaboration and bring to the table the commitments and energy needed from around the company to ensure those opportunities succeed."

Summary of Success

Successful alliances have positioned Cisco to:

- Create a source of incremental revenue in a contracting economy
- Transition from commodity product sales to more compelling enterprise and service provider solution sales, delivering more value and economy to customers and preserving product profitability
- Create a competitive differentiation and competitive barrier to entry
- Build a platform for rapid expansion in a recovering economy

Companies that become leaders in their markets compete and succeed based on their business models much more so than their product or technical superiority. Bottom line: through well reasoned investments in alliances, Cisco has realized incremental and growing sales through their strategic alliances in a challenging economy. They have proven and tuned the partnering business model in tough times, but the real pay off comes as the economy recovers. The momentum in solution selling with partners gained during the past few years, creates a formidable competitive advantage and a platform for rapid expansion in a growth economy.

Positioned for competitive advantage

Cisco has realized incremental and growing sales through their strategic alliances in a challenging economy, but the real pay off comes as the economy recovers. The momentum in selling with partners creates a formidable competitive advantage and a platform for rapid expansion in a growth economy.

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About Phoenix Consulting Group

Phoenix Consulting Group is a boutique consultancy specializing in partner strategy, programs and marketing. We help companies achieve profitable results through their strategic alliances, channels and partner programs. PhoenixCG brings together seasoned consultants with practical experience to help companies accelerate revenue, tap new sources of innovation or open new markets through effective partnerships. www.phoenixcg.com

About the Author

Norma Watenpaugh is the founding principal of Phoenix Consulting Group. Her twenty-five years of professional experience includes executive positions architecting multi-channel and alliance partner programs at Sun Microsystems, Amdahl Corp. and BEA Systems. Norma has taught alliance best practice seminars for Duke Corporate Education, the Reuters Foundation at Stanford University, San Jose State University and is a frequently requested speaker at conferences and events.

Founder of the Silicon Valley Chapter of the Association of Strategic Alliances Professionals (ASAP), Norma is currently Vice Chair of the global board of directors and best practices editor for the association. For the past year, she has been leading the effort in developing an exam for professional certification for alliance management.