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Cisco Stays At The Top Of The Heap

A New Generation Of Carrier-Grade Routers, Plus A Move Into VoIP



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There are very few companies that are synonymous with the product they sell: Palm with PDAs, perhaps, and HP with laser printers. But it would be hard to disagree that Cisco is, and has always been, the obvious company to associate with routers.

As the Internet has grown, Cisco routers have always been at the core, a familiar sight at any data center around the world. But few companies are able to maintain that kind of market dominance forever, and even mighty Cisco is having to scramble to stay ahead of a new batch of competitors

fighting for market share across the entire product line.

Cisco's core business remains enterprise routers, and that segment is still relatively secure, according to James Slaby, who follows Cisco for The Yankee Group. "They still have practical hegemony in the enterprise network infrastructure space, probably 70% to 80% market share, depending on whether you count it as ports or revenue. So when it comes to the switches and routers and the related infrastructure gear—things like firewalls and intelligent switches and VPN gateways and that sort of thing—they've got a dominant position there."

In fact, Cisco is increasing its market share in the growing SME market to the chagrin of its competitors, says Joel Conover of Current Analysis. "They launched a series of midmarket products and I think the biggest thrust is yet to come. They're preparing more products for the SMB market, which is one of the areas where Cisco has the most room to grow."

If anyone is stealing any market share from Cisco, it's overseas. Slaby points to Chinese manufacturer Huawei, which has successfully made inroads in the Asia-Pacific market with some SME-focused products. But even there, Conover puts things in perspective. "I think they've got 10% or 11% [market share]. That's enough for Cisco to sit up and take notice. But at the same time, I don't think it's crimping Cisco's style. I think it's just giving them some healthy competition."



Cisco's CRS-1 is designed specifically to move into the terabit-router market space.

■ Burning The Candle At Both Ends

This year, Cisco has made moves at both the high and low end of the networking market. On the low end, it acquired consumer-oriented Linksys, which gives it an entire family of mass-market products. It also gives Cisco a play in the consumer VoIP market because Linksys provides the voice routers used in the Vonage home VoIP service. But Conover believes they will remain distinct product lines. "I think you're going to see almost no cross-pollination because Cisco has specifically said that they're not going to cross-pollinate there."

On the other end of the spectrum, Cisco is looking at the carriers, which are being overwhelmed by the demands the new broadband reality is placing on them. Over the past few years, Cisco has seen newcomer Juniper Networks stealing more and more of this highly lucrative business. "I think they've probably got 70% of that market, but that's down from 90%," says Slaby. "There was a time there when they owned it and Juniper came along and has steadily whittled away and continues to make gains on Cisco in carrier-class routing."

To respond, Cisco announced the CRS-1, designed specifically to move into the terabit-router space. Robert Whiteley of Forrester Research describes Cisco's strategy: "They're trying to make basically the next generation of the Internet in that they want to have a product that is more reliable and more scalable. And there are only a handful of companies that are actually in this space, and Cisco has always been a bit of a laggard and with this announcement, they are sort of leap-frogging everyone in capabilities."

Whiteley points to increases in performance, reliability, and multitasking as important components of the CRS-1 advantage. But although very profitable, the overall market isn't huge for this beast of a router. "This is definitely central switching; there is only going to be, at the moment, a handful of carriers that would buy it mostly because of the price and because of the fact that they're a bit ahead of the curve here in what people actually need."

■ The Next Ma Bell?

One market that Cisco is aggressively pursuing is VoIP. But unlike data switching, Cisco is definitely the new kid on the block here. Slaby is an expert on the emerging IP telephone market and thinks Cisco is well positioned.

"This notion of converging voice onto your IP data network is really starting to get some serious momentum. It's been a little bit of a sandbox technology for the past few years, but we're really past that phase and it's . . . getting into the early mainstream adoption phase," says Slaby. "You're starting to see very large deployments: big enterprises, big government institutions, big educational institutions doing huge rollovers of their traditional voice systems to IP telephony. And Cisco has pioneered this market. They were kind of the first major vendor to say, 'This is the way the world is going,' and they've really been evangelizing and marketing the heck out of those solutions for years. They have a very strong position in that space, but I think they're up against much tougher competition on this particular front than they're historically used to."

Conover agrees. "In the telephony market, they're still very much a challenger there and while they've got 3 million phones out in the market, I don't think they've scratched the tip of the iceberg. I don't think that they're necessarily going to be able to just walk into voice accounts and take over from your Nortel or your Avaya or whoever is servicing the account. Cisco is a data company, and they're trying to go into a voice world and that's going to present some challenges for them."

Certainly, there have been some very well publicized problems in the past year for Cisco, with

both Dow Chemical and Merrill Lynch tossing out Cisco VoIP solutions in favor of competitors. Slaby offers a bit of defense, pointing out that EDS, as the integrator, may have had as much to do with the Dow project's failure. But it is clear that Cisco means to be a player in the IP telephone market.

■ All Around Well-Rounded

Asked to define Cisco's weaknesses in the future, most analysts draw a blank. "There are few companies I can think of who are better managed or more sophisticated and committed to marketing as a centerpiece of their business," says Slaby. "You look at how profitably managed they have been even in the worst of the downturn; I think they had one quarter when they slipped into the red. And they immediately took the hard steps to right the ship. You never see any of the corporate governance kind of issues—shady accounting, that kind of thing. If there is any kind of a whiff of that, it gets lopped off right away."

Whiteley thinks a lot rides on Cisco's ability to manage the increasingly complex router responsibilities. "The challenge from a technology standpoint is integration of all sorts of different functionality into something like a router; it's something that has to be done fairly well. In other words, you can't compromise the core functionality of that device by adding all these extra features. So it's going to take them time and effort to make sure they do it right and that they're actually delivering a better product." ■

by James Turner

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