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**Lee Doyle**

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## 5 Reasons John Chambers Should Leave Cisco (And 3 Reasons He Should Stay)

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**Disclosure:** I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. (More...)

### Summary

- Cisco needs new leadership to return to revenue growth and increase its stock price.
- The company needs to reinvent itself as a software- and services-led company.
- Cisco should deliver on a comprehensive vision to make the network easier to install and operate.

In order to return to a path of revenue and profit growth, Cisco ([CSCO](#)) needs to dramatically change the way it does business. Cisco must provide a holistic vision for how the network will interact with the rest of IT systems, make networks easy to install and operate, and transition itself from a "box" seller to a software (and services) driven provider of solutions.

As a long term (20 year+) Cisco watcher, I have the utmost respect for John Chambers and what he has accomplished at Cisco. However, a languishing stock price has investors asking questions about the future leadership of Cisco. This post is about key challenges Cisco faces today and in the future as it transitions its leadership team. Chambers turns 65 in August.

### 5 Reasons Why Chambers Should Go

1. Cisco moves too slowly, is bureaucratic and too decentralized to provide comprehensive solutions that its customers require. Cisco's culture of internal competition (e.g. 4 individual lines of ethernet switching products) means limited collaboration between business units.

2. Cisco gear is too complex to install and manage. The key tenet of Cisco *should* have been its ability to make the network easier to use, more responsive to applications, and reduce customers' operational costs (OPEX). For years, Cisco consciously under invested in management tools (recently reversed) and Cisco's decentralized structure means that Cisco products typically do not work well with each other. A key threat to Cisco is software defined networking (SDN) which targets improved network programmability and reduced OPEX.

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<b>RWL</b>	-0.4%	2.1%	21.9%	0.5%
<b>XLK</b>	-0.4%	4.3%	20.6%	1.8%
<b>PRF</b>	-0.4%	2.7%	20.8%	1.0%
<b>SPY</b>	-0.5%	2.8%	20.7%	1.1%
<b>EPS</b>	-0.7%	2.3%	20.0%	0.4%
<b>DIA</b>	-0.7%	0.2%	12.4%	-2.0%
<b>SSO</b>	-1.0%	6.1%	46.1%	1.6%
<b>IPK</b>	-1.4%	-1.6%	13.5%	-3.0%

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3. Cisco has relatively poor ROI on its big acquisitions, especially in recent years. Cisco prides itself on the ability to make successful acquisitions. While this may have been true in the past, Cisco's recent, large acquisitions have largely been disappointing. These include purchases such as Scientific Atlanta (\$6.9B), WebEx (\$3.2B), NDS (\$5B), Starent (\$2.9B), and Tandberg (\$3.3B).

4. Cisco needs to become a software-led company. This means actually selling network software - not just bundling software with Cisco proprietary network hardware - e.g. switches and routers. This transition to a software (and services) led company will be painful - as hard as IBM's transition away from hardware. Cisco leadership must make the hard changes required to remake Cisco.

5. Cisco needs an outsider to take a fresh look at its opportunities and challenges. John Chambers has been CEO of Cisco for 19 years (and at Cisco for over 24 years). Cisco needs new leadership to provide a new vision of the company's future.

### And 3 Reasons Why Chambers Should Stay

1. Cisco remains a large, highly profitable company that is capable of returning to revenue growth and increased profitability. Cisco continues to dominate the networking market, with no significant competitors threatening its core markets, and with high gross margins.

2. John Chambers has successfully led Cisco through a number of challenging periods, and will likely be able to do so again. Chambers commands the respect of the broad, decentralized Cisco organization and can drive the individual business units to common cause to capitalize on new opportunities (e.g., The Internet of Things and SDN).

3. Finding a successor to Chambers will not be easy. Cisco lacks an obvious internal candidate to succeed Chambers, and external candidates will require time to learn the complex Cisco culture and decentralized business unit structure.

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