

The Hidden Value of Cisco - Making the Telecommunications Network the Computer

As long as Microsoft remains desktop centric, their goal of being the Internet utility company shall remain unfulfilled. When I spoke to friends about this article, I was asked "Why begin an article on the value of Cisco Systems (Cisco) with a statement about Microsoft?" Simple: The desktop paradigm that made Microsoft now has the potential to strangle them. Microsoft certainly has the resources and still has time to effect change necessary to develop the new operating system that makes the telecommunications network the computer but Microsoft needs Cisco or someone like them to help make it happen.

A casual glance of the business and IT press shows column inches dedicated to Google and there is talk of the Internet being the operating system, and not the desktop (Windows), but what does that really mean?

Connection to the Internet, accessing information from the Internet, and communication via the Internet are all accepted as standard. With movies and music etc. soon to be delivered to and from any device anywhere anytime, the Internet is only going to become more pervasive, i.e. the Internet becomes a utility like water, power and gas.

Currently, around 80% of Internet traffic goes through Cisco's equipment. This makes Cisco's core competency the moving of packets of information around the world. The fact that Cisco provides the equipment required is a bonus for its shareholders. This simple fact about moving packets of information means one thing; that with the right strategy in place, Cisco could be the Internet utility company. Think about that, Cisco as an Internet utility company.

"Cisco's core competency is moving packets of information around the world. It just happens to make the equipment required"

"Once Cisco has the operating system to make the telecommunications network the computer, Cisco will really be the Internet utility company"

The greater use of the Internet and the increasing sophistication required shall see the telecommunications network become the computer. The desktop shall become just another device, a marginal device, for connecting to the network computer. Simply put:

- the future operating system runs on Cisco routers layered on the telecommunications network,
- Microsoft is not building a new operating system,
- Cisco obviously has the advantage in this regard but opportunities abound!

Cisco has already started down the path of developing an operating system to make the telecommunications network the computer.

More and more networking smarts are being put into the routers and servers are being connected to routers to provide additional computing services. Ultimately, the operating system shall be embedded in the routers in purposely designed chips. Once Cisco owns and operates the operating system to make the telecommunications network the computer, Cisco will really be the Internet utility company.

History shows that Microsoft became a multi-billion dollar company by implementing the operating system and then the killer applications in the evolving market that was the desktop. Similar opportunities lie ahead for Cisco. As content follows killer applications and killer applications are tied to the operating system (Word and Excel are tied to Windows in the desktop world), the growth path for and the future value of Cisco are obvious.

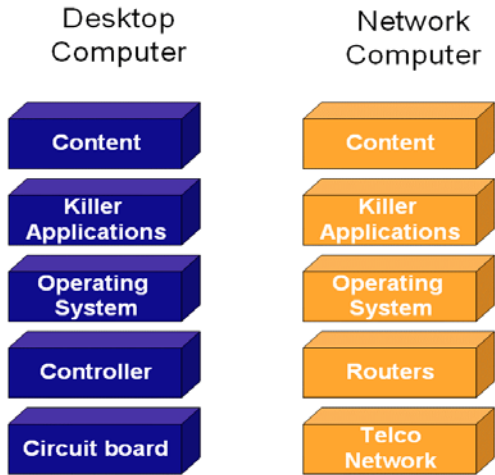
Microsoft and Cisco have collaborated on various projects before but as noted by Peter Burrows and Olga Kharif in their article of the 28th November 2005 in BusinessWeek online "Goliaths on a Collision Course?" Microsoft and Cisco are also rivals, already competing on Internet telephony services.

To make the telecommunications network the computer, Microsoft faces several challenges. Not only does Microsoft need to support an ailing system (the desktop) whilst the

transition is made but Microsoft needs to change mindset and then develop a new operating system and set of killer applications. Unlike the introduction of DOS - later Windows - where Microsoft had the advantage of everyone buying new hardware for their operating system, Cisco has the hardware, the hardware is in place and has all the advantages of incumbency.

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Comparison between the desktop computer and the network computer.

Cisco should be cautious of Microsoft because Microsoft has turned the super tanker around on a dime before - when it embraced the Internet and swiftly disposed of rivals like Netscape - but does Cisco want to work with Microsoft to develop the new operating system? Would Cisco be better placed by aligning itself with those other great utility providers, the telecommunications companies?

After all, the Cisco routers layer on the telecommunications networks and it is these companies that have the resources to buy out the owners of the operating system.

“Microsoft has turned a super tanker on a dime before and swiftly disposed of its rivals”

In our next article, we continue the theme of hidden value in existing companies by looking at the value proposition that is Google and its role as an Internet utility company.

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