

MAKING THE CISCO CONNECTION

The Story Behind The Real
Internet Superpower

DAVID BUNNELL

DAVID BUNNELL is CEO and Editor of *Upside Magazine* and *UpsideToday.com*. He was formerly chairman and editor-in-chief of *PC World Magazine*. Mr. Bunnell started *Macworld Magazine*, *Publish Magazine*, the Macworld Expo, *Macintosh Today* and a number of other media products. He has also served as chairman and CEO of Hypermedia Communications, where he launched *NewMedia Magazine*.

SUMMARIES.COM is a concentrated business information service. Every week, subscribers are e-mailed a concise summary of a different business book. Each summary is about 8 pages long and contains the stripped-down essential ideas from the entire book in a time-saving format. By investing less than one hour per week in these summaries, subscribers gain a working knowledge of the top business titles. Subscriptions are available on a monthly or yearly basis. Further information is available at <http://www.summaries.com>.

The Early Years (1984 - 1987)

The Cisco story began when Sandy Lerner and Len Bosack met and fell in love while students at Stanford University in 1977. They were an unusual pairing simply because of their strikingly different backgrounds -- Sandy was a graduate student (economics major) at Stanford's Business School whereas Len was a nerd over at the computer science department.

This was in the early days of computer networks, and the business school used DEC minicomputers while the computer science department had a local-area network (LAN) of Altos computers. In fact, Stanford had around 5,000 different computers on campus, but getting any of them to talk to and exchange messages with each other was extremely difficult.

At that time, the early version of the Internet, the ARPANet did exist, but only dedicated machines called ARPANet IMP terminals could be used to send or receive messages. These terminals were expensive (more than \$100,000 each) and limited in their usefulness.

As the need to get these networks in different buildings talking to each other without needing to go through the ARPANet became obvious, a number of techos at Stanford worked on the problem. They first developed data bridges, which extended networks at the data layer level. Then by June 1980, they had developed routers -- which allowed networks to remain distinct but have the ability to send and receive data to other networks. Len Bosack was assigned to set up a router between Stanford's medical school and the computer science department.

At the same time, Len, Sandy and a handful of others were also working on their own project which used ethernet cards as a better way to achieve the same thing. Without any permission, they even ran a few miles of coaxial cable between buildings and around the Stanford campus. They then set up a series of routers and servers to power their "unofficial" network, using software developed by some other friends. Soon, they had a system in place which allowed normally incompatible networks to exchange data.

When word of their success leaked out, other techos started clamoring to buy the black boxes they had developed. Len and Sandy went to Stanford's administration with a proposal to design and build the routers, but Stanford refused. By this time, Sandy was director of the computer facilities at Stanford's Business School while Len was a director at Stanford's Computer Science Department.

With Stanford's refusal to allow them to develop routers, Sandy and Len decided to quit their jobs and start their own business making routers. This was in late-1984. They had no money, so they financed their new business, which they called "cisco Systems" (with a lower-case c), with their credit cards. They converted the living room of their house into a manufacturing operation, and soon they and their friends were writing code, putting together black boxes and assembling cables.

"As Len remembers, the interminable work became a true gauge of stamina and dedication, with "sincerity" beginning when an employee spent more than 100 hours a week working. When employees worked beyond 110 hours a week, according to Len, they weren't just sincere, they were "committed"."

– David Bunnell

By 1986, the company was finally able to afford to move to its own office space in Menlo Park. Despite the fact the company had no sales staff or marketing campaign, business was booming. Sandy and Len used e-mail to get the message out about what they had to offer. Pricing was rather vague, with routers being sold for whatever they thought the purchaser could afford (which ranged from \$7,000 to \$50,000 each). But by the end of 1986, the company was generating a profit of more than \$250,000 a month -- which caused some disquiet for Sandy who was a self-confessed socialist.

"It was not my intention to get rich. My intention was not to be poor."

– Sandy Lerner

Despite having a healthy cashflow Sandy and Len decided to approach venture capitalists for money to expand. They made presentations to 75 different firms before Don Valentine, general partner at Sequoia Capital, agreed to invest \$2.5 million for a 30-percent stake in Cisco Systems in 1987. Under the terms of the agreement, Len would be appointed chief scientist, Sandy vice-president of customer services and Sequoia would provide finance, recruit managers, recruit sales people and create an operations process for the company.

Fortuitously, Sequoia's involvement came just as Congress opened access to the ARPANet to commercial operators. Overnight, the demand for Cisco routers went through the roof and kept on climbing.

"Cisco is one of those rare companies that was started at a moment in time when the problem was so vital that customers would pay in advance. Apple in 1977 solved no problem. It had to create the application. Yahoo! in 1997 had to create a business model. But Cisco in 1987 filled a desperate need. Customers were tearing the hinges off the door to get the products. I never met a company that entered the market in such a timely way with no competition."

– Don Valentine

In fact, demand for Cisco's products was so strong and sales so robust the company never even ended up using the \$2.5 million in capital provided by Sequoia.

The Morgridge Era (1988 - 1995)

Sequoia immediately exercised its right to appoint new executive management to Cisco Systems, and John Morgridge was appointed as CEO and president. Morgridge's background included two years as chief operating officer at Grid Systems, vice-president of marketing at Stratus Computers and a salesman at Honeywell Computers. He had also served for three years in the Air Force after graduating from the University of Wisconsin.

Since Don Valentine had not even consulted with Sandy and Len before hiring Morgridge, things grew rather tense for quite some time. Despite this internal friction, however, the company was growing by leaps and bounds. In 1989, Cisco made \$4.2 million in profits. Then, in just the first quarter of 1990, it made \$2.5 million. Clearly, the company's growth was impressive, and the decision was made to take Cisco public.

Cisco's IPO hit the market on February 16, 1990. The company's shares opened at \$18 and closed at \$22.50 that first day,

Summaries.Com

The Ultimate Business Library



We condense **300+ page** business books into **8-page** summaries.

By reading summaries, you'll get the **key ideas** in **30 mins**, so you can spend more time turning your ideas into **dollars**.

Knowledge is Power — Invest in Your Future

For just **\$2 per week**, you will...

- Learn from the mistakes and success of the smartest people in business;
- Get fresh ideas, strategies & motivation that could be worth millions to you;
- Follow emerging trends, so you can catch the wave before your competitors do;
- Catch up on the classics you always wanted to read.

1,000 Top Business Book Summaries

Our catalog includes summaries on a range of topics for aspiring entrepreneurs, managers, and consultants.

BUSINESS PLANS

MANAGEMENT

PRESENTATIONS

SALES

LEADERSHIP

MOTIVATION

STRATEGY

AND MORE

