Financial Analysis Of Cisco Essay, Research Paper

CISCO Introduction Cisco Systems, Inc is one of the worldwide leader in networking for the Internet. Their hardware and software solutions are used for linking computers and computer networks so people have easy access to informatin. Cisco has a strong financial status, it is showing stead growth and Products Cisco Systems produces the industry s broadest range of hardware for building networks and for allowing others to access those networks. They offer end-to-end product solutions, which means that they can fulfill all of the hardware needs for a network. This end-to-end product line is key to Cisco s strategy because it allows for greater efficiency of the overall network. They have three major target markets: Enterprises, Service Providers, and Small to Medium businesses. The Enterprise market consists of large organizations that have very complicated networking needs. Usually, enterprises need to link national or global locations together and accommodate many different types of computer systems. The Service Provider market is geared towards Internet Service Providers (ISP), telecommunications providers, and other companies that provide information services. They require networks that can accommodate large quantities of traffic. The Small to Medium business market seeks to establish internal data networks and have access to information sources outside the company, such as the Internet. Cisco meets the needs of their different target markets by having a wide variety of products. Theses consist of high-end networking platforms, wide-area network (WAN) switching systems, high-speed local area networks (LAN), access solutions, tamper-proof security systems, Asynchronous Transfer Mode hardware, routers, software to complement their systems, and many more networking products. I believe that Cisco s end to-end product solutions are a key factor in its very loyal customer base. Cisco has sales support subsidiaries worldwide including almost all Europe, China, Croatia, Denmark, Finland, Hungary, Norway, Puerto Rico, Romania, Saudi Arabia, and Slovakia. Strategy Cisco s strategy is to provide quality products and services, implementing an innovative way of doing business, and high productivity. Cisco has grown through the acquisition of other companies that helps to expand its technology, talent, and product line. Some of the other companies that Cisco has joined a strategic alliance with include Microsoft, Hewlett-Packard, EDS, Sprint, KPMG, PeopleSoft, INS, Fujitsu, Japan Telecom, US West and NTT. They have made a commitment to satisfying the needs of the customer. This style of doing business combined with aggressive competition has led Cisco to the top of the industry.

Competitive Profile Cisco, as most computer companies faces competition from many different companies. Their main competition lies in the telecommunications equipment market that provides solutions for transporting data, voice and video traffic across intranets, extranets, and the Internet. Since this market is rapidly growing, there are always threats and opportunities for other companies to enter the business providing better solutions with greater advantages. Cisco deals with competitor s threats by competing in niche markets, forming alliances with large corporations, and acquiring new companies. Some of Cisco s competitors include Lucent, Nortel, Ericsson, 3Com, Ascend, Cabletron, Fore, and IBM. The main competitive factors that the company is now competing in are price, performance, the ability to provide end-to-end solutions and support, conformance to standards, the ability to provide added value features (security, reliability, and investment protection) and market presence. Financial Ratios The Dupont Analysis will once again be used to determine how the company is doing as of 7/31/98. The profit margin (Net Income / Sales ) or 1,350.07 / 8,458.78 = .15968 or 15.97 %. This means that for every dollar of sales, they had a profit of approximately $0.16. It has decreased since 1994 which had a profit margin of approximately 24% but, has remained steady over the last two years. The total asset turnover is used to indicate the effectiveness of the firm s use of its total net asset base. This number is determined by dividing the Sales over the Total Assets or 8,458.78 / 8,916.70 or .9486. This means that the value of the entire assets held is sold .94 times every year. The Financial leverage is a measure of financial risk. This is calculated by dividing total assets by stockholders equity or 8,916.70 / 7,106.61 = 1.25. This number has remained relatively constant over the past few years. The last ratio in the Dupont Analysis is Return on Equity. This is calculated by dividing the net income over the stockholder s equity or 1,350.07 / 7,106.61 = .1899 = 19 % ROE. This means that for every investment made at the beginning of the year and held until the end of the year, it would have made 19% on the investment. Although this number has been decreasing over the past five years, it is still a strong stock.