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Dean's Executive Leadership Series - 2010-2011

Transcript of Q & A with Randy Pond, Executive Vice President, Operations, Processes, and Systems, at Cisco

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Start

Dean Linda Livingstone: Well thank you. That was wonderful and a little overwhelming, those first statistics that you showed from around the world. In fact, I'll reinforce your comment about building cities in China. We had a woman that was visiting campus a few months ago, had a daughter that went through our undergraduate college, and she was talking to us about the city she was building in China. And it wasn't like it was the government building the city; she was building the city and had interest in educational kinds of opportunities, so it's amazing what's happening over there.

Randy Pond: Cities are a good one, so we have a smart and connected cities group inside of the business now, where we can bring safety and security. We can do building automation; we can do utility management; we can do power grid management. We sell that as a solution. You can buy up and down the pyramid any way you want. It was a business we weren't even in three or four years ago, and it's a potential huge business for us. We've signed our first couple of deals. We've got two in China; we have one in Korea. We have a deal here in the U.S. We even did something with the city of San Francisco around connecting buses, believe it or not, to the Internet. So it's really shaped how we go to market today.

Dean Linda Livingstone: Well let's open the floor up to the audience. What questions do you have for Randy related to the things he talked about or—

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Randy Pond: Anything else you want.

Dean Linda Livingstone: —anything else you'd like to talk about. Yes, we'll start here.

Audience member 1: When you say you trained your leadership team to interact with their people, is it formal or is it informal, or what?

Randy Pond: So, it's both. So there is formal training. We generally do it by cohort and then the cohort sort of stays together so they've got a body that they can use amongst themselves. And we've discovered that cohort actually sustains itself, but there is a set of training that maps back to the C-Lead model that's immersive, that we use them in a cross-functional environment, and then we have someone sitting in the room who's a facilitator and an inspector who sort of guides them through the process.

Dean Linda Livingstone: Back here, you had a question.

Q: Hey, Randy, I have a question. Cisco was one of the first organizations to start a global lease council. What sort of metrics did you put in place to have such an effective method? Do you have you R&D centers there? What's the number of patents coming out from that R&D center, and the other measures that you have?

Randy Pond: Sure. So Kendra's always best here. We opened Bangalore as a low cost engineering site 10 years ago, I would say, 11 years ago maybe. And we had a bunch of job shops set up over there where most of the employees, there were groups of three to five, maybe 10, would work for somebody back in the U.S. About three years ago, one of my peers actually moved to Bangalore, Wim Elfrink, and he runs the services business for us. And Wim really put an entirely different skin around Bangalore and that's when we coined the phrase "the global site of the East." And we've grown that site from less than 1,000 people, maybe 2,000 people, to about 8,000 today, and we're building an infrastructure out to have 12 to 15,000 there. And I would say today, there are three batches of work that are going on in India. There's development work that's still 75 to 80 percent job shop, where we're off-loading work from the U.S. to do subsets of a major design. There's been a big influx of moving the new practices around services, some are city, education, healthcare, all run at Bangalore. Then the third work is work that we've moved from the U.S. over there, that is in other areas in the business, like finance, customer service, IT, that we run a specific silo inside of the function completely out of India. In the last year, for the very first time, to my earlier comment about trying to localize products for local consumption, we now have a team

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in India of about 100 engineers who are developing products specifically for India and China. We have a similar team in China today. The patent flow has been good. We actually have an innovation fair, where the employees actually come in and pitch their ideas. We've gotten some great ideas out of that group and we reward them. They get a small bonus if they get picked, it's something we take. It's a model that I think is still evolving. We're still massively U.S.-centric and this is a problem and we recognize it as problem. We're still exporting most of our leadership teams, so if I look at all the senior leaders in Bangalore, most of them are from the U.S. The leadership team in China, mostly from the U.S. So we now have a model where we're inserting local leaders. We're actually hiring out of colleges, bringing the kids over here, putting them through a program then sending them back, so we can export the culture back with their native language, but that's going to be a decade I think getting done.

Dean Linda Livingstone: What else? Yes, at the back.

Q: Speaking of sending trainees there and back, do you feel that here in California that kids coming out of school are qualified to get jobs, or are you guys having trouble in California, with those graduates?

Randy Pond: I would say no, in general. We're the largest employer out of Santa Clara by far. I forget the number. I think I have 2,200 Santa Clara undergraduate or graduate kids working in Cisco somewhere. We hire a lot of engineers out of Stanford. On the more theoretical side, we get a lot of kids out of the UC program in the state. We also import a lot of kids. Kids want to come to California, so we've recruited Michigan, Duke, Georgetown, Ohio State, Wisconsin. So I don't think there's an issue of getting—we currently are not constrained by resources today. I think that's true. The funny part is, we're actually having more trouble finding resources—well, you go back to the Bangalore example. So individual contributors in India, not a problem. When you get the to the director level or above, they're at parity with salaries in the U.S. today, and they're very hard to move. So we're having a very difficult time finding local leadership to bring into the business. That's my single largest problem, is getting local leadership in countries like China and India that get over the bar with us, who aren't so priced out of the market for us to get to today. And we hire about between 500 and 50 hundred college kids a year worldwide.

Dean Linda Livingstone: Yes, right here.

Q: If you could talk not just specific to Cisco, but for U.S. industrial policy for business in the United States, what would be the good thing from the wish list, and not specifically about tax, but more broadly?

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Randy Pond: Well, so the U.S. government's stimulus process is entirely different than it is in some of the developing countries. Let's just use green as an example. If you look at the money that Europe and China have poured into solar and wind, versus what the investment's been in the U.S., we're falling behind. There's a big move in California to try to reinvigorate that, but you couldn't pick a worse economic time to try to get money to invest. Now the VCs are doing it, but I think that government has to play a role, both at the state and the federal level, because even to move to green power, you've got to subsidize the power. Fundamentally, the kilowatts are more expensive. I'm sorry, it's a fact of life and because of regulation in our state specifically, you can't even pass it on to the blasted consumer, so you end up with a squeeze in the middle. So I think some regulation and stimulus around some new opportunities, we'll use green as one of those examples, I think would be good. I also don't think we've done enough to retrain in the U.S., and I think that has to be a governmental role. We're doing some work in Michigan right now because they've got so many auto workers that have been laid off, where we're retraining them to do medical transcription work, medical services work, call center work, because there's thousands of people that are stranded in and around the Detroit area, and there's other cities in Michigan where they just didn't have anything to do. So we have to retrain them to put them to work and I think that money's been hard to come by. And again, I know it's tough economic times but it's a fact of life and unfortunately, our tax policy's not very good. I don't know if you guys have read about it, but Cisco's proposed this repatriation of cash. In the U.S., there are a hundred multinational companies have a trillion dollars' worth of cash stuck overseas. It's just a fact of life. We earned it overseas, we pay tax on it overseas, but under current tax policy of the U.S., if you bring it back, you've got to pay tax again. So we're a net borrower in the U.S., and I've got \$40 billion stuck overseas. So we proposed to the administration, "Bring the money back, tax us at a dramatically lower rate. Make us invest it." So tie the effective tax rate they charge repatriated earnings either to growth and spending in R&D or in hiring head count in the U.S. We can't get it passed to save our souls. The potential stimulus to the market is in the hundreds of billions of dollars. We even offered to put money in the green. Take 5 percent of it and make us invest it in green. We're stuck. We're stuck because of the lack of bipartisan politics, but that's a different problem. So I think it's a problem with California, it's a problem with the U.S. right now. I think there are things we could do. I think wringing our hands and talking about protectionist practices is the wrong decision.

Dean Linda Livingstone: Let me do a follow-up to that, because this is a public policy question. How does Cisco approach public policy questions and what role does that play? Because I think, oftentimes, and I'm not sure we do it very well in business schools either, is really help students understand how significant that linkage is, and how important it is for businesses to be engaged in that process.

Randy Pond: Well, the two things that have evolved at Cisco that I'm quite frankly pretty proud of this, we have a great corporate social responsibility footprint and we've got a great government affairs footprint. So Cisco probably, between the employees and the business, we give away hundreds of millions of

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dollars a year worldwide, and some of them are big and some of them are small, but there's lots of them. In the government affairs area, we've got a very smart group of people, both at the state and federal level, who sort of watch what goes on and create for us a fabric that we can play in. So my boss was a staunch Republican and was the McCain campaign guy for California, just backed Barbara Boxer, which completely confused people. Well, that isn't hard. Barbara Boxer's been great for tech and she's been great for patent reform. We care about both those things, so our pact gave her money. We have a pact. Every executive donates to the pact and so do most of our employees. So we're active in policy when it benefits the business, and we try to influence. We think in the absence of patent reform, we're going to be in trouble in the U.S. If any of you work for trolls, I'm sorry, but that's a painful process. That doesn't make any sense to me that I can get sued in east Texas on a patent that was bought in a bank foreclosure by somebody in New Hampshire who's never going to use the blasted thing but drags me over the coals. So industry's spending hundreds of millions of dollars defending themselves on patents that we're the only ones actually using, and the trolls are buying them up by the hoards, and it's a massive business right now. That's just wrong. And there's no revenue attribution. The rules are just goofy. They were designed around foremen. They don't apply to high tech, but again, that's one of those things we're trying to influence. We're working with the Senate right now, saying, "Okay, we've got to do something. This is anti-competitive for America. You're making it more expensive to be here. You're going to make us leave." Yes.

Q: Cisco used to be in the business of routers, then came unified computing, then came Flip, and Linksys, and then all this talking about the tablet .And I haven't heard too much about Cloud. So the question is, where is this cloud going?

Randy Pond: So in the good old days, when I got to Cisco, we had three products, three, I swear to God, and those were the good old days. We could do \$700 billion with three products. The problem is that if you look at how technology's being delivered, it has pushed us to go from product to systems to solutions to architectures. So I can't sell somebody a router anymore. I've got to sell it in conjunction with an architecture where I can demonstrate to them, either through mobility capabilities, security capabilities, total cost of ownership, that my architecture is a better solution, which pushed us from routing to switching to wireless to IP communications to video. The end device is an interesting play for us for two reasons: video, which is why we bought the Flip and why the tablet is important, is because we're big believers in thin client. So we will do things to stimulate the network. It's a little bit the Intel model, I hate to admit this, but we fundamentally sell routers and switches and we do a lot of things to sell more routers and switches. So we're interested in the end points, because we want to drive more traffic on the network. If I drive more traffic on the network, I sell more routers and switches. It's not a very complicated model. We were interested in Flip, because we wanted to make video ubiquitous in the marketplace, and we wanted people to share and send files. Why? Because one video file's worth 10,000 e-mails. So it's a little

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insidious but it's true. We've going to get into the home video market. We're going to have a product we just announced called ümi. We're going to sell a device that sits on top of a high definition TV where you can do video conferencing in your home. It's going to be about 600 bucks, 500 bucks at Best Buy. The service is \$25 a month. Why? Because we want video to be the next voice. We think voice needs to translate to something. We think that something is video. You're going to get video on your cell phone in the next three years. Great for us. So we're going to keep moving into spaces that we can IP enable and embed back into our systems, like wireless and communications devices, and we're going to invest in areas where we can stimulate more network traffic. And we got into Compute because we were getting marginalized in the data center. If you look at HP's platform, they give away the Ethernet ports on their Compute platform. So we came from, you hear "compute down," we came "network up" and our value in the Compute space is, I can provision network services and applications services. They can't do that today. Oh, and if any of you work for HP, I'm sorry. Sorry.

Q: I just want to say thank you for coming, you're inspiring. I have a question. For a newly hired person coming to Cisco, what are the most important skills to bring along? What is the one quality needed to succeed?

Randy Pond: The number one skill that's really become apparent to us is the ability to collaborate, which is why we've been on a tear talking to schools about immersive learning programs, because we're big believers in immersive learning, because it makes kids work in teams early in their career. Because when you get into Cisco, you're going to be on a team in a heartbeat. I don't care what you do; you're going to have a team affiliation. And if you can't collaborate, you cannot succeed in our enterprise. It's just not possible. And then we're interested in hiring smart as opposed to hiring skilled. Now that's a new behavior for us, because we were a tech business and we're mostly engineers, we would hire specific skills. We've broken that model. So I'd much rather have a really bright kid with a degree in political science who I can train into a job than I would have the best engineer for that job or the best analyst for that job. And that's opened our eyes, quite frankly, to go after a different population of students than we would have in the past. My chief of staff has a degree in comparative English literature and Russian history, and she happened to go back and get an MBA. She didn't know anything about business, but she did consulting for a couple of years. But she's a magnificent collaborator inside of the enterprise. She's gone from an individual contributor to a vice president in seven years, eight years.

Dean Linda Livingstone: I'm sure that piece of information is actually inspiring to our students, because we do tons of group projects and collaborative learning. So there's a reason we do that, so that's good. I appreciate you reinforcing that.

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Randy Pond: Immersive learning's always good, I agree.

Q: Following up on that collaboration comment, how far are you extending collaboration outside the organization?

Randy Pond: It's a great question. I was on the Accenture CEO circle call this morning and this subject came up. Every business is looking at how they optimize themselves and we've gone through the outsourcing and the process re-engineering work, but now we're looking at the work we do and say, "Why do I do this work?" I'm going to use supply-chain as a great example because I came out of that space. So, at Cisco for years, I would run an MRP, take the messages and send them out to my guys, my partners, who would run an MRP. And about seven years ago, one of the guys said, "Why do we run an MRP? We don't build anything really. We don't plan parts really. Why don't we just use theirs?" And we turned it off and through a suite of collaboration processes and tools now, we're able to extend our manufacturing footprint into their factories, and I run on multiple MRPs. I don't really care. We're doing the same thing on the outbound partner side where we do things—I'll just use customer service. So I ask the question, "Why do I book an order? Why am I in the order entry business? Why isn't that a service that exists at my partners?" Eighty-nine percent of our business is sold through a reseller. I make him book an order and if he goes through DISD he books an order with DISD who in turn books an order with me. That's just wrong. We should book that order one time some place in that chain and then we'll take it off everybody's plate. So I think we're collaborating in a lot of areas where we wouldn't have thought of it five years ago. We're moving to collaborative design templates, where we're co-designing with non-Cisco entities in product development. We would have never thought of that five years ago.

Q: Are those non-Cisco entities manufacturing the design hardware or the end product?

Randy Pond: They're actually both; it depends. In the product space, they're almost always an ODM or a Foxcon or a Jable or one of the ODMs in Taiwan. On the solution side, we're actually co-developing solutions with partners who will ultimately use that as part of their solution. So the car industry is the best example. We're designing connected cars with Ford and Chrysler. We have to co-design it, because we don't understand how to design something into an automobile and believe me, that's a very different process than giving them a box to put in that car. So we're learning a whole new set of skills. We're designing routers for Space. I know it sounds nuts. We have a program, we're actually doing technology that they can port into a satellite and take to Space. Again, we don't know how to ruggedize a product. I don't know how to make it radiation-proof. We don't do ion bombardment testing, no, but you have to if you're going to put this thing in space. So in that case, we're partnering with a design firm in Colorado

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selected by the government to help us ruggedize our product to put into a satellite, so that the government can actually sell services on what used to be dedicated satellites when they aren't in use. It's a good use of your tax dollars.

Q: And those collaborators have access to your internal tools?

Randy Pond: They do. The concept of B2B has gone away. I'm going to use a word, we try to widget. We try to identify what services we need to collaborate and we widgetize them. So we put them in a format that lets them pull them into their environment and then use them and then connect back to us. So they don't even have to come to my site. They can do the work in their site and then bring it back to me. That way they can modify the widget any way they want once they get it in their application space.

Dean Linda Livingstone: Yes?

Q: Cisco is known for its mergers and acquisitions. You were just talking about collaborating with other entities. I'm just curious about how many of your IP patents are created within and how many are acquired, and has there been a shift in that?

Randy Pond: That's a hard question. We probably file 300 to 700 patents a year. We've probably got 6 or 7,000 in process, that have already been through the process. If you look at the keys to our technology, most of the basic IP work, we invented IP. So the internet protocol work goes back to Cisco. That's one of the keys to the kingdom, but we just bought Tandberg, and we looked at Polycom and we looked at the company in Texas, I forget their name, that got bought by the other local company, and we bought Polycom for two reasons: their patent portfolio was pretty phenomenal in video and they had a specific patent around streaming different videos into the same environment, that we knew we were going to need three to five years to get. So I would say today—and then we bought Scientific Atlanta and they had a massive patent portfolio because they're 55 years old. I would say half of our patents are Cisco and half have been brought in through acquisition or developed in the post-acquisition space. But if you say, "Where's the real core of Cisco's IP value?" it's our old technology.

Dean Linda Livingstone: I'm going to take one more question from the audience back here.

Q: I'm interested in the demographics in merging markets. Is there any difference in merging business practices and/or ethics?

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Randy Pond: Oh my god! The short answer is yes.

Dean Linda Livingstone: You can elaborate a little.

Randy Pond: There are two issues: there's business practices, and we have to deal with the reality of the Foreign Corrupt Practices Act and everything that goes with that. Cisco's a big company; I've got 70,000 employees, and I was just back at the Department of Justice explaining a couple of faux pas in the Middle East. So this is a difficult conversation when you try to go big into what I would consider the fringe countries. But we are very, very crisp in terms of how we do business at Cisco and we just walk, quite frankly. We've abandoned projects that we knew it was going down a bad path. We've dumped partners. As a matter of fact, I won't mention the country, but we just dumped a partner in a reasonably large country that turns out that one of the prime ministers actually owned, but it wasn't obvious to us because he didn't show up on the ownership, but they were completely corrupt and we shot them. Now we're in trouble with the government. So that's sort of the reality of doing business in those spaces. We try to take the high road. In China, as an example, IP infringements, all of my counterfeit comes from China. It's a fact of life. So we've spent seven years educating the national government and the major provinces in the south around IP enforcement. We just won a case against a guy. The first time, he got five and a half years. When we started, I swear to you, they slapped him on the wrist and then gave him back the counterfeit product. We're like, "No, no, you're missing the whole point of this conversation." So we're using, again, it's government affairs and a handful of my guys who are educating countries like Vietnam, like Malaysia, like China, on, if you want to bring us there and you want us to do business there, then you've got to have IP enforcement. So that's another area where we've just got a problem, but we're learning together and it comes with the territory.

Dean Linda Livingstone: We had one more hand up, so I'm going to let you ask your question before we conclude.

Q: You were talking, Randy, really about doing video in India and Cisco really promotes collaborative technology. Do you see that the physical footprint here in San Jose shrinking as a result of that?

Randy Pond: That's a great question. I've been trying to shrink this footprint for five years. I'm being really candid. This is the most expensive place in the world to do business, honest to God. The power's expensive, the labor's expensive, the buildings are expensive. It's congested. Homes are expensive. You've got to pay employees more here. So this is an area where we've been working on it, and I just had

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this conversation with John and the team. We haven't been very successful. I think there are 22,000 people in San Jose now. I think there were 16,000 when I said we weren't going to hire any more here.

Dean Linda Livingstone: The community appreciates you very much for that.

Randy Pond: I don't think we'll shrink; I think we'll stop growing with abandon. But to make that work, I've got to get the leadership team out of San Jose. So the example I used with Bangalore, Bangalore would have never taken off if I wouldn't have put Wim and his team over there. They've hired thousands of people. So that's work that would have been in the U.S., either here or RTP or Texas or Boston that moved to India. When we bought a leader into China and then we bought WebEx, most of WebEx's engineering was in China. That's now given us a big enough footprint that we can move more work there. The other point I'd make is, half of our business is outside of the U.S., roughly half is in the U.S., but I would say today, 45, 50,000 of the 70,000 employees could still be in the U.S. That's a big number. That's a very big number. So as a global citizen, when I go into a country like China or Russia or Brazil, they say, "Listen, we want to do business with you, but you've got to bring jobs here." That's a reality and I think we as a good corporate citizen have to step up to that, so we are doing it. We're setting up a financing business in Qindu in China in the Szechuan Province, because we've done work there post-earthquake, and we're going to put an engineering team there as well. We're going to put a manufacturing team and a small facility through one of my partners in Chongqing, because we're going to do a several \$100 million deal building out that city. But as part of those deals, they want some jobs to go with it. That's going to put more and more pressure for us to not hire in the U.S.

Dean Linda Livingstone: We need to wrap this up, but I want to conclude with one question. You've talked about a lot of opportunities, a lot of challenges. If you had to pick what you see as the biggest challenge Cisco faces in the next five to 10 years and the greatest opportunity, what would you say?

Randy Pond: You know, like any big business, we're our own worst enemy most of the time. We have, as somebody mentioned earlier, we do a lot of things. We're still learning what I would call the rudimentary skills of prioritization and funding models that work. We've got a lot of balls in the air right now. There are literally hundreds of projects. We have 32 priorities in our business at the executive level. I swear to you, this is the honest to God truth, four years ago, I went into John's offices, and said "John, I'm reading every good business book in the world. I went to Proctor and Gamble, they said we can't focus on more than four things." That year, we went from 16 to 22; we've gone from 22 to 32. He'll want to get to 50. So I think what we have to do is, as a business, we have to be able to agilely assess, innovate, assess, and either reinvest or dump with more skill than we do today, because we're going to be

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presented with lots of opportunities over the next decade or two and if we don't inherently become more flexible and agile in terms of assessing those, funding those, stopping those, or really doubling down on them, we're going to struggle, I think, quite frankly as a business. So it's our biggest opportunity and quite frankly, our biggest risk. The second biggest risk I think we've got is, I'm actually concerned about our competition from China. I think we've pooh-poohed China too long. And the Chinese government, there's some darling industries over there that we're going to end up competing against them. They are spending billions and billions of dollars to come up the curve, and they want to own these industries. And I think we have to continue to out-innovate them. That has to be the long-term strategic mission, because they're massively fast followers. Honestly, I don't want to say they copy everything, but they copy a lot. And they do it quickly. They can reverse engineer a product in a heartbeat. So I think those two things are what keep me up at night. And then from a leadership standpoint, I always worry about, are we creating the right batch of leaders to take over for us when we move on? We've all been there a long time. We still run a lot on tribal knowledge and relationships. Are we creating enough structure so that the next leadership doesn't need that to make the place go? And I've just shared this with the board. I'm just not certain. I don't know how you assess that effectively, but it does concern me.

Dean Linda Livingstone: Thank you so much for your insights. It's been fascinating to hear from you this evening.

Randy Pond: Thank you.

Dean Linda Livingstone: Let's give him a hand. Thank you. <applause> I've got something for you before you step down. That's what I need, right there. We have a small token of appreciation that has a lovely picture of our Malibu campus on it.

Randy Pond: It is a lovely place.

Dean Linda Livingstone: We hope you will display, so everybody has—

Randy Pond: I couldn't afford to go to school there when I went to school, but it's a lovely place. Thank you very much.

Dean Linda Livingstone: Thank you so much.

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Randy Pond: My pleasure, thanks.

Dean Linda Livingstone: Well, we appreciate so much you being here. I think it was a fabulous kick off to our series this year. Our next event is actually going to be after the first of the year in Orange County, so we're going to hit the other end of our geographic stretch here in California. We'll have Deborah Nelson with us, who will actually be joining us from up here. She's the chief of staff of enterprise, sales, marketing and strategy for Hewlett-Packard. She wasn't here to hear your comments about Hewlett-Packard tonight and we won't repeat them to her when we see here, but we're looking forward to that. And thank you all so much for being here. I hope that you thought this was a valuable experience. We'll look forward to seeing you again soon. Thank you. <applause>

