

# Cisco's High-Touch Sales Strategy: A Discussion on How Cisco Entered The Japanese Market

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## 1. Introduction

In 2005, Cisco Systems, Inc. (subsidiary of Cisco in Japan), a worldwide leading company in information networking technology, announced that it had reached a fundamental agreement to enter into a strategic alliance with Fujitsu, one of the leading providers for IT-based business solutions in Japan. Under this strategic alliance, Cisco and Fujitsu would carry out joint development of high-end routers, plan future cooperation in routing and switching, and collaborate on continuous quality improvement, in order to enhance support and service within Japan. "Partnering is a strategic imperative for companies such as Cisco and Fujitsu to address service providers' and enterprise customer requirements," said Mike Volpi, senior vice president of Cisco's Routing Technology Group. "Forming a strategic alliance with Fujitsu enables us to combine resources so we can deliver on those requirements with value-added, industry-leading networking solutions" (Waltner 2004).

Cisco currently has strategic alliances with over a dozen companies, including IBM, Hewlett-Packard, Intel, Microsoft, BearingPoint, EDS, Capgemini, Italtel, Ericsson, Siemens Mobile and Motorola. Cisco now works with thousands of companies in order to aid all aspects of its busi-

ness, including marketing, training, sales, research, manufacturing and services.

This alliance however marked the first time Cisco had collaborated with another networking equipment manufacturer in developing technologies for a core software base. As part of the new multi-year strategic alliance, Fujitsu and Cisco would establish a joint engineering team focused on adapting Cisco's high-performance networking equipment for the Japanese market. By partnering with Cisco and folding Cisco's high-end equipment into its product line, Fujitsu would be able to address a greater range of its customers' needs.

Until that time 100% of Cisco's sales had been through distributors. Moreover this involved simply selling US-made products in their original form, with very little customization being made for the Japanese market (Kageki 2004).

It can be said that Cisco had adopted a new strategy in the market for Japanese telecommunications carriers. However my research, carried out over more than three years, illustrates there is a deeper strategy. In this paper, I will reveal the strategic behaviour of Cisco in Japan. This strategic behavior dictates Cisco's standardized sales strategy. This paper contains the following three sections. First I will describe the strategic alliance between Fujitsu and Cisco. Secondly. I will look at Japanese "sales style" and Cisco's. I will then proceed to look at how Cisco still

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maintains its standardized sales style when compared to Japanese firms. Lastly I shall discuss the implications of a standardized sales style.

## 2. Cisco's Strategic Alliance with Fujitsu

During the 1990's, Nippon Telegram and Telecommunication Company (hereafter NTT), the largest communication carrier in Japan, was generally speaking, not interested in internet technology. Moreover, established NTT engineers tended to ignore what they considered ambiguous technologies for a long time. As far as advanced technology developmental concerns, NTT initiated and organized subcontractors, called the "NTT family." In the NTT family, Fujitsu, NEC, and Oki were given detailed specification sheets and designs, even as far as specific blueprints. They produced large switchboards, generating sales of more than 100 billion yen (approximately 12.5 billion CHF). Since they acted as subcontractors for NTT, they did not develop their own Internet Protocol (IP)-based products.

In contrast to NTT's forecast, usage of IP-based technology increased very quickly. Subsequently, Japan's broadband network market spread quickly throughout 2003. Resulting in major telecommunication carriers rushing to build the next-generation IP networks. In September 2004, KDDI the second largest telecommunication company in Japan, announced plans to implement IP technology throughout its entire telephone network. This was followed by the NTT Group in the following December. NTT tried to construct a new IP based network system, which was called the Next Generation Network (NGN). The NGN would include all communication services such as telegrams, telephones, mobile

phones and even broadcasting. The estimated amount of required investment at that time, was more than 5 trillion yen (Approximately 62.5 billion CHF), NTT would fund this investment by itself without partners. The amount of anticipated investment required to develop this market would be much larger than the above figure. Cisco had positioned the CRS-1, and announced just in May, that a product that formed as the core of next generation IP networks. Fujitsu's technical expertise and understanding of the market would give Cisco invaluable insight into the country's advanced IP networking requirements and the requirements for advanced networks in other countries and regions outside of Japan.

Unfortunately for Cisco, Japanese major telecommunication companies did not employ standardized products, they always required customized products and services. Even though Cisco's routers and switches were very well-known and had strong reputations for reliability, NTT assigned the development of Session Initiation Protocol (SIP) Servers to NEC and Oki. "Telecommunications service provider networks must support the highest quality service levels and be built upon the best technologies available," said Chiaki Ito, corporate executive vice president, Fujitsu Limited.

The reason Cisco had been quick to establish a framework to release the CRS-1 into the Japanese market was that if the company "is able to respond to the harsh demands of Japanese telecommunications carriers, it would be easier to deploy the products around the world," said Kurosawa, the President of Cisco System Japan. "Fujitsu and Cisco have unparalleled technology depth, and through the joint development and other collaborative efforts we are embarking

upon, we will be able to address service providers' needs with even higher quality systems and innovative solutions."

Cisco was evolving from the approach of simply selling products developed in America, to a method involving the "hybridization" of Japanese partners to provide products that met the needs particular to the Japanese market. These companies would collaborate on development of Cisco's IOS-XR operating system for multi-terabit routers. This was the first time Cisco had joined with another communications equipment manufacturer in router operating system development. By combining their engineering depth, Fujitsu and Cisco would be able to accelerate the development of features critical to Japanese service providers and large domestic enterprises. Fujitsu would offer Fujitsu and Cisco co-branded routing products running IOS-XR to telecommunications service providers in Japan. Capitalizing on the technological expertise it had accumulated in its telecommunications equipment business, Fujitsu would respond to the strict quality demands of Japan's telecommunications service providers by offering networking systems with even higher levels of reliability. Fujitsu planned to release the first co-branded product in the spring of 2005.

### 3. Cisco and Japanese Sales Style or Defining "Eigyo"

As well as adjusting its product development choices to Japanese customers, Cisco also had to adjust its sales methods. Cisco is known as employing direct sales techniques, such as getting orders through internet and direct calls. In Japan however Cisco did not use direct sales techniques, rather "high touch" sales. High touch

sales are characterized by the assignment of some roles dependant upon Cisco's Japanese partners. Cisco's partners played the part of "Eigyo."

Eigyo can be described as a kind of sales force that is characterized by three factors. These are customer relationship managers, cross functional integrators and marketing strategists. In Japan most companies setup their sales force as a core functional unit. In Chinese characters, Eigyo is written as two characters (Figure 1). One is Ei, meaning to carry out an enterprise, to conduct business or to engage in trade. Another one is Gyo, identically meaning business-related work and respective duties. This Eigyo concept describes the Japanese sales concept quite well. That is Eigyo means making the business, not just sales alone.

One of the biggest problems in terms of Eigyo is the high costs it generates. It is natural and normal for costs to be high because a high number of sales personnel are assigned to a single specific customer. For instance, it was said Fujitsu assigned a hundred Eigyo personnel to NTT (Nikkei System Provider, 2000.6.). Contrasting with this approach Cisco did not dispatch such huge number of sales personnel to a specific customer.

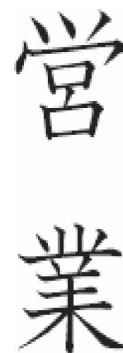


Figure 1 Chinese Characters meaning sales

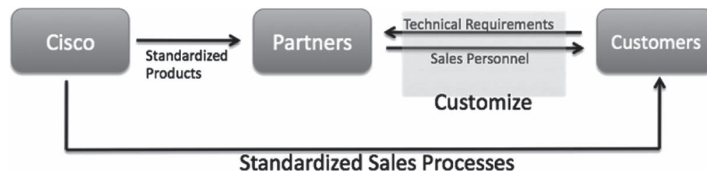


Figure 2 Cisco's High Touch Sales Style in Japan

Figure 2 illustrates Cisco's sales strategy titled "high touch sales". It was constructed with Cisco's personnel and partner's. Cisco's sales personnel did not sell any products, but told their experiences such as practical utilization of IP phones, video conference systems, or other internet tools and gave detailed accounts of the processes that positively changed their work styles. Compared to Cisco the Japanese partners shouldered a considerable amount of workload. Customers repeatedly asked for customization of said products they would buy and would reveal their particular requirements to the sales personnel. Cisco, on the other hand, did not perform any modifications to adjust to the requests of its customers, but their partners did. "Typical of Eigyo was to create an environment in which my customers could talk frankly" said one of the biggest partners, Net One Systems's personnel, "our system engineers (SEs) would always like to know customers problems and to discuss how to address solutions with them directly. So, Eigyo personnel tried to setup this kind of environment for them. Japanese Eigyo personnel did time-consuming jobs such as building-up of friendship among their customers and SE.

On April the 9<sup>th</sup> 2009, Cisco announced a brand new strategic alliance with Fujitsu in the Unified Communications field. Unified Communications are solutions for internal communication systems. "Although there are many companies who use Cisco's network tools," said

Kawaduma, senior director of Fujitsu, "it doesn't integrate with existing systems. We do perform as a intermediary with Cisco's tools and customer's existing systems to build a true Unified Communication through this alliance." Fujitsu may have to perform time-consuming roles such as acting as an Eigyo facilitator here.

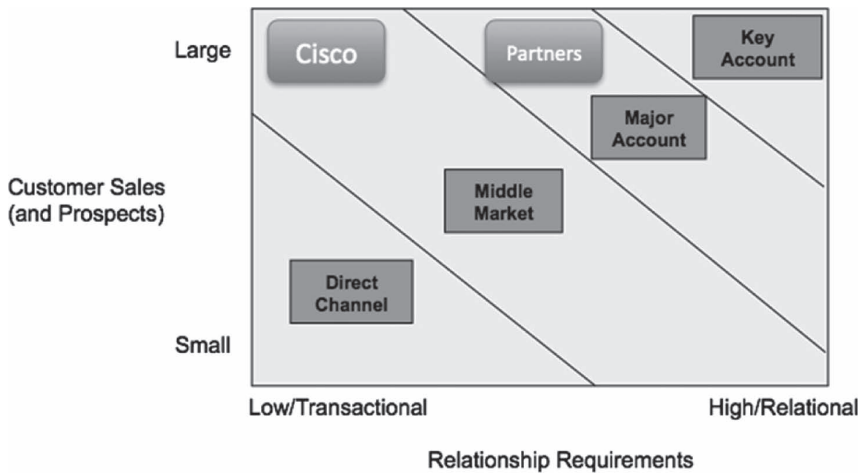
#### 4. Interpretations and Implications for Further Discussion

Strictly speaking, we have to say that Cisco Systems adjusted its sales approach/style for its Japanese customers. Cisco Systems employed what we consider "high touch sales" style, which was not the same sales approach utilized by Cisco Systems in the US and outside of Japan.

However we will attempt to explain that Cisco Systems' sales style is still a standardized one and that it has a competitive advantage when compared to pure Japanese Eigyo. Moreover, we can suggest some strategies for entering into the Japanese market using global strategic management in this section.

#### Framework for Interpretation

There is a useful framework for interpreting Cisco Systems' sales style in Japan. Piercy and Lane (2008) described customer portfolio management. They suggested a customer portfolio management style where managers would try to make strategic sales management plans, managers would need to classify their customers. Here



**Figure 3** Piercy and Lane's Customer Portfolio (Some information added by the author)

a two dimensional frameworks are useful. One dimension is the customer attractiveness. The customer attractiveness is measured by customer sales (and prospects), dimension is a scaled from small to large. Another dimension depicts the relational requirements from customers. The dimension of customer relation is measured by how the company interacts with the customers. If sellers do not respond to customer's relational requirements well, the relationship between sellers and buyers will be low. At that time the relationship tended to be transactional. On the contrast sellers that do respond to customer's relational requirements well, will have high relations and this is referred to as being relational. Piercy and Lane's framework is shown in Figure 3.

Piercy and Lane (2008) placed the customers in a portfolio framework. There were four types of customers; key accounts, major accounts, middle market and direct channel. Key account customers are placed in the top right corner, where the position is characterized by large customer sales and high relation needs. Sellers should provide a key account manager to these

customers. Key account management is characterized by deep and continuous relations with the customer. Major accounts are expected to have large sales, but less relational contact than key accounts. Direct channel customers are placed in the opposite corner to key accounts. This corner is characterized by small sales and low relationship requirements. So sellers do not need to provide a "heavy" sales force for the customers. In this context, the heavy sales mainly refer to the degree of sales management costs. These costs consist of many specific sales personnel, expertise and frequent visits. Furthermore the key account customers often require customized products. The heavy sales imply there is special treatment for them. Middle market customers often provide reasonable to large sales, but not so high relationship demands.

Using their framework, we can suggest the kind of sales approach/style may be needed. For key account customers, as several textbooks of key account management have suggested, the sales force must keep in touch with the customers (McDonald and Rogers 1998). They must visit and communicate with their customers frequently.

Compared to companies selling to key account customers, direct channel sellers do not need to organize heavy sales forces. The Relationship Requirements axis represents costs, and the Customer Sales axis represents sales volume. So the most efficient sales style is the top left corner of Figure 3.

## 5. Discussion and Implications

The main finding of this paper is that Cisco Systems did not adjust its sales style functionally or virtually, even in Japanese market. As we showed in Figure 2, Cisco Systems did not sell to customers directly but their partners did. Moreover the partners dealt with the major and key account customers who had many customization requirements. These kind of miscellaneous requirements make sales management costs higher. Cisco Systems however used its partners as buffers against said costs. When Cisco Systems and its partners were added to Figure 3, Cisco Systems was placed in the top left corner.

Though the top left corner is profitable, this does not mean only middle market customers are important. The key account customers are still needed. Of course these customers sometimes make sellers' costs high, but they often lead technological initiatives. As a lead user, sellers must maintain these key account customers (Lilien et al., 2002). Cisco Systems did not sell any products to NTT directly, but its sales force visited NTT in the high touch sales process. Compared to Fujitsu and the other partners, Cisco Systems' sales management style can be considered very "light."

We often tend to think as follows, when an entrant would like to make new business with a company who has strong ties with antecedent

suppliers, this new entrant company must prepare "heavy" sales forces including sales, system engineers, technical advisors and so on. However my research showed that this type of thinking is questionable or debatable at best.

## Implications

There are some practical implications in Cisco Systems' case. First, heavy sales management does not necessarily need to be adopted when key account customers requiring customization. Cisco Systems' sales strategy is overwhelmingly efficient. In other words, all they have to do is sell standardized products to its partners. On the other hand, Cisco Systems' partners were always required to make many customizations for their key and major account customers. At first glance, the role of Cisco Systems in NTT's procurement network looked like a second tier supplier, however this was not the case. Second, if Cisco Systems tried to sell to NTT directly they might have encountered non-tariff barriers, such as "keiretsu." A consequence of non-tariff barriers was the many customized orders required from major and key accounts. Subcontract suppliers may invest in specific production processes to customize their products for the major and key accounts in order to benefit from long-term relationships. Otherwise, cracking non-tariff barriers is a very tough proposition. However Cisco's case tells us that this may be the best way to enter the Japanese market. Through strategic sales management it is possible to achieve this. Piercy and Lane asked in the title of their paper, "Is sales the new marketing?" We might believe that yes it is.

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