Cisco Business Model

Idea In Short

Cisco Systems sells the routers, switches and security software that keep corporate networks and much of the internet running. Founded in 1984 by Stanford computer scientists Leonard Bosack and Sandy Lerner, the company built its early fortune on multiprotocol routers that connected incompatible computer networks, a problem that became universal as businesses came online. Cisco has since expanded through more than 200 acquisitions, most recently a $28 billion purchase of the data analytics firm Splunk in 2024, to push its business beyond hardware into subscriptions, security and services. This article covers how Cisco built its networking dominance, why hardware sales alone became a liability, and how the Splunk deal is reshaping the company's revenue mix.

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From a Stanford router to a networking giant

Leonard Bosack and Sandy Lerner founded Cisco Systems in 1984 after building a multiprotocol router at Stanford University that let incompatible computer networks communicate with each other. The company took its name from San Francisco and sold its first commercial product, a router capable of linking disparate networks, in 1986. Demand outpaced the founders' ability to fund growth, so Cisco turned to venture capital firm Sequoia Capital in 1987 for the cash needed to scale production.

John Morgridge joined as CEO in 1988 and took the company public in 1990, growing revenue from $5 million to more than $1 billion during his tenure. That growth coincided with the commercial internet's expansion through the 1990s, a period in which nearly every business connecting to the internet needed the kind of routing hardware Cisco specialized in.1

Acquisitions as a growth strategy

Cisco has acquired more than 200 companies since its founding, using purchases to add capabilities faster than internal development would allow. Notable deals include WebEx for video conferencing, OpenDNS for cloud security and Meraki for cloud-managed networking, each of which became a standalone product line within Cisco's broader portfolio. This acquisition pace reflects a recurring pattern in the networking industry, where incumbents buy emerging technology companies rather than risk being disrupted by them.

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The company's most significant recent deal, a $28 billion acquisition of the data analytics and security firm Splunk, closed in March 2024. The purchase gave Cisco a stronger foothold in observability and threat detection, areas where its hardware-centric legacy business had less presence.2

The shift from boxes to subscriptions

For decades, Cisco's revenue depended primarily on selling physical hardware, routers, switches and security appliances that customers purchased outright and used for years before upgrading. That model generates predictable but lumpy revenue, since customers only buy when they need to refresh equipment. Cisco has spent the past decade pushing customers toward subscription and term-based licensing instead, bundling software features, cloud management and support into recurring payments rather than one-time hardware sales.

The Splunk acquisition accelerated that transition considerably. In fiscal 2025, Cisco's total software revenue reached $22.3 billion, up 21% year over year, while total subscription revenue climbed to $31.5 billion, representing 56% of the company's total revenue. Security revenue specifically jumped 59% to $8.09 billion, reflecting Splunk's contribution to a business line Cisco had been trying to grow for years.3

Six product categories, one customer relationship

Cisco organizes its offerings into six broad categories: secure agile networks covering

enterprise routing and switching, internet infrastructure technologies like 5G and optical networking, collaboration tools for distributed teams, end-to-end security products, application experience monitoring across multicloud environments, and professional services. This structure lets Cisco sell multiple product lines into the same enterprise account, deepening a single customer relationship rather than chasing new logos.

That land-and-expand approach suits Cisco's core customer base of large enterprises, service providers and government agencies, all of which tend to standardize on a single vendor's networking stack once it is deployed. Switching networking vendors across an entire organization is costly and disruptive, which gives Cisco's installed base unusual staying power even as competitors undercut it on price for individual products.

Ownership, leadership and financial discipline

As a publicly traded company, Cisco's largest shareholders are institutional investors, led by The Vanguard Group, State Street Corporation and BlackRock. Chuck Robbins has served as CEO since 2015, overseeing both the company's software transition and its acquisition strategy, including the Splunk deal. Cisco has generated consistent positive cash flow for years, which funds both its research and development budget and its steady pace of acquisitions.4

Betting on an AI networking cycle

Chuck Robbins has framed the current wave of enterprise AI adoption as a "networking super cycle," arguing that agentic AI systems, in which software agents act autonomously across a network, require far more bandwidth and inspection capacity than prior computing shifts. Cisco raised its AI infrastructure revenue target from $5 billion to $9 billion in 2025, reflecting demand from hyperscalers, sovereign cloud providers and large enterprises building out AI data centers. The company has also folded security directly into its networking hardware, introducing what it calls smart switches that combine packet forwarding with on-box threat inspection.

This positioning tries to convert what could be a threat, cloud providers building their own networking to bypass traditional vendors, into an opportunity by tying Cisco's switches and routers to security enforcement that customers cannot easily replicate themselves. New products including Secure Access, Hypershield and AI Defense had signed up more than

2,000 customers combined by the end of fiscal 2025. Whether that momentum holds depends on Cisco continuing to ship hardware refreshes fast enough to keep pace with the compute demands AI workloads place on network infrastructure.5

Key Partners

Cisco works with technology partners including Microsoft and Intel to integrate networking hardware with broader enterprise software ecosystems. Independent software vendors build applications and integrations on top of Cisco's platforms, extending the company's reach into specialized use cases. Service providers, including telecommunications companies, resell and deploy Cisco equipment as part of their own infrastructure offerings.

Key Activities

Hardware manufacturing remains a core activity, spanning the design and production of routers, switches, wireless access points and security appliances. Software development has grown in importance as Cisco builds subscription features, cloud management tools and security analytics into its product lines. Sales and marketing activities support a global enterprise sales force, while service delivery, including consulting, migration support and technical assistance, rounds out the company's operations.

Key Resources

Cisco's intellectual property, including patents covering networking protocols and security technology, protects its competitive position across product lines. The Cisco brand carries significant weight in enterprise procurement decisions, built over decades as the default choice for mission-critical network infrastructure. Data centers supporting cloud-delivered services, a large skilled workforce and substantial financial resources built from years of positive cash flow complete the company's resource base.

Value Propositions

For service providers, Cisco supplies the networking hardware and software needed to deliver reliable, high-quality connectivity to their own customers. For large enterprises, Cisco offers end-to-end networking solutions that support automation, collaboration and cost reduction across complex organizations. For small and medium-sized businesses, the

company provides scalable networking products sized to smaller budgets, while public sector customers get solutions built around data privacy and operational reliability.

Customer Relationships

Cisco supports customers through its technical assistance center, which handles troubleshooting and support requests around the clock for mission-critical network issues. An online community and support website give customers access to documentation, forums and self-service resources. Direct account management applies to Cisco's largest enterprise and service provider customers, who typically maintain long-term relationships with dedicated Cisco sales and engineering teams.

Channels

Cisco sells directly to its largest enterprise and government customers through its own sales organization, which handles complex, high-value deployments. A network of resellers and channel partners extends Cisco's reach into small and medium-sized businesses that a direct sales force would not efficiently serve. The Cisco support website and community forums function as both a sales and service channel, offering product information alongside technical support.

Customer Segments

Service providers, including internet service providers and telecommunications companies, form a major customer segment that relies on Cisco's networking infrastructure to deliver services to their own end users. Large enterprises and multinational corporations make up another core segment, using Cisco's products to run global operations. Small and medium-sized businesses, along with public sector organizations like government agencies and educational institutions, round out Cisco's customer base.

Cost Structure

Research and development expenses represent a substantial and growing cost category as Cisco shifts more of its product portfolio toward software and security. Manufacturing expenses cover the production of physical networking hardware, while administrative expenses support Cisco's global operations. Acquisition-related expenditures, reflecting the

company's steady pace of buying smaller technology firms, add a recurring cost line beyond typical operating expenses.

Revenue Streams

Hardware sales, spanning switches, routers, wireless access points and security devices, still generate more than half of Cisco's total revenue. Licensing revenue comes from software subscriptions and term-based licenses, including Cisco's smart licensing platform that lets customers manage usage across devices. Services revenue, covering consulting, managed services, cloud offerings and technical support, provides a steady recurring stream tied to Cisco's large installed base of hardware customers.

- 1Cisco Founded By Stanford Computer Scientists In 1984
- 2Cisco Completes $28 Billion Splunk Acquisition
- 3Cisco Fiscal 2025 Revenue Reaches $56.7 Billion
- 4Cisco Institutional Ownership And Leadership Structure
- 5Cisco CEO Calls AI Shift A Networking Super Cycle

Summary

Cisco's history traces the arc of enterprise computing itself, from routers that stitched together isolated networks in the 1980s to the software-defined and security platforms it now sells alongside that hardware. The Splunk acquisition marked the clearest signal yet that Cisco sees subscription and security revenue, not one-time hardware sales, as its path forward, and fiscal 2025 results bore that out with security revenue up 59% year over year. That shift carries real execution risk: software-first competitors move faster than hardware incumbents, and Cisco's dependence on North American enterprise customers leaves it exposed to any regional slowdown. Still, the company's position inside the physical infrastructure of corporate networks gives it a renewal advantage few pure-software rivals can match. Cisco does not need to win new customers so much as it needs to keep selling the next layer of software to the ones it already has.