

Cisco's Acquisition of Scientific-Atlanta is the Right Move, says Detecon

- **Tactically, Scientific-Atlanta Leadership Position in Set-Top Boxes offers Cisco a Front-Row Seat in the Emerging Digital Living Room**
- **Strategically, the Combination of the Two Companies Creates One Stop Shopping in the Rapidly Converging Broadband Access and Entertainment Markets**

RESTON, VA – Detecon, Inc., a leading global telecommunications and information technology consultant, today commented on the pending \$6.9 billion acquisition by Cisco (CSCO) of Scientific-Atlanta (SFA), the world's second-largest producer of Cable Set-Top Boxes behind Motorola (MOT).

"The acquisition makes sense both tactically and strategically," said Eckart Pech, CEO of Detecon, Inc. "The move compensates for Cisco's inability to play a significant role in Telco infrastructure build-outs aimed at offering a full portfolio combining voice telephony, video entertainment, high-speed internet access and wireless services."

In delivering this full portfolio of services, known in the industry as *Quadruple Play*, technology providers such as Alcatel have gained significant traction, often at Cisco's expense, in the billions being spent to upgrade Telco networks worldwide.

Why should this worry Cisco? Alcatel, the French technology giant, has leveraged its supremacy in the DSLAM market with some judicious acquisitions (Timetra and Spatial Wireless, among others) augmenting its portfolio to the point where it now offers one stop shopping to carriers. To further its grip, Alcatel's partnership with Microsoft completes its IPTV offering without creating any conflict of interest between Paris and Redmond.

In short, Alcatel has relegated Cisco to a lesser player in the new Telco video market. Even after its Linksys acquisition, Cisco has remained an enterprise player; it needed a residential market strategy.

"The logical move for Cisco is to focus on the Cable market," added Dr. Patrick Pfeffer, Senior Consultant at Detecon, Inc. "Cisco today controls over 70% of the Cable Modem Termination System (CMTS) market; and with Scientific-Atlanta it can now offer to Cable MSOs what Alcatel offers to the Telcos."

On the access front, MSOs will rely on Cisco to speed up the deployment of DOCSIS 3.0 and Telcos will count on Alcatel and other equipment providers for DSL expertise.

"We've seen similar industry dynamics in other countries," says Pech. Detecon, who has provided telecom consulting services in over 120 countries around the globe, offers valuable insights to how markets behave. "As technologies and competitors converge, industry players will need to expand the skills and expertise they offer the marketplace," say Pech.

Detecon feels that Scientific-Atlanta provides Cisco with video expertise, a significant ingredient for survival in today's rapidly-converging marketplace, which was missing from Cisco's toolbox. While this new-found video savvy may help Cisco in other areas, not even Scientific-Atlanta can help Cisco grow its share among Telco build-outs over an above what it has already won.

Detecon believes the merger is the right move for Cisco, however the consulting firm has some concerns about the combined entity.

Cisco and Scientific-Atlanta differ dramatically both operationally and culturally. Integration will be difficult, even more so than any of Cisco's other acquisitions. Detecon notes that Cisco's two largest acquisitions to date, Cerent (1999) and Stratacom (1996) were not only smaller companies to integrate, but the acquisitions took place in an era where both the telecom and financial markets were quite different.

Detecon is also concerned that Cisco may be overestimating Scientific-Atlanta's long-term hold on the Set-Top Box market, in light of emerging technologies that offer programmable *System on a Chip* (SOC). Detecon believes SOCs will commoditize the Set-Top Box, thus allowing low-cost Asian manufacturers to enter the market, which is dominated today by Scientific-Atlanta and Motorola.

Detecon believes that Juniper (JNPR) will make a similar move, seeking to extend its portfolio and enter the living room. Like Cisco, Juniper must play a larger role in the emerging residential video market.

For further information about this analysis, please contact Dr. Patrick Pfeffer at Detecon, Inc. at (650) 401-5222 or Patrick.Pfeffer@detecon.com.

About Detecon

With over 3,000 projects in 120 countries and more than 600 consultants on staff, Detecon is one of the world's leading global consulting firms for the communications and information technology industry. Providing business insights and technology services that help clients succeed, Detecon serves enterprises, service providers and government entities in the Americas, Europe, Asia and Africa. Detecon, Inc. is headquartered in Reston, Virginia, with other U.S. offices in San Mateo, California; Seattle, Washington and Mexico City. Additional Detecon offices are located in key markets throughout the world. Detecon is a fully owned subsidiary of T-Systems International GmbH, a division of Deutsche Telekom. Please visit us at www.DeteconAmericas.com.