

## Red Hat's E-Commerce Suite: A Tough Sell to Midsize Firms

Mika Yamamoto Krammer, Whit Andrews

Red Hat's e-commerce suite may have difficulty finding a market because many midsize businesses (MSBs) won't be able to take advantage of the new product.

## NEWS ANALYSIS

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### Event

On 10 August 2001, Red Hat announced an open source e-commerce offering targeted at MSBs.

### Analysis

Gartner analysis indicates that through 2002, MSBs will allocate 20 percent of their budgets to e-commerce applications, an increase from previous years. At the same time, they have few low-cost e-commerce solutions to choose from because most vendors have decided to chase the high end of the market. At first sight, then, the Red Hat offering — a low-cost product that claims to be quick to deploy and very reliable — should find a place in this market. However, Gartner believes that most MSBs won't be able to take advantage of Red Hat's offering. This puts Red Hat at a disadvantage since in this market volume sales bring in the money, and a vendor must garner a majority of the market share to survive.

We foresee several problems:

- **Not a Microsoft operating system:** With 81 percent of MSBs primarily or exclusively Microsoft shops, running software that fits this infrastructure is a top concern for MSBs, chiefly for integration and support reasons. Since it's roughly the same as Microsoft's, Red Hat's pricing won't give Microsoft shops a reason to switch.
- **Lack of support:** For MSBs, which run extremely lean IS departments, lack of resources is the number-one impediment to implementing e-business offerings. Red Hat has a low initial license fee, but training personnel, hiring new personnel and retaining the appropriate skills represent significant ongoing costs. This and the need for applications with vertical-specific functions are the main vendor selection criteria among MSBs.
- **Lack of commerce syndication or shared commerce services:** Although Red Hat's offering provides many features that were best-in-class for MSBs in 1998, it cannot meet the current challenge of overlaying e-commerce on existing business strategies and relationships. Most notably, it lacks any capabilities to manage commerce syndication or shared commerce services. In such models, enterprises and their sales channels exploit each other by publishing or relaying commercial syndication, or by establishing "storefronts" for partners interposed between the enterprise and the customer. This lack will likely cripple Red Hat when it courts enterprises requiring such capabilities unless the developer channel builds these capabilities on top of it.

Red Hat's offering will likely intrigue some but not most MSBs. Instead, Gartner expects the more tech-savvy MSBs — about 10 percent of the MSB population — to explore this option. The problem for Red Hat is that most of these Type A enterprises (rapid adopters of technology) have already established their e-commerce capabilities, and MSBs that have not are more cautious.

**Analytical Sources:** Mika Yamamoto Krammer, Information Technology Management, and Whit Andrews, Internet Strategies

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