

## Customers Shouldn't Worry as MandrakeSoft Seeks Creditor Protection

George J. Weiss

Linux distributor MandrakeSoft has filed for protection from creditors. Without new investment, the company will likely shut down, but if it becomes necessary, most customers can transition to a new Linux distributor fairly easily.

## NEWS ANALYSIS

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### Event

On 15 January 2003, MandrakeSoft, a Linux provider based in France and the United States, announced it has filed for the rough equivalent of U.S. Chapter 11 protection from creditors. MandrakeSoft will continue to operate while it reorganizes and negotiates with debtholders. It plans to issue its next product version, Mandrake Linux v.9.1, as scheduled in April 2003.

### Analysis

A tough market and some of its own mistakes forced MandrakeSoft to file for creditor protection:

- The Linux market has consolidated around a few big players. The two main distributors, Red Hat and SuSE, continue to gather strength as enterprise OSs, with regional ones such as TurboLinux, Red Flag, Connectiva and the SCO Group winning in their geographies. MandrakeSoft can't even afford the fee to join the UnitedLinux effort (more than \$1 million).
- To make a profit, vendors must sell a complete software stack plus services on top of the nearly free Linux operating system. The more elaborate the stack, the more profit and product differentiation. Large enterprises, which can afford more elaborate offerings and have extensive environments, represent the best market. MandrakeSoft has struggled to reposition itself after first focusing on Linux for the small office/home office market and the desktop.
- MandrakeSoft has just one partnership, with struggling Groupe Bull, whereas Red Hat and SuSE have them with the likes of Dell Computer, IBM and Oracle.
- MandrakeSoft built a strong following among individuals and home-office users through ease of use and installation. But those advantages are disappearing as most Linux distributions continue to evolve and become easier to deploy.
- Management changes exacerbated MandrakeSoft's troubles.

MandrakeSoft remains a small, loss-making company. For fiscal 2002, ended 30 September 2002, MandrakeSoft recorded a loss of 6.1 million euros on revenue of 4.7 million euros. Although revenue jumped 31 percent from fiscal 2001 and the company cut expenses by more than 50 percent, the significant distance remaining to profitability leaves MandrakeSoft an unattractive target for investors this late into the market consolidation.

Thus, MandrakeSoft will likely shut down without further investment or a merger that would allow it to refocus as a system integrator or software vendor in some profitable niche (as TurboLinux has done, for example). However, MandrakeSoft customers should not worry as the high portability of Linux distributions should make it easy to transition to a new supplier. Nevertheless, MandrakeSoft's woes underline the challenge of selecting Linux distributors in a consolidating market. To reduce their risk, enterprises should use distributions and features that align with the Linux Standards Base, one industry effort at coalescing around standard application programming interfaces. Red Hat also offers stability with its strong market share and acceptance by independent software vendors (ISVs). UnitedLinux may eventually do so but hasn't yet won same acceptance among ISVs.

**Analytical Source:** George Weiss, Gartner Research

## Recommended Reading and Related Research

- "Enterprise Linux: Where It Is and Where It's Going" — For Linux to achieve greater overall enterprise penetration, the associated applications and middleware infrastructure will require higher levels of integration and support. **By George Weiss**
- "IBM Alliance Will Solidify Red Hat's Position" — The agreement with IBM ensures Red Hat of mainstream Linux server preference among ISVs and enterprise IS organizations. **By George Weiss**

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