

Sun, Microsoft Declare Peace, but Details Must Follow

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Microsoft and Sun Microsystems have settled antitrust and patent disputes and signed technology-sharing agreements. The deal helps both vendors and promises benefits for customers, but the vendors need to release more details.

NEWS ANALYSIS

Event

On 2 April 2004, Microsoft and Sun announced:

- Microsoft will pay Sun \$1.6 billion to settle their antitrust and intellectual property disputes, and Sun will drop its case in the European Union (EU).
- The vendors will license each other's server technologies. Microsoft will pay Sun \$350 million for technology licenses, and Sun will pay fees when it uses Microsoft technology.

Analysis

In Gartner's opinion, pragmatic business and legal issues drove this deal more than customer demand for greater interoperability between Sun and Microsoft products, which could increase efficiency in countless enterprises.

Benefits for Microsoft:

- The deal removes the prime complainant from the EU case and ends Microsoft's battle with Sun, a skilled legal combatant.
- The deal belongs to Microsoft's larger strategy of resolving long-standing legal and regulatory disputes. (In this, the deal resembles previous Microsoft settlements with America Online [AOL] and Apple Computer.) Microsoft can show that it provides competitors — or at least Sun — access to its proprietary source code.
- Microsoft gives Sun a boost in deploying technology to keep Solaris as a viable alternative to Linux. The two vendors can also fight common threats: Linux and IBM.

Benefits for Sun:

- Sun gains \$2 billion in cash.
- Any improvement in interoperability between Microsoft and Sun products will make Sun better able to deliver valued software.
- Although this is not what motivated Sun, the deal does deflect attention from the \$260 million loss Sun recorded in the March 2004 quarter and the additional 3,300 workers it will lay off.

Bottom Line: Sun and Microsoft deserve credit for their willingness to cooperate, and the 10-year framework they signed (something the AOL and Apple settlements didn't include) is encouraging. Nevertheless, the vendors need to release more details to show that this deal can produce tangible benefits for customers. Until then, enterprises should not alter their buying decisions. By itself, the deal changes little:

- It does not signal the demise of Sun, as many have predicted.
- Sun will still compete with Microsoft, and the competition will only intensify if Sun repositions itself as a software vendor.
- Microsoft has not committed to what many clients tell Gartner they want most: an update of Microsoft's version of Java to comply with Sun's latest version.

- Even if Microsoft were to port software such as SQL Server or Exchange to Solaris, Microsoft wouldn't push the solution, and it wouldn't work as well as on Windows.
- The deal will scarcely affect growing market interest in Linux and open source.

Analytical Sources: Daryl Plummer and David Smith, Gartner Research

Recommended Reading and Related Research

- "New President Schwartz Must Execute to Reinvent Sun" — The appointment of Jonathan Schwartz as president and chief operating officer establishes software as an undeniable focus for Sun's growth plans. **By Daryl Plummer**
- "Sun/Microsoft Agreement May Shift Server Marketplace" — Gartner believes this rapprochement between longtime antagonists reflects new competitive realities facing both companies. **By George Weiss**

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