

RHEL5 Will Be Critical to Red Hat's Ambitions Beyond the OS

George J. Weiss

Red Hat Enterprise Linux 5 will set the stage for market opportunities beyond the operating system. Scalability is improved, but virtualization management hasn't yet attained the level of functionality offered by competitors.

Event

On 14 March 2007, Red Hat announced the release of Red Hat Enterprise Linux 5 (RHEL5), after two years of development. RHEL5 includes support for the open-source Xen virtualization technology. Red Hat also intends to set up a catalog, order and fulfillment marketplace for open-source applications certified on RHEL5.

Analysis

Red Hat is betting its future on four major elements within the RHEL5 announcement:

- The expected performance enhancements to the Linux kernel that become part of all Linux distributions.
- The inclusion of the Xen hypervisor to expedite virtualization with basic resource management capabilities.
- The intent to set up a Web-based marketplace for users providing independent open-source software vendors a central order-and-fulfillment site under the Red Hat umbrella (similar to Salesforce.com).
- A reduction in the number of subscription types at pre-existing price levels.

Red Hat's strategy is to broaden the platform beyond the kernel and change its image as exclusively an operating system (OS) distributor. Red Hat is exploring several ways of becoming a full solutions supplier:

- Using its acquisition of JBoss to extend RHEL as a middleware foundation for applications and database server roles.
- Bundling the OS with a set of industry-specific applications in a vertical segment such as healthcare and extending this to other segments such as financial services, telecommunications and government. Other infrastructure solutions are offered by enterprise role, such as the data center, database and high-performance computing.
- Implementing a Red Hat network exchange giving independent software vendors (ISVs) exposure and opportunity plus Red Hat "platforming" opportunities through a royalty arrangement with Red Hat.

These opportunities will take time to mature. JBoss is recovering from a setback in momentum and employee turnover. It's not yet certain that companies in vertical industries (like McKesson, in healthcare) will contribute meaningfully to Red Hat subscription revenue. RHX is in an early stage of development, with participants building slowly during qualification in 2007, and thus will have marginal immediate impact.

RHEL5 will initially appeal primarily to companies at the high end of the market that are interested in driving more Unix migrations or high-performance applications and deployments. But this will mostly attract a smaller segment of the market with higher resistance to making appreciable replacements in mission-critical applications. Xen's capability will not contribute significantly to Red Hat's revenue for many months because of low initial volumes and its inclusion in normal subscription pricing. If fewer servers are sold as a result of consolidation, but subscriptions support dozens of OS instances per subscription, then market demand for Linux servers will have

to briskly outpace the contraction in subscriptions from running multiple guests on one server. And without RHEL high-value management software, no appreciable revenue will accrue above the hypervisor.

RECOMMENDATIONS

Don't expect Red Hat's virtualization to seriously challenge VMware in functionality for the next 24 months. (As an example, Red Hat's offering doesn't include the capability to plan, add and remove resources dynamically with automated tools.) But the inclusion of a hypervisor in server subscriptions without requiring the user to pay premium pricing gives companies a relatively low-risk opportunity to test its features on both RHEL and SUSE Enterprise Linux. RHEL5 performance enhancements will spur continued migration from Unix. Wait for stabilized future releases and user experience plus ISV certifications before moving deployments into production.

RECOMMENDED READING

- "Red Hat: Assessment of Future Challenges" — The Linux enterprise server market has consolidated essentially to two primary players, Red Hat and Novell, but we expect the market to become increasingly competitive. **By George Weiss**
- "A Framework for Comparing Red Hat vs. Novell" — Gartner's scorecard approach will help define the major differences between Red Hat's Linux and Novell SUSE. **By George Weiss**

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REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509