

Sooner or Later Even Linux Has to Turn a Profit

Thomas Henkel

Many Linux vendors have laid off workers recently as the boom for this open-source operating system (OS) has started looking more like a bust. However, this predictable shakeout should not keep enterprises from using Linux where it makes sense for them.

NEWS ANALYSIS

Event

Recently, a number of vendors that sell Linux services or versions of Linux to run servers have announced layoffs. These include Linuxcare, Red Hat, Turbolinux and VA Linux Systems.

Analysis

Economic downturns separate the strong vendors from the weak, and the Linux market will be no exception. The cycle has played out many times in the high-tech industry:

- A new technology gains popularity.
- A large field of vendors emerges to address the new opportunity.
- The number of vendors offering indistinguishable products quickly exceeds demand.
- Most of the hopeful companies fail.
- The market contracts around a smaller field of players that have demonstrated their viability.

Gartner has always advised enterprises to proceed cautiously in the face of the enormous Linux hype, and some reassessment of where Linux fits into an enterprise's IT infrastructure was inevitable. However, much activity suggests that the opportunity for Linux has not yet peaked, although maintaining success will become much more complicated (and expensive) for Linux distributors. Providing clear added value — probably involving an OS/middleware software stack and services, not just an OS distribution — will become critical.

Gartner continues to believe that support from independent software vendors (ISVs) will be a key in determining which Linux providers survive. Enterprises are always looking to reduce the number of OSs they support. Any OS with limited enterprise range will eventually become a candidate for elimination in favor of more popular OSs. For Linux to become more than a niche platform it must develop a wide enough range of applications to be viewed as a viable choice for a reasonable portion of the IT infrastructure. Achieving that objective requires ISV support and enthusiasm. Gartner does not believe ISVs will support every Linux distribution. Supporting any of them commits the ISV to testing and guaranteed support, which cost money. Most ISVs likely will commit resources only to a small number of Linux distributions that generate the most revenue; getting on that short list will be critical for all Linux distributors. (If the Linux community arrives at standards to ensure binary compatibility, regardless of which Linux distribution is implemented, the Linux community will achieve what the Unix community never did, and ISVs could feel more assured of reduced support costs. However, this standard remains elusive.)

Achieving success will prove expensive for vendors, especially because venture capital has dwindled, if not evaporated. As with the Internet boom, the Linux market has shown itself to be subject to the basic reality of capitalism — sooner or later a company must turn a profit. Some Linux vendors will likely fail. Some will merge. Others will be acquired by bigger server vendors. Red Hat has gained the most brand recognition, but others have established some level of recognition and will probably survive. As with Unix, Gartner believes that the market can sustain three, maybe four, different Linux providers, perhaps along with a few niche players.

Despite the predictable failure of some Linux start-ups, enterprises should continue to evaluate Linux for possible deployments within the enterprise. Market enthusiasm for Linux will likely

continue through at least year-end 2003 as the availability of enterprise functions, support and applications continues to improve. Market enthusiasm (among customers as well as ISVs) remains an important indicator of any individual vendor's long-term viability. Enterprises should obtain reference accounts for any Linux distributor under consideration to assess support quality, application availability and overall customer experience with the product.

Analytical Source: Tom Henkel, Unix & Midrange Strategies

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