

The State of the Open Source Industry

Emerging Technologies for the Enterprise
27 March 2008

Raven Zachary

Research Director, Open Source
The 451 Group

Agenda

- About The 451 Group
- Open source today
- Linux market
- VC funding + M&A activity
- Reviews and previews

About The 451 Group

- Independent technology industry analyst company
- Focused on the business of enterprise IT innovation
- www.the451group.com

451 key stats

- 700+ customers across
 - Vendors
 - Investors (150 VCs and 80 Investment Banks)
 - Service-providers (SIs, consulting, etc.)
 - End users
- Offices in New York (HQ), Boston, London, SF
 - 80+ total employees w/ 35+ analysts
- Tier1 Research subsidiary focused on IT services
- Operate a number of major events per year

451 CAOS Research Service

- Commercial Adoption of Open Source
- In-depth, timely perspectives on the impact of open source on software vendors, end users, and investors
- Qualitative research reports, backed by quantitative research surveys
- Case studies and 'lessons learned' from early adopters and vendors
- Reports, ongoing coverage, and advisory services
- 3 dedicated open source analysts, 8+ additional coverage

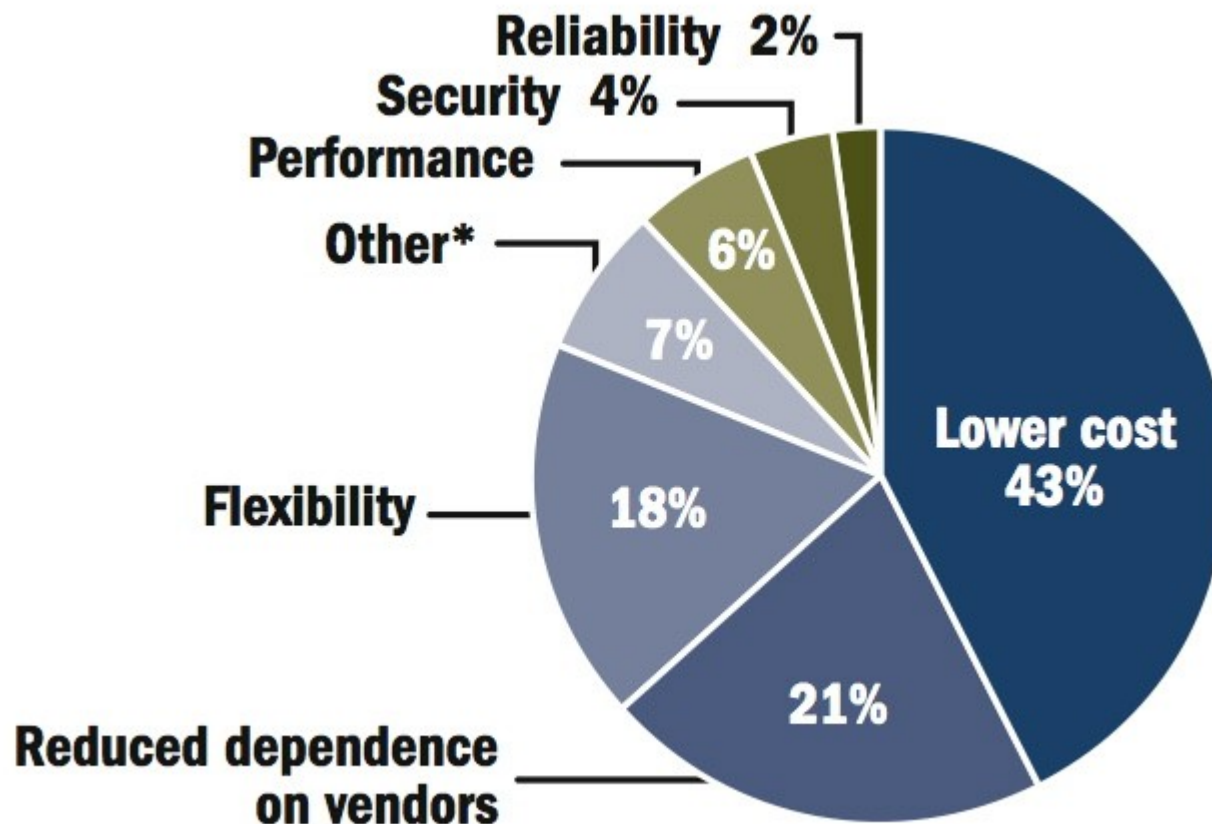
Open source today



Open source today

- It's everywhere!
- Disruptive force in the software industry
- Knowledge and comfort-level expansion
- Adoption is increasing dramatically
- It's still largely a cost-reduction story
- Support is the success story, but VCs and vendors are uneasy with a services model

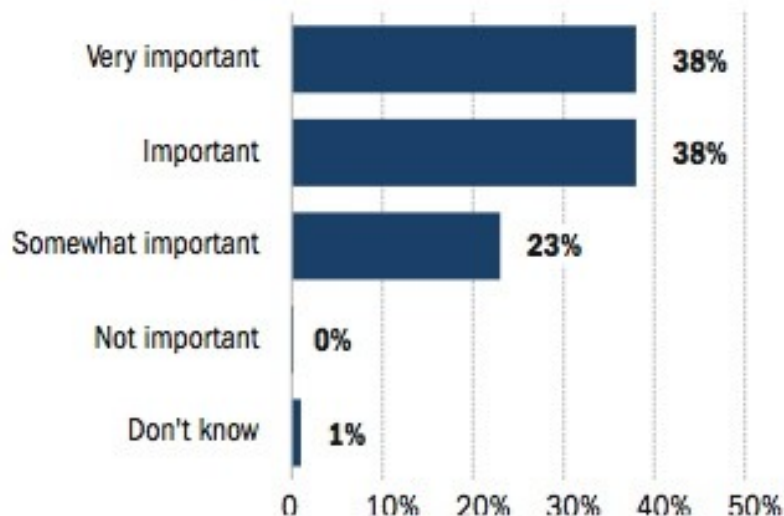
Adoption drivers



Cost savings - before and after

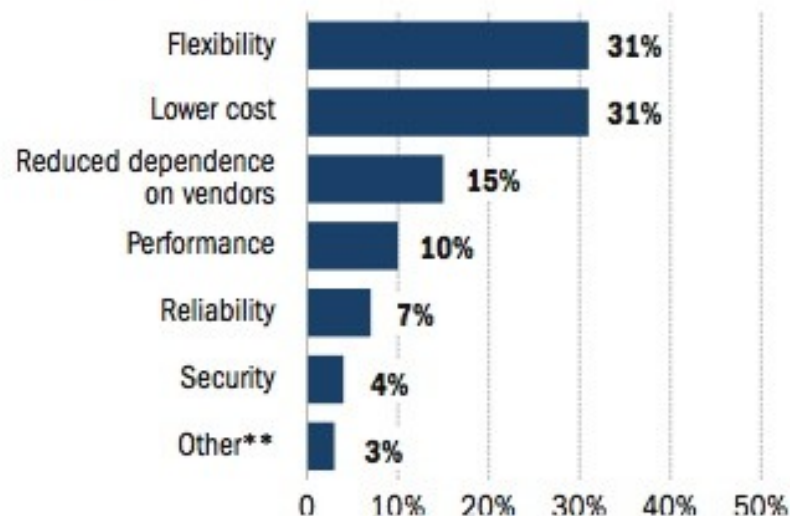
"Cost savings" is important before adoption...

Overall, how important was the issue of cost savings in the decision-making process for open source adoption?



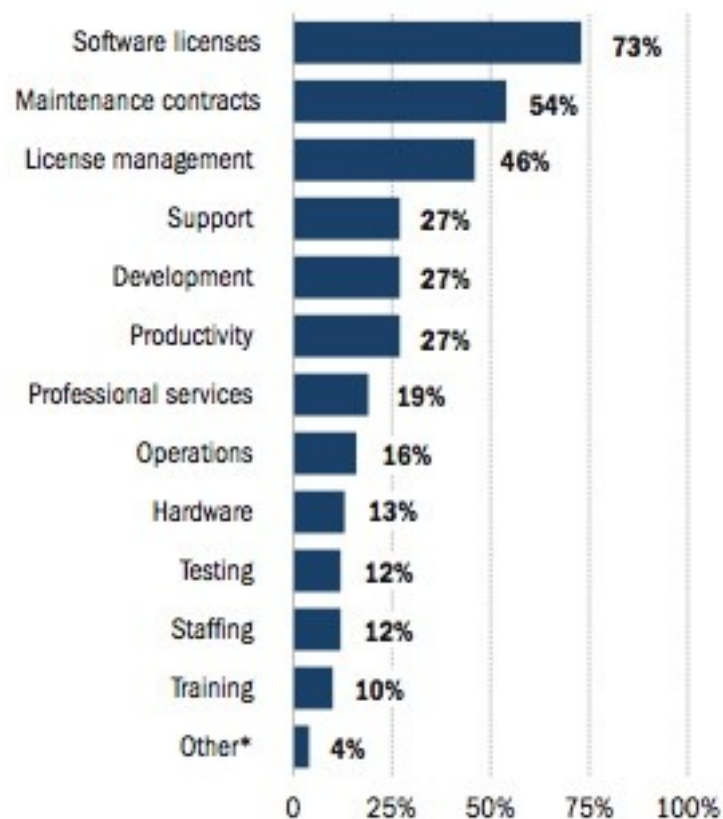
...but not as important after adoption.

After your organization adopted open source software, what was the primary benefit of its use?



Savings opportunities

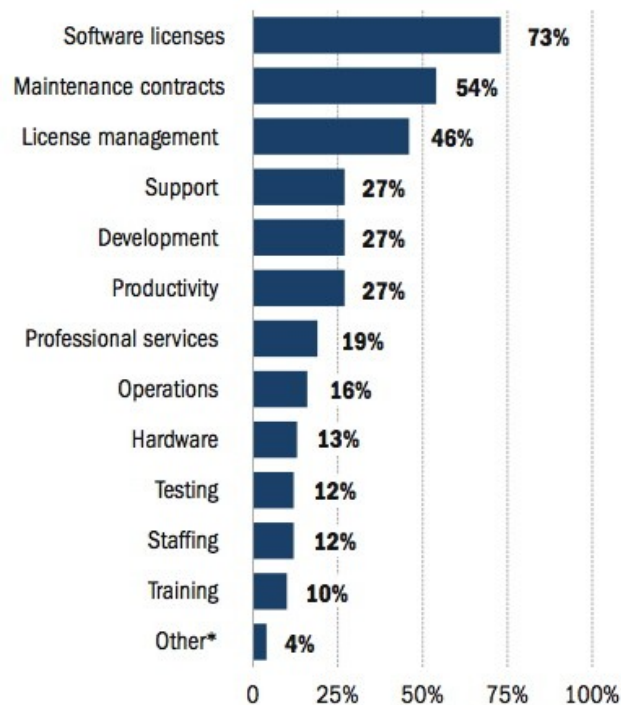
Where do you believe the cost savings will come from (or, if this information is already known, where did the savings come from)? (Multiple selections allowed per respondent.)



A mismatch?

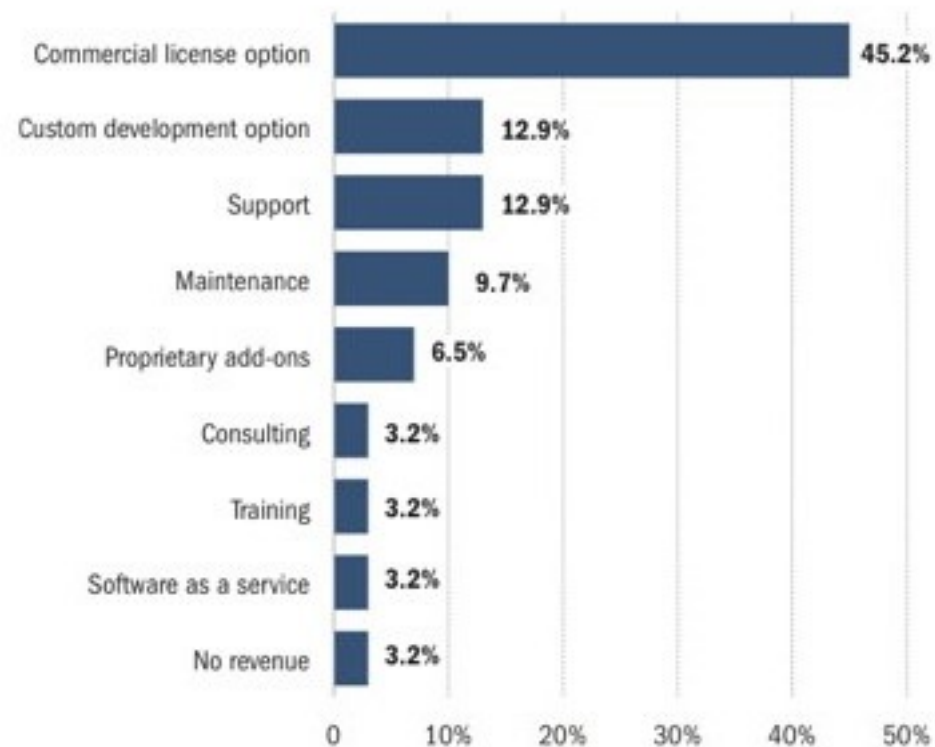
End users

Where do you believe the cost savings will come from (or, if this information is already known, where did the savings come from)? (Multiple selections allowed per respondent.)

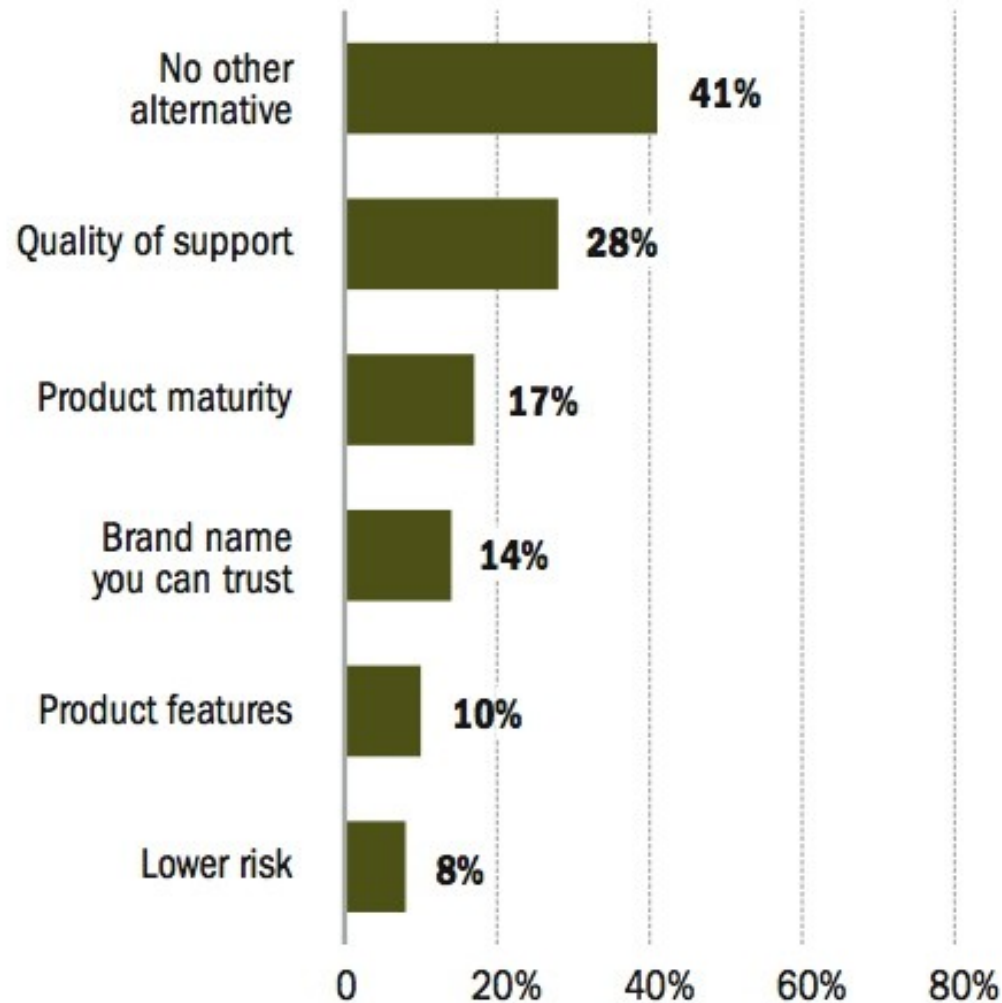


Software vendors

What is the primary open source revenue generator for your company?

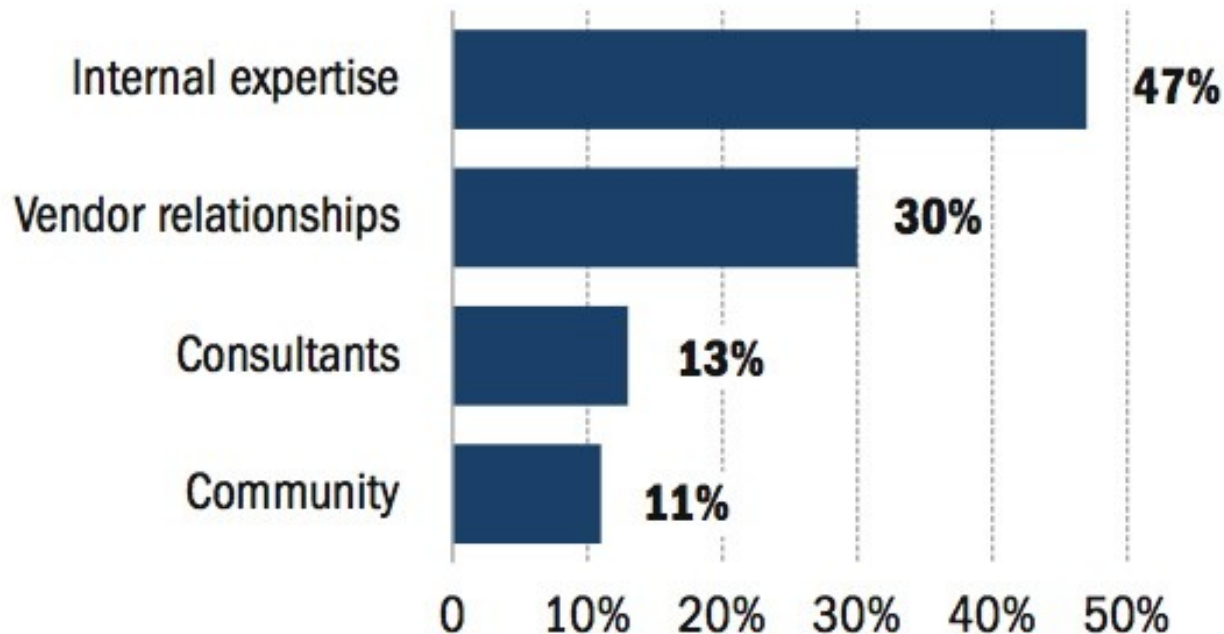


Advantages of proprietary software



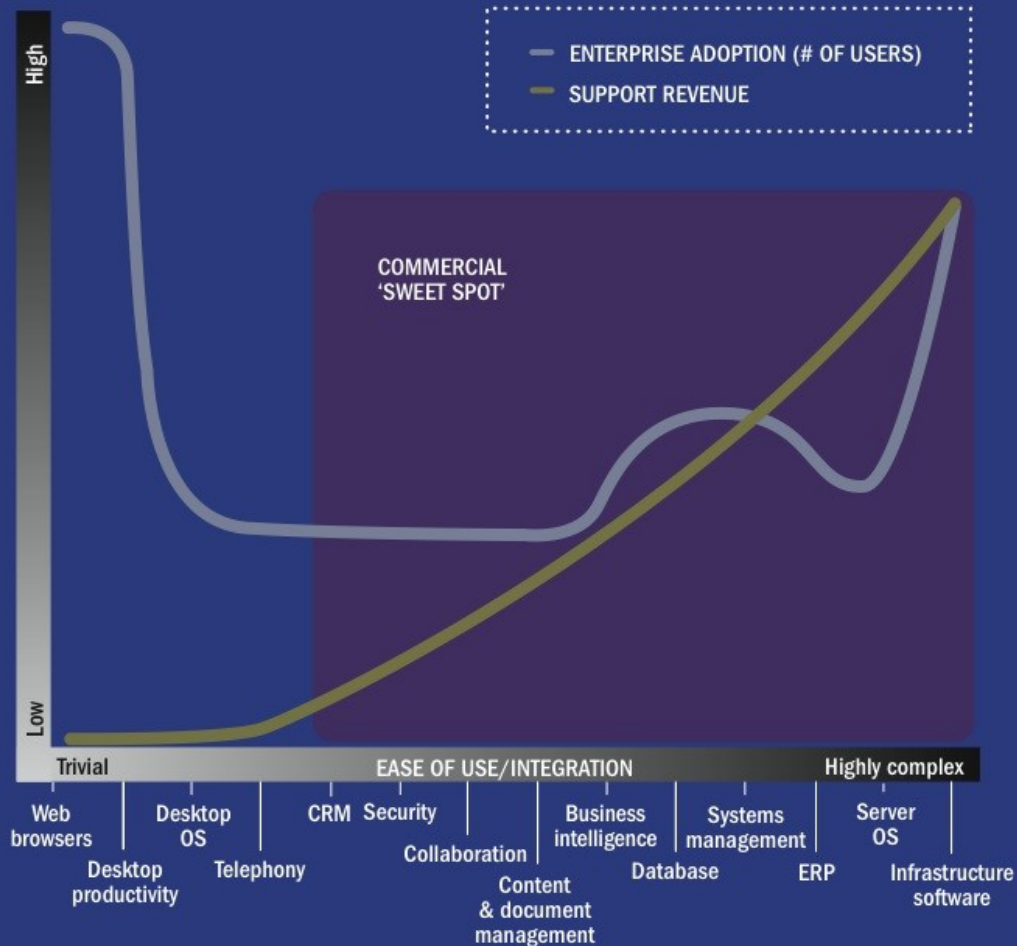
Supporting open source

How does your organization support open source software (e.g., internal expertise, consultants, vendor relationships, etc.)?



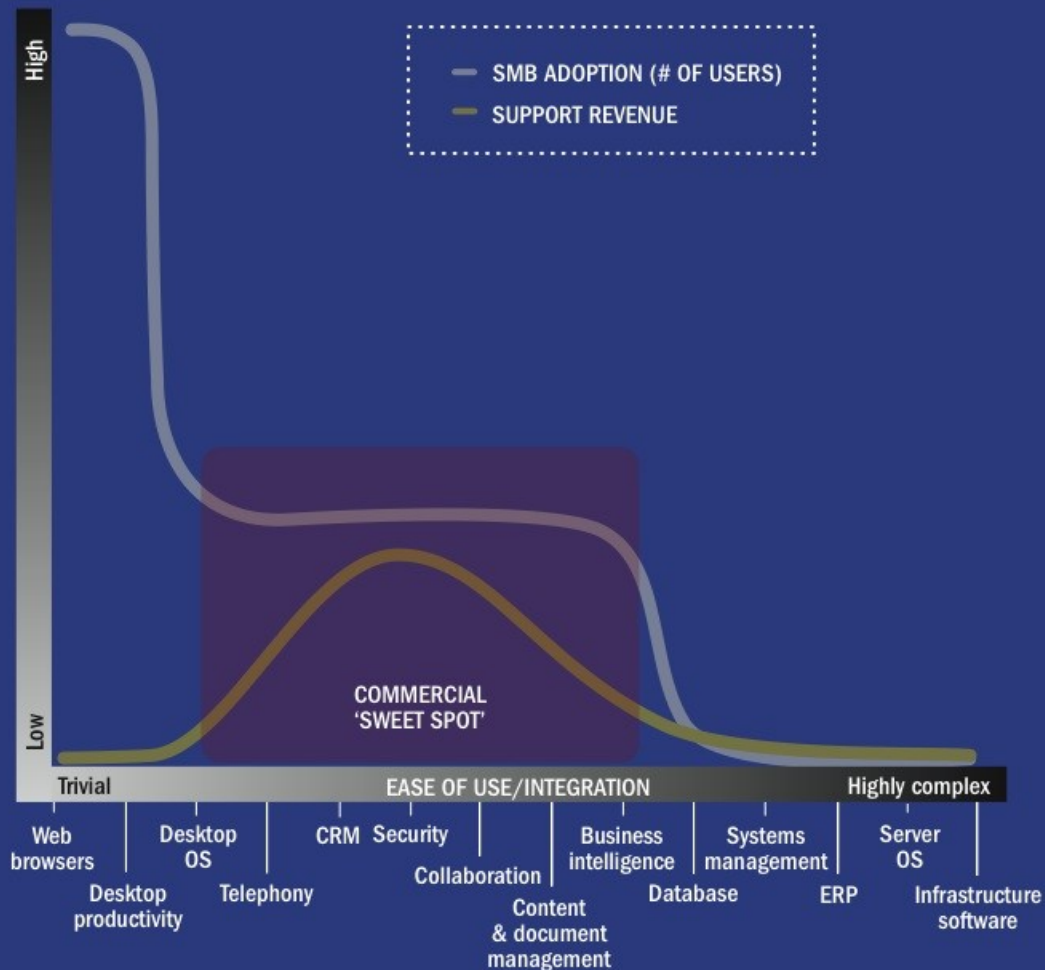
Enterprise market

Enterprise users are comfortable with complexity and the need for support. The result is a larger commercial sweet spot.



SMB market

Complexity, and the consequent need for support, scares SMB users off. The result is a small commercial sweet spot. SaaS changes the equation.



Linux market

The enterprise Linux market



redhat.®

Novell.®

The full picture



JeOS



redhat.

ORACLE®

xandros

Novell®

Internal distros



debian



Diversification of Linux

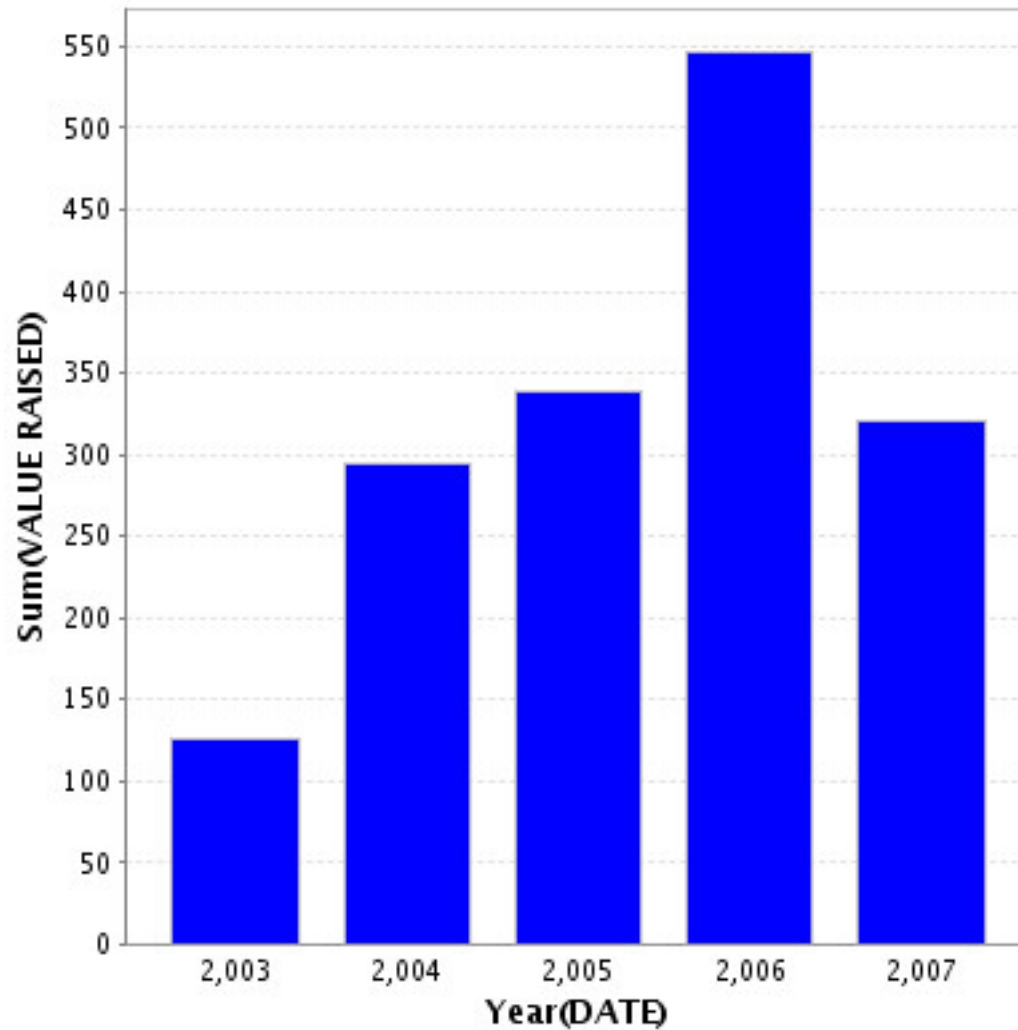
- 'Enterprise Linux' isn't just Red Hat
- Growth in community distributions
- IT vendors aligning with projects
- Internal distros
- New entrants - Oracle, Sun, Microsoft?
- Linux is the new Apache - self support as the first line of defense
- More pre-install options from hardware vendors
- ISV certification issue – LSB effort

Desktop Linux

- 'Year of the Linux Desktop' ?
- Server and desktop dynamics different
- Application availability – Adobe AIR
- Usability and design talent
- Macs dominate Ubuntu Live
- Microsoft EOL and other motivations
- Local vs. global adoption

Venture funding + M&A activity

VC funding activity by year



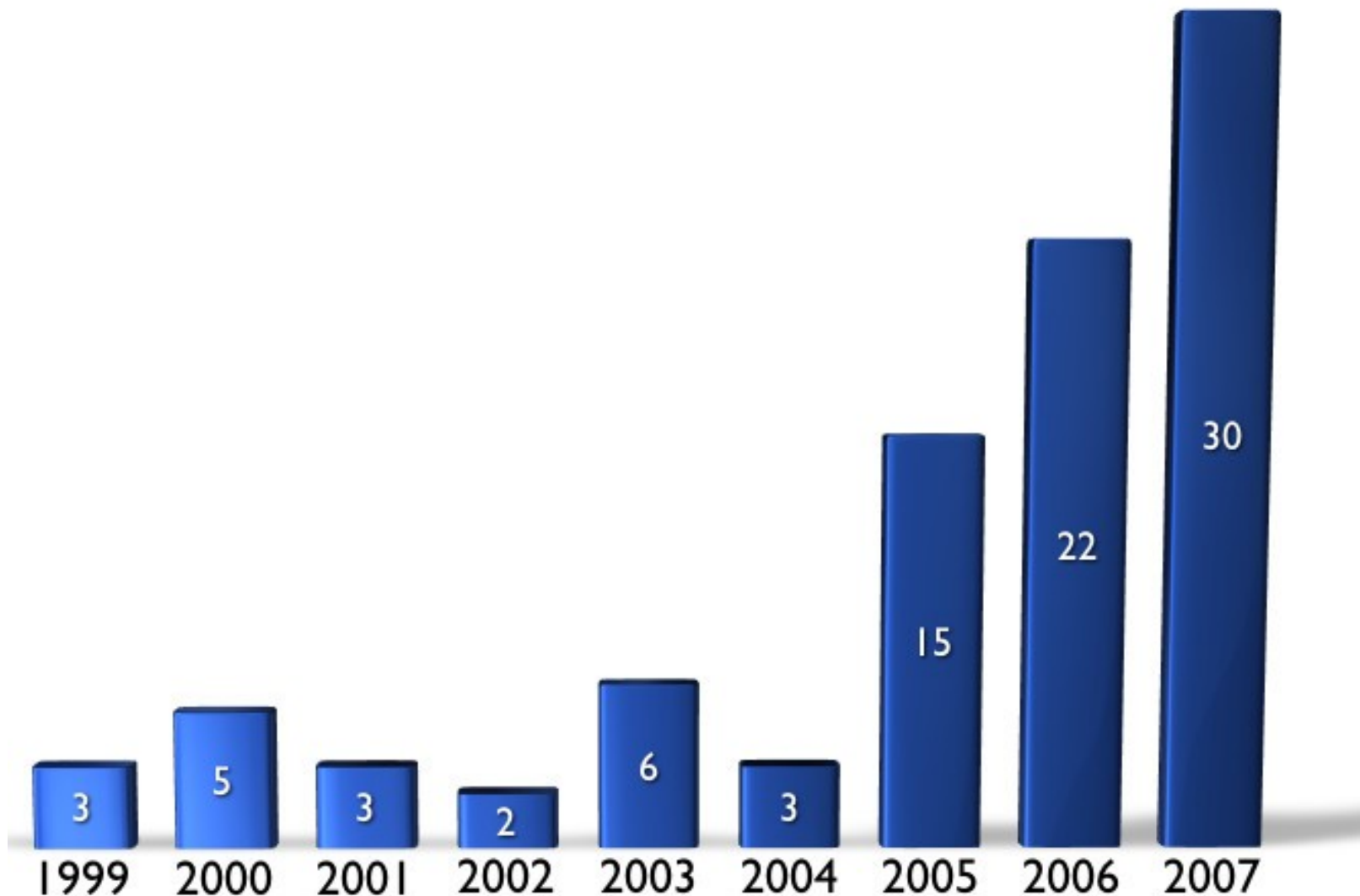
Venture funding

- 2004: \$304m, 36 deals
- 2005: \$335m, 46 deals
- 2006: \$546m, 58 deals <- peak year
- 2007: \$324m, 50 Deals
- 2008-on: ~\$300m
- ~ \$2.38bn since 2000

Why M&A activity is important

- Dominant force in IT activity today
- Impacts customers
 - Product roadmap
 - Innovation
 - Licensing and community
- Over 100 'open source vendors' and growing
- Attractive targets for large IT vendors and Sis
- Component-based nature of open source
- Difficulties in going it alone

M&A activity by year



Red Hat - the consolidator



16 deals

Akopia
ArsDigita
Atomic Vision
BlueCurve
C2Net Software
Cygnus Solutions
Exadel (tools product line)
Hell's Kitchen Systems
JBoss
MetaMatrix
Mobicents
Netscape Enterprise Solutions (AOL)
NOCpulse
Planning Technologies
Sistina
Wirespeed Commnuications

Types of M&A, part 1

- Broadening portfolio
 - Xandros acquires Scalix, 06/2007
- Consolidation play
 - United Devices merges with Univa - UnivaUD, 09/2007
- “Reverse merger” / business overhaul
 - ActiveGrid acquires TurboAJAX, becomes WaveMaker, 09/2007
- Technology play
 - Sun Microsystems acquires Cluster File Systems, 09/2007

Types of M&A, part 2

- Project acquisition
 - Sourcefire acquires ClamAV project, 09/2007
- Academic acquisition / tech transfer
 - Pentaho acquires Wekka project, 09/2006
- Business unit / carve-out
 - CollabNet acquires SourceForge Enterprise Edition from VA Software, 04/2007

Recent M&A milestones

- Oracle acquires Sleepycat
 - 02/2006, \$60m
- Red Hat acquires JBoss
 - 04/2006, \$350m
- Citrix acquires XenSource
 - 08/2007, \$500m
- Yahoo! Acquires Zimbra
 - 09/2007, \$350m
- Sun Microsystems Acquires MySQL AB
 - 01/2008, \$1b

Targets

- Infrastructure software
 - SpringSource
 - MuleSource
 - TerraCotta
- Stacks and services
 - Covalent
 - OpenLogic
- MySQL
 - IPO?
 - Red Hat, Oracle, Sybase, HP, Sun

Reviews and previews

2006 in review

- Major events
 - JBoss acquisition
 - Oracle Unbreakable Linux
 - Microsoft-Novell collaboration agreement
 - Open Source Java
- Funding – \$546M, 58 deals, peak funding year
- M&A – 22 deals

2007 in review

- Major events
 - GPLv3 and GPL lawsuits
 - SCO bankruptcy
 - More Microsoft Linux deals
 - New foundations
- Funding – \$324M, 50 deals
- M&A – 30 deals, peak M&A year

2008 preview

- Greater shift in activity to existing IT vendors
- Less funding, more M&A
- A new wave of failures
- Continued talent shortages from core contributors
- SMB market adoption is a limited opportunity

2011 preview

- Educated buyers
- Consolidation of open source startups
- Diversification of Linux suppliers
- Federated support models
- Services model wins out
- Open collaboration and standards more important than code

Winners and losers

- Winners
 - Enterprises
 - SaaS providers and ISVs
 - SIs
 - Collaborative vendors
- Losers
 - SMBs
 - Desktop
 - Go-it-alone open source vendors
 - License-based revenue

Thank you!

Raven Zachary

Research Director, Open Source

*raven.zachary@the451group.com
503.334.1810*

blogs.the451group.com/opensource/