

Microsoft Makes Strong Financial Commitment to Novell's Linux

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Microsoft will make a large investment in collaborating with Novell on technical, marketing and legal programs. This will encourage adoption of SUSE Linux Enterprise and will provide legal assurances to end-user customers.

News Analysis

Event

On 2 November 2006, Microsoft and Novell announced that they will collaborate to build, market and support a new series of solutions to make their products work better together. As part of a five-year agreement, Microsoft will officially recommend SUSE Linux Enterprise for customers who want Windows and Linux solutions. Microsoft and Novell both offer assurances not to assert patents against their respective end-user customers. On 7 November, financial details of the Microsoft-Novell arrangement were filed in an 8-K report to the Securities and Exchange Commission.

Analysis

The Microsoft-Novell announcement represents an effort by two competitors to work together to bring higher levels of interoperability and a less threatening climate for side-by-side deployments of Windows and Linux. In Gartner's view, this announcement contains three critical components:

- **An agreement between Microsoft and Novell not to wage a competitive campaign based on patent infringements.** Both companies have provided patent coverage protection to their paying customers. The concern about patent litigation has caused much uncertainty within the Linux and open-source software community. The agreement is meant to set CIOs' minds at ease. This protection does not extend beyond SUSE Linux Enterprise, which means Microsoft has strengthened the position of SUSE Linux Enterprise in a market dominated by Red Hat. Furthermore, Microsoft stands to gain goodwill from collaborating with a Linux distributor, even though Microsoft may be opening the door with the promise of Linux but using this to push Windows into the sales cycle.
- **A commitment by Microsoft to spend close to \$450 million through the term of the agreement, which expires 1 January 2012.** The sum includes: 1) an upfront payment to Novell

of \$240 million in SUSE Linux Enterprise subscriptions, called certificates (with a minimum of 350,000 over the five-year period), enabling Microsoft to use, resell or distribute as it sees fit; 2) an additional \$60 million in joint marketing and advertising; 3) a \$34 million investment by Microsoft in its salesforce for selling combined Windows and Linux virtualization solutions; and 4) an upfront payment of \$108 million as part of the patent agreement (Novell will make payments of at least \$40 million over five years).

- **The promise of improved interoperability between Windows and Linux in several key areas at some undefined point in the future.** The companies have stated that they will cooperate on improved interoperability solutions for virtualization, Web services management and document translation. But they have not yet outlined specific road maps — though after the initial announcement, they stated they have committed to producing a road map by March 2007. Microsoft has made similar promises with other competing vendors in the past. We don't doubt the sincerity of this promise; however, we believe that, to make good on their promise, Microsoft and Novell must act quickly and provide definitions and time lines by 2Q07.

The success of this collaborative effort will be determined by several key factors, including:

- How Microsoft and Novell solve the issues of who owns what within the software stack of a mixed Windows/Linux environment
- How each company is compensated
- What go-to-market cooperation will occur
- How accounts with mixed source code are managed

Recommendations

IT organizations:

- The immediate value offered by this agreement is an assurance by the two companies not to assert their patents against each other's end-user customers, while respecting the provisions of the general public license. If this issue is a priority in your contractual agreements, consider SUSE Linux Enterprise (which also provides copyright indemnification).
- If you already have a relationship with Red Hat, you will not be directly affected, since the technical road maps must still be hammered out.
- Initiate a dialogue with these two companies if you have a longer-term strategic objective — over three to four years — to deliver a cohesive cross-platform/open-source framework as part of mixed open-source software and proprietary software under virtualization.
- Consider the publication and execution of a joint Microsoft-Novell road map as the critical missing piece of this agreement, with the potential to make or break its long-term value.

Recommended Reading

- "Microsoft Update: A SWOT Analysis Related to Linux and Open Source" — Microsoft is gradually changing its strategic approach to Linux server distributions and open source, with mixed results. **By George Weiss and John Enck**
- "A Framework for Comparing Red Hat vs. Novell" — A scorecard approach will help define the major differences between Red Hat's Linux and Novell SUSE. **By George Weiss**

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