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Heroic Salvation or Sleeping with the Enemy?

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Novell has announced it has entered into an agreement to acquire Nuremburg, Germany-based SuSE Linux for $210 million in cash. SuSE Linux is the largest European enterprise Linux vendor, and is second only to the U.S.-based Red Hat in Linux product revenues. Novell also announced that it would receive a $50 million investment from IBM through the purchase of Novell convertible preferred stock. In addition, the company announced that it is in negotiations to extend the commercial IBM/SuSE Linux agreements to ensure the ongoing support for IBM eServer and middleware products.

Key product features and support afforded by SuSE Linux Enterprise Server 8 include:

- Focus on medium to large enterprises Linux needs;

- Integration of Windows, Apple, Novell, and UNIX networks;

- Support for Web servers and Web application servers, File and print servers, Mail servers, Web content filters and proxy servers;

- Enhanced connectivity to support dial-in and dial-out servers for analog, ISDN, and DSL connections as well as networking support for DNS, DHCP, WINS;

- Integrated support for high availability (failover);

- High-performance computing platform.

Novell highlighted a number of developments that would be a result of the acquisition:

- Novell would become the first to offer comprehensive Linux solutions for the enterprise from the desktop to the server through its own offerings and existing SuSE partnerships with vendors including HP, IBM, Oracle, AMD, Intel, EMC, SAP, SAS, Siemens, Sun, and Sybase, among others.

- Novell would be the only $1 billion software company with a Linux distribution and the worldwide technical staff to support it.

- Novell/SuSE LINUX would become the world's largest supplier of desktop-to-server Linux solutions and technical support.

This acquisition follows a series of Linux-based announcements from Novell over the last four months including the August purchase of Ximian, a supplier of Linux-based server and desktop solutions, and the September release of an open beta version of Novell's Nterprise Linux Services. Novell stated that it will continue to support Red Hat Linux, but SuSE will become their preferred Linux platform.

Timing

The transaction is expected to close by the end of its first fiscal quarter, January 2004, and is subject to regulatory and stockholder approval. The SuSE/IBM agreements are expected to be finalized and effective prior to the acquisition closing.

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This announcement is a classic case of "there is good news and there is bad news." We'll start with the good news.

This is a good move for SuSE, for Novell, and if properly brought to market, possibly the user and the marketplace as a whole. SuSE gains access to a worldwide partner/channel infrastructure, enterprise sales and support force, and a strong enterprise brand, while Novell revitalizes its eco-system with a new "engine" in the emerging opportunities of Open Source Linux in the enterprise. Linux has made significant impact on enterprises as edge servers have appeared and as enterprises have built out their networking infrastructure. Customers have realized the Linux advantage in Web servers, protocol management, and firewalls, finding a relatively easy justification and quick return. However, save the early adopters in the high-performance technical computing and finance communities, users have yet to embrace Linux for their business process applications, to say nothing of the highly optimized data centers extant with significant man-years invested in finely tuned operations.

The opportunity for Novell will be to leverage the significant beachhead Linux has at the edge of the Net and coordinate a big move, manifest in two directions. First, the company can focus on application developers: encouraging the development of business process application that ties user interaction with data center information and applications; offering support and leadership in the ideological clash between the open and proprietary software business models. Second, at the desktop, the company can offer an alternative to Microsoft. The value of integration in the application space is more than compelling; it is critical and is the principle driver of various XML and Web Services efforts. Microsoft has been responding with its Microsoft Office System. Novell is now in a position with its Novell, Xiaman, and SuSE components to address the challenge as well and without the burdensome Windows franchise to protect.

Now, the bad news. Novell's acquisition of SuSE Linux could jeopardize the future success of Linux and the open source movement. Given Novell's history as a proprietary value-focused ISV and its maintaining a toehold in the market through turbulent times that has seen its large, but shrinking, installed base under attack, the acquisition of SuSE would seem to run counter to the spirit of open source computing given Novell's history as anything but an open source distributor. To many, Novell is a poster child for the type of closed, single vendor solutions that open source forces are seeking to combat. To the religious stalwarts, SuSE would appear to be sleeping with the enemy.

SuSE adherents have reason to be concerned, given Novell's recent track record in executing acquisitions in a fashion that has been less than optimal to all concerned. In particular, consider Novell's acquisition of the UNIX source code from AT&T that led to the ultimately doomed Unixware moniker. As with many things, the timing was wrong and Unixware came in direct conflict with what was at the time Novell's cash cow, Netware. The company failed to give Unixware the support it needed especially in the area of channels development — a notable shortcoming given Novell's success in creating a very successful channel program for Netware — yet the company failed to educate the channel about its new UNIX offering. Consequently, Unixware was sold off in 1995 — along with the original AT&T source code — to SCO in what is now a contentious legal dispute, which is a topic in and of itself.

So the question lingers: Why does Novell need to purchase an open source distributor when the source code is readily available? Novell already has a working relationship with SuSE and through its acquisition of Ximian was building a portfolio of Linux-based offerings. If Novell truly leaves SuSE alone, i.e., operating under the same open source environment that it has to date, and just uses Novell's well established channels to boost distribution, then this could be a boon for Linux. However, if there is even a hint of Novell adding proprietary extensions to SuSE Linux or too tightly coupling it with their own application offerings, then the market runs the risk of repeating the fractionalization and ultimately debilitating experience that UNIX vendors experienced.

Novell is in an interesting position. The full circle nature of the current Novell Linux strategy is mildly ironic with regard to the nature of timing. Novell had spent a dozen or so years acquiring and then selling comparable technologies and products to the elements they are integrating in this strategy. Unfortunately, through it all, the market, the marketing, or the management (or some combination of all three) was unable to respond to the opportunity. That was then and this is now.

This time, Novell has a clear opportunity with a market armed with a business-centric applications needs and a management-centric "lower my costs" mantra. Novell marketing and messaging has weathered the storms of the post-Y2K market and improved the cluttered and often confusing messaging landscape. The management appears to have answered the lingering product/services/solutions question that was hampering Novell in the recent past with a confident "yes" and is working a strategy that has the potential to integrate Novell-the-business, as well as Novel-the-technology. SuSE Linux is a strong product, a strong open source proponent, and a potentially excellent catalyst in Novell's move into the center of the enterprise Linux contest.

Nonetheless, the risks are enormous. Even though SuSE is not the largest Linux distributor, the threat of code base fragmentation is very real and could blow the whole open source effort out of the water. Internally Novell continues to face the inherent juxtaposition of maintaining the NetWare user base while embracing a future whereby NetWare is increasingly irrelevant. It would be a shame if this opportunity to further legitimize Linux and bring it into the mainstream of corporate IT processes is lost due to internal (Novell) or external (SCO, that other Utah company) bickering. Nevertheless, it will be up to Novell to prove they have the discipline and foresight to pull off the acquisition and product execution. If successful, Novell could come out revitalized. If unsuccessful, the impact will reach far beyond Novell, and quite possibly damage the industry as a whole. Competition usually breeds vitality. Since it's in the best interest of the industry, we wish Novell good fortune in this endeavor and hope they force both Microsoft and Red Hat to run even harder.