Chapter XLVI
Novell's Open Source Evolution

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ABSTRACT

Novell, Inc. was a leading network operating system provider in the 1980s and early 1990s. However, in the mid-1990s, Novell lost market share in the network operating system market. To counter this loss of market share, Novell made a strategic decision to go open (i.e., to make use of open standards and open source business strategies). Novell employs a subscription strategy, selling subscriptions to its Linux desktop operating system called SuSE. Novell has subsequently successfully handled the change-over from being a proprietary network operating system provider to being a leader in Linux and open source solutions. For example, a comparison of the financial results of Novell's fourth quarters of 2004 and 2005 shows an increase of 418% in Linux revenue to US$61 million. Novell has demonstrated that open source business strategies are feasible and profitable.

INTRODUCTION

Novell, Inc. is one of only a few multinational organizations that originally produced proprietary software and is now driving and successfully implementing a free/libre open source software (FLOSS) business strategy. Since 1994, Novell has been actively making use of open standards and open source software (OSS) from both a technical and a business point of view. Today, Novell uses open source standards and software in its business strategy.

In recent years, researchers have taken a keen interest in the open source sphere and how it can be applied to business strategies and business models (Koenig, 2004; Raymond, 2000, August; Raymond, 2000, September).

A concern exists within the academic world that in this arena there is no substantial evidence on whether the processes and practices are effective within the business environment and whether the theories are not prematurely adopted in an enthusiastic manner (Bitzer & Schröder, 2004; Scacchi, 2004). Goode and Golden (2004; 2004) suggest that organizations are reluctant to be initial adopters of open source strategies without knowing whether or not OSS can bring substantial financial benefit to their organizations' business.

Raymond (2000, August) points out that by studying this question, one will gain valuable insight into the economics of open source use. Therefore, there is a need for studies to be done on organizations that have successfully implemented an OSS strategy (Raymond, 2000, August). Not enough practical core studies have been done based on any successful use and implementation of effective open source strategies and business models (Bitzer & Schröder, 2004; Scacchi, 2004).

This chapter is an attempt to fulfill the need for such a study and will hopefully prove that an open source business strategy is a feasible and profitable option. The outcome is based on a practical case study.

BACKGROUND

Apart from any studies done, Raymond (2000, August) suggests that organizations releasing their products as open source compel information technology organizations to focus on the service industry rather than on the product manufacturing industry.

Specifically, he suggests that Linux distributors should compete with each other in a manner that would benefit us all. They are required to compete on service and support rather than product and price. Legally and ethically, Linux distributors can only sell service, administration, support, distribution, media, training, and its brand to consumers and clients who are willing to comply with the terms and conditions of the GPL license under which the Linux kernel is licensed (Lerner & Tirole, 2005; Raymond, 2000, August).

Novell has followed a route that has allowed it to enter the open source market more effectively by providing Linux distribution and Linux support, and by selling proprietary software along with open source Linux distribution. This allowed Novell to profit from selected proprietary products as well as to enter the service industry. Novell is believed to have effectively entered the service market and is considered a successful open source provider, having followed a systematic rather than a "big-bang" approach.

The intention in this study is to look at several factors to determine whether or not Novell has made a success of its One Net strategy (a world without information boundaries), which is mainly driven by OSS.

To do this, I will show that Novell actively changed from being a proprietary software provider to being mainly a service provider of open sources in particular, changing its strategy to deliver a business solution by making use of Linux and OSS. This study will examine Novell's corporate history, its public financial statements (10K filings), and interviews with Novell personnel to show that open source is a viable and alternative to proprietary software.

OSS Business Models

According to Young (1999), making money with OSS is very similar to making money with proprietary software. This is achieved by producing a good product, properly marketing it, taking care of one's customers' needs, and building a brand that represents excellent service and quality.

Hendry (2002) maintains that open source use enables companies to make money, save money, and form better business partnerships with greater compatibility by means of various credible business models.

Similarly, Dahlander (2004) contends that although contributions to the OSS process are public, this should not be misconstrued as meaning that innovators are prohibited from capturing private returns from their contributions. In other words, an enterprise can make money from open source use.

The benefits of using Linux, according to Young (1999), are not its ease of use, the operating system's robustness, its high reliability, or the OSS tools with which Linux is distributed, but rather the benefit of control it provides to use, change,

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