

North American SMBs Still Favor Windows Over Linux as Server Platform

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In the near term, Linux does not pose a credible threat to Windows on the server platform. Though Linux continues to gain momentum among small and midsize businesses in North America, the lack of skills availability is a limitation that hinders its value.

It may appear that an alternative to vendor lock-in and Windows' licensing complexity, high costs and security issues would drive a healthy portion of small and midsize businesses (SMBs) toward the Linux alternative. However, this is not yet the case. Internal limitations, such as skills availability and availability of related external vendor support, continue to hinder expansion of Linux on the server in the SMB market. This is especially true within North America, where Linux adoption among SMBs appears to be the least advanced when compared with Asia/Pacific and Europe, the Middle East and Africa. Although significant powerhouses, such as Dell, HP, IBM and Novell, are investing heavily and standing behind this movement, application vendors, value-added resellers and systems integrators have yet to follow with similar fervor. Overall, businesses do not trust Linux as an operating system to support their mission-critical business applications. This attitude is slowly changing though as notable business solution vendors are making their products available on Linux.

For the past several years, Gartner has surveyed North American SMBs to determine where they sit in terms of their attitudes toward Windows and Linux on the server. A phone survey conducted among IT purchase decision makers in the fourth quarter of 2004 provides near-term insight into SMB interest in Linux.

Unwilling to take on additional costs related to interoperability, migration and integration, SMBs are still insufficiently motivated to make Linux a bigger portion of

their server infrastructures. Market hype has established the perception that the low cost to acquire Linux is enough to drive mass adoption. However, server operating system decisions among SMBs are not based solely on price. When considering server operating system investment options, the majority of SMBs consider three key elements to be more important than licensing costs:

- Availability of business applications that run on a given operating system
- Availability of skills to support the operating system environment
- Ease of integration with the established operating system/established environment

Additional performance expectations in terms of reliability, security and stability are also of significant importance to this constituency. Although the licensing cost of the Linux operating system is lower, the investment in elements associated with Linux adoption to support core functions, such as applications, services and skills (and the initial switching costs), are significant deal breakers. To this conservative market, the intangible cost of putting faith in an emerging technology alternative vs. a proven mainstream technology supported by an extensive skills ecosystem (including the support of all-important Tier 2 and Tier 3 independent software vendors and integrators) is a strong inhibitor to Linux adoption. SMBs require improvements by order of magnitude in function, cost relief, security and reliability to displace entrenched operating system technology. As shown in Figure 1, the majority of all SMB segments are unsure or do not see the benefits of Linux on the server for their organization. These results are virtually unchanged compared with last year's figures. Therefore, it is no surprise to see that the vast majority of SMBs have no plans to invest in Linux on the server this year as shown in Figure 2.

Figure 1
SMB View of Linux as a Server Operating System

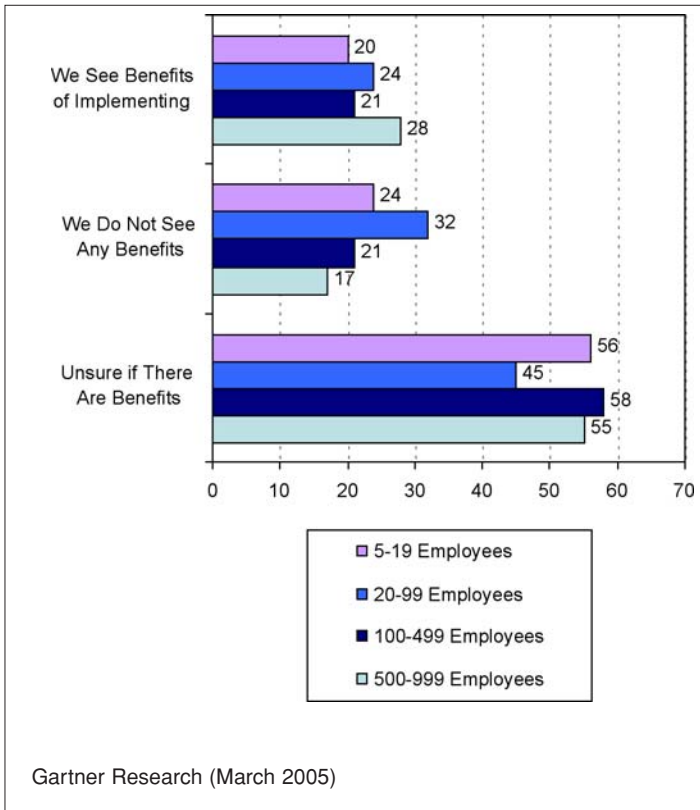
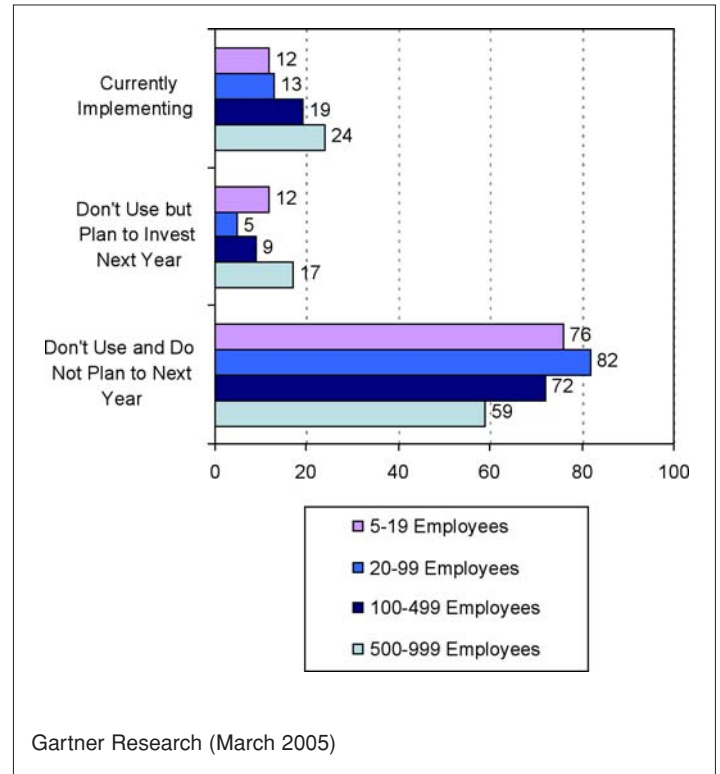


Figure 2
SMB Investment Plans for Linux Server Operating System



Alternatively, the market continues to see value in Windows on the server, as shown in Figure 3. Respondents plan to continue investing, as shown in Figure 4. Just as with the attitudes toward Linux, those associated with Windows are virtually unchanged.

Based on analysis of server sales, the understanding and commensurate adoption of Linux is increasing steadily among SMBs. Use of Linux among SMBs is apparent among Web servers, security firewall appliances and virtual private network (VPN) enablement. Through 2007, SMBs will remain hesitant to explore Linux as part of their infrastructure to support core business processes (0.7 probability). Within the 2008 through 2010 time frame, Linux will have the most significant potential for disruption, primarily because of the end of life of Windows Server 2003. Before Linux can cause this disruption that would be similar in magnitude to the battle between NetWare vs. Windows, the following factors must occur:

- Linux must be proved to contribute more to overall efficiency vs. providing only licensing cost relief
- A more mature and experienced channel must develop to provide the migration, integration and support for SMBs
- More business applications vendors must build software and support around the platform
- The IT services market, on which SMBs heavily rely, must see the need to invest in related skills
- Linux must become a core infrastructure element for leading-edge SMBs to provide "proof of concept" to their more conservative peers

As Linux drives deeper into large-business infrastructure, the much-needed Linux ecosystem will develop. As a result, the independent software vendor, IT services and available employee skill base is certain to increase. Large

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Figure 3
SMB View of Windows
as a Server Operating System

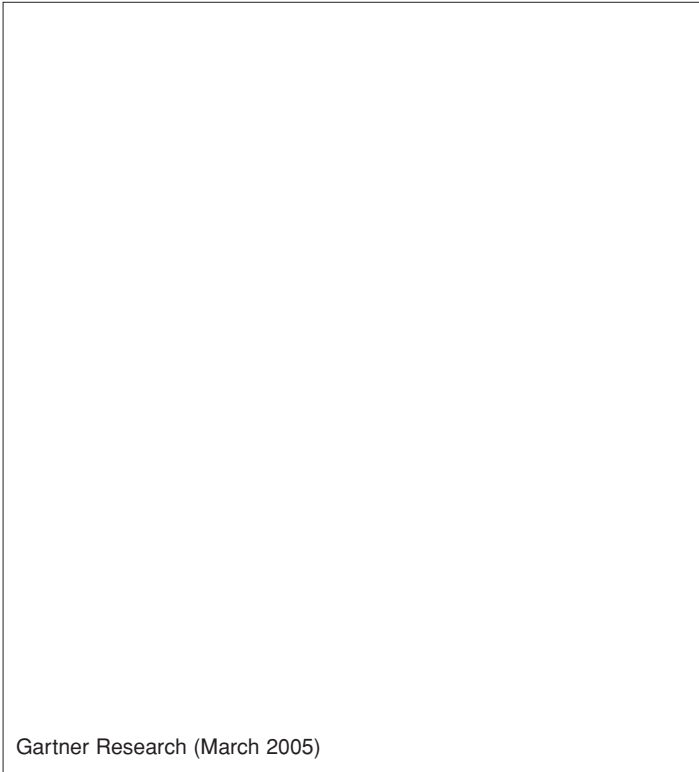
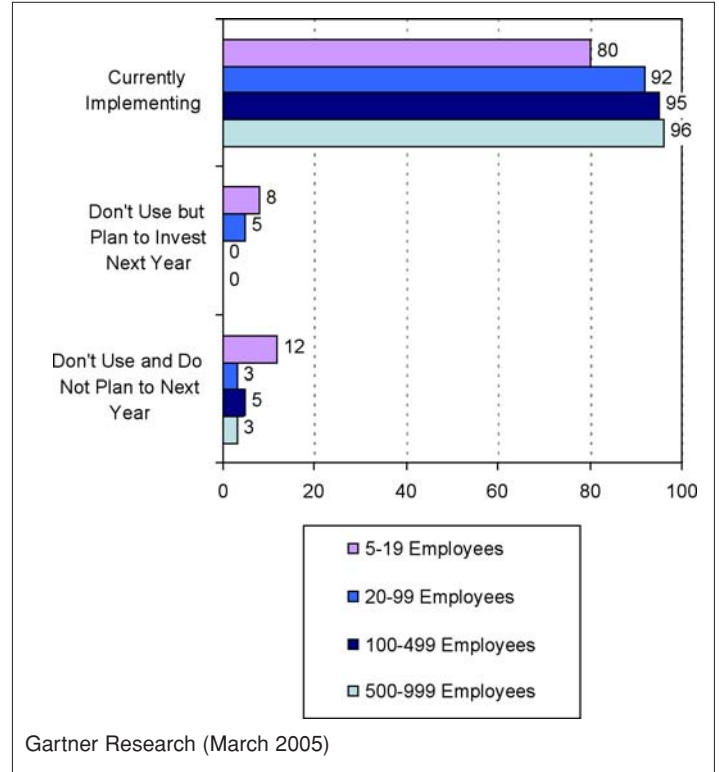


Figure 4
SMB Investment Plans for Windows Server
Operating System



vendors that are already heavily invested in making Linux a success must invest in creating this ecosystem through 2010 to coincide with Longhorn's release and the end of Microsoft support for Windows Server 2003. If this comes to fruition, a viable alternative will provide SMBs with a viable choice. This scenario will not go uncontested by Microsoft, which, aside from moving aggressively toward Longhorn, is working on interim services, channel programs and products steps to develop stronger relationships vs. transactions with SMBs to drive increased value into business operations. As SMBs become more apt to allow business functionality to drive their platform decisions, they are sending indicators that they are becoming more untethered to their homogeneous operating system environments, such as an increased willingness to take on a more heterogeneous environment for the sake of better business functionality – Microsoft has no time to waste.

Bottom Line: Awareness and understanding of Linux among small and midsize businesses are on the rise, however the reliance on Linux-run core business applications is not yet significant. Support of business application and services vendors, especially among Tier 2 and Tier 3 vendors that generate less than \$500 million in revenue (the principal suppliers of the SMB IT services and software markets), are critical to moving Linux from an emerging technology to a mainstream option in the minds of SMBs. Also, a cultural shift toward a more heterogeneous environment must be accepted internally to signal a noteworthy shift away from Windows.