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Red Hat and The Linux Revolution

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Red Hat's Future:

- **Application Development:**
 - Not clear open source works
 - Red Hat doesn't have requisite skills
 - Compete against MSFT Office after the market has tipped?
 - Instead, primary focus is corporate servers, not desktops.
 - Focus on specific industry verticals!
 - Customized server/middleware solutions for Financial Services, Governments, etc.
- **Building a Service Business**
 - Step 1: Differentiate by access to kernel gurus
 - Step 2: View the software itself as a service
- **Ongoing challenge is both technical and cultural**

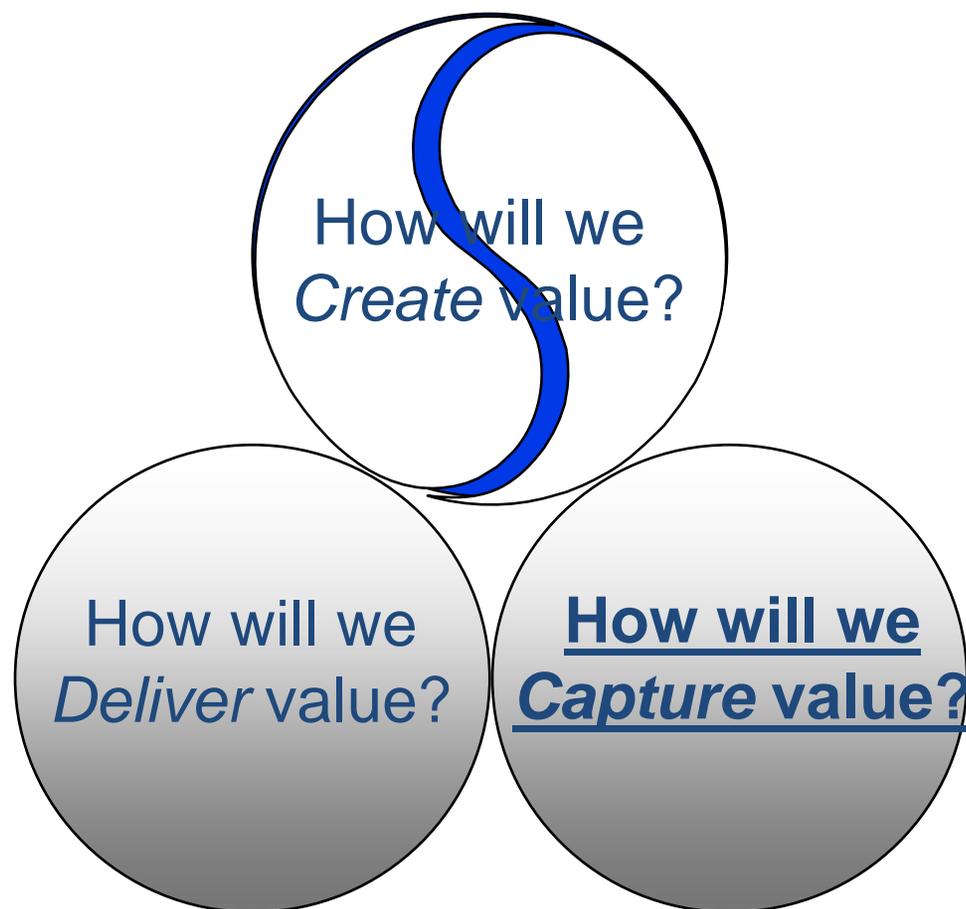
Open Source's Strategy Problem:

- **How to appropriate the value of IP when IP is “free”?**
 - Linux is the most successful “free IP” in the world.
- **Capturing Value from open IP:**
 - Brand it and License it (Rambus)
 - Bind it to products or services (Red Hat)
 - Bundle it in products and services (IBM)
 - Leverage IP to lower competitive prices (customers/Intel)

Open Source's Strategy Problem:

- **Long run value proposition remains unproven:**
 - Will developer community (complementary asset) stay loyal?
 - Are there sufficient incentives to prevent defection?
- **In weak IP appropriation regimes (open source is the extreme!), customers and complementors are the biggest beneficiaries (depending on how tightly complementary assets are held)**
 - Even if Linux fails (long run), it would weaken MSFT, strengthen IBM/Intel, and lower TCO for customers.
- **Biggest challenge: solve the “network effect” problem: find a market which they can “tip”**
 - Could be the big contender for “embedded solutions” – e.g., TIVO, vertical apps, mobile (Gphone)

Where have we been? Where will we go?



- **Creating Value:**
 - Technology S-curves
 - Market Diffusion & Industry Life Cycles
 - Organization Design: Structure, Process, Collaboration, Centralization
- **Capturing Value:**
 - Uniqueness: IP, Speed
 - Complementary Assets
 - Value Chain
 - Standards: Access & Control
 - Network Externalities: Tipping & Winner-Take-All

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Looking Forward:

- Start thinking about your final project:
 - Firm and Industry (can be the same one)
 - Same Team?
- Next Session: Google