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Internet & Technology

Red Hat Heads For New Products

Competing With Giants

The open-source firm to sell software for portals, management of content

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Red Hat, Inc. looks to wear a number of hats in the business software industry.

It's already the dominant player in open-source operating systems. Now the company's forging ahead in two converging business applications: programs that create Internet portals and software for managing online content. By bundling the two types of programs together, Red Hat looks to compete with the giants of business software.

Red Hat's product breadth doesn't match that of Microsoft Corp. or IBM Corp. But by diversifying into portals and content management, it could carve out two significant new niches. Another potential edge: the company relies on open-source software, which is constantly honed by an army of outside developers.

Though portals and content management packages are relatively small markets, forecasters expect each to expand more quickly than most other types of business applications. If Red Hat succeeds in building an early presence, the company – and the open-source concept – could become a fixture in mainstream business computing.

"Red Hat rules in portals and content management among open-source distributors right

now," said Susan Funke, an IDC analyst. "And they've got a total suite now that brings together a lot of different features a business needs."

Like all open-source companies, Red Hat publishes the source code for its applications for free online. Source code is akin to a program's main blueprint.

Cost Advantage

Developers are then free to download that code and tinker at will. Red Hat and other open-source developers don't make their money on the software itself; they sell services and support.

Information technology managers have already shown plenty of interest in open-source software. The upfront costs of such programs are typically lower than those of proprietary software.

And because the software is shared and strengthened by programmers worldwide, the result can be more robust than proprietary fare.

All of that has made open-source one of the fastest-growing areas of business software. And it's expected to become even more popular in coming years.

Red Hat, which will report its fiscal first-quarter results Tuesday, looks to tap into that growth with its latest expansion.

Analysts expect the company to post a penny per share in earnings for the quarter, up from a loss of 3 cents a year ago. Red Hat's hovered around break-even the past two years.

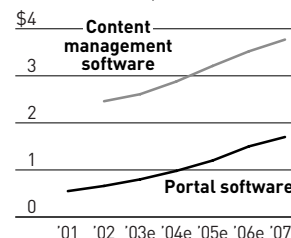
It's too soon to tell how portals and content management will impact the bottom line.

Portals are Web-type interfaces that provide corporate information to employees, suppliers and

Branching Out

Red Hat's aiming for two new markets: portal software and content management programs. Both are expected to grow quickly

Worldwide sales, in billions



Source: International Data Corp.

customers. Content management software, meanwhile, takes corporate documents, data and photos and puts them to efficient use online.

Big software firms are targeting these two areas. They include IBM, Oracle Corp., Microsoft and PeopleSoft Inc. Smaller players include Documentum Inc. and Computer Associates International Inc.

So Red Hat faces plenty of competition. But its open-source approach will help in portals and content management, company officials say. That's because Red Hat can keep costs low.

"These are both rapidly consolidating markets where products are selling more like commodities," said Ed Boyajian, a Red Hat vice president. "So open-source can play an important role in that type of an environment."

But the portal game is rough. At least 200 software firms joined the market between 2000 and 2001. By some counts, there are fewer than 50 serious contenders left.

Coming Together

Like Red Hat, most of these companies are blending portals

with content management systems.

"Portals are becoming more complex, so they need some sort of content management application to keep track of everything," said Brian McDonough, an IDC analyst.

As a result, he says, both markets are colliding. That should further consolidate the field of players – something that could help Red Hat.

"Red Hat certainly has established enough of a customer base now to sell products against bigger competitors," said McDonough.

The portal market is smaller than the content management field, but it's growing faster. Portal software generated sales of \$660 million in 2002, IDC says. Sales are expected to rise 21% annually in coming years.

Content management produced nearly \$2.5 billion last year, with a future annual growth rate of 9%.

"We're coming behind a real wave of activity," said Boyajian.

Red Hat says a typical large business can install and support open-source systems – including its portals and content packages – for less than \$50,000 a year.

Contrast that with licensing fees for proprietary systems. They typically cost more than \$500,000 a year for a midsize or large business, says Boyajian.

Sellers of proprietary portal and content management software don't deny those figures. But they argue that when everything's included, their costs are lower.

Open-source software firms are still seen by most large corporate IT managers as inadequate compared with the likes of Microsoft and Oracle, analysts say.