



Market Opportunity Analysis For Open Source Software  
Management Summary

Prepared by:



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## **Objective Of The Study**

This study was commissioned by the independent 'not-for-profit' organisation, OpenForum Europe. OpenForum Europe was established to accelerate and broaden the market take-up of Open Source Software (OSS), including Linux. It aims to strengthen the perception and credibility of the Open Source offer, particularly within government and among business users. The study was jointly funded by the Department of Trade and Industry.

In order to support these objectives, Trend was asked to carry out a market study to understand UK business' perceptions on Open Source Software, and specifically to identify how OSS is being used, the main "perceived" and "real" benefits of OSS, and the main hurdles that need to be overcome to increase market adoption of OSS.

## **Methodology**

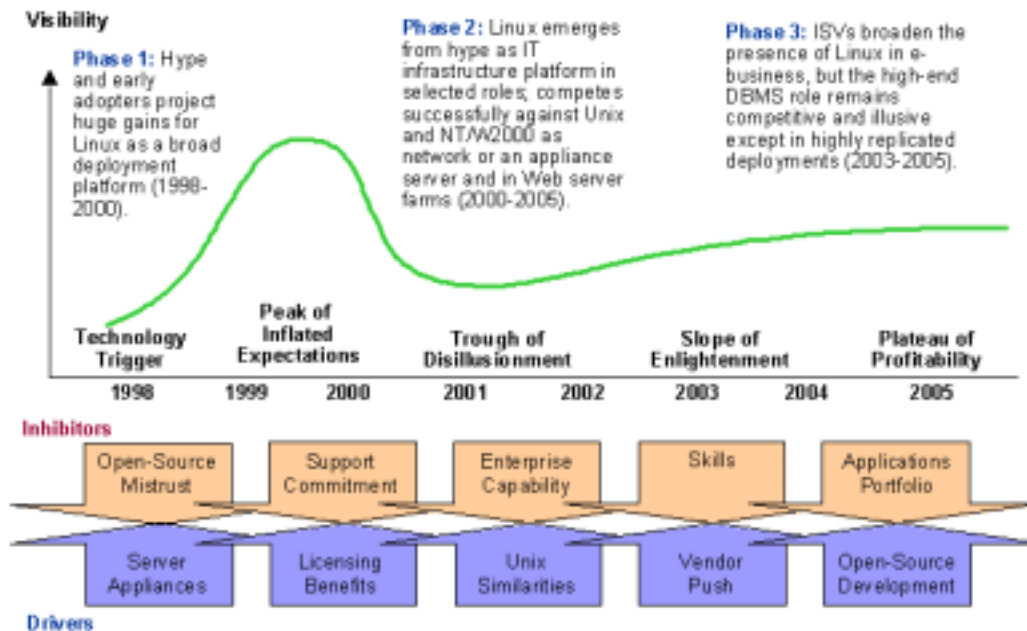
Two main strands of research were conducted : Firstly, Trend reviewed and collated all recent secondary research around OSS from organisations such as the Gartner Group, IDC and CRN. Secondly, in-depth, highly qualitative primary research interviews were carried out with two types of decision makers, CIOs and Finance Directors. The reason behind this segmentation was the need for both an IT and board level business perspective on OSS, and to see the amount of communication between IT and the board on this matter.

A total of 59 CIO and 17 FD in depth telephone interviews were carried out, across an even number of large Financial Services, Retail and Public Sector organisations.

## **Overview of Secondary Research**

The secondary research (all of which was either US or Worldwide specific), which Trend examined, suggested that the market for Open Source Software, and in particular Linux, was growing rapidly, with annual growth rates for Linux estimated at around 30% (The Tower Group). InfoWorld report that OSS's principal usage is as a webserving platform, but usage as a server operating system is increasing.

The following chart is taken from a recent Gartner Group report, which highlights the stages of maturity they believe Linux will go through, as well as highlighting the main drivers and inhibitors at each stage of maturity.



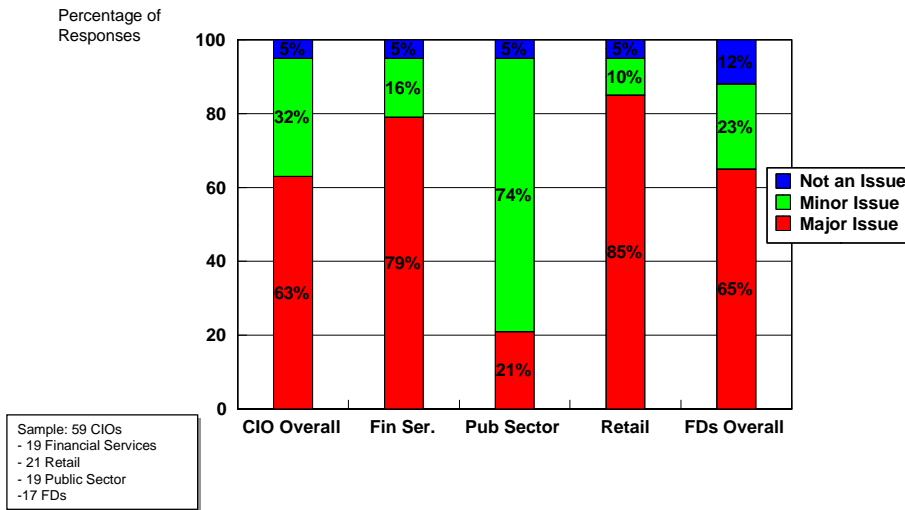
Encouragingly, whilst all available secondary research was not Europe or UK specific, these findings correlate well with Trend’s primary research findings of the UK market.

### Total Cost Of Ownership

Whilst reducing costs in general, and total cost of ownership in particular, is high on the agenda for both CIOs and FDs, this can only be achieved alongside maintaining, if not improving the existing levels of service and performance. The main challenge faced by CIOs here is how to get more out of their existing IT environment at a lower cost.

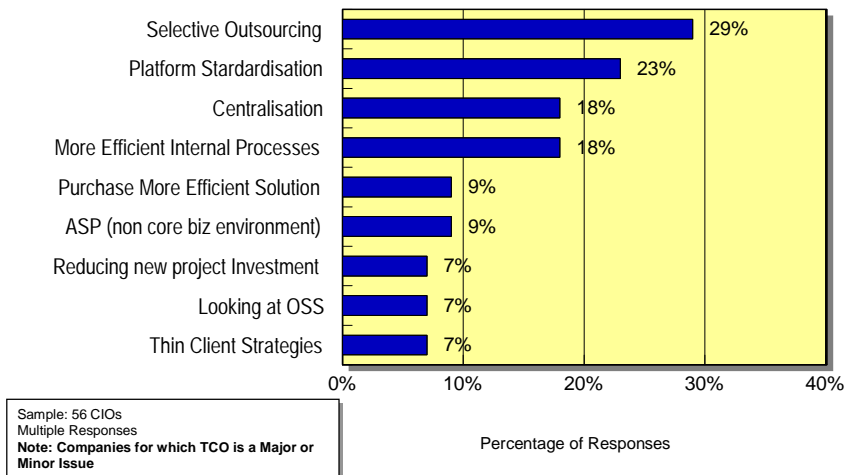
This is particularly so in the Financial Services and Retail sectors, both of which are high user, multi-site industries operating with tight margins with accountability to shareholders. TCO reduction is considered less of a major issue for organisations within the Public Sector, presumably either as this sector does not share these same characteristics or because of the impact of outsourcing.

## Is reducing total cost of IT ownership an issue for your organisation? Industry Segmentation



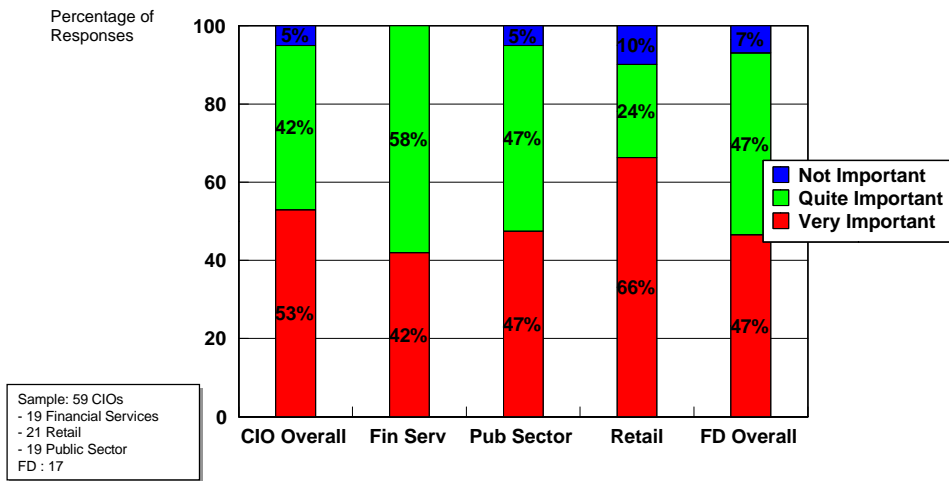
Reducing TCO was shown to be clearly the remit of the CIO, with the FD having little / no input in the actual strategy. Selective outsourcing (ie the outsourcing of specific elements of the IT department), particularly of low value, high cost activities such as desktop maintenance will be a key TCO reduction strategy for organisations, particularly in the Finance Sector, which is more sophisticated in its approach to and understanding TCO. This sector will also increasingly standardise the number of operating systems, hardware platforms and applications used in order to reduce support and management costs. The Retail and Public Sectors however will see more centralisation of procurement for better economies of scale in order to help reduce TCO.

## What is your strategy for reducing your Total Cost of IT Ownership? Overall



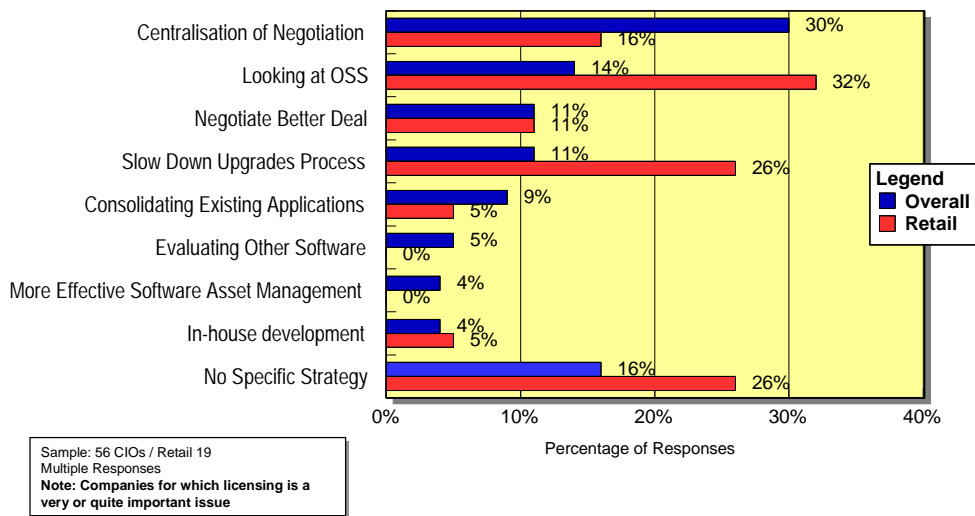
With both CIOs and FDs viewing software licensing costs as a strong contributing factor to the Total Cost Of Ownership, particularly in the Retail Sector where there are large number of point of sale terminals with associated licenses, strategies are being formulated to address license cost reduction. Cited by many interviewees the recent changes in software licensing by some leading software vendors have increased the pressure on CIOs to reduce such costs.

### How important is the licensing issue as part of the Total Cost of Ownership?



Creating a stronger position to negotiate with software vendors is seen as key to reducing software license costs, by centralising software procurement and hence achieving better economies of scale. However, organisations, particularly in the Retail sector, are beginning to look to OSS as a means to reduce such costs.

### How are you addressing the licensing issue?



## High Street Retailer - CIO

*"We are looking to use Linux more and more. When you use Linux the cost of managing that equipment goes down substantially. Also, with Linux you don't need to upgrade the equipment that often and that is in line with our IT budget being cut".*

## Insurance – CIO

*"We are powerless to deal with it really , and it is hard to accept what the software vendors threw at us. With respect to normal IT projects in a competitive tendering situation, we will obtain lower costs and discounts. However, with our current supplier we are locked in. The effect has shown in the 2002 budget."*

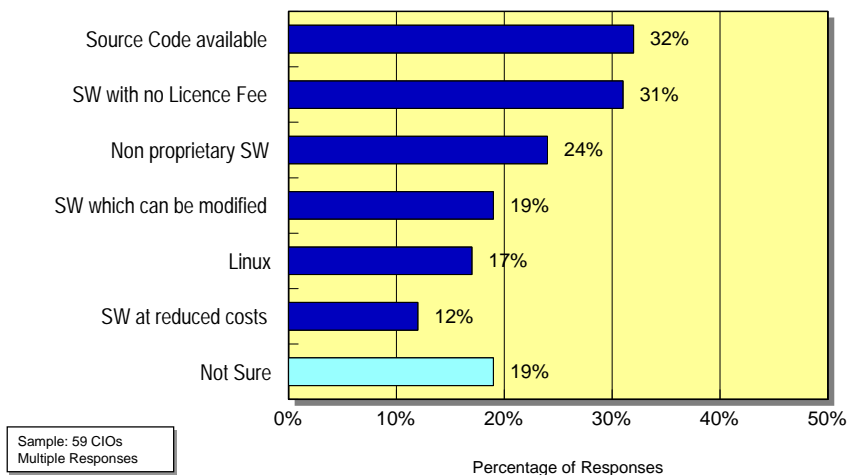
## Insurance - CIO

*"We have been going through discussions with our supplier for upgrades, which will have a large financial impact on us. We are not happy with the way some of the software is charged for and structured in terms of payment. It needs to be more flexible and this is where OSS becomes an advantage. It has to be established though, before we are confident to look at it as a means of addressing the licensing issue."*

## Perceptions Of Open Source Software

Overall, the level of awareness of OSS amongst CIOs is high across all segments, and low amongst FDs. The main perceived characteristics of OSS are interdependent, and are based around having access to the source code, which allows open development and modification of software, which carries little or no license fee and is non-proprietary in nature. Retail and the Public Sector however associate OSS much more closely with Linux than within Financial Services, which has a broader view.

### What is your interpretation of Open Source Software? CIOs Overall



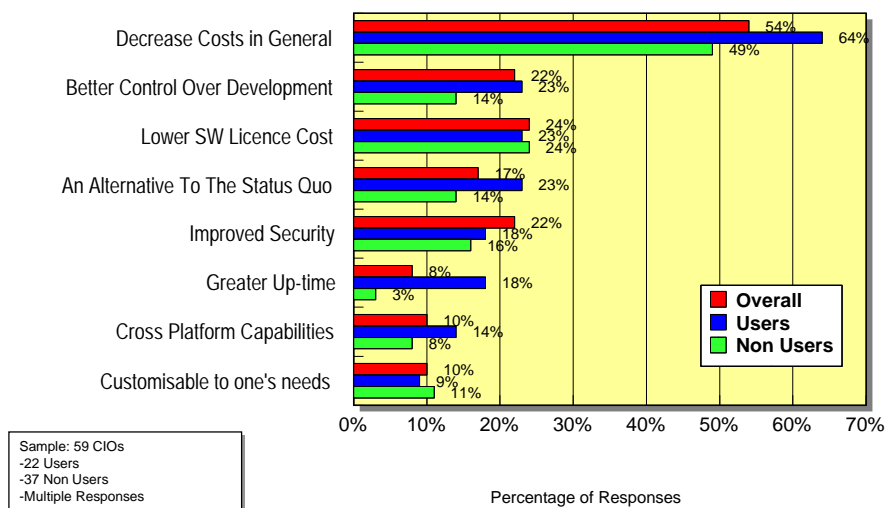
Prior to asking questions around perceived benefits and challenges of using OSS, all respondents were given the following Government definition of OSS, taken from an E-Envoy paper:

*“Open Source Software is software whose source code is openly published, is usually available at no charge, and which is often developed by voluntary efforts. It has leapt to prominence by starting to take significant market share in some specific parts of the software infrastructure market.”*

The principal perceived benefit of using OSS is the significant costs savings in terms of reduction of license costs. In addition, providing access to the source code will allow organisations to protect themselves more effectively from security breaches as well as having more control over the development, thus allowing more customisation.

CIOs, whose organisations are already using OSS, (hereafter referred to as users) are also able to cite “real” in addition to “perceived” benefits. Not only do they support the cost reduction OSS offers, but have a stronger view of just about all the benefits of OSS, notably the improvement in uptime.

### Perceived Benefits of Open Source Software

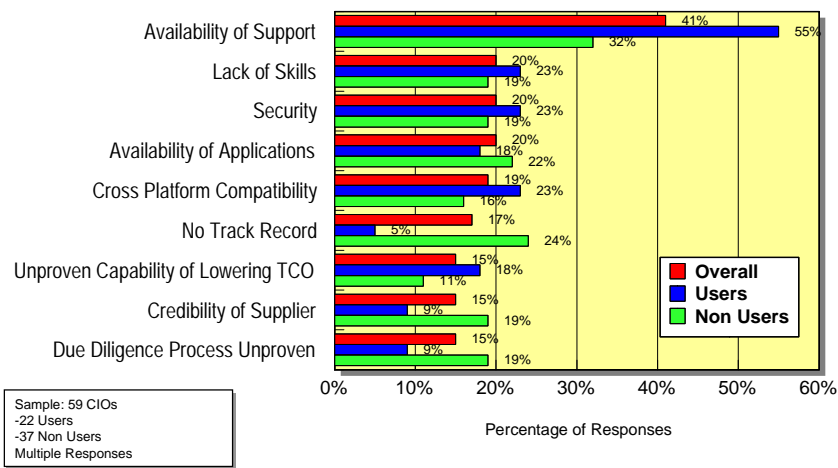


### High Street Retailer - CIO

*“If you know how the source code works you are much more likely to be able to sort out your problems. You will be able to link the software with the O/S better. You won't have to spend so much on maintenance, the costs will be lower. It would also cost a lot less to develop the software in-house and get it to work the way you want it to.”*

The main challenge in deploying OSS is perceived risk – OSS is seen to lack accountability, support (particularly amongst users of OSS who have experience of this), skills and credibility, making it an unproven, and therefore risky option. Financial Services organisations were concerned that OSS has security flaws, because of its open nature. In addition to the risk factor, CIOs need a clearer economic argument for deploying OSS, as currently there are doubts as to the cost benefits in replacing existing infrastructure with OSS, as well as how compatible and easy to integrate OSS will be.

**Perceived Challenges of Using Open Source Software**



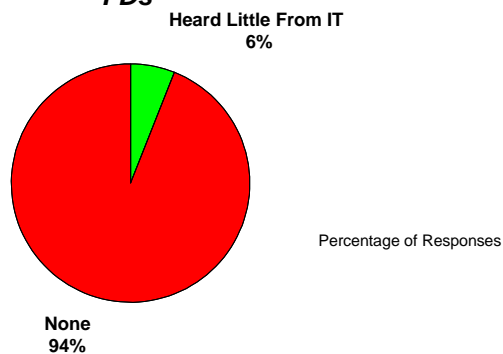
**Bank - FD**

*"The main challenge is who do we sue?"*

As mentioned, awareness levels of OSS are very low amongst the FDs interviewed, perhaps because at present they are receiving no input from the IT Department regarding this.

**What input with regards Open Source Software have you received from your IT division/department?**

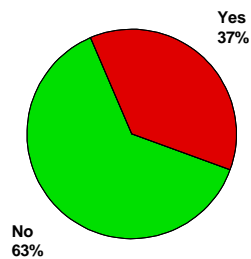
**FDs**



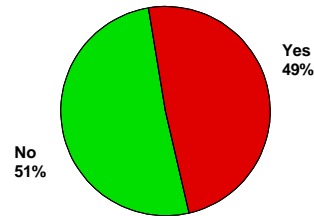
## Usage Of Open Source Software

OSS usage is growing, although the perceived risk factor means it is currently being used tactically, rather than strategically. Hence, its most common usage is for infrastructure, namely for webserving and as a firewall, where OSS is perceived to be well suited. Currently, around one third of organisations sampled are using OSS, and this will increase to around one in two in the future.

**Do you currently use Open Source Software within your IT environment?**



**Will you use Open Source Software within your IT environment in the future?**

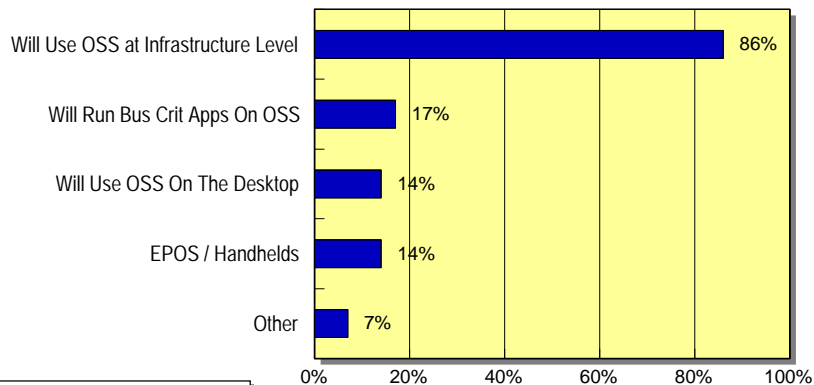


Sample: 59 CIOs

Percentage of Responses

OSS will continue to be used infrastructurally, although CIOs will evaluate OSS as platform for business critical applications, particularly in the Retail sector, where OSS is proving to be a cost effective alternative for Point Of Sales systems. The degree of desktop usage, however, is rising and may well be increasingly significant.

**How are you looking to use Open Source Software in the future?**  
**CIOs**



Sample: 29 CIOs  
Multiple Responses  
Note: Companies planning to use OSS

Percentage of Responses

### **High Street Retailer - CIO**

*"We're currently looking at our business plans. The licensing cost issue alone makes it more likely that we will move to Linux. We have 30 to 40 tills per location and when you multiply that by the number of stores we have you can then imagine what that's going to cost."*

### **Insurance - CIO**

*"It will play an increasingly important role in our IT strategy. I would like to run it mainly on the mainframe, as licensing costs are enormous for OS/390, so we will look at replacing it with Linux."*

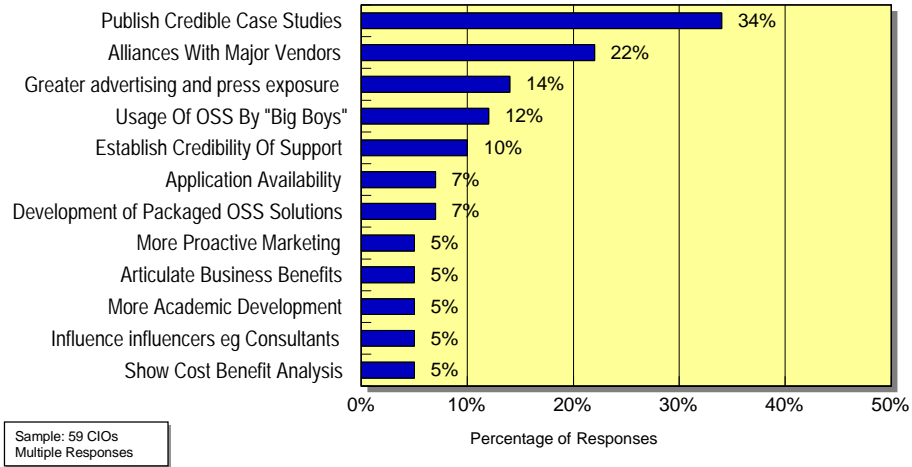
## Conclusions

- CIOs understand the importance of reducing TCO and how licensing contributes to this, but are less likely to accept a reduction in IT performance (eg uptime, response times) in exchange for cost reduction.
- Therefore, OSS adoption will not only be driven by cost reduction, but also maintaining, if not exceeding existing levels of IT performance.
- The overall perception of the concept of OSS is positively received, but CIOs do not buy philosophies – they buy technology which is proven to help them run their business.
- There is not a strong understanding amongst CIOs of the Open Source business model and the varying license terms available.
- At present OSS is being used and will increasingly be used in the short term tactically by organisations.
- Perceptions amongst users and non-users differ in that users have a better grasp of the cost and improved uptime benefits of OSS, although conversely have more concerns about support, based on their previous experiences of obtaining it. The concerns of non-users are more around the lack of track record and credibility of OSS.
- In order for OSS to be used more strategically, CIOs are looking for their peers to make the move first, to minimise the perceived risk.
- The issue of support delivery must be addressed as this is an inhibitor to adoption, especially as OSS users have cited this as a key area of concern.
- Whilst overall cost reduction is clearly the responsibility of FDs, how IT costs, and license costs in particular, are reduced is the remit of CIOs and their teams.
- Hence, FDs are not receiving any input from IT regarding OSS and its ability to reduce TCO, and have little / no knowledge of this.

## Recommendations

Trend bases its recommendations on how to increase adoption of OSS for business use on those provided by the CIOs and FDs interviewed for this study, namely:

### What is needed from the Open Source Community to grow awareness and uptake of OSS as an IT platform for business use?



### High Street Retailer – CIO

*"I think OSS should be better marketed through main players like IBM and Oracle. As soon as people realise that big names like the ones mentioned before are behind OSS they will change their mind and start having a different perception of Linux. No one has actually pushed Linux in a correct way so far. I mean, most of the people tend to think Linux is just for domestic use even if this is not true."*

## Contact Details

The objective of OpenForum Europe is to accelerate and broaden the market take up of Open Source Software (OSS) including Linux. Major vendors and distributors, software houses, services and integration companies are supporting this project alongside major users and Government. OpenForum Europe aims to strengthen the perception and credibility of the Open Source offer, particularly within Government and commercial organisations. OpenForum Europe is not an evangelical initiative but is seeking to ensure progress can be successfully achieved via visibility of current experience, unbiased advice, and peer group review. OpenForum Europe is backed by the 'not for profit' IT Forum Foundation, which has already established the highly influential InterForum.

For further information on OpenForum Europe please visit the website <http://www.openforumeurope.org> or contact Kirstie Sinclair (email [kirstie@openforumeurope.org](mailto:kirstie@openforumeurope.org) tel 01784 473005)

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