

## Bob Young and the Rise of Red Hat Software

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One of the most fascinating stories in the technology sector has been the challenge posed by open-source giant Linux to Microsoft's dominance of the market for operating system software. One of the key players in the rise of Linux is Bob Young, co-founder of Red Hat Software, the largest distributor of the Linux operating system. Young's creative resolution of a crucial strategic dilemma was the event that put Red Hat – and Linux – on the path to profit and power in the marketplace.

In the 1980s, a movement had taken shape to develop software based on UNIX, an operating system invented in the 1970s at AT&T Bell Labs, and made available at no cost to anyone who requested a copy. In 1991, programmer Linus Torvalds posted a message on a UNIX users' bulletin board to announce he'd developed an operating system from the UNIX code. Before long, suggested improvements to Torvalds' program, dubbed Linux, were pouring in.

New enterprises like Yggdrasil, Slackware and Red Hat Linux sprang up to try to bring some order to the chaos by selling their own versions of Linux to interested buyers. Young ran an outfit called ACC Corp. that distributed their free software. In 1995, Young combined his company with Red Hat, becoming CEO of what was now called Red Hat Software, and shifting the company's focus from distribution of several flavours of Linux to direct sales of Red Hat's Linux product.

From his experience as a distributor, Young knew that the still-tiny market for Linux software was growing rapidly. But the business was going to hit a ceiling unless it could find a new business model.

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Young could see that the two dominant models then in existence were profoundly flawed. On one hand, there was the classical proprietary-software model employed by big players such as Microsoft and Oracle. They sold their clients only the operating software, not the source code. All enhancements and modifications were in the hands of the software maker.

Young has nothing but scorn for this way of doing business. "If you ran into a bug that caused your systems to crash," he says, "you would call up the manufacturer and say, 'My systems are crashing.' And he'd say, 'Oh, dear.' What he really meant was, 'Oh, good.' He'd send an engineer over at several hundred dollars an hour to fix his software for you that was broken when he delivered it to you, and he called this customer service."

On the other hand was the free software model employed by Slackware, Yggdrasil and Red Hat itself, which Young found equally problematic. "You couldn't make any money selling [the Linux] operating system," Young says, "because all this stuff was free, and if you started to charge money for it, someone else would come in and price it lower. It was a commodity in the truest sense of the word."

If Red Hat was going to be something more than a low-margin distributor of a commodity product, it would have to find some way of adding value to Linux that didn't involve improving the code. That meant finding something salient about the Linux business that other programmers and distributors had overlooked.

How, then, could Red Hat establish itself as the Linux market leader? By imposing order and control on the chaotic process by which improvements to Linux are developed and captured. A typical Linux operating system is some 800 to 1,000 different packages compiled together. Those packages are maintained by different teams of people, and those people update those packages independently.

It's clear why serious corporate users weren't going to use Linux. Although the price was right, they wouldn't save money if their systems administrators had to track all the random updates. But they would save money – and have a more stable, reliable operating system than Windows – if there were a way to manage the flood of updates. Red Hat would make itself invaluable to customers by taking on that management task.

Young was pleased with this resolution, which blended the best elements of the two competing business models into a new way of doing business. But there was a hitch. Corporate customers wouldn't buy Red Hat's Linux unless Red Hat was the clear leader in the Linux space.

Red Hat would have to find its way onto every hard drive in corporate America. To get there, Young's programming team rewrote the Red Hat version of Linux so that it could be distributed over the Internet instead of via CD-ROM. Young told his team, "We're going to put it up on every FTP [File Transfer Protocol] server we can find on the Internet everywhere in the world, and we are going to encourage people to download it for free."

It was a risky move. Red Hat was sacrificing all the potential revenue it stood to earn from its new release of Linux. But that was the price of making Red Hat's version of Linux the de facto standard. In a stroke, Red Hat's Linux became legitimate in the eyes of the corporate users.

In 1999, Red Hat went public, and Young became a billionaire in the first day of trading. By 2000, Linux had captured 25 per cent of the server operating system market, and Red Hat held over 50 per cent of the global market for Linux systems. And unlike the vast majority of the dot-com era's startups, Red Hat has continued to grow.

What made the creative resolution of Red Hat possible? Young recognized that the existing proprietary software and free software models weren't reality; they were simply the accepted ways to cope with dynamics of the software business. He didn't rest until he found a new business model that was clearly better than the existing alternatives.

Typically of an integrative thinker, he read the existence of unpleasant tradeoffs a signal to rethink the problem from the ground up. In doing so, he found clues to what was salient to corporate software buyers, and gained a key insight into the causal relationship between industry leadership and prosperity.

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