Information technology

**IBM’s rebel yell**

The group’s takeover of Red Hat is the biggest ever between software firms

BIG BLUE is donning red headgear. Even a few months age the idea that IBM, a venerable corporate IT firm, would buy Red Hat, the biggest vendor of open-source software, would have been considered highly unlikely, not least because of IBM’s aversion to big mergers. But on October 28th IBM announced that it would take over the firm for $34bn, which represented a 63% premium over Red Hat’s closing share price at the end of the previous week.

Red Hat is no household name, but in the IT industry the firm is considered a big success. Founded in 1993, it reached $2.9bn in revenue in its most recent fiscal year. It takes free open-source software, makes some improvements, bundles it with other tools and services such as technical support, and charges a monthly subscription fee. The first product was a version of Linux, an operating system. It later acquired of developed more and more pieces of software that are needed to power computing clouds. One of the latest additions to its collection was OpenShift, a program that allows computing tasks to be easily moved around between data centres.

IBM, for its part, has been struggling in recent years to transform itself from a firm which made most of its money from IT services, software and mainframe computers to one that is based on cloud computing and artificial intelligence(AI). After 22 quarters of declining revenue, IBM seemed to be over the worst when its turnover started to increase early this year. But in the most recent quarter, revenue dipped again.

The deal will probably mean that Ginni Rometty, the firm’s chief executive, stays on for a few years to see through the integration. Analysts thought she was on her way out, not just because her strategy seemed to be failing, but because at 61, she is older than the standard retirement age for IBM bosses of 60.

More importantly, IBM hopes that the acquisition will give it a chance to catch up in the market for cloud computing. Big Blue failed to take the trend seriously int the late 2000s and decided not to invest in a network of huge data centres. As a result it has fallen behind the big “public” clouds( as opposed to “private” ones, which only serve a particular company), inparticular Amazon Web Services and Microsoft Azure. Red Hat’s OpenShift is supposed to create an uber-cloud, allowing computing work loads to run anywhere: whether it is in corporate data centres, on any of the big public clouds or a combination there of.

There are plenty of ways for the merger, which is thr largest in IBM’s history, to go wrong, however, One question is whether the added flexibility of such mixed systems and the promise of not getting locked into any one vendor will be enough to lure firmsonto IBM’s new platform. They could shy away from the additional complexity and still prefer to put their data into one cloud. Another is the risk of a cultural clash between IBM’s still relatively strait-laced culture and Red Hat’s freewheeling one. Such concerns, in addition to the high price tag, explain why the firm’s shares fell by 4% the day after the deal was announced.

And then there is the question of that the acquisition means for Watson, IBM’s much-promoted AI business, which has disappointed so far. Some have suggested that buying Red Hat could mean that IBM will turn away from Watson, instead focusing even more on cloud computing. Yet the opposite is true: Red Hat’s software containers are meant to be a vehicle to deliver AI everywhere. The idea is that IBM’S cloud failure held watson back; now it has the chance to spread more widely.

However the merger plays out, it has already produced one big winner: open-source software, ,which is developed collectively by firms that benefit from it and also by volunteer programmers. Red Hat is the third multi-billion dollar acquisition of an open-source firm this year after MuleSoft, bought by Salesforce for $6.5bn, and GitHub, taken over by Microsoft for $7.5bn. Not bad for a type of code whose pioneers saw themselves as rebels fighting “evil” proprietary-software makers. Such origins were the inspiration for Red Hat’s name, as Bob Young, the company’s co-founder, once explained: 18th-century revolutionaries in America and France wore red caps during their uprisings. Now, open-source firms look more like the establishment.