

Open Source: Why Freedom Makes a Better Business Model

OSBC | OPEN SOURCE
BUSINESS
CONFERENCE

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"Success consists of going from failure to failure without loss of enthusiasm. "

Winston Churchill

Freedom Doesn't Mean Free of Charge

freedom
of speech

fri ≠ gratis
 frjáls ≠ ókeypis
 vapaa ≠ ilmainen
 frei ≠ kostenlos
 libre ≠ gratuit
 libre ≠ gratuito
 libero ≠ gratis
 dror ≠ chinam
 azad ≠ rayegon
 aazad ≠ muft
 swatantra ≠ vina mulya
 shadhi nata ≠ bine poisha
 sudandram ≠ ilavasam
 svobodnoe ≠ besplatnoe
 tu do ≠ mien phi

free
beer

Freedom Success Stories

Success Story	Freedom
eBay	Trade
Google	Advertising
Skype	Telephony
Second Life	Social life
YouTube	Video production
Linux	Software freedom: operating system
LAMP	Software freedom: web & app development
IKEA	Furnishings
USA	Entrepreneurialism

Why Software Freedom is so Powerful

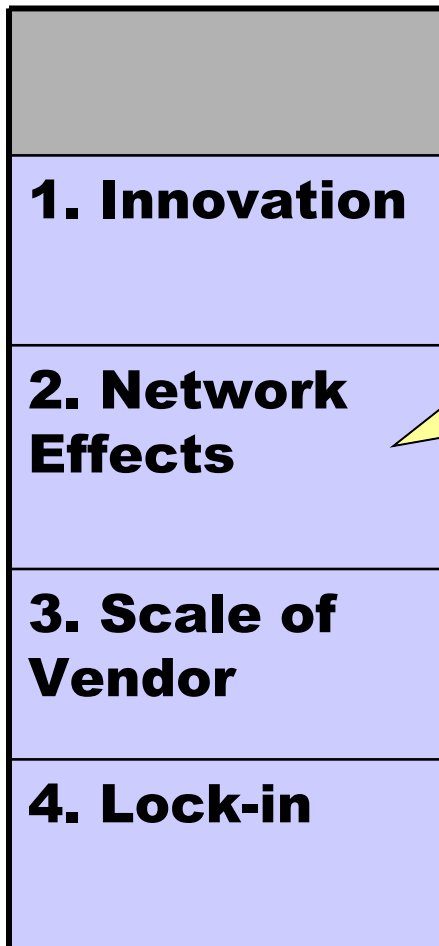
Number of
developers who
built our current
information
society

Number of developers on the
internet today.

100X

Outsized Software Profits

- Where Do They Come From?



Architecture of participation – “large databases created via network effects”, as Tim O’Reilly describes it.

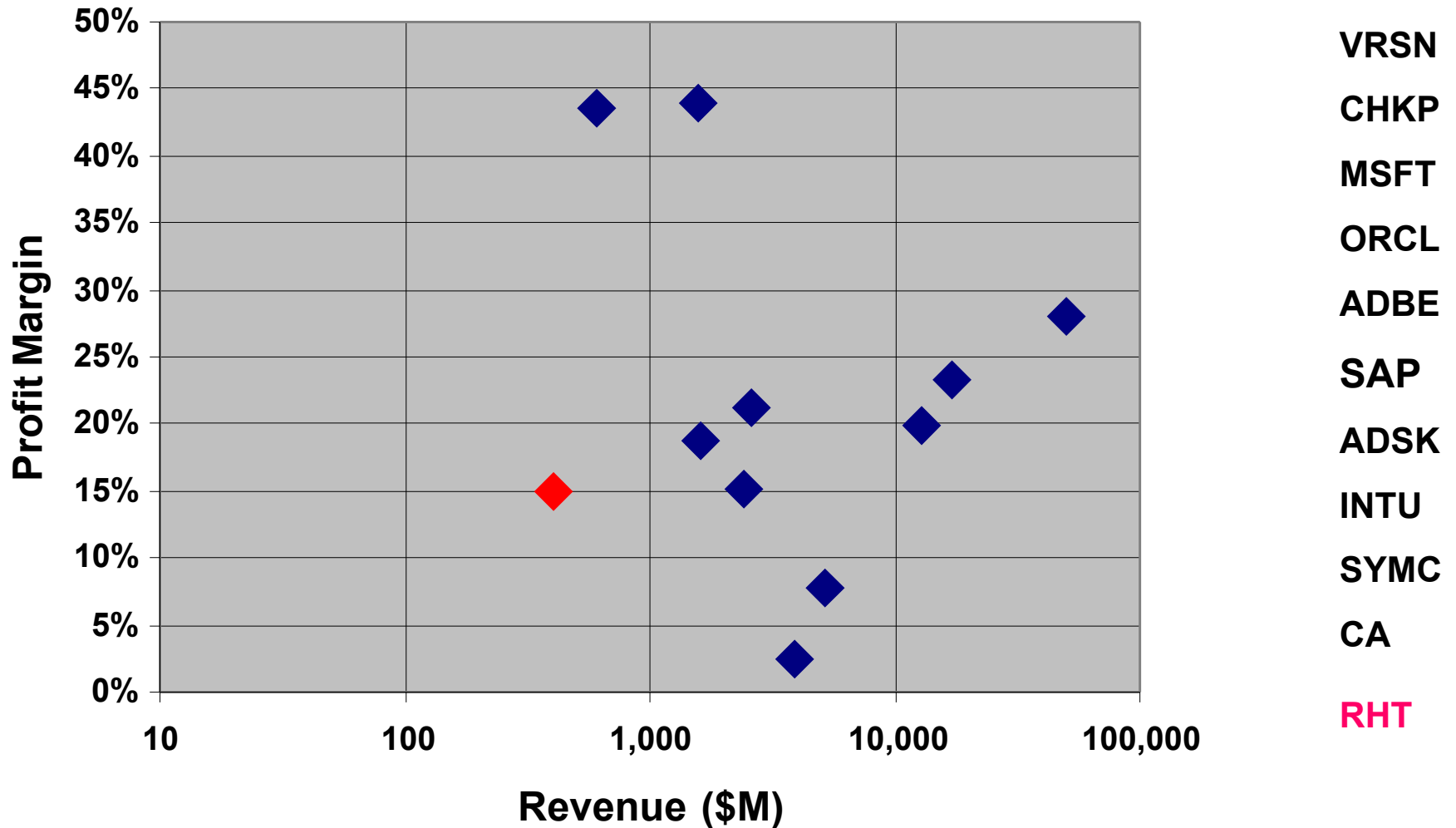
In essence, commercial value derived from the aggregation of vast amounts of individual data that in itself may not be valuable.

Outsized Software Profits

- Where Do They Come From?

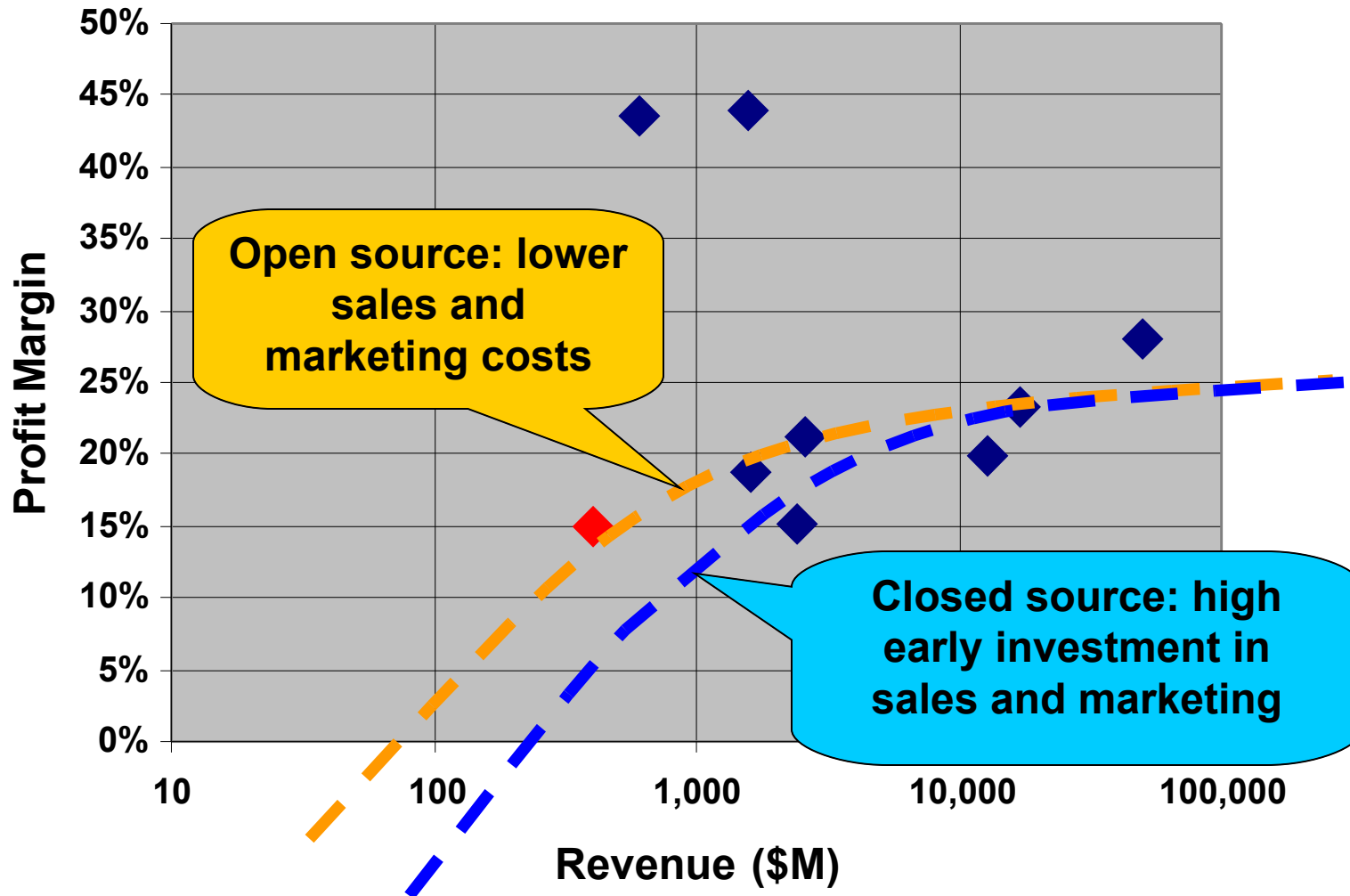
	Current Examples	FOSS ?	Current FOSS Candidates
1. Innovation	Google, Adobe, Checkpoint	✓	All FOSS
2. Network Effects	eBay, Google	✓	Mozilla, MySQL, Red Hat, Ubuntu
3. Scale of Vendor	Microsoft, Oracle, SAP	✓	Red Hat
4. Lock-in	Oracle, Microsoft	✗	

Does Size Matter?



Source: Yahoo Finance, 20 May 2007

Does Size Matter?



Source: Yahoo Finance, 20 May 2007

Free / Open Source Software

- Not a mystery
- Not a religion
- Not a charity
- Not anti-commercial
- Not against ownership
- Not socialism
- **Not a business model**
- But

**a smarter way to produce the goods
and a smarter way to distribute the goods**

Pursuit of Software Freedom And Profits

Success in open source requires you to serve:

- 1. Those who spend time to save money**
 - 2. Those who spend money to save time**
- Differentiation drives the compelling reason to buy, but incorrectly implemented it may also drive the "compelling reason to abandon"

Parameters Influencing Business Model

- Creating a new category or disrupting an existing one?
- How sticky is the product category?
- Is there a significant underserved part of the market?
- What % of the world's developers could need this product category?
- If you give the developer all he/she needs, what is there left that you can sell for a fee to his/her boss?

MySQL Business Principles

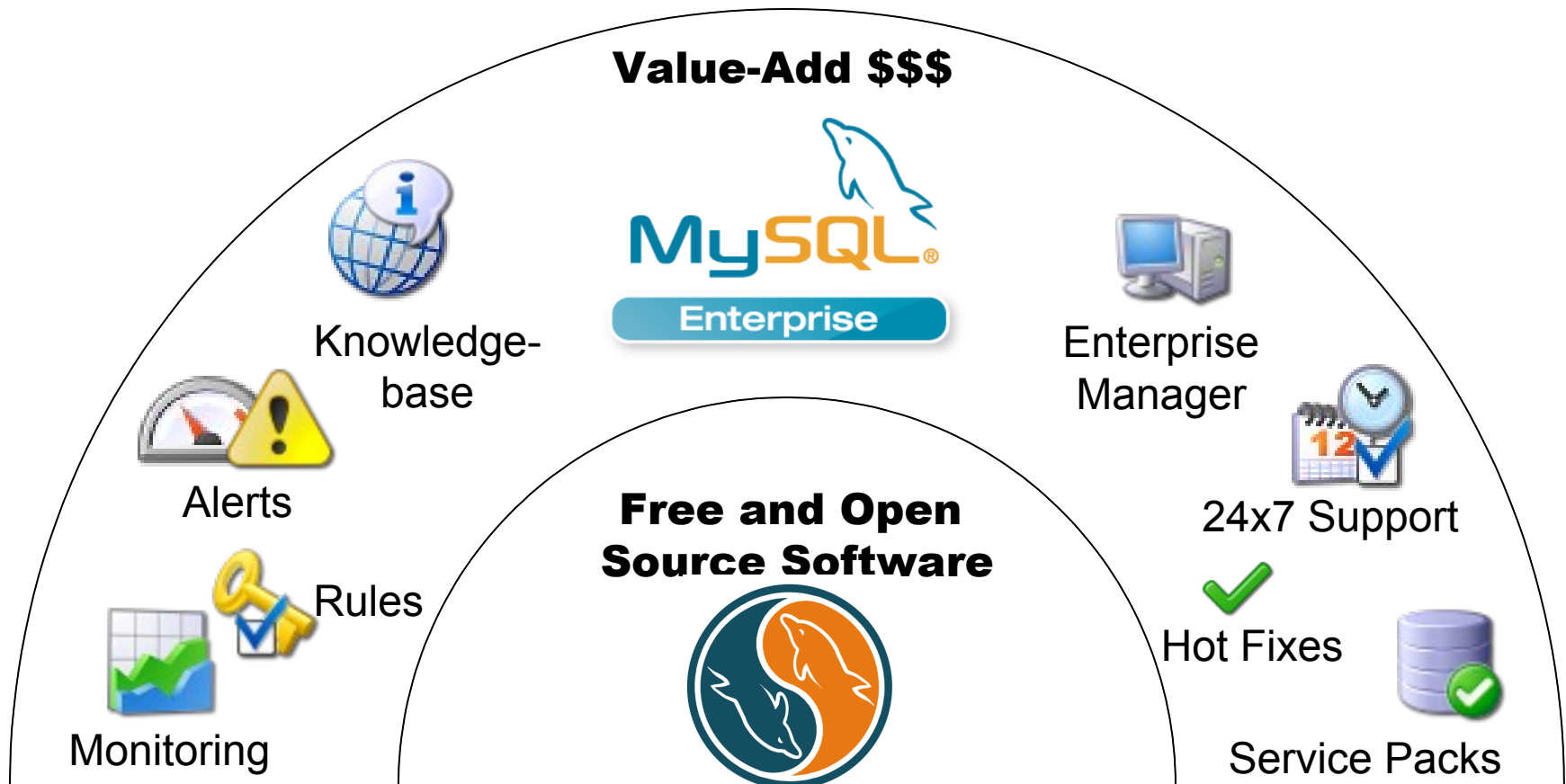
- Free and Open Source Software
- Architecture of Participation
- Intellectual Property Stewardship
- Unified Brand – Differentiated Offerings
- Global Distributed Workforce
- Viral Marketing
- Low-Cost Sales Model

Recommended Reading:

**"Innovation Happens Elsewhere" - "Democratizing Innovation" -
"The World is Flat" – "The Starfish and the Spider" – "The Wealth of
Networks" – "Wikinomics" – "Outside Innovation"**

Freedom + Commercial Value-Add

- Builds on foundation of FOSS
- Additional offerings available to paying customers



Unlimited Business

- One page contract – fixed cost for a year – unlimited deployments – no surprises
- Eliminate license fees required by closed source DBMSs
- Follow the lead of The New York Times, the Swedish National Police, ESPN, iStockPhoto, Booking.com and others

**MySQL
Enterprise
Unlimited**

\$40,000

Open Source Business Models are Hybrid

Software is free, but:

1. ... we need donations and subsidies to survive
(Apache Software Foundation, Eclipse, ObjectWeb)
2. ... we sell ads and placements (Mozilla)
3. ... if you embed it in closed source, you pay a fee
(Trolltech, DB4Objects, Funambol, MySQL, etc.)
4. ... services are for a fee (Covalent, Ubuntu / Canonical)

Open Source Business Models are Hybrid

Software is free, but:

5. ... on-going maintenance, monitoring and provision of binaries is for a fee (Red Hat, JBoss, MySQL)
6. ... some enterprise features are for a fee (SugarCRM, Zimbra, JasperSoft)
7. ... we built a closed-source product around it (EnterpriseDB, GreenPlum)
8. ... hardware is for a fee (Sun, Asterisk/Digium)

Open Source Business Models are Hybrid

Software is free, but:

9. ... we sell everything else on the planet, including closed source software (IBM)
10. ... that's not our real business (Ruby on Rails, individual contributors, etc.)
11. ... we regret it (Borland with Interbase)
12. ... we don't want to see it any more (any good examples?)
13. ... we want to drive web traffic (Yahoo YUI)

Open Source Business Success

1st GENERATION

IPO

Red Hat, Caldera (now SCO), VA Linux (now VA Software), Turbolinux

Acquired

SUSE, Cygnus

Private

LynuxWorks, Linuxcare (now Levanta), Sendmail

2nd GENERATION

IPO

Trolltech, Sourcefire, Mandrakesoft (now Mandriva)

Acquired

Conectiva, Lycoris, JBoss, Sleepycat, Ximian, Gluecode

Private

MontaVista, MySQL, Zend

Out of Business

GreatBridge

3rd GENERATION

ActiveGrid, ActiveState, Alfresco, BitRock, Black Duck, CollabNet, Collax, Compiere, Covalent, DB4O, Digium, Exadel, eZ Systems, Fonality, Funambol, Groundwork, Hyperic, Ingres, Interface21, JasperSoft, Joomla, Laszlo Systems, Medsphere, Mozilla Corp, MuleSource, OpenBravo, OpenLogic, Open-Xchange, OTRS, Palamida, Pentaho, rPath, SnapLogic, Sourcelabs, Spikesource, SQLite, WebYog, SugarCRM, Talend, Terracotta, Ubuntu / Canonical, Vyatta, WSO2, XenSource, Zenoss, Zimbra, Zmanda, etc.

Summary

- Software freedom allows you to tap into innovation power and network effects otherwise not available
- FOSS business won't work unless you serve both those who spend time to save money and those who spend money to save time
- It is early and the FOSS industry is still experimenting with business models

**"Skate to where the
puck is going to be."**

Wayne Gretzky

Thank you!

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