The Business of Open Source

Richard T. Watson
University of Georgia
rwatson@terry.uga.edu

Saturday, September 25, 2010
What do customers say?
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Dan Agrow (CIO)

My experience is we have actually received better support of open-source software than we have with commercial software.

Lots of open-source products work very well and can be deployed and run for about half the cost of commercial products.
Moving off fault-tolerant Compaq Himalaya servers onto a combination of Linux and the MySQL database running on clustered Intel servers

Total cost of ownership will be at least 40% cheaper, with anticipated savings of “tens of millions of dollars” [Craig Murphy (CTO)]
La Quinta

Shifted online reservation system from BEA’s WebLogic to JBoss

Rationale

- Good service
- Increased flexibility
- Lower costs
Gothic Cabinet Craft

- 40 Stores in New York and New Jersey
- Switched to Google Apps from MS Office
- Cost USD 32,000 versus USD 100,000+
- Nov 2008
WHAT DO SUPPLIERS SAY?

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Mårten Mickos (CEO)

How do you turn a $9 billion market into a $3 billion market and dominate what is left?

Sep 2004

Acquired by Sun Microsystems Jan 2008 for USD 1 billion
Haavard Nord (CEO)

By next year, it may sound bold and stupid, but in fact we are going to overtake Microsoft in terms of device shipments

Nov 2004

Acquired by Nokia in Jan 2008
Bart Decrem, spokesman for the Mozilla foundation, about Firefox

I think we'll get to 10 percent over the next year… we have the momentum… The move from IE to Firefox is also shown by the fact that half of Firefox downloads are from IE users

Oct 2004

Estimated 23% in Aug 2010
Brian Gentile, CEO

Our major customers do not want to spend £250,000 to £500,000 a year with the major suppliers

Nov 2008
You may need professional support from Jaspersoft. There is a cost of ownership, even for free software, and although this might well be less than for commercial offerings, you cannot just assume this.
Business Models
Business Models

Open Distribution / Open Source

- Linux
- Apache

Proprietary / Closed Source

- MS Windows
- Websphere
- Star Office
Proprietary / Closed Source

- Developed and supported by employees
- Funded by customers
- Recognized viability
- Offer support & education
- Traditional marketing & distribution
Open Distribution / Open Source

- Developed by volunteer developers
- Supported by volunteer community
- Completely free of cost
- Viability?
- Nano markets?
Bundlers / value added resellers

Do not necessarily contribute code to OS community

Usually make installation / configuration easier

Offer support & education

Viability signal
Funded Open Source

- Some support provided by external agents
- Most often provided as code/support from salaried employees of sponsor
- Sometimes provided as direct or indirect monetary contributions
- Viability signal
- Brand inheritance
- Sponsors often bundle / enhance OS projects in proprietary products
Professional open source

- Open source software
- Professional accountability and service
Supported Open Source

- IT service firm supports a range of open source products as part of a service contract
  - HP
  - Unisys
  - SoftPro
- Level 1 & 2 support
JBoss
Evolution & revolution

Age of Organization

- Crisis of revenue
- Change in customer demand
- Crisis of coordination
- Growth through education
- Growth through consulting
- Growth through ecosystem

Phases

Education and documentation
Support services
Consulting services
Professional open source
Application service provider

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Ecosystem

- Cooperative challenges
  - Maintain innovation within ecosystem
  - Evangelize POS
  - Hire OS developers
  - Gain support of JBoss AS developers

- Competitive challenges
  - Shape the larger ecosystem
  - Extend JBoss AS ecosystem to stall competitors
  - Establish JBoss AS as a market leader
  - Establish viability of JBoss AS as a J2EE option

- Birth
- Expansion
- Leadership
- Self-renewal

Age of Organization
Leadership

- J2EE market
- Open source movement
- Java community
Reactions

- IBM purchases Gluecode
- Sun opens its J2EE server
- RedHat purchases JBoss in March 2006
- Oracle enters Linux support market
RISK ANALYSIS

- Demand
- Innovation
- Inefficiency
- Scaling
Demand Risk

- Customer has near zero acquisition costs
- Service revenues more stable than licensing fees
Open code permits others to submit improvements

Worldwide recruiting of developers

Open roadmaps
Inefficiency risk

- Lower sales and marketing costs
- Not all users need to be customers
- Seed and harvest
- Users participate in bug detection
Scaling Risk

- Separation of adoption from purchase
- Large pool of potential customers
- Highly qualified leads
- Scaling through the ecosystem
Distinctive features of POS

- Separation of adoption and purchase
- Seed and harvest marketing strategy
- Dual growth
Assuming POS model spreads

- Cost of running IS unit will decline
- Software innovation and quality should improve
- Benign POS monopolies might emerge
  - TCP/IP
  - Apache
Assuming POS model spreads

- POS escalation
- Open standards drive commoditization
- Vendors move up the stack
- Adoption pressures external to IS unit
- Traditional software companies adapt to OS
- IS units develop OS strategy
Survey

- Greatest perceived benefits
  - TCO (88%)
  - Opportunities for innovation (81%)
  - Dependence on software vendor (74%)
Survey

Greatest perceived risks (or shortfalls)

- Documentation availability (44%)
- Maturity of product (32%)
- Documentation quality (31%)
Windows XP with Office is

- 2.5 months of per capita income in South Africa
- 16 months of per capita income in Vietnam
“Proprietary formats will no longer be acceptable in communication between citizens and government.”

Norwegian Minister of Modernization

Must implement ODF by 2009
Japanese government gives preferences to ODF in July 2007

Belgian federal administration specifies ODF for all exchanges by September 2008

Trend in Europe
“There is an open-source application that is maturing in every software category that exists... Open-source is poised to commoditize those segments. We're already seeing it”

Pete Kronowitt, a strategic planner for Intel (Sep 2005)

50 open source firms venture funded by 2008
Cocoon is a suite of Java Servlets that transform .xml files using XSL.
Venture Capital

- Annual VC funding
- USD 2.80 billion to date
- Average deal about USD 10 million
TRENDS

- 25% of end user organizations are planning to adopt open source BI in the next 12-24 months
  - Aberdeen Group (Dec 2007)

- 1 Million businesses have adopted Google Apps
  - Business Week (Nov 2008)

- 20 million users
  - Google executive (Dec 2009)
About one in three mid-market companies are on their way to being open source dominated shops

79% agree that “My company’s experience with open source products, other than Linux, has been so good we plan to expand their use”

*CIO Insight* (Dec 2007)

78% of enterprises have deployed open source solutions and adding more

*Accenture* (Aug, 2010)
The rate in which open source software is being adopted across the enterprise to build and deploy mission critical transaction intensive applications is accelerating at a pace that far exceeds previous rates of adoption by enterprises and is largely at the expense of the proprietary vendors’ market share.

The rapid acceleration of open source adoption is directly attributable to the quality of the software that is available.

Within five years there will be an open source offering that is viable for an enterprise to run its business on for every sector in the industry (e.g., ERP, CRM, Supply Chain).

Rob Bearden, Entrepreneur in Residence, Benchmark Capital
Conclusion

New products, new markets, and new forms of production and distribution fuel free enterprise creative destruction and dislocate existing patterns of business

New corporate forms evolve to fit the changed competitive environment

Internet innovation is evolving and threatening old business models