Single-Vendor Open Source Firms
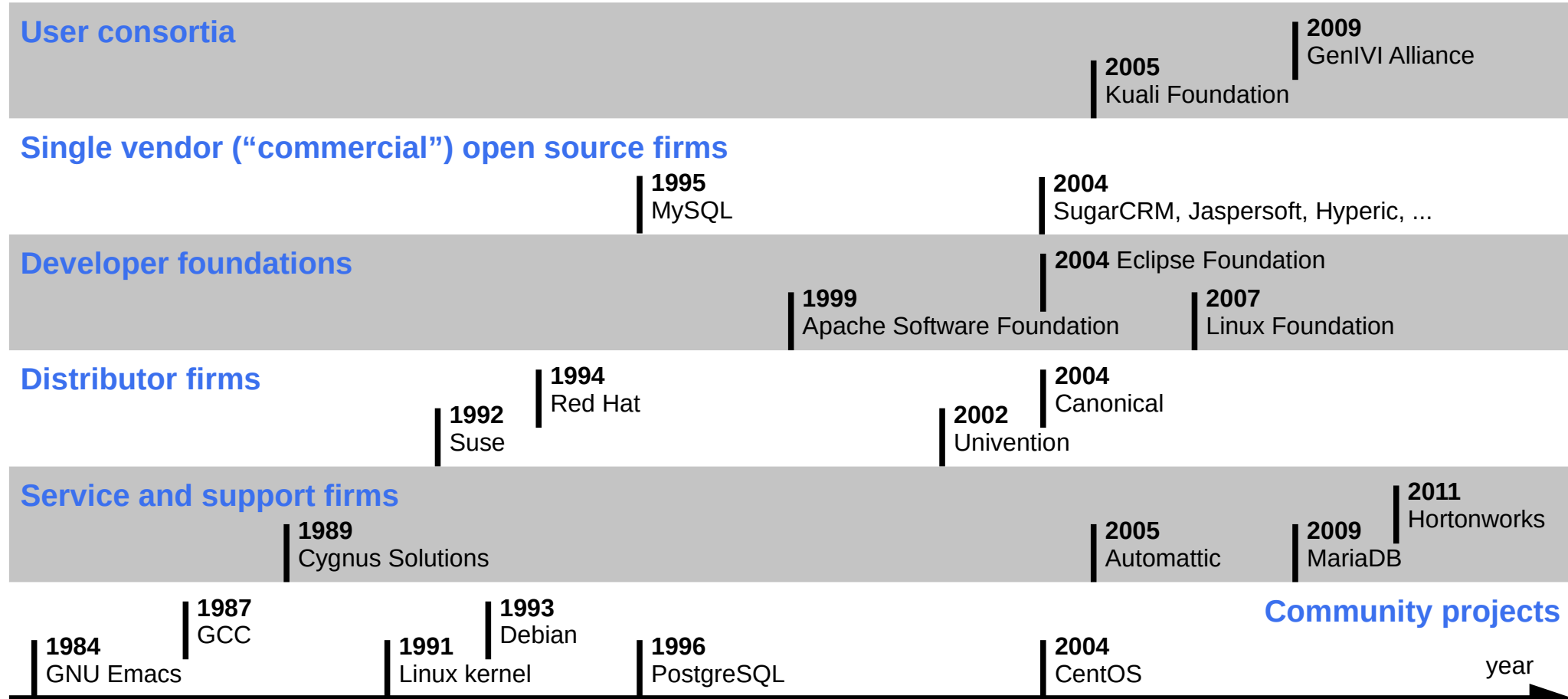
Prof. Dr. Dirk Riehle

Friedrich-Alexander University Erlangen-Nürnberg

FLOSS C06

1. **Legal innovation**

2. **Process innovation**

3. **Software tool innovation**

4. **Business model innovation**

Evolution of Open Source Projects (Recap)

User consortia

2009
GenIVI Alliance

2005
Kuali Foundation

Single vendor ("commercial") open source firms

1995
MySQL

2004
SugarCRM, Jaspersoft, Hyperic, ...

Developer foundations

2004 Eclipse Foundation

1999
Apache Software Foundation

2007
Linux Foundation

Distributor firms

1994
Red Hat

1992
Suse

2004
Canonical

2002
Univention

Service and support firms

2011
Hortonworks

1989
Cygnus Solutions

2005
Automattic

2009
MariaDB

Community projects

1987
GCC

1984
GNU Emacs

1993
Debian

1991
Linux kernel

1996
PostgreSQL

2004
CentOS

year

3

Open Source "Business Models" (Recap)

- Non-profit open source
  - **Community projects** without foundation
  - Open source **developer foundations**
  - Open source **user foundations**

- For-profit open source
  - **Service and support firms**
  - Open source **distributor firms**
  - **Single-vendor** open source **firms**

Single-Vendor Open Source Project

- A **single-vendor open source project**

    - Is an open source project that is tightly controlled by one vendor

- Legally, the project may be open source

    - Practically, it is not: Rather it is a proprietary project
        - There is much more to an open source project than a license

    - Proprietary = One proprietor (owner)

- Single-vendor open source is the new proprietary source

Single-Vendor Open Source Firms

- A **single-vendor open source firm**
  - Is the software vendor behind a single-vendor open source project
  - Owns and provides the project as its main product

Examples of Single-Vendor Open Source Projects / Firms

"By 2012, at least 50% of direct commercial revenue attributed to open-source products or services will come from **projects under a single vendor's patronage**."   [D10]

Community vs. Commercial Edition

- **Community edition**

  - Core product provided under an open source license

- **Commercial edition** (a.k.a. professional or enterprise edition)

  - Whatever customers are willing to pay for, i.e.
    - Basic product, bundle of usage rights to
      - Core software under a commercial license, additional software
      - Guarantees and certifications
      - Support services

    - Whole product, i.e. basic product +
      - **Proprietary extensions**
      - Training and consulting
      - Operations

- Sometimes called the "open core" business model [L09]

Jaspersoft Commercial Offering (2010) [WR13]

	Web Store	Direct Sales
Open Source Community	DOC INC UTIL	
Enterprise Customers		LIC UPD UTIL DOC TRN 24x7
ISV/OEM		LIC UTIL DOC TRN 24x7

DOC Documentation
INC Incident-based support
UTIL Utilities
LIC Commercial license
UPD Update service
TRN Training
...
24x7 24x7 hot-line

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"Some people spend time to save money, some spend money to save time." [M10a]

Original Single-Vendor Open Source

- Entrepreneur
  - Identifies market opportunity
  - Founds company
  - Acquires funding

- Company
  - Develops software from scratch
  - Goes to market by releasing software as open source
  - Maintains rights to intellectual property

More Recent Single-Vendor Open Source

- Entrepreneur
  - Identifies market opportunity **around existing project**
  - Founds company
  - Acquires funding

- Company
  - Develops software by building **on community project**
    - **Where "building on" means**
      - **Hires as many original developers as is possible**
      - **Develops product based on community project**
  - Goes to market by releasing extensions as open source
  - Maintains proprietary rights to extensions

Time-line of Single-Vendor Open Source

- Mid-1990 to early 2000
  - Early adopters, trailblazers
    - Sleepycat, MySQL, The Qt Company

- Mid-2000 to early 2010
  - Strategic adopters addressing markets ripe for disruption
    - SugarCRM, Jaspersoft, Mulesoft

- Since late 2000
  - Second-generation, around communities
    - Hadoop: Cloudera, MapR, Hortonworks

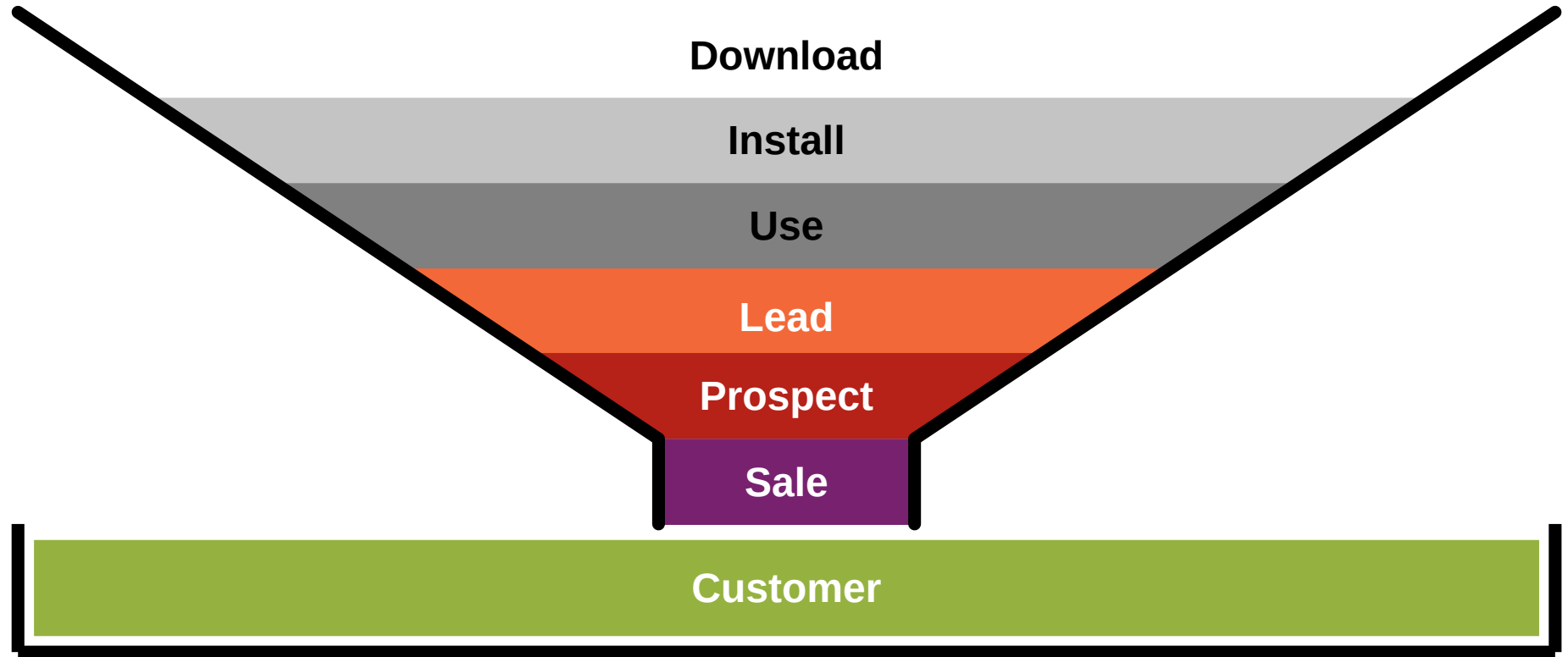# NoSQL Databases and Firms

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Benefits of Open Source Approach

- Significant benefits for
  - Marketing and sales
    - Market faster, sell more effectively

  - Business development
    - Identify partner opportunities better

  - Product management
    - Build a superior product faster

  - Software development
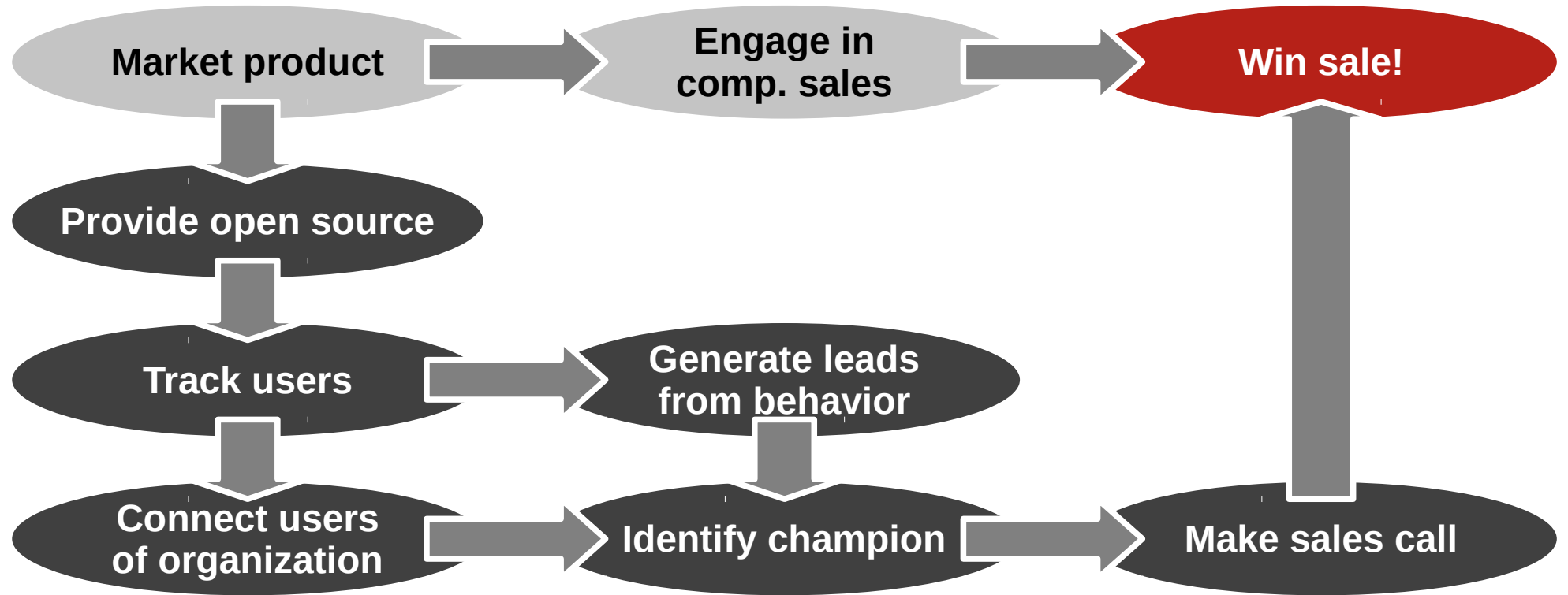   - Build a product at lower cost

Benefits to Marketing and Sales

- Marketing

  - Community word-of-mouth evangelizes product
  - Community creates wider outreach than possible without

- Sales

  - Existing in-house use of product creates credibility
  - Sales is frequently aided by in-house champion

Open Source Sales Funnel

Download

Install

Use

Lead

Prospect

Sale

Customer

Open Source Sales Process

Market product → Engage in comp. sales → Win sale!

Market product → Provide open source → Track users → Connect users of organization

Track users → Generate leads from behavior

Generate leads from behavior → Identify champion

Connect users of organization → Identify champion → Make sales call

Make sales call → Win sale!

ACTUATE.
The people behind BIRT™

N. Nobby Akiha
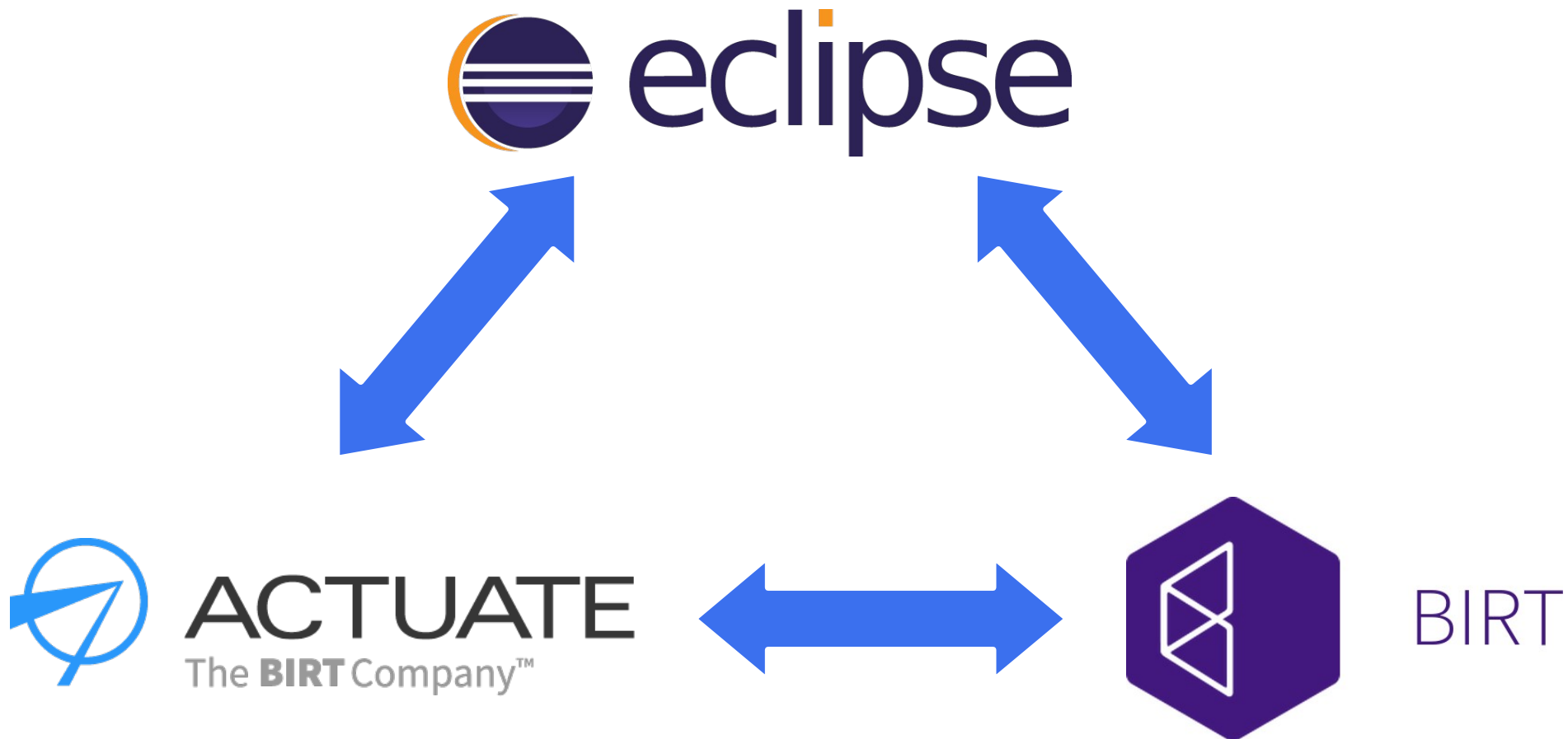Senior Vice President, Marketing

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Benefits to Business Development

- User innovation helps identify strategic partners
- Smart single-vendor firms set-up their own forge

Talend Exchange

The Talend Exchange is where the community can share extensions to Talend's tools: components, connectors, jobs, templates, patterns, data models, and more!

Read more...

Tutorials   Forum   **Exchange**   Bugtracker   Babili

Meet the Talend Community Coders

Numbers of

members currently logged in: 1
new members this month: 4308
posts on the forum today: 18
posts on the forum this week: 486

Components

Review all existing components, filtered by release and category. This list is updated in real time.   **Go there now!**

Sources

The source code of Talend's open source solutions is available, directly in the source code repositories used by Talend's development teams.   **Go there now!**

Bugtracker

Direct access to the issues reporting and tracking system used by Talend's Development Team.   **Go there now!**

Highlighted Community Member

"Talend offers innovative projects and robust products enabling managers to control their channels of information and business processes."

Laurent Bennati

Benefits to Product Management

- A well-working community

  - Provides fast and direct feedback
  - Provides alternative solutions, ideas
  - Explores extensions, niche markets for free
  - Signals new needs, strategic alliances

Challenge to Product Management

- Community Version

    - Home user

        - Will never pay money
        - But pays with time, feedback

    - Line-of-business user

        - Likes $0 line-items
        - Somewhat ignorant of risks

- Commercial Product

    - Enterprise customer

        - Is willing to pay
        - Requires enterprise features

    - Internal IT department

        - Has appropriate budget
        - Wants professional support

Benefits to Software Development

- A well-working community
  - Finds bugs fast, sometimes provides fix, ultimately lowers costs
  - Helps explore design decisions, develops prototypes to learn from
  - Serves as a recruiting source

"Source code [is just] 10% of the effort." [L07]

Costs of Open Source Approach

- Additional costs in

  - Software development
  - Intellectual property management
  - Community management

- Benefits outweigh the costs

Operating Expenses of a Software Vendor [C12]

	2011 ($m)	Percentage
Revenues	$1.657	100%
Subscription and Support	$1.551	94%
Professional Services etc.	$106	6%
Cost of Revenues	$324	20%
Subscription and Support	$208	13%
Professional Services etc.	$116	7%
Gross Profit (and Gross Margin)	$1.333	80%
Operating Expenses		
Research and Development	$188	11%
Sales and Marketing	$792	48%
General and Administrative	$256	15%
Total Operating Costs	$1.236	74%
Operating Profit (and Operating Margin)	$97	6%

Approach Requires New Capabilities

Single-Vendor Open Source

$

IP

Open Source Community

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Intellectual Property Management

- Intellectual property rights imperative [R09]

  - "Always act in such a way that you, and only you, possess the right to provide the open source project under a license of your choice."

- Use reciprocal license to keep competition away

  - Almost all single-vendor-owned commercial open source is provided under a reciprocal license, typically the AGPL v3

- Use contributor agreement to maintain ownership

  - Almost all single-vendor open source firms require copyright transfer for any contributions to maintain full IP ownership

Control Mechanisms [R11a] [A10b]

- Copyright

- Trademarks

- Domains

Steering Mechanisms

- Social leadership
- Development process
- Strategic positioning

Community Management

- Community management

  - Is a business function tasked with
    - Creating, growing, and maintaining
    - A **self-sustaining** open source community
    - Around the vendor's products

- Community manager

  - Is a role (but often now a full-time position)
    - Tasked with community management

Passive Consumers	100-10000x
Active Users	10-500x
Firm Employees	1

Revenue Proportions

Non-paying Users	**0%**
Webstore Sales	**0-1%**
Enterprise Sales	**99-100%**

The Business Model Canvas

Key Partners	Key Activities	Value Proposition	Customer Relationships	Customer Segments
	Key Re-sources		Channels	

Cost Structure	Revenue Streams

Responsibilities and Challenges

- Create community

  - Pull members on board
  - Make members return, stay

- Grow community

  - Lead community to help each other
  - **Enable self-sustaining growth**

- Manage community

  - Maintain community peace
  - **Facilitate community benefits**

Life-cycle of Single-Vendor Firms

- Early years

  - Full fair open source play

- Growth years

  - Full fair open source play

- Maturity

  - Increased closing of product

Commercial Forks

Review / Summary of Session

- Single-vendor firms
    - Definition and history
    - Benefits and challenges
    - Life-cycle of firms and products

Thank you! Questions?

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Credits and License

- Original version

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- Contributions

  - ...