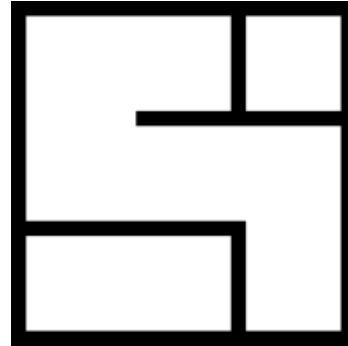


Open Source, Fair Source, and Business

Adam Jacob - System Initiative, CEO & Co-Founder
adam@systeminit.com, bsky: @adamhjk.me, linkedin: adamjacob



***SYSTEM
INITIATIVE***



SFOSC.ORG

CHEF



@msw@mstdn.social 🐾🦀🐘💎☕️🐧🐘🌲 @_msw_ · Jul 26, 2023 ...

I wonder if @sogrady or @adamhjk saw the bat signal.



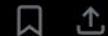
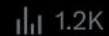
II GIF



Allison Price @amprice88 · Jul 26, 2023

Is Llama 2 open source? We are programming an #OpenInfra Live episode to discuss the published license and the debate on how open it truly is.

Have an opinion? Reply and join the panel! openinfra.live



I was the call to adventure

 **Chad Whitacre** ✅ @chadwhitacre_ · Aug 6 ...

Alright, [@adamhjk](#), after a year and change we have our answer: **Fair Source** it is! 😊 [fair.io](#) @fairsrc

Thank you for the original call to adventure and for keeping us honest along the way. 🙏

 **Adam Jacob** ✅ @adamhjk · Aug 3, 2023

I think the way forward here is to make what I suspect is a loose confederation of folks using non-compete licenses to actually get together and draft their own set of values. To then brand that. And stand behind it proudly.

Q 2496.2K 

tl;dr

- Free Software is a political movement rooted in the fundamental nature of software as an inexhaustible resource, dedicated to ensuring all people have the freedom to run, copy, distribute, study, change and improve software for their own ends
- Open Source takes Free Software values, de-emphasizes its political nature, and highlights the incredible business impact inherent in harnessing the inexhaustible nature of software as a new development model
- Fair Source says the business impact of Open Source is great, except when it means the primary authors of the software aren't the sole beneficiaries of monetary upside
- Most users care about \$0 software, not political values or development models
- Startups most often use Open Source to cause rapid growth in both functionality (Serviceable Addressable Market) and share (Obtainable Market), but at a low average selling price. This causes an inefficiency in monetization, and a potential competitive imbalance, which over time drives them toward Fair Source

What should I do?

1. Build a product with great product market fit
2. Do not give it away for free

Open Source

If you have a disruptive new technology, use open source to control the competitive environment and grow SAM and SOM rapidly.

Be a great upstream.

Fair Source

If you want some of the benefits of an open development model (customers seeing source code, etc.) but want to limit the ability for competitors to benefit from your software.

Philosophy and Values

Software is infinite by nature

If you have compute and power, sharing it doesn't subtract from it at all.

This is unique in the universe

Free Software

- Programmers shouldn't use software to extract value from its users (by making it artificially scarce)
- Rather software should empower users to control their own lives, in service to their needs and wants (by having the software be free [*libre*])
 - The freedom to run the program as you wish, for any purpose (freedom 0).
 - The freedom to study how the program works, and change it so it does your computing as you wish (freedom 1). Access to the source code is a precondition for this.
 - The freedom to redistribute copies so you can help others (freedom 2).
 - The freedom to distribute copies of your modified versions to others (freedom 3). By doing this you can give the whole community a chance to benefit from your changes. Access to the source code is a precondition for this.



Free Software is a radical political
philosophy

It has terrifying implications to business!



- Open Source believes that it isn't the political philosophy that matters – it's the open development model that springs from it that does
- The infinite nature of software is good for business because it creates higher quality software, with better reliability, greater flexibility, lower cost, and no predatory lock-in!
 - Free Redistribution
 - Source Code
 - Derived Works
 - Integrity of the Author's Source Code
 - No Discrimination Against Persons or Groups
 - No Discrimination Against Fields of Endeavor
 - Distribution of License
 - License Must Not Be Specific to a Product
 - License Must not Restrict Other Software
 - License Must Be Technology-Neutral

Open Source is so successful you
no longer need to know what it
means

Its like Flouride in the water

fair source

Fair Source Definition

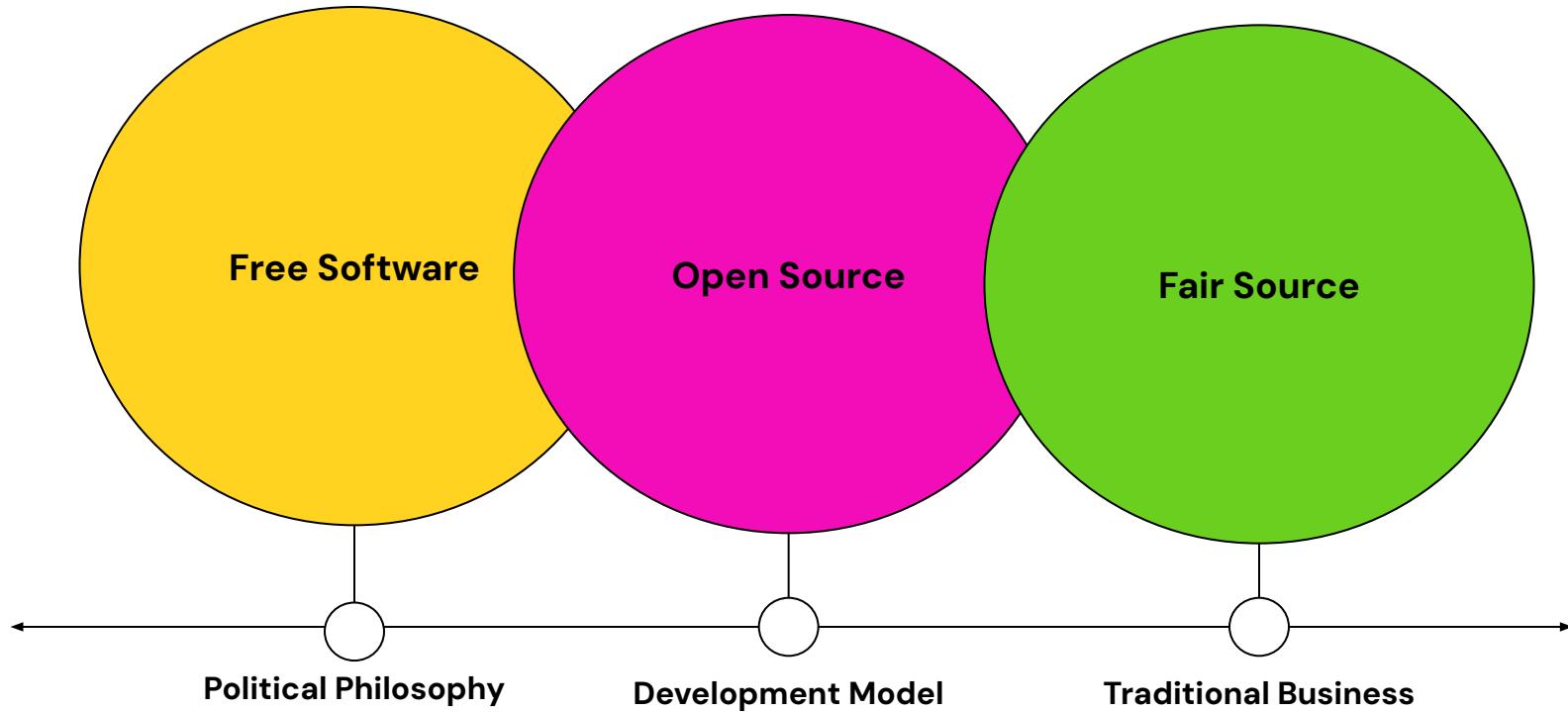
Fair Source is an alternative to closed source, allowing you to safely share access to your core products. Fair Source Software (FSS):

1. is publicly available to read;
2. allows use, modification, and redistribution with minimal restrictions to protect the producer's business model; and
3. undergoes delayed Open Source publication (DOSP).

The intention is for the first point to be a bright line, and for the second to invite exploration. We expect Fair Source licenses to emerge and evolve and shake out into a few clear winners over time, as companies apply Fair Source within their own particular business context.

Fair Source embraces open development, while ensuring the monetary benefit goes to the primary producer

It makes software a scarce resource again for a limited time, in order to protect a business



Business

Strategy is how we align our unlimited aspirations with our limited resources across time, space, and scale

- John Lewis Gaddis, “On Grand Strategy”

Open Source and Fair Source are
tactics - they're part of the
strategy!

Y'all call them "Business Models" – they aren't, but
that ship has sailed. I tried.

Product Market Fit

Is a prerequisite.

Product Market Fit is when customers **pull** your product to them, not you **pushing** it on the market

Business Modeling 101

Total Addressable Market (TAM)

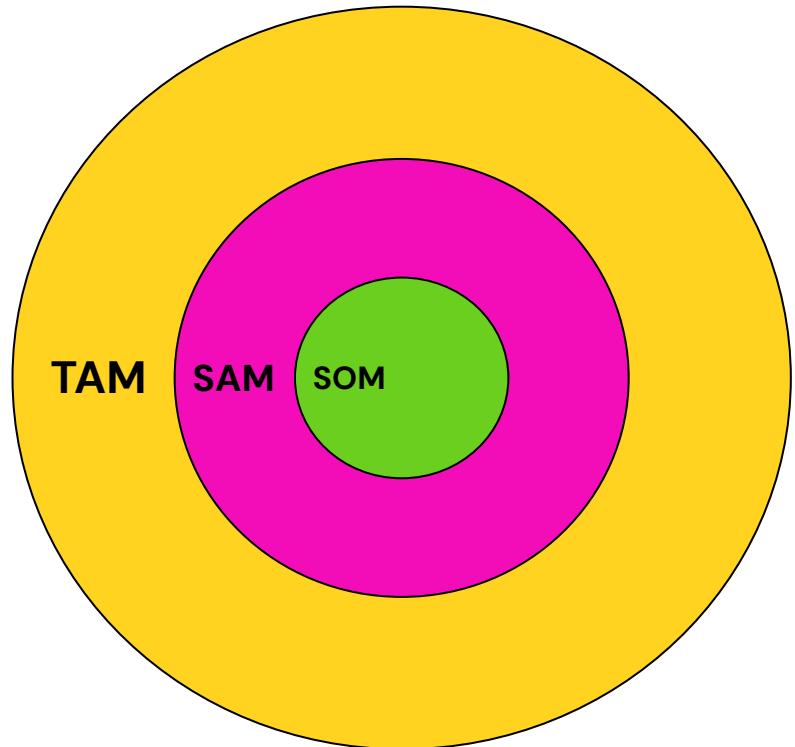
- Maximum size of the market, given no limitations
- **All Customers X Average Selling Price (ASP)**

Serviceable Addressable Market (SAM)

- Size of the market given the limitations of your product
- **Possible Customers X Average Selling Price**

Serviceable Obtainable Market (SOM)

- The portion you can win, given competitive pressures
- **Winnable Customers X Average Selling Price**



Pricing and Packaging

- The pricing model is how you charge a customer
 - Usage-based
 - Seat-based
 - Perpetual
 - Subscription
- Packaging is how you bundle features and services together to determine the actual price
- System Initiative is “usage-based” according to concurrent resources under management per hour
- Our “monthly” package costs \$0.007/resource hour, but does not include SAML/SSO, on-prem deployment, etc.

Licensing Simplified

- Products are “licensed” between a producer and a consumer
 - They specify what you are, and are not, allowed to do
 - They may also specify what you will do in return for the rights the license grants – for example, pay someone money
- Source Code Licensing (also known as Software Licensing)
 - Is applied to the *source code*
 - “The software is under the MIT License”
- Distribution Licensing
 - Is applied when a given *customer* receives a product from a *distributor*
 - All open source and free software allows you to have a different distribution license than the source license!
 - When they are the same, we call it “license in / license out”

These numbers are not precise
I'm usually backing in to it from revenue, if it is
public. I'm probably not off by an order of
magnitude. :)

Microsoft Office 365

Source License: Proprietary

Distribution License: Proprietary

Pricing Model: Annual Subscription

Packaging: Home/Business tiers

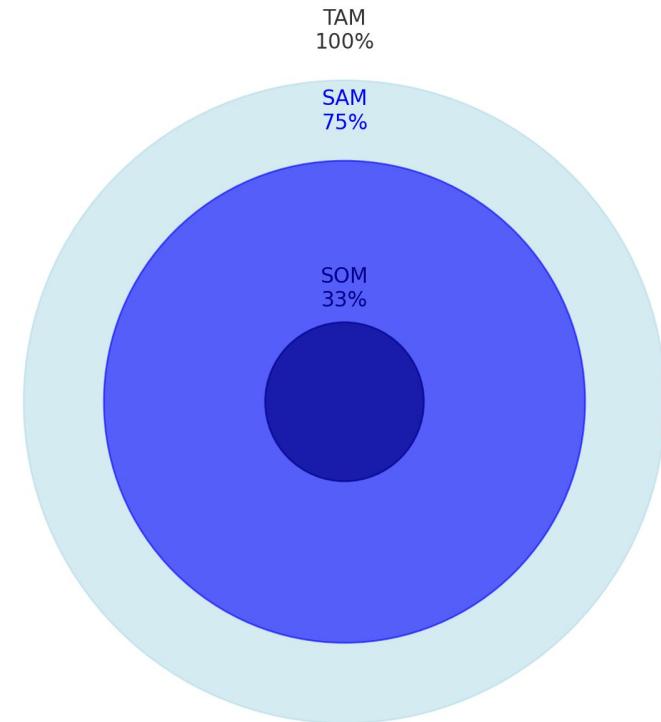
TAM: 4 billion X \$80 = \$320 billion

SAM: 3 billion X \$80 = \$240 billion

SOM: 687 million x \$80 = \$55 billion

Analysis: High Average Selling Price (ASP) matters!

Office has a 33% share of the market, generating ~\$55b in revenue. Google has 44%, generating ~\$16b in revenue.



Red Hat Enterprise Linux

Source License: GPL v2

Distribution License: Red Hat EULA

Pricing Model: Per Server Subscription

Packaging: Enterprise EULA

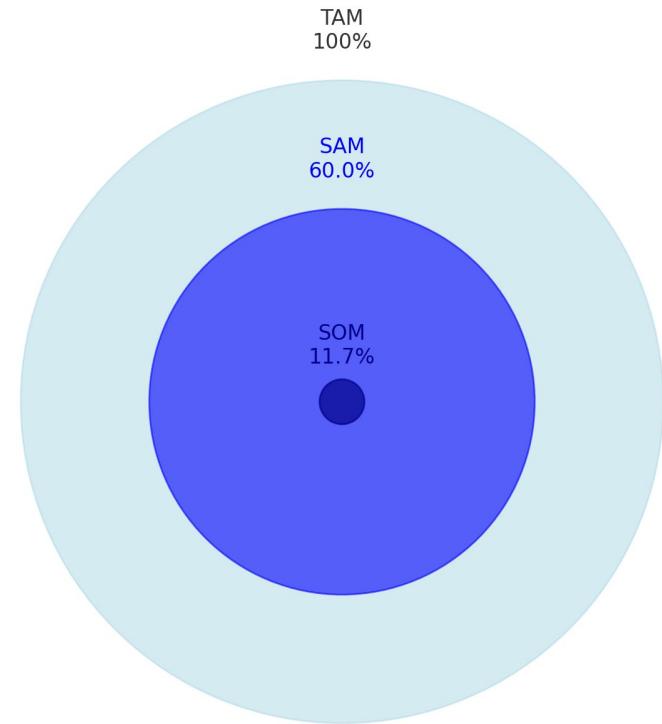
TAM: 50 million X \$878 = \$43.9 billion

SAM: 30 million X \$878 = \$26.34 billion

SOM: 3.5 million X \$878 = \$3.0 billion

Analysis: High ASP & Focus == Yum

RHEL holds less than 1% of all Linux globally, but generates \$3b in revenue. There is no \$0 RHEL.



Canonical

Source License: GPL v2

Distribution License: GPL v2

Pricing Model: Subscription

Packaging: Support and Compliance

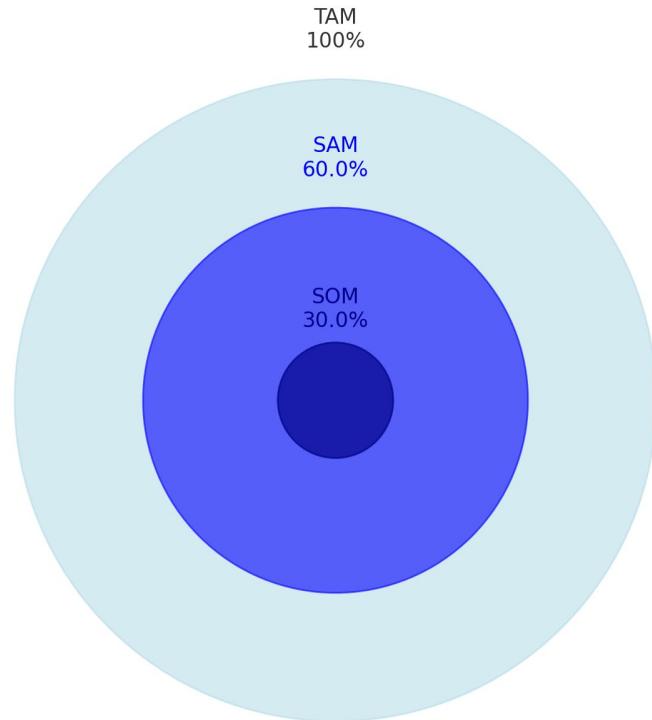
TAM: 50 million X \$27 = \$1.35 billion

SAM: 30 million X \$27 = \$810 million

SOM: 9 million X \$27 = \$243 million

Analysis: \$0 anchors the average price

Ubuntu has ~30% share of all Linux distributions globally. The enterprise price is close to RHEL, but revenue is minimal.



HashiCorp & Terraform

- Market is proven and growing quickly – this is fantastic
- But in a situation roughly like Canonical (there is no Red Hat of IaC)
 - Terraform costs \$0, is the leading IaC tool by a huge margin
 - HCP and Terraform Enterprise command relatively high selling prices
 - But the average will be brutal – they have 3,240 customers in Q1 2024, but easily 10x that in total users
- Competitive pressure is ramping up as the market is proven and growing
 - Pulumi, AWS CDK, System Initiative
 - Multiple companies monetizing on top of terraform – competing directly for their SAM without needing to build Terraform itself

LOW ASP + COMPETITIVE PRESSURE = NO FUN

HashiCorp & Terraform

- Solution? BUSL.
- Every competitor can now longer use Terraform or the broader ecosystem
 - But customers still have access to the source
 - It converts to MPL in four (!) years
- Competitive response was to start OpenTofu
 - Now competing for Terraform SAM on new features
 - The ecosystems start to diverge
- Hashi still hasn't solved the ASP problem – but realistically, they might not be able to, as the global anchor on IaC has been set at \$0
 - It's still License In/License Out and \$0!
 - Fair Core

HashiCorp chose to force competition rather than segment the market, because the ASP was already anchored at \$0

Kubernetes

- Open sourced by Google, super star of the CNCF, market defining juggernaut
- From a business strategy perspective, it existed to unseat the dominance of the AWS API as a de-facto cloud standard, enabling down-market cloud companies to compete for workloads
- A strong industry consortium, including AWS, adopts K8S.
- Managed cloud providers offerings from AWS, Microsoft, and Google
- Red Hat's OpenShift? \$1B+ in revenue on a **1.14%** share of the container market
 - Software License: Apache License
 - Distribution License: Red Hat Enterprise Agreement
 - **They sell an enterprise grade K8S solution, plus other software at a high ASP**

Redpanda

- A faster, easier to operate, Apache Kafka compatible streaming data platform
- Apache Kafka is Apache License In/License Out
- Confluent is a public company selling an enterprise distribution of Kafka
- Redpanda's advantage was their implementation, and Kafka and Confluent both were growing their SAM and helping educate the market
- So they compete on features, price, and performance
- Answer: BUSL / Fair Core
 - The BUSL makes it so Apache Kafka and Confluent cannot take their technology
 - But the Redpanda Community Edition fills that \$0 ASP

Sentry

- Application performance monitoring and error reporting
- Crowded but huge market – several public companies
- 100k+ customers
- Packaged as SaaS Subscription – a \$0 self hosted option (totally unsupported)
- Faced competitive pressure from larger companies planning to integrate the Sentry software directly into their products as an additional feature to enter the APM market
- Answer: FSL (Fair Source License)
 - Stops the competitive pressure immediately
 - Allows them to not entirely alienate \$0 users

Docker

- Created the entire container market, which was then eaten by K8S
- A generationally powerful brand, and a seismic shift in capability
- License In/License Out distribution meant they struggled to find any monetization
- Scott Johnston takes over as CEO. They have \$11 million in revenue.
- He switches from License In/License Out to selling Docker Desktop subscriptions
- **Docker goes from \$11 million in revenue to \$135 million in 2 years**

Linkerd

- Buoyant makes “the world’s most advanced service mesh”
- They sold enterprise features on top of Linkerd, which is powerful, stable, and has great market fit
- They struggled to convert users to paying customers
- In February 2024 they stopped producing stable builds of Linkerd; instead Linkerd only gets “edge” releases
- Those who want stable releases must buy Buoyant’s Enterprise Linkerd
- **By October they went from on the verge of closing their doors to growing, profitable, and in control of their destiny**

A special note on competition

- All businesses that are successful will have competition
- Your reward for being more successful is more effective competitors, large and small
- Fair Source is designed to remove the ability for competitors to compete with you on your own software – it's one strategy for dealing with it (compete with me by making a better product)
- Open Source embraces competitors on the same software, in order to make that software a de-facto standard in the market. This can be devastatingly effective. If you do this, you want to be the *HIGH* ASP offering in the market. You want to be Red Hat, not Ubuntu.

What is the best business strategy?

There is no single best strategy. It all depends on the market you're in and your own position within it. But here's some advice.

- License In/License Out means setting the value of your product at \$0 for some large segment, and anchoring the value you can build on top low. This is probably not what you want.
- If you use an open source tactic, you want to be the upstream, and you want the high ASP segment. That means competitors help drive your SAM, and you have the best competitive position for SOM and the highest TAM. Other positions are strictly worse.
- Fair Source is an effective deterrent to competitive pressures, but it still causes the \$0 ASP problem if you do License In/License Out.

tl;dr

- Free Software is a political movement rooted in the fundamental nature of software as an inexhaustible resource, dedicated to ensuring all people have the freedom to run, copy, distribute, study, change and improve software for their own ends
- Open Source takes Free Software values, de-emphasizes its political nature, and highlights the incredible business impact inherent in harnessing the inexhaustible nature of software as a weapon
- Fair Source says the business impact of Open Source is great, except when it means the primary authors of the software aren't the sole beneficiaries of monetary upside
- Most users care about \$0 software, not political values or esoterica
- Startups most often use Open Source to cause rapid growth in both functionality (Serviceable Addressable Market) and share (Obtainable Market), but at a low average selling price. This causes an inefficiency in monetization, and a potential competitive imbalance, which over time drives them toward Fair Source



What should I do?

1. Build a product with great product market fit
2. Do not give it away for free

Open Source

If you have a disruptive new technology, use open source to control the competitive environment and grow SAM and SOM rapidly. Take the high ASP segment.

Be a great upstream.

Fair Source

If you want some of the benefits of an open development model (customers seeing source code, etc.) but want to limit the ability for competitors to benefit from your software.

Don't fair core yourself.