Is there an Open Source Business Model: YES or NO?

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Is there an Open Source Business Model?

Open Source Software is about Engineering Economics
We’ve shared software since we’ve written software
We’ve shared software since we’ve written software
Writing good software is hard work
Companies shared software before we had the OSD

- **1950s**
  - Code sharing at Princeton IAS in late 1940s

- **1960s**
  - IBM “SHARE” Conf & Library begins 1953
  - DECUS Conf & Library begins 1962
  - AT&T Shares First UNIX tapes early-70s

- **1970s**
  - USENIX Begins 1975
  - emacs 1975
  - 1BSD Released 1977
  - DEC Ultrix 1984

- **1980s**
  - SunOS 1983
  - MIT Project Athena Begins 1983
  - GCC 1987
  - Linus Releases Linux 1991
  - Free Software Foundation Launches 1985
  - U.S. Congress Adds Computer Software to Copyright Law 1980

- **1990s**
  - Red Hat 1993
  - Apache httpd Released 1995
  - Apache Software Foundation 1999
  - OSF/1 1992
  - Linus Releases Linux 1991

- **2000s**
  - OSDL Forms 2000
  - OSDL Re-forms as Linux Foundation 2007

- **2010s**
  - Open Source Definition 1997

- **1956**
  - 1st DoJ vs IBM Consent Decree “Hardware Bundling is Anti-competitive”

- **1969**
  - IBM response is to unbundle HW, SW, & services pricing

- **1977**
  - 1st DoJ vs IBM

- **1987**
  - GCC

- **1993**
  - Red Hat

- **1995**
  - Apache httpd

- **2000**
  - OSDL Forms

- **2007**
  - OSDL Re-forms as Linux Foundation
Companies shared software before we had the OSD
(Writing good software is hard work)
Collaboratively-Developed Liberally-Licensed Software is about Engineering Economics
Open Source is about Engineering Economics

Interix
~$100,000
for $10M
value capture
Interix + ACT
~$140,000
Is there an Open Source Business Model?

Build vs Buy
Is there an Open Source Business Model?

Build vs Buy vs. (Borrow & Share)
Projects are not Products
Is there an Open Source Business Model?

Projects are interesting buckets of technology developed collaboratively by like-minded engineers
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Products solve customer problems and money is exchanged for perceived value.
Projects are interesting buckets of technology developed collaboratively by like-minded engineers.
Is there an Open Source Business Model?

Projects have communities
Communities have time and no money
Is there an Open Source Business Model?

**Projects** have communities  
Communities have time and no money

**Products** have customers  
Customers have money and no time
Community vs. Customer

- Will contribute time to solve their problems
- Look to community and *project* for solutions
- Community wants transparency, meritocracy, and agency
- Need guidance and tool support
- **Become technology advocates**
- **Become knowledgeable experts**
- Make your solution sticky

- **They want to buy something**
- Look to the *product* to solve their problems
- Customers have expectations based on a cost
- Community/project is a test for product
- May participate in community
Conversion Rates

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Conversion Rate</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1:1000</td>
<td>3%</td>
<td>MySQL Inc.</td>
</tr>
<tr>
<td>~1:100</td>
<td></td>
<td>JBoss</td>
</tr>
<tr>
<td>1:10</td>
<td></td>
<td>Red Hat</td>
</tr>
</tbody>
</table>

What Business Ratio Changes 2 Orders of Magnitude between Companies in a Market?
Community vs. Customer

- Will contribute time to solve their problems
- Look to community and project for solutions
- Need guidance and tool support
- **Become technology evangelists**
- **Become knowledgeable experts**
- **Make your solution sticky**

- **They want to co-market products**
- **Look to the product to cross-sell**
- Partners have contracts defining business relationships around products/services
- Community/project is a test for product
- May participate in community
Is there an Open Source Business Model?

Customers versus Community
(Money vs. Time; Expectations are different; Conversations are different)

Partners versus Community
(Don’t mix business with community)

Products versus Projects
(Success metrics are different; OKRs and KPIs are different)
Last Quick Examples …

- Kubernetes is a project; AKS and GKE are products

- OpenStack is a collection of projects; Helion and RDO are products

- Linux is a project; Fedora is a distro project; RHEL is a product
A Story of Red Hat in Three CEOs
A Story of Red Hat in Three CEOs

1994

1999

2008

[Graph showing growth over time with peaks around the years 2000, 2005, and 2015, followed by a steady increase towards 2016]
Collaboratively-Developed Liberally-Licensed Software is about Engineering Economics

There is NO Open Source Business Model…
Is there an Open Source Business Model?

Alternatively…
There IS an open source business model
Collaboratively-Developed Liberally-Licensed Software is about *evolving Business Models*
OS became ‘official’ over 2 decades ago

The segment of collaboratively-developed liberally-licensed software labeled “open source” is 20 years old

https://opensource.org/node/924
Is that when open source actually began?

The segment of collaboratively-developed liberally-licensed software labeled “open source” is 20 years old

https://opensource.org/node/924

When did the first release of a enterprise-grade “open source” operating system get released, and by who?
Open software has actually been around longer

The segment of collaboratively-developed liberally-licensed software labeled “open source” is 20 years old

https://opensource.org/node/924

When did the first release of a enterprise-grade “open source” operating system get released, and by who?

SHARE released its own operating system – what we would today refer to as an OS distribution, the SHARE Operating System (SOS) – for IBM 709 hardware in 1959

https://en.wikipedia.org/wiki/SHARE_(computing)
How long has business made money with SW?

When did the revenue-generating Software Industry come into existence?
Was it about four decades ago?

When did the revenue-generating Software Industry come into existence?

Was it when Bill Gates wrote the famous “An Open Letter to Hobbyists” email back in 1976?

https://www.newyorker.com/magazine/1994/01/10/e-mail-from-bill
Actually it was about five decades ago

When did the revenue-generating Software Industry come into existence?

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IBM announced that it would “unbundle” its software and hardware, June 1969

OS business model has evolved over time

**Dual Licensing**
Licensors can distribute software to licensees under a proprietary model as well as an open source model

**Advertising Partnerships**
Development costs are offset by logo placement and/or advertising revenue

**Support and Service**
Offers software for free and charges enterprise users for technical support services, facilitates certifications

**Open Core**
Primarily involves offering a "core" or feature-limited version of a software product as free and open-source software, while offering "commercial" versions or add-ons as proprietary software
Open Source Business Model in the era of Cloud

**Open source software delivered as a service**

Instead of attempting to sell open source software as a standalone entity, it is coupled with a platform and the two are sold together.

**Advantages:**

**Clear path to monetization** – It’s been difficult to get developers and end-users to pay for software they can download for free. But when coupled with a platform, it’s understood that it comes at a cost.

**Alignment of customer and vendor needs** – By combining the benefit of both code and platform, sufficient value is created to satisfy both buyer and seller.

**Flexibility of operational choice** – Developers can still download and run the open source code should business needs require.
The OS business model has never been easy!

Building a viable business around 'real' open source is as dicey as it's ever been

However Open Source is clearly winning

Building a viable business around 'real' open source is as dicey as it's ever been


Open source is winning in the data center as the emerging ”standard” for most of the cloud infrastructure components
Has Cloud killed the OS business model?

Building a viable business around 'real' open source is as dicey as it's ever been

Open source is winning in the data center as the emerging “standard” for most of the cloud infrastructure components

To what extent do big cloud providers owe a debt to open source, and how can that debt be sustained?
Recent OS license innovations react to Cloud

Will startups look to evolve open source software licenses to improve their chances in the marketplace?

Balancing the availability of code that characterizes open source with the need to monetize the software to continue its development

“Fair Source License” – Allows everyone to see the source code and makes the software free to use for a limited number of users in your organization (March 2016)

”Business Source License – Usage above a specified level requires a vendor license until the Change Date, at which point all usage becomes free (August 2016)

“Community License” – Customers are asked to follow an “honor system.” In registering to use the software, they are agreeing to abide by the CCL (January 2017)
Microsoft surprises industry, acquires open source repository GitHub

Based on the Git framework, an open source distributed version control system

"Microsoft Buys GitHub for $7.5 Billion, Moving to Grow in Coding’s New Era"


“Everyone complaining about Microsoft buying GitHub needs to offer a better solution”


“So Pigs Do Fly: Microsoft Acquires GitHub”


Key Issues:

• Over 28M developers use the service to collaborate on more than 85M projects.

• Many enterprise companies (49% of the Fortune 100) maintain and collaborate on projects on GH. Massive developer dataset

• Microsoft pledges to maintain GitHub as developer and vendor neutral
Is there an Open Source Business Model?

So YES,
there an open source business model

It just keeps constantly changing!
Is there an Open Source Business Model?

YES or NO?

Q & A