



Managing OSS as an Integrated Part of Business

Impact of Open Source Software on Software Industry and the Nordic Opportunity

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Short Bio

- Management Consultant 1993-
- Venture Capitalist (investment into MySQL in 2001) 1999-
- Researcher 2004-
- COSS 2005-
- Open Tuesday 2006-
- Global board and advisory board positions (Finland, Spain, USA, China)

Agenda

- Why OS matters?
- Briefly about Business models
- State of Open Source Business
- OS Adoption - Finnish View
- The OSS Past is Looking Very Nordic
- Ecosystems' Challenge
- Conclusions

Free and Open Source Software



Source code for the software is always available, and the user of the software is licensed (always) to change and redistribute the software without fee, penalty or asking permission

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Why OS Matters Joe Kraus, Excite & Jotspot

Excite.com took \$3,000,000 to get from idea to launch. JotSpot took \$100,000. Why on earth is there a 30X difference?

Hardware is 100X cheaper In the 10 years between Excite and JotSpot, hardware has literally become 100X cheaper. It's two factors 'Moore's law and the rise of Linux as an operating system designed to run on generic hardware. Back in the Excite days, we had to buy proprietary Sun hardware and Sun hard drive arrays. Believe me, none of it was cheap. Today, we buy generic Intel boxes provided by one of a million different suppliers.

Infrastructure software is free Back in 1993 we had to buy and continue to pay for maintenance on everything we needed just to build our service -- operating systems, compilers, web servers, application servers, databases. You name it. If it was infrastructure, we paid for it. And, not only was it costly, the need to negotiate licenses took time and energy. I remember having a deadline at Excite that required me to buy a Sun compiler through their Japanese office because it was the only office open at the time (probably midnight) and we needed that compiler NOW. Compare that to today. Free, open source infrastructure is the norm. Get it anytime and anywhere. At JotSpot, and startups everywhere you see Linux, Tomcat, Apache, MySQL, etc. No license cost, no maintenance.

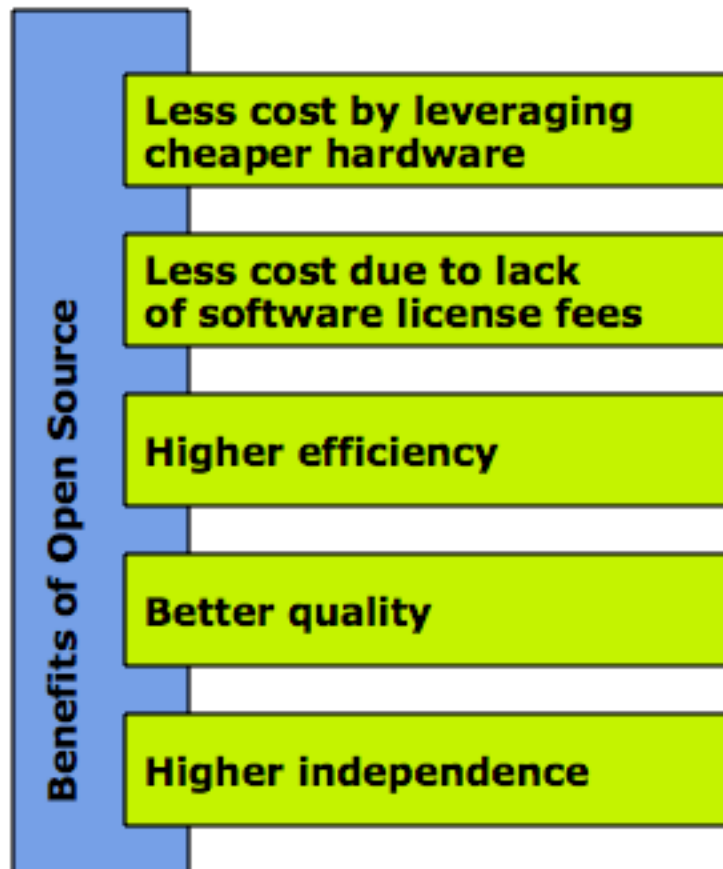


Why OS matters: Belynda & Wikipedia

Couple months ago I was exchanging e-mails with an long-time friend, explaining to her why she should take a careful at what is happening in the publishing and content industries. After I sent her a link to Wikipedia (www.wikipedia.org), I got this very worried response:

“The reason I am asking these questions is that I just realized this threatens millions of dollars of our business in my existing company. We sell an online encyclopedia - in my territory alone this is over \$400,000. One of our stated benefits is that our source is authoritative - Wikipedia seems to be gaining so much ground and legitimacy that customers may say why should I spend over \$170,000 on a product that I can get basically free?”

The Benefits of Using Open Source Software and Components



Reasons

- Usage of commodity hardware (TCO)
- Better leverage of hardware resources (ROA)
- No software licence costs (TCO)
- Very competitive software maintenance and support market (TCO)
- Availability of skills and people (Cost)
- Platform for development (Value)
- Collaborative software development process (Cost/Value)
- Full access to software code (Value)
- No vendor lock in
- Non monopolistic approach
- Standard compliance

Business “Logics” (Kapor)

- proprietary
 - power with suppliers
 - customer lock-in
 - profitable, but inefficient
- open source
 - power with customers
 - customer choice
 - less profitable, more efficient



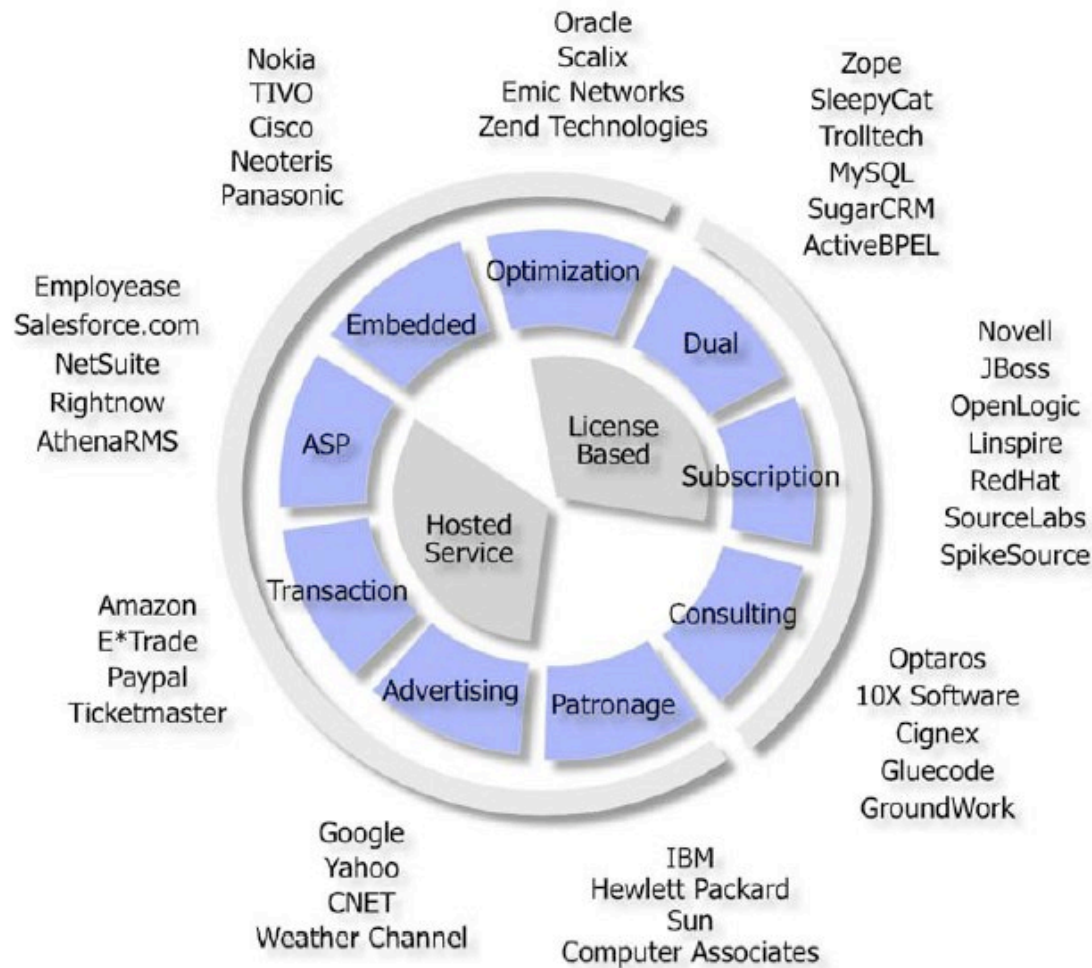
Cases

- FIREFOX
- STARWRECK

OSS + Business By Accident business model

-> Now approaching Gary Player model “The More I practice, the luckier I seem to get”

Sample of business models



The best models (Mickos/MySQL)

- Mozilla's: sell ads
- Red Hat's: sell services around a binary
- Sugar's: sell proprietary extensions to open source software
- Dual-license: charge a fee for dropping open source into a proprietary product



Evolution of OSS business models

In 2005

- Are OSS businesses sustainable?

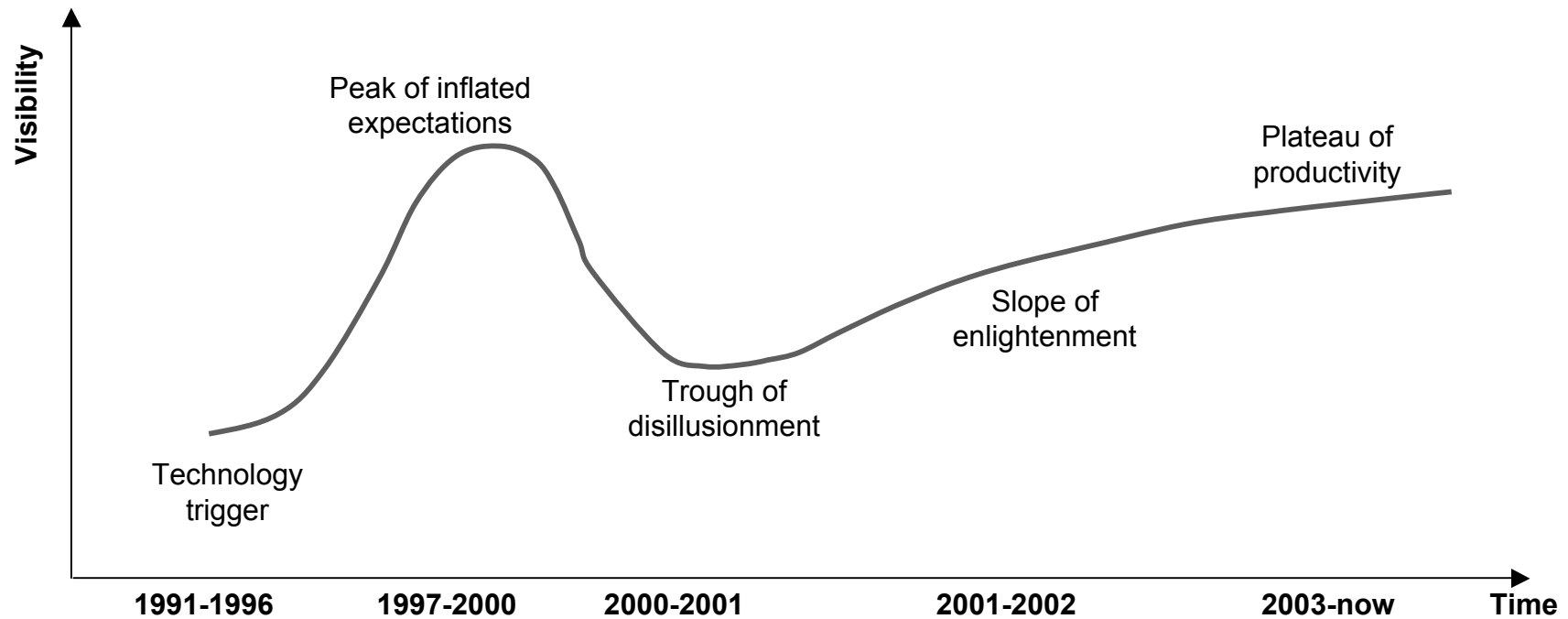
In 2007

- How do you scale OSS business?

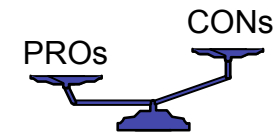
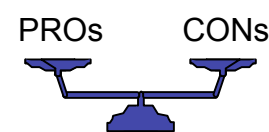
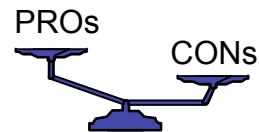
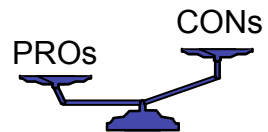
In 2008

- When will the big money start flowing?

LINUX HYPE CYCLE HAS BEEN GUIDED, AMONG OTHERS, BY PERCEPTION OF PROs AND CONs

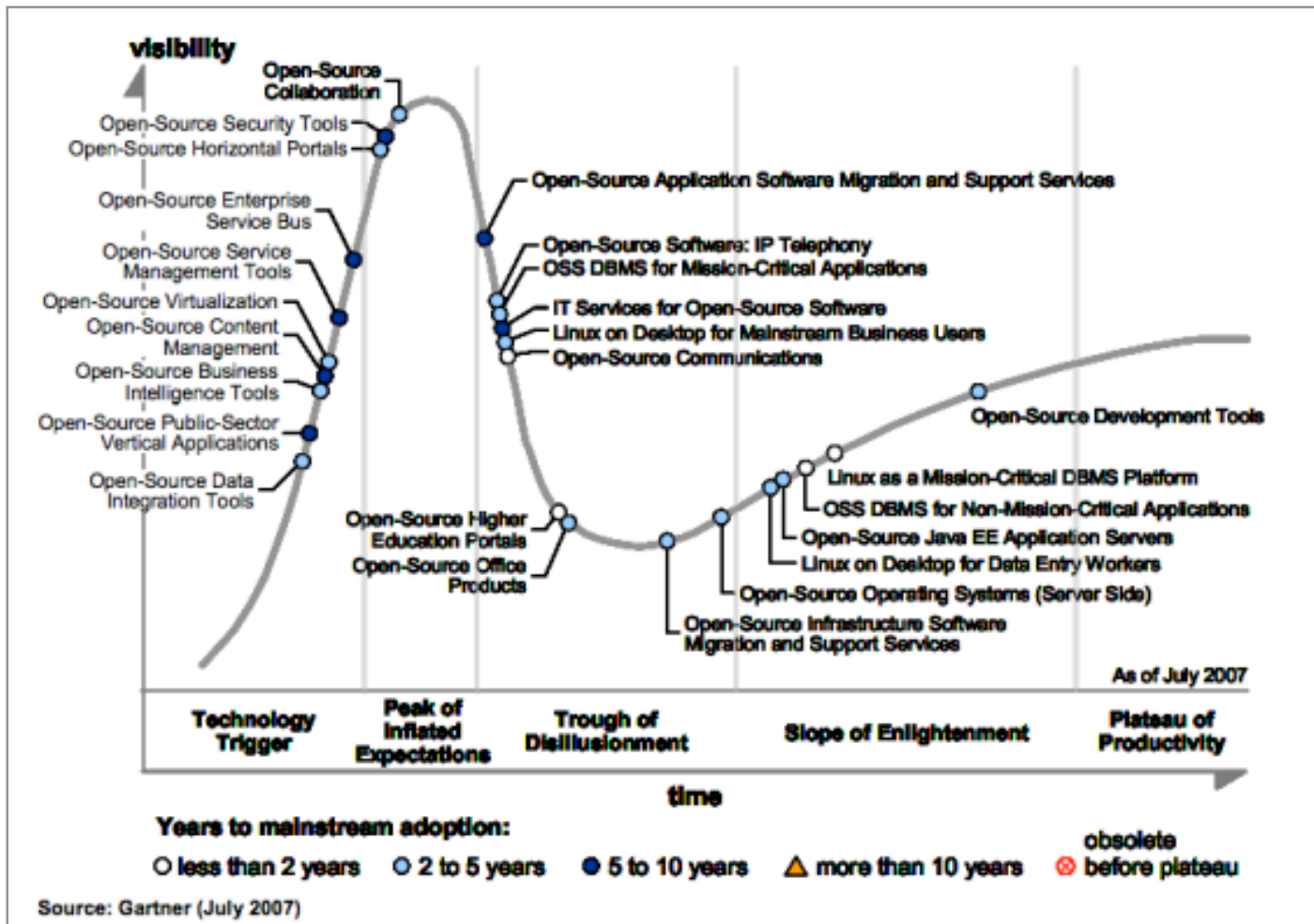


PROs & CONs in the press

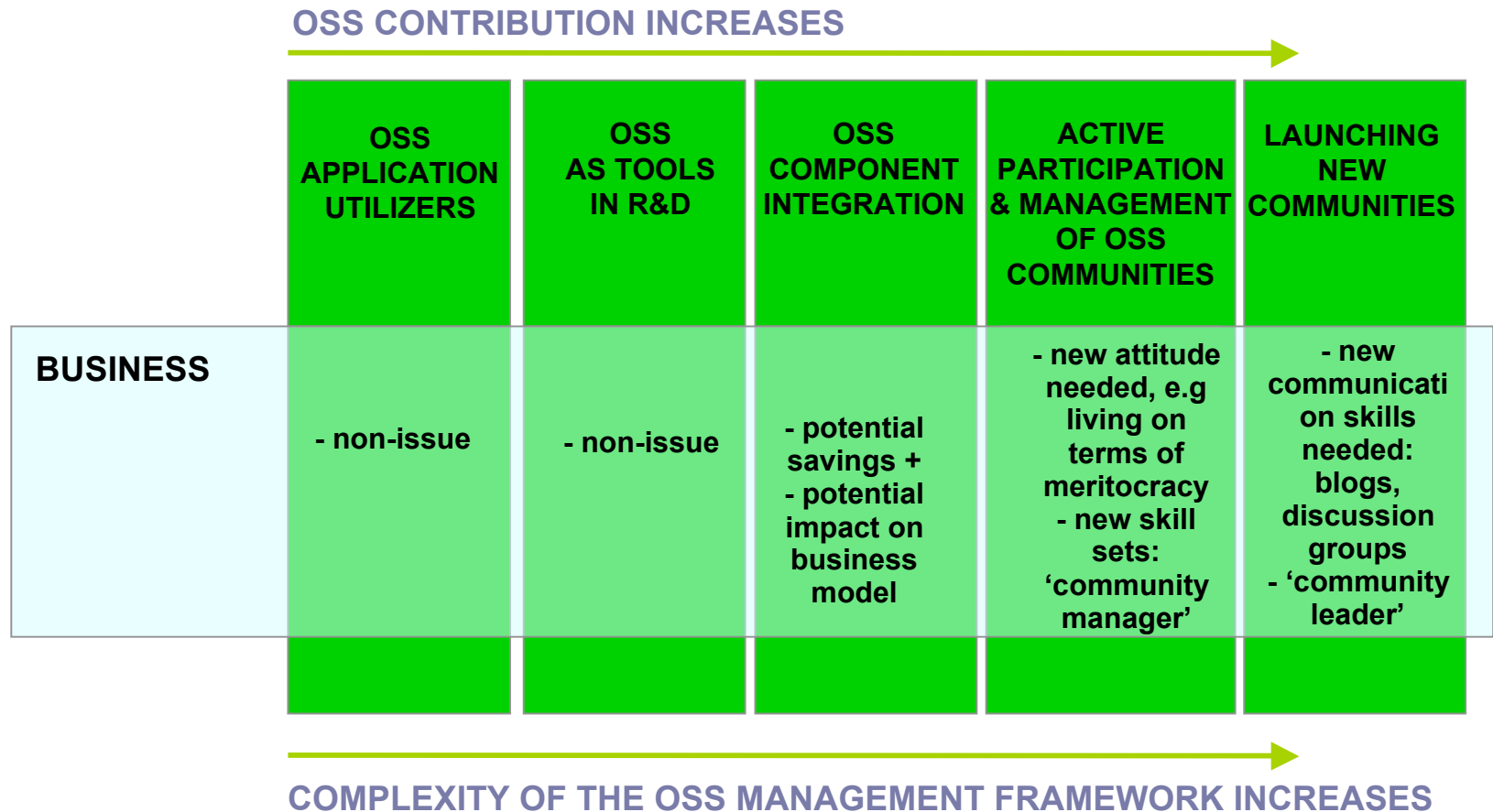




State of OSS Adoption



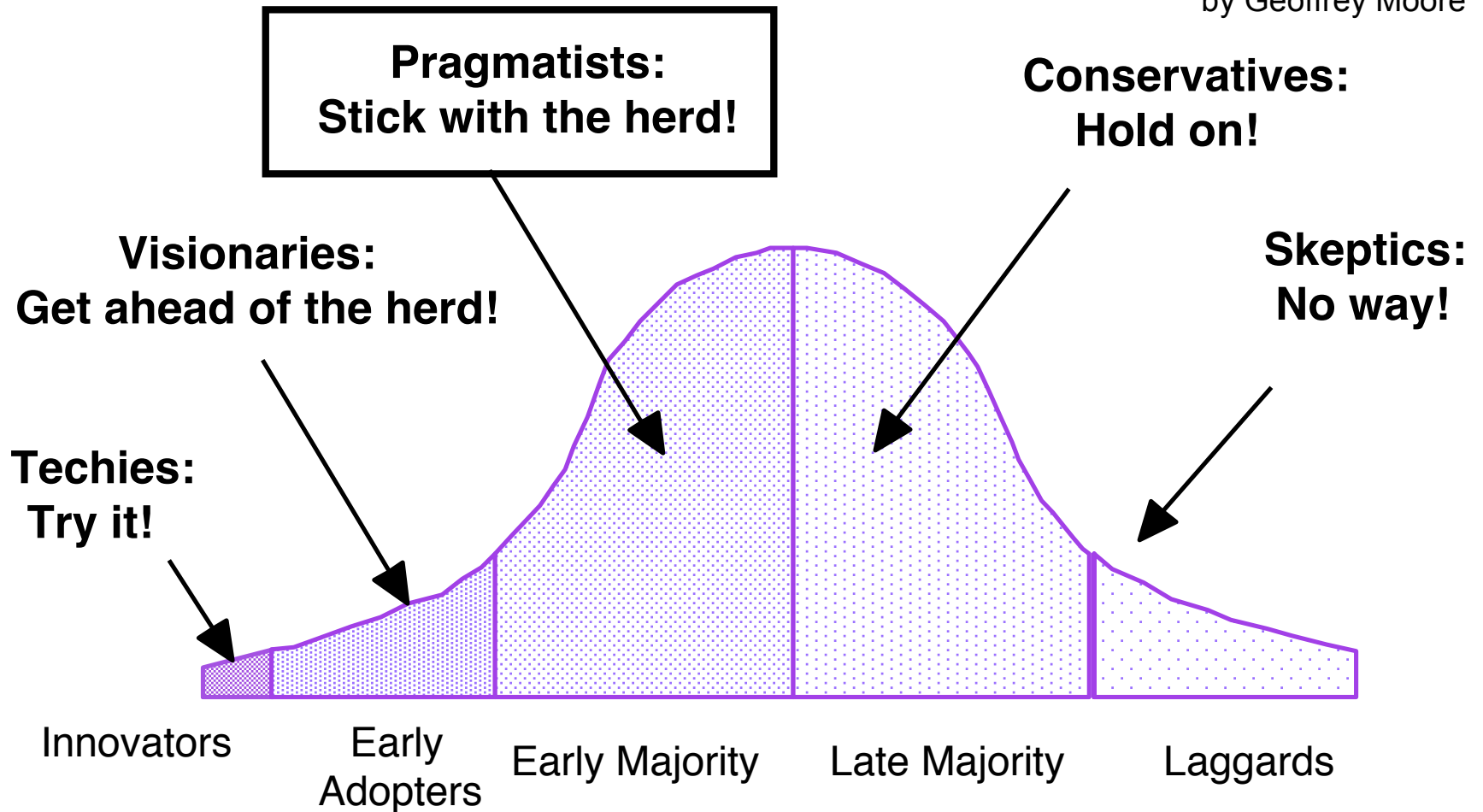
Business Evaluation Needs





Technology Adoption Life Cycle

by Geoffrey Moore



Pragmatists create the dynamics of high-tech market development



OSS is Mainstream!



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The Finnish View-Private sector

The Research Institute of the Finnish Economy surveyed the usage of open source among Finnish software companies . Companies using open source replied that 50% of their revenues is based on open source (32% in 2003 and 16% in 2000). The top three reasons for using open source were:

- 1) Independence from large IT-companies licensing and pricing policies,
- 2) Possibility for a small company to stay innovative, and
- 3) The use of open source lowers production costs in new products.



The Finnish View-Public sector

It should be also noted that there have been some large-scale adoptions, which have not been really publicized, especially in Ministry of Labor and Finnish Meteorological Institute. Also, the Finnish army is using open source products in its IT-infrastructure but the exact details are (not surprisingly) public.

The National Technology Agency has taken a more pro-active position . They have started a R&D development program for the years 2006-2010, with a 120 million Euros budget with one of the key areas being the development of open-source based technologies and products



The Finnish View

- 1) Public debate is similar to what is taking place internationally.
- 2) Open source is growing in importance in Finland's private sector as companies' are increasingly basing their business on it.
- 3) Finland seems to be taking an aggressive approach into building new open source based businesses through new government grants and training programs in 2006, even as there are still only early indications as to how sustainable and profitable open source businesses will be as there are only few companies that have managed to find and execute profitable business models in open source.



The Finnish View

- 4) Finland's public sector has so far tried open source desktop applications in small scale, that the impact and potential cost issues of larger deployment can only be estimated.
- 5) Finland's public sector is reluctant to test new software environments as a user until conclusive evidence about its benefits can be seen elsewhere.
- 6) While open source has gained a lot of ground in the public sector on the server side, desktop applications still have long way to go to reach popularity that would threaten the popularity of applications of Microsoft's etc.

As a comparison, the United States has defined its defense organization (DoD) to take in a way a selfish approach to software acquisition; firstly they look after their own interests and secondly at the interests of the U.S. domestic software industry.

The Future -Analyst View (Gartner 2006)

- OSS will not destroy industry giants, such as IBM and Microsoft, but it will revolutionize software markets by moving revenue streams from license fees to services and support.
- In doing so, it will be a catalyst that restructures the industry.
- By 2008 95 percent of Global 2000 organizations will have formal open-source acquisition and management strategies; and, OSS applications will directly compete with closed-source products in every software infrastructure market.
- By 2010, IT organizations in Global 2000 companies will consider open-source products in 80 percent of their infrastructure-focused software investments and 25 percent of their business software investments.



Managing OSS as an Integrated Part of Business

The OSS Past is Looking Very Nordic

LINUX - from Finland

APACHE

MySQL - from Finland/Sweden

PHP - from Denmark

(LAMP)

+

Internet Relay Chat (IRC) - from
Finland



Ecosystems' Challenge

Nomovok - Agile co-operation with distributed communities and corporate partners.

Gofresh - Mobile Social Networking

Dopplr - an online tool for frequent business travellers

Continuent - open source middleware solutions for database high-availability and scalability

The role of Venture Capitalists and public sector?



Maybe we should revise the terminology?

Maybe we should start talking about software (OSS) driven businesses instead of Open Source businesses.

After all Open Source is way of producing and distributing software, not a businessmodel.

...and the biggest successes in 2000's have been software (OSS) driven businesses such as Google, Amazon, QQ and Alibaba.



Conclusions and Implications

- The Business rules are just being written, you need to be part of the discussion to understand the implications
- Ecosystem is evolving and entrepreneurs are creating value wherever and with whomever the opportunity is best realized, VC's and public sector should find ways of capturing at least some of the value created
- In order to understand business in OSS, new terminology might be needed



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