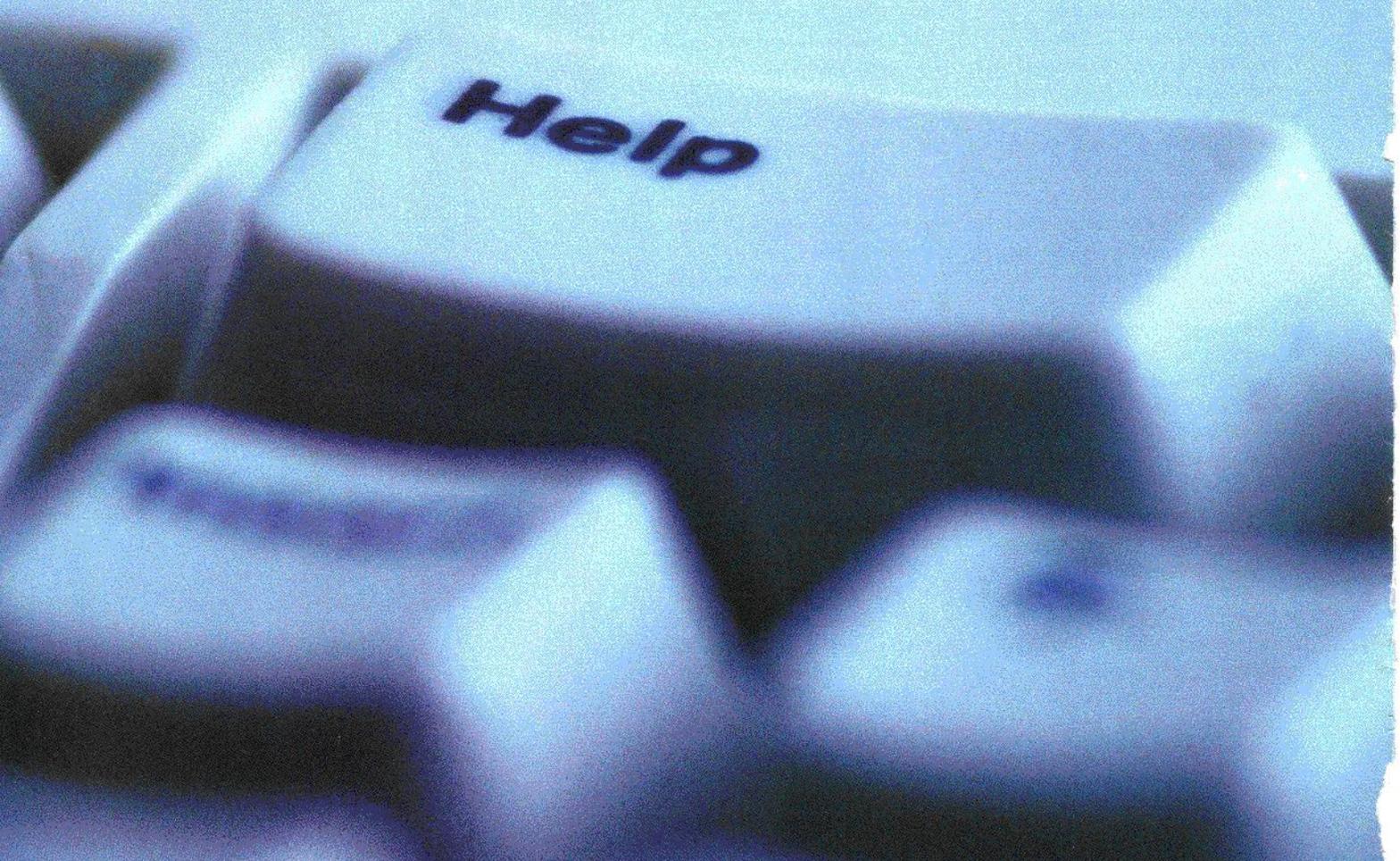


Free as in speech, not beer



Help

Understanding the open source business model

In the first of a series of articles on the changing market for open source software, Rob Buckley looks at how various companies have met the challenge of making money from the open source software model

Contrary to popular opinion, making money from open source software is not a Bad Thing. Even that most uncompromising of licences, the GPL, does not forbid companies from charging for open source software. Yet it is difficult to argue that it is as easy to make money from open source software as it is from proprietary software.

So what makes anyone want to start a company based around open source? Building a profitable company that will last for years is a challenge that proves too much for many, anyway. But basing that company around open source software would seem to many like trying to run a marathon with lead weights tied to your feet. Tell many investors that you're trying to start a company whose customers will be able to freely copy its products and even sell them and you're unlikely to get the bus fare home out of them, let alone get seed capital. Even if you raise funding, ensuring you make enough money to pay the bills, feed the family and take on competitors can prove too much: there are fewer avenues to make money and many potential customers either unaware of or unwilling to use open source software.

Yet for over a decade, companies have been successfully basing their businesses around open source. Many have radically different business models from proprietary software companies, while others have gone for hybrid models.

In this series of articles we're going to look at how the market for open source software is changing: why large organisations are now willing to give open source a chance; how venture capitalists and other investors are adapting to open source; and how the business infrastructure of Europe is changing to support open source initiatives. In this, the first of the series, we're going to look at how various companies have met the challenge of making money from open source.

"IT'S THE NATURAL EVOLUTION OF IT"

The oldest viable model for open source profit has been in services and support. It's the model used successfully by the likes of Red Hat and Novell, who make no or little money from their Linux distributions, but who make millions of dollars' profit from selling support licences and consulting services off the back of them. It is, in a sense, the purest way to make money from open source.

"It's the natural evolution of IT," says Mark Taylor, CEO of Surrey-based Sirius IT. "IT has been made up of three parts: the hardware, the software and services. With cost taken

out of hardware and open source doing the same thing for software, that leaves the future in the services side."

Taylor started Sirius, a services and consultancy firm, in 1998. Formerly technology director for an IT management and training company, he was "bored out of his brains" and decided to do something he might enjoy instead. Being a long-term user and advocate of open source and seeing the future of the IT industry in open source, he decided to start up his own consultancy to

articles, conferences, newsgroups, forums and other forms of "open source PR", Taylor believes, and he has tried to create as much open source word of mouth as possible through these channels.

"WE ARE THE OPEN SOURCE COMMUNITY"

If one open source company is famous for having a marketing message, it's JBoss and its concept of "professional open source". Sacha Labourey, general manager of JBoss

"We believe if we open sourced our product, we would be out of business in six months"

Larry McVoy, CEO, BitMover

"Open source software is creating new market opportunities and new companies are springing up to take advantage of these opportunities"

- Kim Polese, CEO, SpikeSource



advise firms on how to use open source software. He now advises organisations such as Pentax, Toyota and the MoD on how to migrate their systems, where appropriate, to open source software, and provides additional support and consulting services.

Progress was slow at first: at the time, open source was little known so few organisations were interested in moving their core systems over to such an unknown. So Sirius, in common with many open source vendors of the time, had to educate potential customers about open source, as well as try to sell its services to these prospects. Nevertheless, the company was able to find companies that were interested. "It's company policy to go for - low-hanging fruit'. Some companies are not even ready to listen to the open source story right now, so we only go for people who have an actual interest in it."

To produce this requires two things, says Taylor: interest at the technical level and a board-level sponsor who is willing to listen to the merits of open source. This kind of interest mainly comes about through media

Group Europe and one of the original founders and developers of the JBoss application server, says the creation of this marketing tag was necessary to convince customers that open source software is viable for enterprises. "Instead of trying to educate people, we decided simply to rebrand," he says. "Open source is whatever you want it to be, but 'professional' is about making money, providing everything you need to use open source in the enterprise."

In fact, Labourey is quite clear that open source doesn't mean profit-free. "There is this underlying, almost background noise, about this magic, open source community as though it's some strange sect, living in the woods, that are against people making money. We consider ourselves the open source community. So when people - usually those who haven't even touched a keyboard to code - start saying we're making money on the back of the community, that's us."

JBoss began in 2000 when a group of developers gathered on the Internet to create an application server, the eponymous JBoss. "For some, the ambition was to work on transaction management," recalls Labourey. "Normally, you don't find that in a job description." His aim was to prove that he had certain skills so he could start a consultancy in

Eric Raymond's open source business models

Open source advocate Eric Raymond proposes four viable open source business models:

- **Support Sellers:** Companies can give software away for free but make money on services such as after-sales
- **Loss Leader:** The software is given away free with the aim of supporting the sale of other related software
- **Widget Frosting:** Hardware makers make their drivers and interface tools open source to save them the costs of working out bugs and improvements to the software
- **Accessorising:** Selling accessories such as books, compatible hardware and complete systems with open source software pre-installed

middleware. Although no one originally envisioned creating a company and a product, the developers eventually decided that the best way forward - and to be able to eat and live - was to create a services company based around JBoss and its development.

The Swiss and US-based JBoss Inc, to give it its full name, now makes money mainly through support contracts and other services. Its subscription support model means that it has extremely stable growth, albeit it conservative. It has, however, refused to sell licences, in part because of the spikes and unpredictability it creates in revenues, but also because it would have reduced the overall user base and popularity of the software. Other business models were equally unappealing. "We looked at releasing the open source server for free and a proprietary, paid-for server for the enterprise," says Labourey. "But that sends exactly the wrong message to the market: it says open source is fine for small deployments - for children - but proprietary is for adults and the enterprise."

With a free product that potential customers can download whenever they want, JBoss doesn't need to have an aggressive sales or marketing campaign. Even with minimal spend in these areas, it has 70% brand awareness in surveys. The core value of the JBoss server remains in the ecosystem around it. With JBoss partnering with as many suitable people as possible, creating projects such as business process management servers that sit on top of the JBoss, it hopes to make JBoss the must-have application server with the killer price: it's free.

Labourey says that while the company's business model may differ from most proprietary software vendors' models in certain aspects, it doesn't diverge too wildly. Customers still expect product roadmaps and regular updates. "If you can't develop a sustainable roadmap, companies won't buy it. They'll say you have a nice project today,

but there is no real R&D being done by your company. Is there going to be a release n+1 or not?"

IT'S AN ISSUE OF CONTROL

While JBoss has stayed completely open source with all its software, other companies have chosen to create proprietary products based around open source software. The Karlsruhe, Germany-based company Astaro has created a closed source management platform for open source security packages. Impressed by the quality of the packages, CEO Jan Hichert and co-workers at a German ISP began to deploy the software on various projects. After a few successes, Hichert and the others decided they wanted to create a product that would encapsulate these technologies. After failing to raise venture capital, the group begged money from friends and family to launch their company. So they could return the money as quickly as possible, they chose to sell licences for their software, but decided against opening its source.

"I haven't seen a business model that works without asking money for licences," says Hichert. "It's very expensive to integrate these tools as tightly as we do."

Hichert argues that companies are perfectly free to use and configure the open source packages Astaro's network security products manage. But for a single product that includes these technologies in an easy-to-use system, companies are perfectly happy to buy a closed source management package, particularly since that's the only way Astaro can afford the R&D necessary to create this product, he says.

It's a similar tale for Scali, a Norwegian company that produces software for managing high performance computing Linux-based clusters. The software grew out of an internal project at the Norwegian engineering firm Kongsberg Informasjonskontroll. While the software for running the clusters was open

source and ran on a GNU/Linux platform, the management software was written by the firm from scratch. When it realised the potential of the software as a commercial product, the company decided to float it off within a separate company, with the help of venture capital investment.

While some academics, the original market for Scali's technology, objected to buying the closed source management software, as the company changed its target market to the more profitable commercial space, so the complaints went away. According to Bjørn Skare, president and CEO of Scali,

the decision to keep its

software closed source, even though it builds on an open source foundation, is one of practicalities.

"If it's open source, the customers can change the code, but will want us to support them. That'll give us all the economic disadvantages but no

control. Secondly, software is really

just knowledge. If we were to open our code, our competitors would know how we do things and we would no longer have an advantage."

Both Skare and Hichert agree that more and more companies are willing to use open source software for important functions in the enterprise. But both maintain that the ability to see the code of open source packages is irrelevant to most companies. This makes the hybrid model of selling software that combines open source with proprietary code viable. It also, says Hichert, is more lucrative and therefore more attractive.

But to use the model requires good faith in dealings with the rest of the community. It's only because the company commits a third of its development resources - between US\$300,000 and US\$400,000 a year - to the open source projects its products are designed to manage (and because it is "religious about not fooling about with [the terms of open source] licences") that it can continue to receive the good will of the rest of the community.

As open source software becomes more acceptable to enterprises, it's clear that many are making the switch to save money, rather than because they want to avoid vendor lock-in or to make changes to the code themselves. Others, however, want to switch to open source for those very reasons. Picking the right approach for the right market is the first challenge for any aspiring company.

