

Breaking Market Barriers: The Open Source Business Strategy



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Differentiating your product or service in an established market is a challenge for most companies. Vendors competing over market share have typically had few options to distinguish themselves and grow their revenues.

This was the situation faced by Actuate Corporation of San Mateo California. Established in 1993, they built their business delivering enterprise-grade reporting and business intelligence (BI) products, at first using traditional desktop clients and then increasingly via the web. Within 10 years they found themselves in a competitive market with a well-established customer base focused in key sectors like financial services. Actuate realized they needed to create a next generation technology platform and needed a new go-to-market strategy that effectively evolved the enterprise software business model to their advantage.

Actuate's product strength is based on developers building and integrating the company's reporting and BI tools into their applications. Therefore, Actuate looked to an open source strategy to expand their adoption and brand recognition among developers.

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"Capturing the mindshare of developers is never easy," recalls Nobby Akiha, SVP Marketing with Actuate. "And in a mature market it's that much harder to attract and retain developer loyalty. We saw open source as a way of building a lasting community around our technologies."

They asked themselves what a start-up would do and an open source project leveraging their core competencies, combined

with a smart value-added software approach was the logical answer. But they also had to choose between starting their own initiative and joining an established one. Their choice was to partner with the Eclipse Foundation, bringing enterprise reporting and business intelligence to Eclipse's development platform.

Based on this open source approach, Actuate proposed and started the Eclipse Business Intelligence Reporting Tools (BIRT) project as a top-level endeavor at the Eclipse Foundation.

In the four years between the launch of BIRT in 2004 and the release of version 2.3 in June of 2008, Actuate has had over 3 million BIRT downloads and

related revenue of \$8 million in 2007 which they expect to double in 2008. The BIRT project has helped them penetrate into new markets and extend their reach into traditional ones, strengthening the Actuate brand and opening doors into a wide range of new sectors and geographies. They have increased their sales margin and expect operating margins way above established norms in the software industry. They hope to grow Actuate well beyond the \$140 million company it is today largely due to the success of their open source strategy.

75% of BIRT users are in vertical industries and geographies that are not in the traditional Actuate markets. BIRT has opened doors in sectors such as manufacturing, telcom, retail, hospitality, ISVs and in developing countries such as China and India for Actuate.

According to Akiha, the BIRT project works in part because the marketing and sales costs are so much lower than traditional approaches. The centerpiece of their marketing efforts is birt-exchange.com, an on-line portal where BIRT developers can read tips and tutorials, watch technical webinars, and exchange advice. Developers can use BIRT Exchange anonymously or register for additional privileges such as posting questions and answers. Generating a unique visitor to the portal costs Actuate about \$3, and a qualified lead costs about \$50. Conventional sales and marketing to line-of-business managers costs thousands of dollars by comparison.

A light touch

When developers register on BIRT Exchange Actuate emails them technical

tips tailored to their interests. “It’s definitely a high volume, light touch approach” explains Rich Guth, VP and GM, Java Group. “We don’t make a sales call – we help them out with advice and invite them to visit biweekly technical webinars.” About 1% of BIRT users currently convert to customers, purchasing low cost plug-ins, drivers, and services like technical support, training and consulting. Actuate believes they can improve the conversion rate to 10% - significantly higher than a typical open source business.

Buy-in from all stakeholders

The success of BIRT as a revenue-generating open source project is not unique, but nor was it guaranteed either. Many companies’ open source initiatives fail, and one of the keys to Actuate’s success has been clear communications with stakeholders from the beginning. “It was important for us to get broad buy-in across the company. From the beginning we made sure the Enterprise sales executive team understood our goals and the long-term value we hoped to bring to the company” says Guth.

So not only were they able to demonstrate progress toward clearly defined goals, the Enterprise sales team now gets involved with about 1% of BIRT customers who need mission critical solutions, complex integrations, multi-server deployments or other enterprise-oriented solutions. The sales team has also found that BIRT is a useful tool when the time is not yet right for one of their prospects to adopt an enterprise solution. By proposing BIRT as a more suitable short-term answer they are able to maintain a customer relationship that may bear fruit as an enterprise sale a year or two down the road.

If it is difficult to convince internal stakeholders of the value of an open source project without good communications, it can be even more the case with external constituents. Actuate was concerned that their existing customers might react negatively to the appearance of a freely available toolset. Again, clearly communicating their strategy was key to dispelling any misconceptions. Customers understand the fit between BIRT and their existing investments, and how they can leverage BIRT to fill gaps.

Similarly, investors are very interested in the new business model. Actuate has been successful with BIRT across a broad range of measures that predict strong future performance for the company, so investors have taken notice. “We are an established \$140 million software company with an open source strategy” says Akiha. “When investors see the margins on BIRT related sales, the brand awareness, the new industries and geographic markets we’ve opened, and the compelling prospect of future growth, they are very impressed.”

Shifting cultures

Developing an open source project has its own challenges and benefits. On the one hand, developers gain from many of the improvements traditionally associated with open source projects, such as better feedback on desired features, faster bug fixes through community input, higher software quality, code contributions and enthusiastic input on future directions. On the other hand, learning to be transparent and letting go of a proprietary tendency toward closed patterns of development was more difficult than they first expected. Although Actuate’s development team

knew that they had to share ownership with their community, it still took some time to internalize that knowledge emotionally.

Like many companies, Actuate has experimented with offshore development in the past and found that the promise of cheaper development can be elusive due to the logistics of managing a distributed team. Learning how to succeed with an open source project, both in terms of transparent technologies like Bugzilla, the popular web-based issue tracking system, and the project management disciplines needed to work internationally, have helped them further leverage their offshore development investments.

A powerful partnership

The decision to pursue an open source project is not simple, and many choices along the way will influence its success or failure. Actuate’s decision to be a strategic developer with Eclipse was one of the most significant strategic choices they faced.

By joining with Eclipse they were able to leverage the large community of developers who had already adopted the Eclipse IDE and other tools. The Eclipse community encourages companies to build commercial offerings on top of the open source technology, so it was a good fit for the Actuate strategy. Eclipse also gave them some critical support for the complex tasks associated with managing an open source project. Actuate leveraged the fact that Eclipse had the process issues worked out. “BIRT would have been a challenge to set up from scratch,” recalls Mark Coggins, SVP Engineering at Actuate. “Being part of Eclipse gave us a template for all the project scaffolding.”

As a strategic developer member, Actuate also sits on the Eclipse Foundation's board, which lets them influence strategic decisions for the Eclipse community. Since the Eclipse board includes senior representatives from most of the major software industry players, being on the Eclipse board has opened networking and business opportunities for Actuate that would normally not be possible. From these relationships, Actuate has been able to develop OEM opportunities for their solutions.

Open source projects have become a popular strategy for companies wanting to quickly establish a large user-base. Actuate's success with BIRT underlines the importance of setting clear, tangible goals, choosing a strategic path and communicating clearly with constituents. As importantly, Actuate understood the relationship developers have with open source projects, and was careful not to alienate these users with conventional sales and marketing activities. By being patient and supportive, they will see the benefits of BIRT for years to come.

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