



# Open source is not a business model

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- Independent technology industry analyst company
- Focused on the business of enterprise IT innovation
- 700+ customers across
  - Vendors
  - Investors (150 VCs and 80 Investment Banks)
  - Service-providers (SIs, consulting, etc.)
  - End users
- Offices in New York (HQ), Boston, London, SF
  - 80+ total employees w/ 35+ analysts

# 451 CAOS Research Service

- Commercial Adoption of Open Source
- The impact of open source on software vendors, end users, and investors
  - 451 CAOS Reports = comprehensive 'big-idea' reports
  - 451 CAOS Analyst Access = advisory interaction with 451 open source analysts
  - 451 CAOS Insight Update = e-mail with links to recent 451 open source research
  - 451 CAOS Theory = a blog for the enterprise open source community
  - 451 CAOS podcast = bi-weekly podcast with analysis of key current marketplace developments
  - 451 CAOS Links live = latest news and views @caostheory

# Open source is not a business model

How do vendors generate revenue from open source software?

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# Report methodology/key findings

- Analysis of 114 open source-related vendors
- Based on ongoing coverage, survey, interviews
- Categorized business strategies based on:
  - license choice
  - development model
  - vendor licensing strategy
  - revenue trigger
- Most vendors utilize some form of commercial licensing to distribute, or generate revenue from, open source software
- Half combine code developed via open source projects with software developed out-of-sight of open source project members

# Further key findings

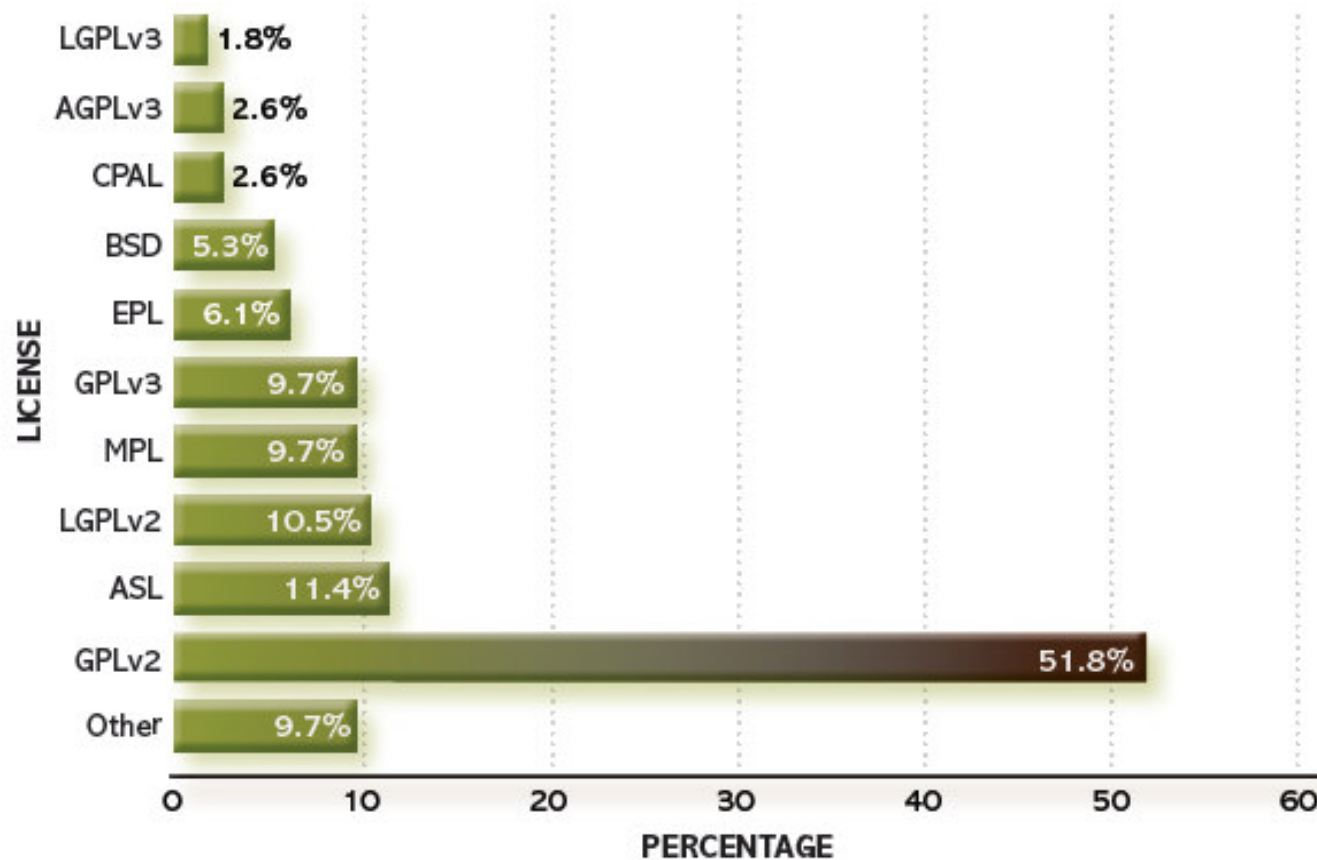
- Vendors using hybrid development and licensing models balance higher development and marketing costs with increased revenue-generation opportunities
- The license used for an open source project (reciprocal or permissive) has a strong influence on development, vendor licensing and revenue-generation strategies.
- The line between closed and open source has blurred as FOSS is embedded in proprietary products and commercial extensions have been added to FOSS

# Categorizing open source

- Software license choice
- Development model
- Vendor licensing strategy
- Revenue triggers



# Software license choice



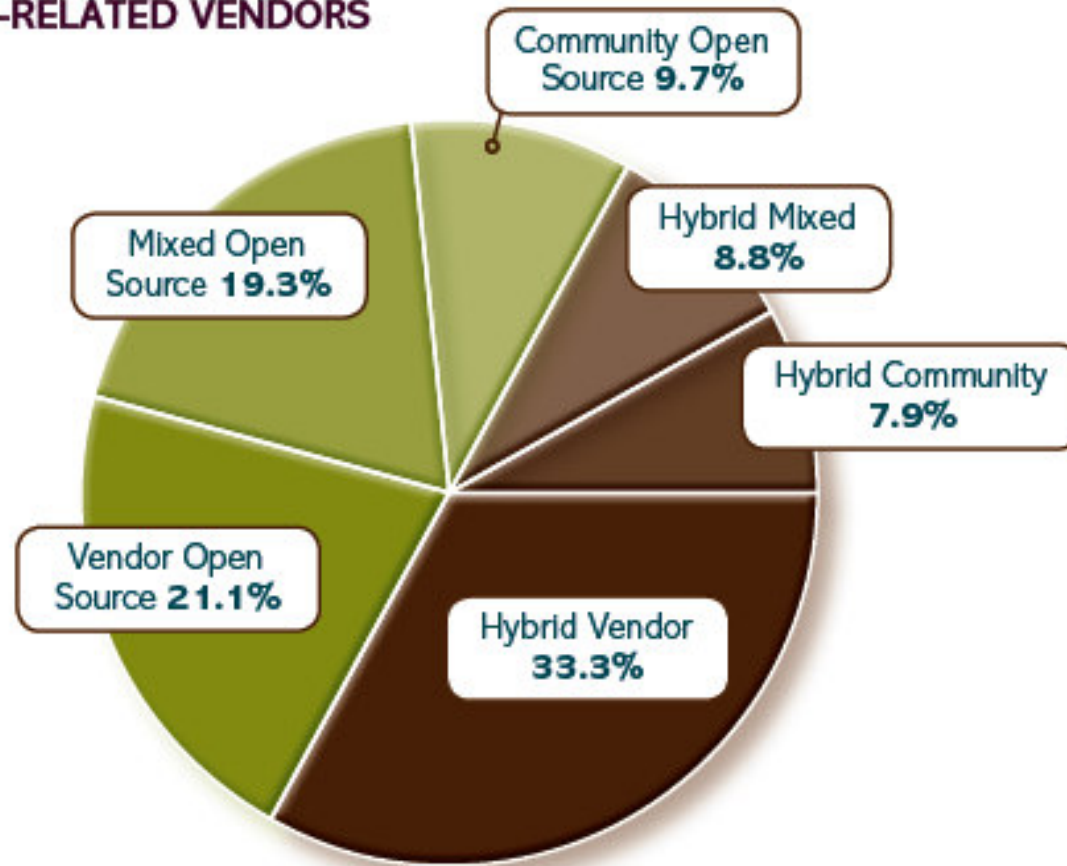


# Development model

- Community open source
- Vendor open source
- Mixed open source
- Hybrid
  - Hybrid vendor
  - Hybrid community
  - Hybrid mixed

# Development model research findings

**FIGURE 3: DEVELOPMENT MODELS USED BY OPEN-SOURCE-RELATED VENDORS**

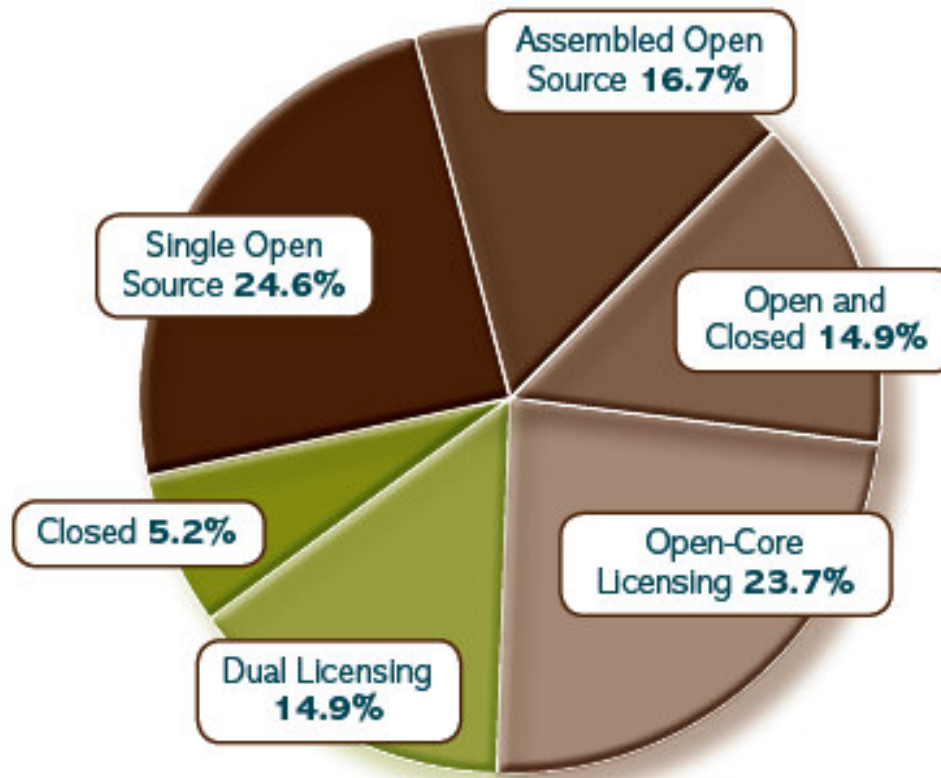


# Vendor licensing strategy

- Single Open Source
- Assembled Open Source
- Dual licensing
- Open-Core Licensing
- Open-and-Closed
- Closed

# Vendor licensing research findings

FIGURE 4: LICENSING STRATEGIES USED BY OPEN-SOURCE-RELATED VENDORS

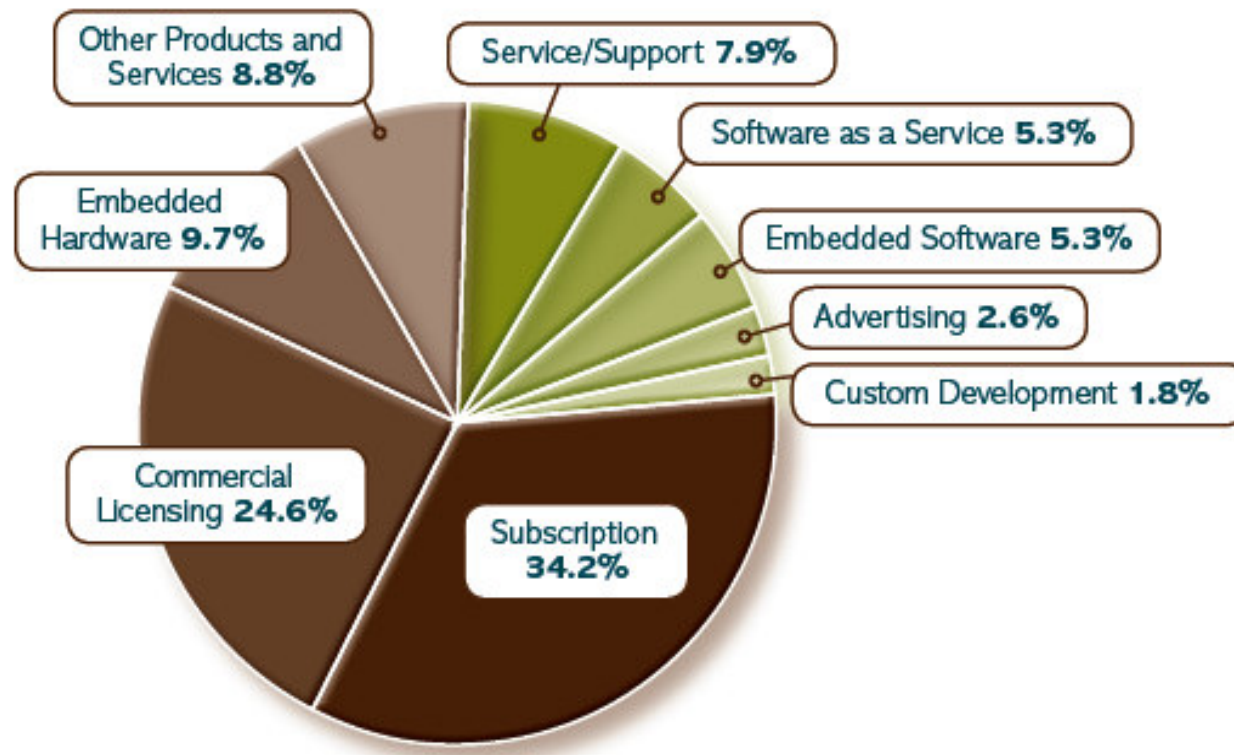


# Revenue triggers

- Service/Support
- Subscriptions
- Commercial License
- Software-as-a-Service
- Advertising
- Custom Development
- Embedded Hardware
- Embedded Software
- Other Products and Services
  
- Any combination of the above

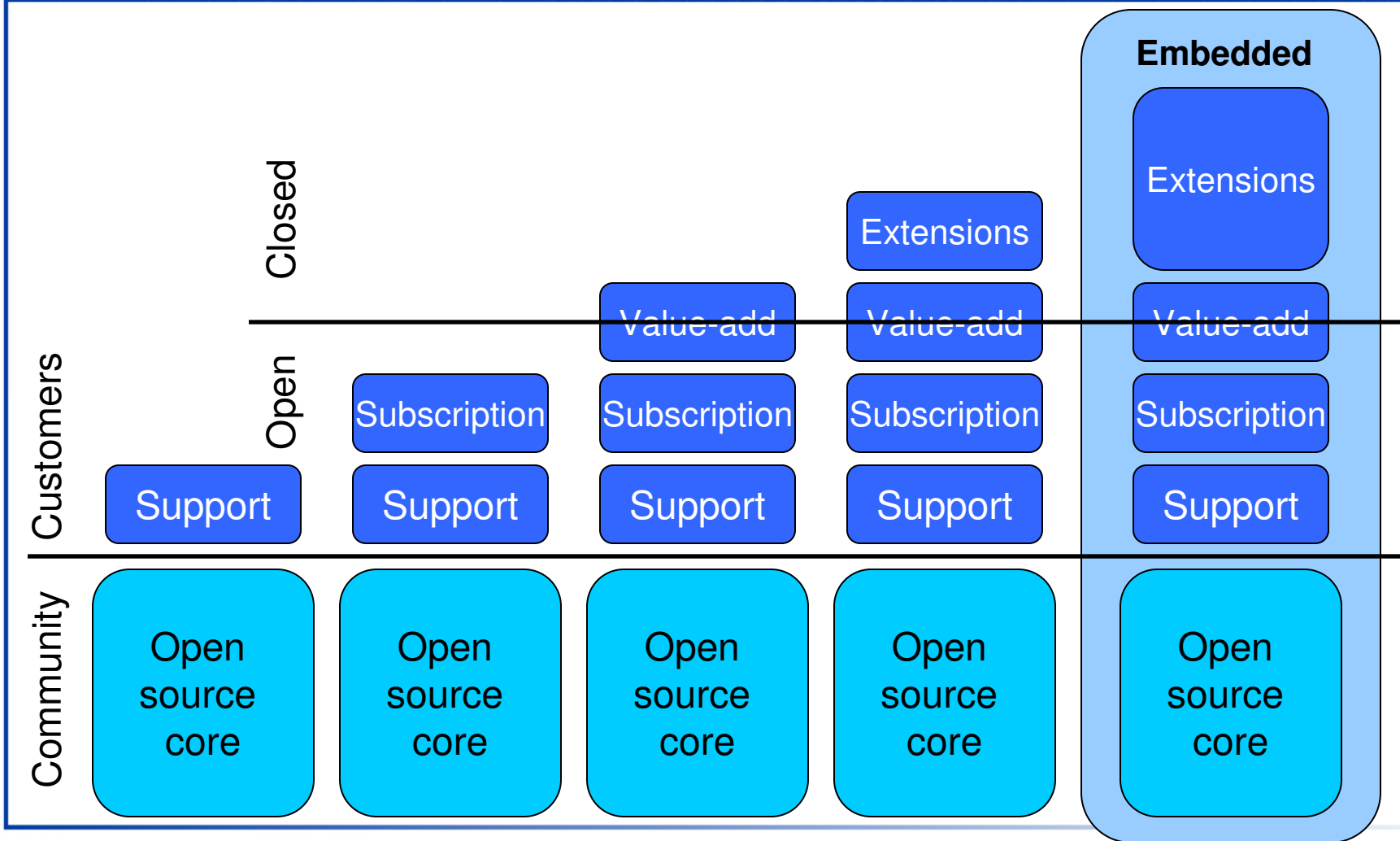
# Revenue triggers research findings

**FIGURE 5: PRIMARY REVENUE TRIGGERS USED BY OPEN-SOURCE-RELATED VENDORS**





# The evolution of vendor-led revenue strategies





# Symbiotic relationships

- The license used for an open source project (reciprocal or permissive) has a strong influence on development, vendor licensing and revenue-generation strategies.
- Development strategy also influences vendor licensing strategy.
- Vendor licensing strategy also influence revenue-generation strategy.
- What came first?

# Impact of license choice

Figure 6: Open source licenses and development model

DEVELOPMENT MODEL	PERCENTAGE OF VENDORS WITH LICENSING PREFERENCE (%)	
	RECIPROCAL LICENSE	PERMISSIVE LICENSE
COMMUNITY OPEN SOURCE	8.1	15.4
HYBRID COMMUNITY	5.4	15.4
MIXED OPEN SOURCE	13.5	15.4
HYBRID MIXED	5.4	11.5
VENDOR OPEN SOURCE	24.3	19.2
HYBRID VENDOR	43.2	23.1

# Impact of development model

**Figure 9: The impact of development models on licensing strategy**

LICENSING STRATEGY	DEVELOPMENT MODEL/NUMBER OF VENDORS					
	COMMUNITY OPEN SOURCE	HYBRID COMMUNITY	MIXED OPEN SOURCE	HYBRID MIXED	VENDOR OPEN SOURCE	HYBRID VENDOR
ASSEMBLED OPEN SOURCE	4	2	11	1	1	-
CLOSED	-	2	-	1	-	3
DUAL LICENSING	-	1	3	-	10	3
OPEN AND CLOSED	-	1	-	6	-	10
SINGLE OPEN SOURCE	7	-	8	-	13	-
OPEN-CORE LICENSING	-	3	-	2	-	22

# Further research

- More in the report:
  - How these strategies are being used by which vendors
  - Relative strengths and weaknesses of each strategy category
  - How third parties generate revenue from open source
  - The commercial implications of permissive and reciprocal licenses
  - Future revenue generation strategy trends; sales strategy trends

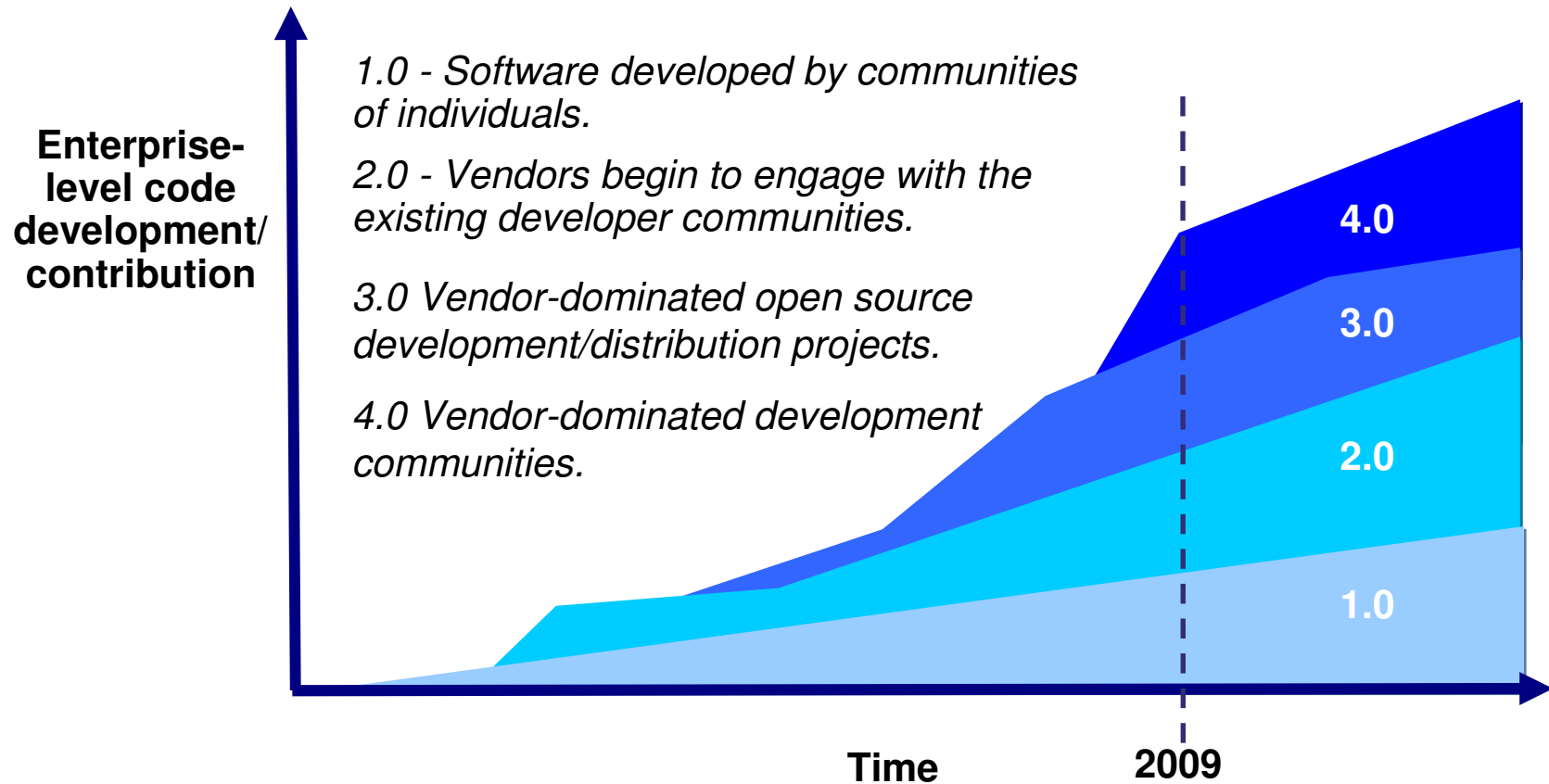
# Report conclusions

- There is no single business model that defines open source vendors
- Most vendors are taking a hybrid approach to development and/or licensing
- Vendors use both open source and proprietary development and licensing models to maximize opportunities for revenue and profit
- Open source is a business tactic, not a business model

# Beyond open source is not a business model

- Four stages of open source development
- Five stages of open source community engagement
- Managing community engagement
- Why is this important?

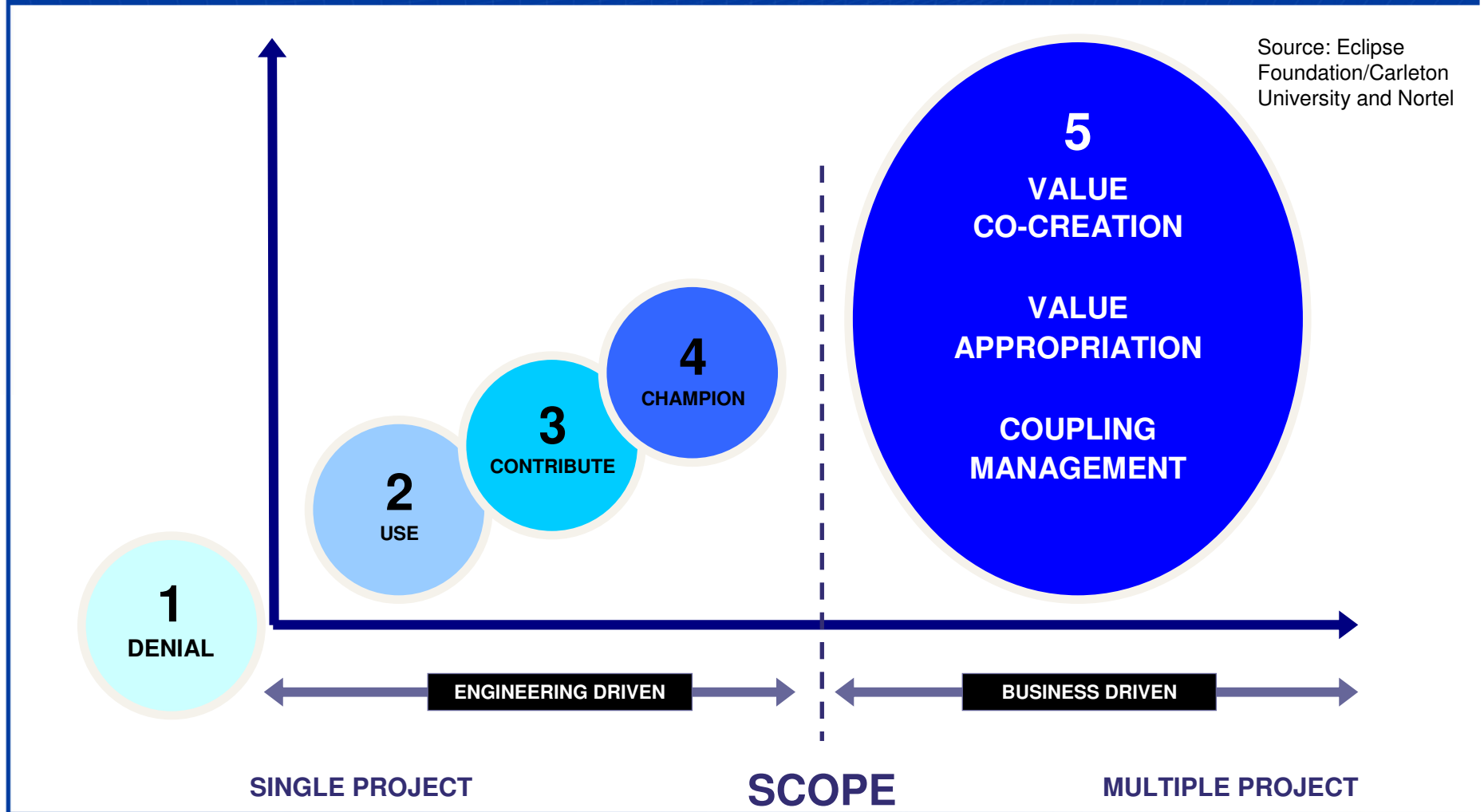
# Four stages of open source development





# Five stages of open source community engagement

Source: Eclipse  
Foundation/Carleton  
University and Nortel



# Managing community engagement

- Hire a community manager
- Don't try to manage the community
- Understand community needs
- Respond to community needs
- Contribute
- Be transparent

# The importance of transparency

Red Hat:

Transparency builds trust

Participation solves problems

Open source provides an answer

Open source provides an answer

Participation solves problems

Transparency builds trust

# Why is this important?

“This classification effort reflects my own desire for transparency... this classification is geared to help users find themselves in this constantly changing market. It also helps precisely evaluate the open source market as compared to traditional technologies.”

Talend

Bertrand Diard,

- FLOSSmetrics taxonomy
- Carlo Daffara, Conecta
- <http://carlodaffara.conecta.it/>

# Towards an agreed taxonomy

Conecta taxonomy	Open Source is Not a Business Model		
	Development strategy	Vendor licensing strategy	Revenue strategy
Dual licensing		Dual licensing	
Open Core		Open Core	
Product specialist		Single open source	
Platform providers	Community	Assembled open source	
Software selection			Service/support
Aggregate support providers	Mixed	Assembled open source	
Legal certification	N/A	N/A	N/A
Training and documentation			Service/support
R&D cost sharing	Hybrid community Hybrid mixed	Open and Closed	
Indirect revenues			Other products and services
N/A		Closed	

- Formulate an agreed set of definitions
- Provide a common vocabulary
- Enable a better understanding

# Q&A

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