

The Evolution of Open Source Business Models

Presented By

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ObjectWeb Conference

Paris, France

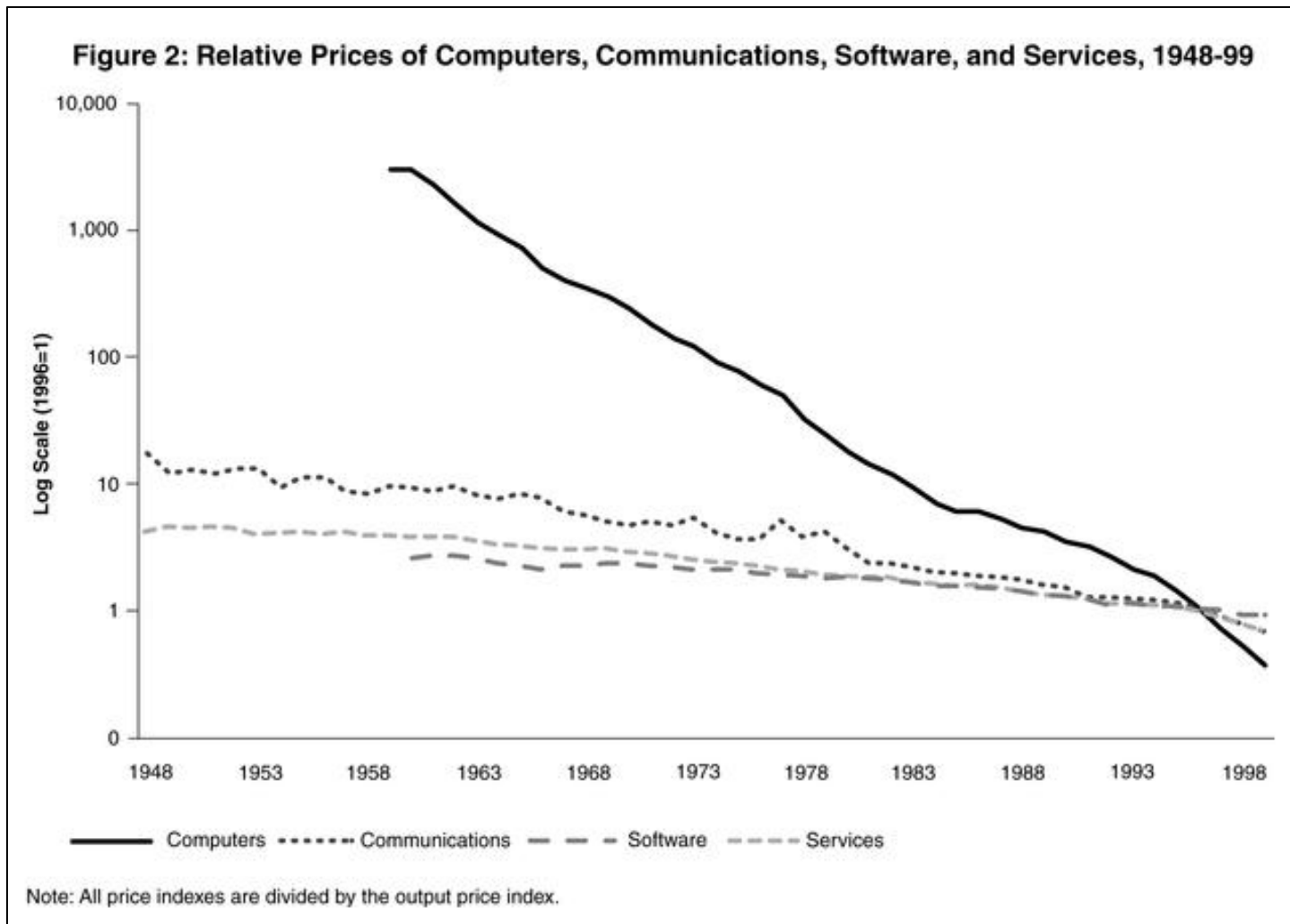
January 31st, 2006



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Decline in computing and communications costs to near zero



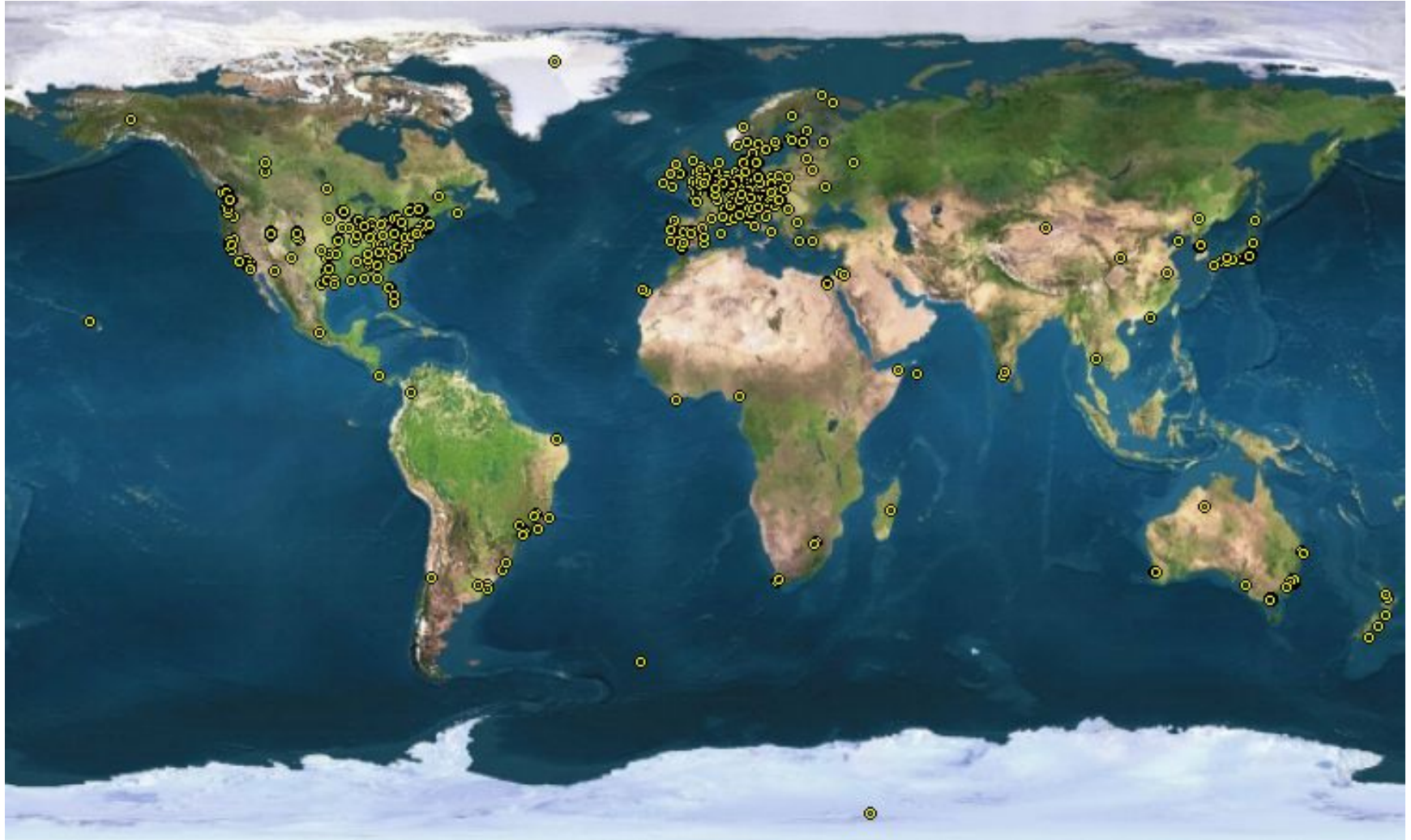
Source: http://www.issues.org/issues/18.1/p_jorgenson_f2.html



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Debian community of developers

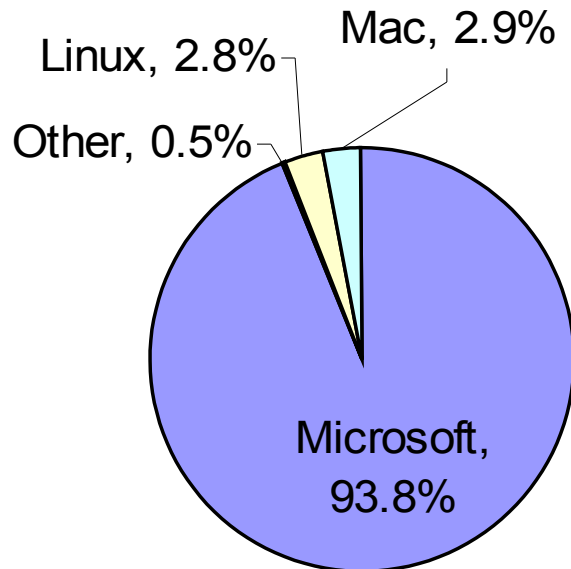


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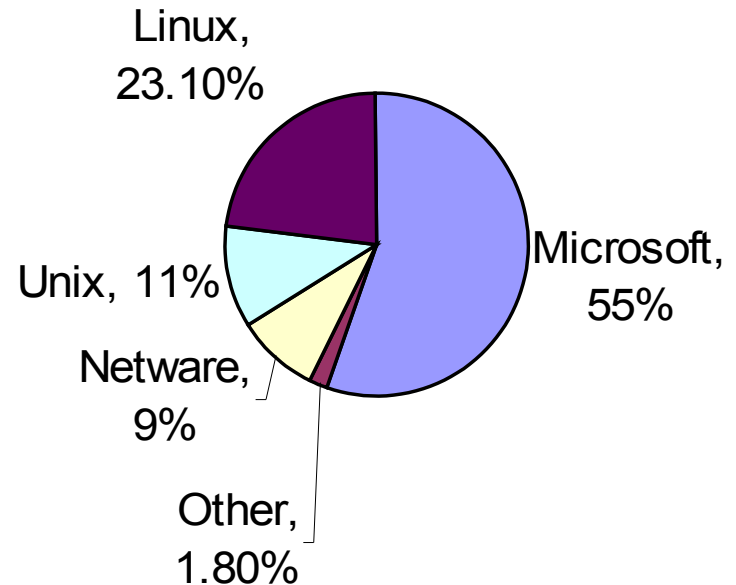
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Alternative to monopoly power

Desktop Computers



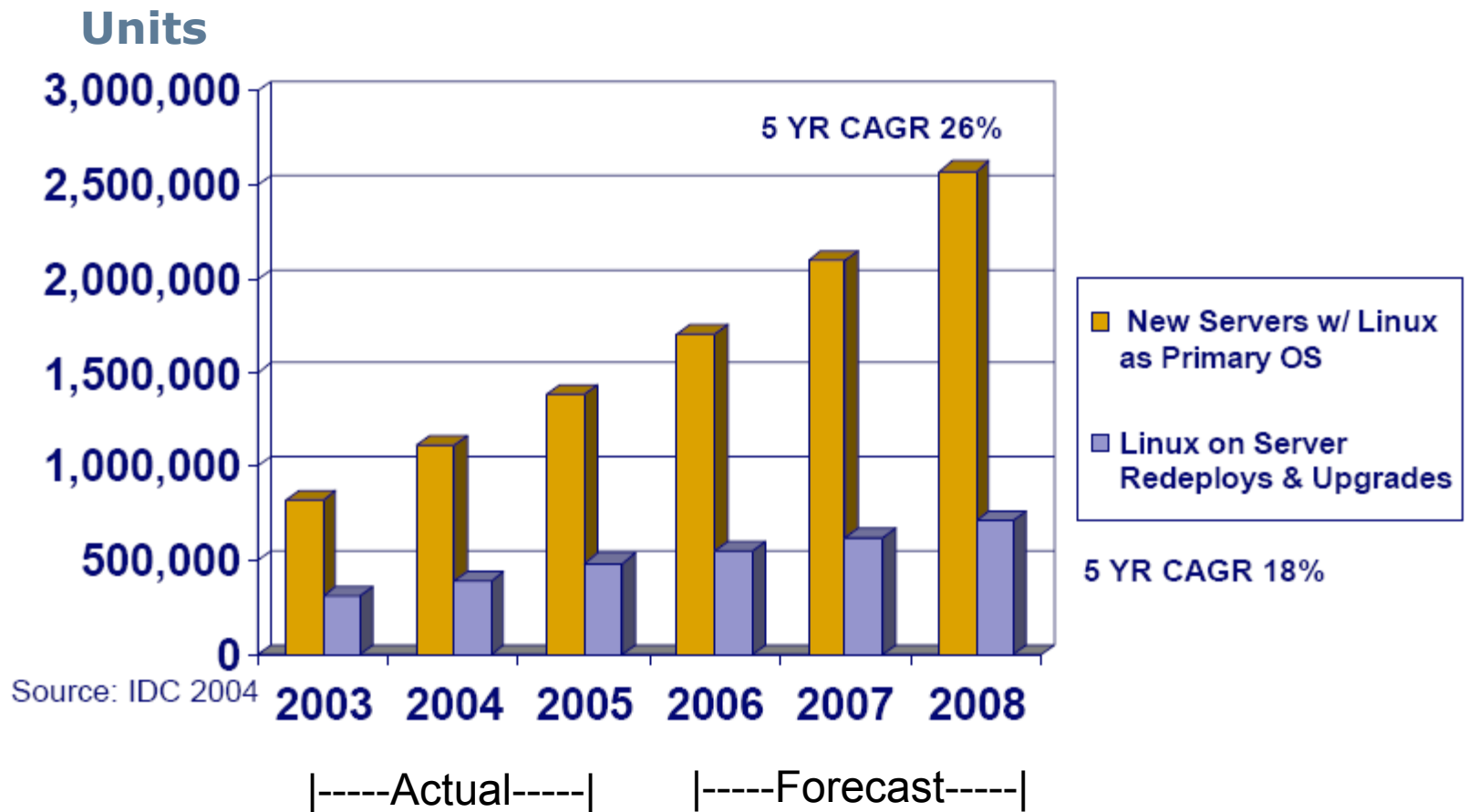
Computer Servers



* Based on new licenses in 2002, November 2003 Survey

SOURCE: IDC, Netcraft per the Seattle Post-Intelligencer

Global server shipments & redeployments



Open source business models

- Donation
- Membership
- Advertising
- Conversion
- Software-as-a-service
- Open Content

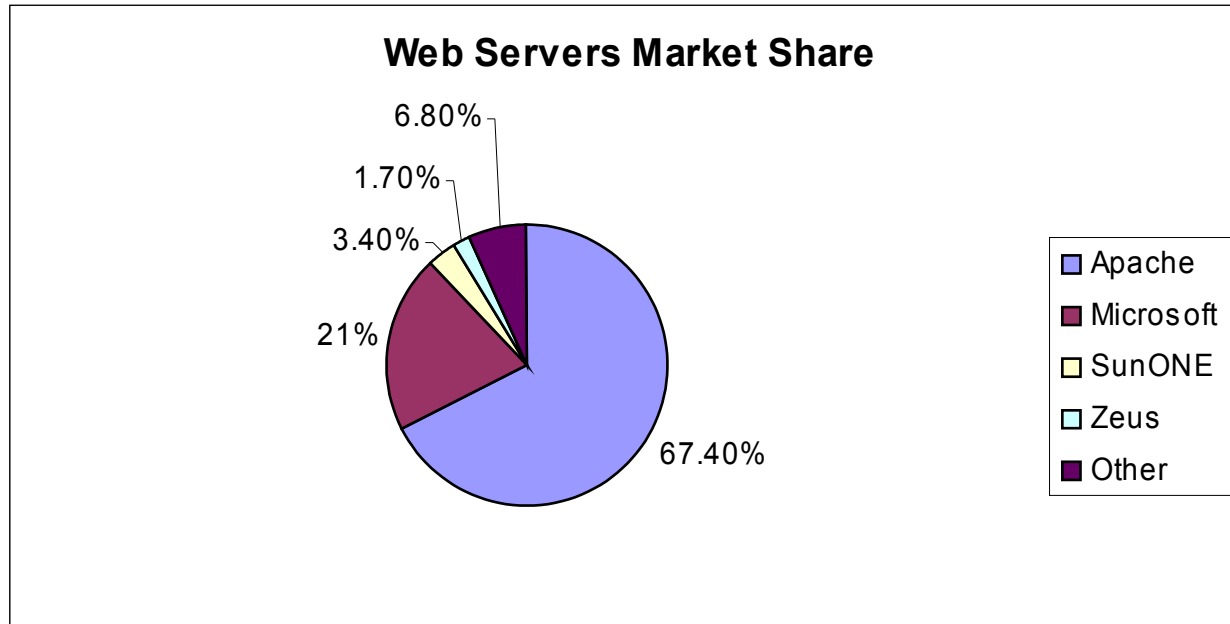
The donation model

Top 5 Companies deploying the Donation Business Model

Open source project	Freshmeat ranking Jan 2006
Mplayer	1
VLC Media Player	5
XINE Video Player	9
Apache	11
Debian	21



Apache's market share



Apache 2003 Key Financials

Income	\$2,875
Expense	\$5,793
Assets	\$112,187

Apache: How do they make a living?

Greg Stein (<i>chairman</i>)	Engineering Manager, Blogger Group, Google
Brian Behlendorf	CTO of CollabNet, a subsidiary of O'Reilly Media
Dirk-Willem van Gulik	VP of Engineering, Covalent Technologies Partner, Tribal Knowledge Group, Alta
Jim Jagielski	Founder of jaguNET Access Services, Senior Engineering Consultant for Covalent Technologies
Sam Ruby	Senior Technical Staff Member in the Emerging Technologies group at IBM
Geir Magnusson Jr.	VP of Products at Gluecode Software (acquired by IBM in May 2005)



Mother lode of free publicity

- Apache serves 26 million impressions per month to 2.3 million hosts
- Open-Xchange.org receives 130,000 unique visitors per month

—**What's this worth?**

Banner ads: \$900,000 a month

Google: \$25,000 per month



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The membership model: Top 5

- OSDL (Open Source Development Labs)
- ObjectWeb
- Eclipse
- Java.net
- Open Source Software Institute

<u>OSDL</u>		<u>Catholic Church</u>
Individual	}	Laity
Academic		
Observing		
Bronze		Priest
Silver		Bishop
Gold		Cardinal
Platinum		Pope



The membership model: OSDL membership levels

Level	Eligibility	Annual Fees	Rights
Individual	All	Free	No voting rights
Academic	All	\$1,000	Only vote in subcommittees
Observing	All	\$6,000	Join one working group, no vote
Bronze	All	\$12,000	Join one working group, vote
Silver	\$1 Billion revenue per year or more	N/A	Unlimited access to working groups
Gold	\$1 Billion revenue per year or more	N/A	Nominate 1 and serve on Board
Platinum	\$1 Billion revenue per year or more	N/A	Nominate 5 members of Board



The membership model: Eclipse membership levels

Level	Cost	Developers	Rights
Strategic Developer	.12% of revenue per year (\$250K max)	At least 8 assigned full time to Eclipse	N/A
Strategic Consumer	0.2% of revenue per year (\$500K max)	For each, decrease fees by \$125K, min \$50K	N/A
Committers	N/A	N/A	Write access to all content
Add-in Provider	\$5,000 per year	Must have an Eclipse-based offering within 12 months of joining	N/A
Associate Members	Must be a standards organization, academic organization, research institution, open source organization or publishing organization, no annual fees, participate in development		



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The advertising model: Top 3

	Million Unique Visitors per Month
VA Software (OSTG including freshmeat and slashdot, SourceForge.net)	19.0
O'Reilly Media (MacDevCenter.com, LinuxDevCenter.com, ONJava.com, ONLamp.com, OSDir.com, OpenP2P.com, Perl.com, WindowsDevCenter.com, XML.com)	2.3
SysCon Media (.NET Developers Journal, IT Solutions Guide, LinuxWorld Magazine, and many more)	0.5

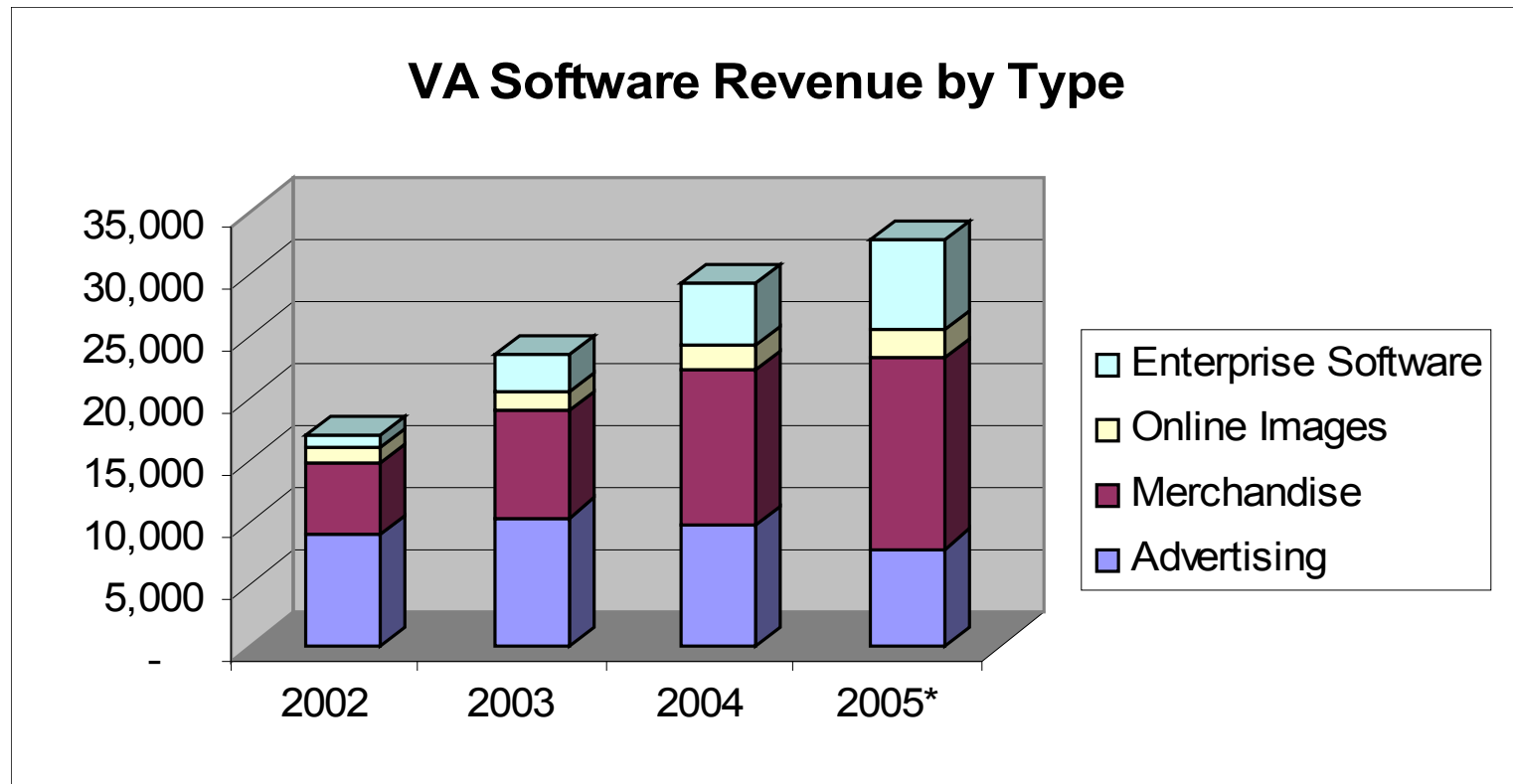
The advertising model

Apache as Donation Model	26 million impressions per month	2.3 million hosts	\$2,875 in 2003 donations
Apache as Advertising Model	Same	Same	\$736,320* in advertising revenue

* Based on assumption of \$2.30 CPM, and annual page impression count of 312 million



The advertising model: Running up against natural limits



Open source business models

- Donation
- Membership
- Advertising
- Conversion
 - Media Kit
- Software-as-a-service
- Open Content

The conversion model: Media kit

Company	Unit volume	Estimated Price Per Unit	Annual Revenue
Novell / SuSe Linux	250,000	\$59.95	\$15M
Mandriva	30,000	\$96.00	\$3M

Media Kit – Business model didn't scale

- Low price point
- High cost of goods sold

Open source business models

- Donation
- Membership
- Advertising
- Conversion
- Enterprise Server
- Maintenance Portal
- Software-as-a-service
- Open Content

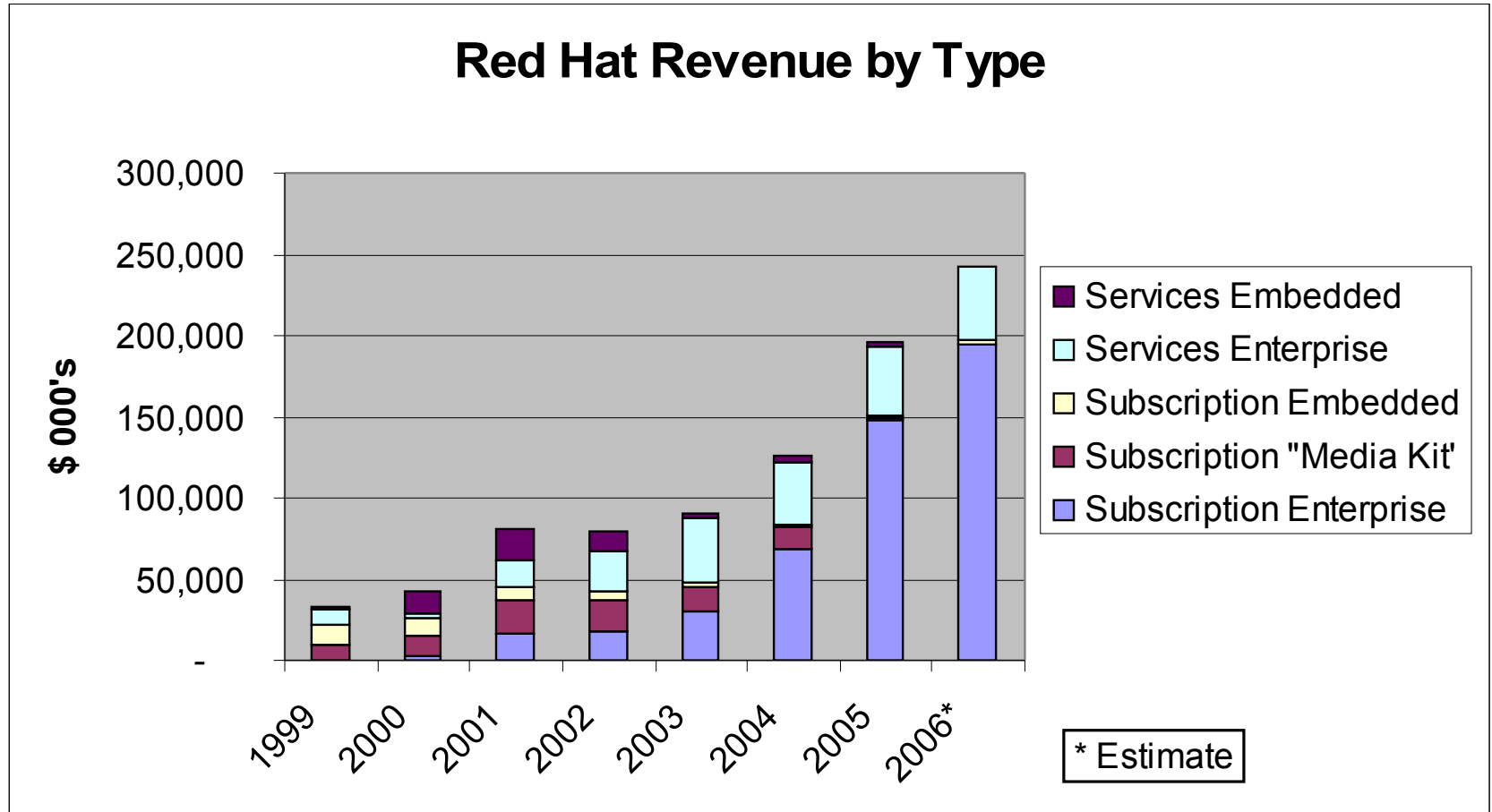
The conversion model: Enterprise server

- Red Hat's invention of the 'enterprise server' concept
 - Higher price point
 - Subscription – collect annual fees
 - Includes access to maintenance

Red Hat Financial Reporting Categories -- Revenue by Type							
1999	2000	Q1 2001	Q2 -Q3 2001	Q4 2001	2002 - Q1 2003	Q2 2003 - Q4 2004	2005
Web Advertising	Web Advertising	X	X	X	X	X	X
Services	Services	Services	Services Networking Embedded Open Source	Services Networking Embedded Open Source	Services X Embedded X Enterprise	Services X Embedded X Enterprise	Services X Embedded X Enterprise
Software License	X Subscription	X Subscription	X Subscription	X Subscription Enterprise Embedded	X Subscription Enterprise Embedded	X Subscription Enterprise 'Media Kit' Embedded	X Subscription Enterprise X Embedded



The conversion model: Enterprise server

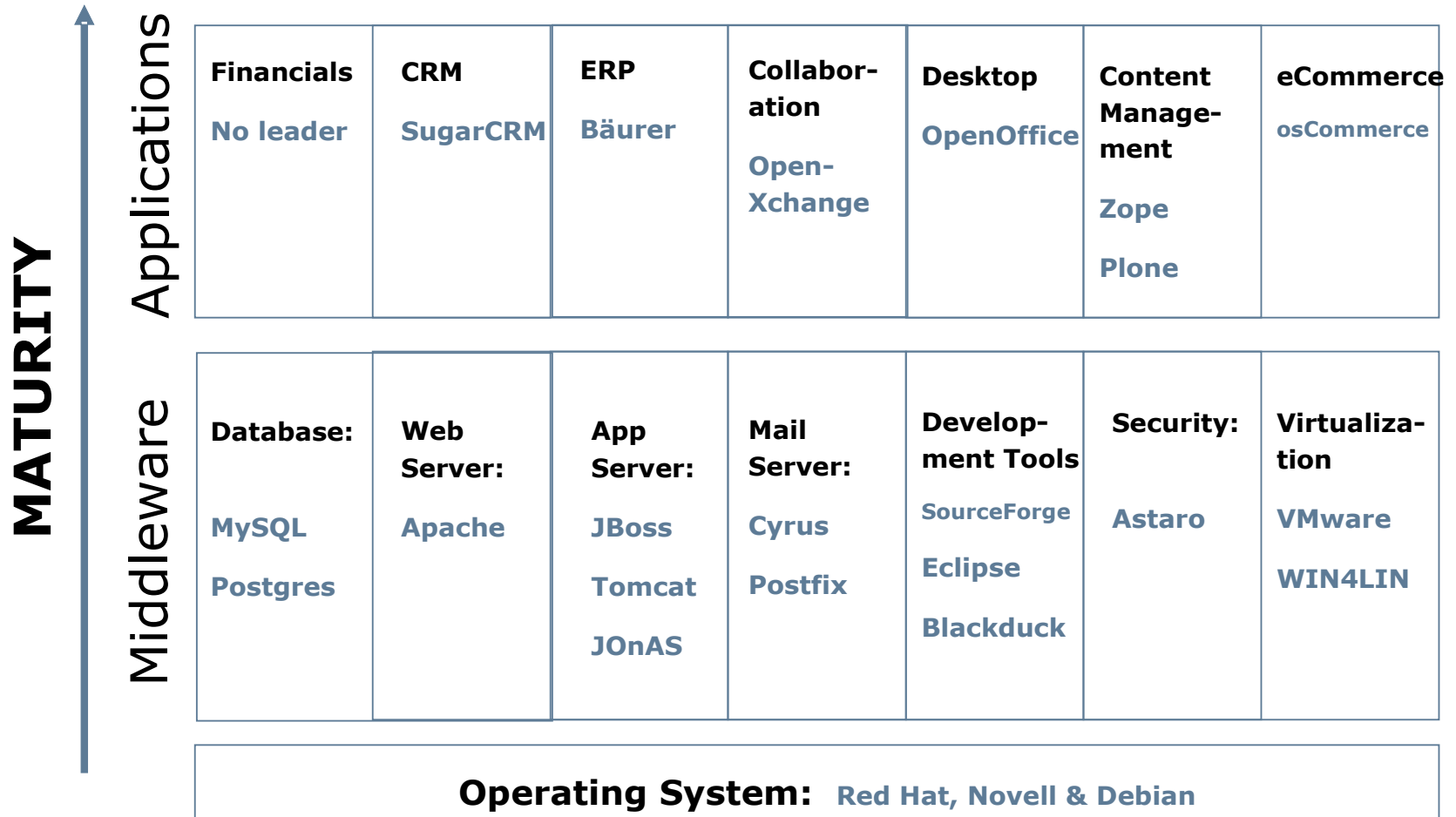


Open source business models

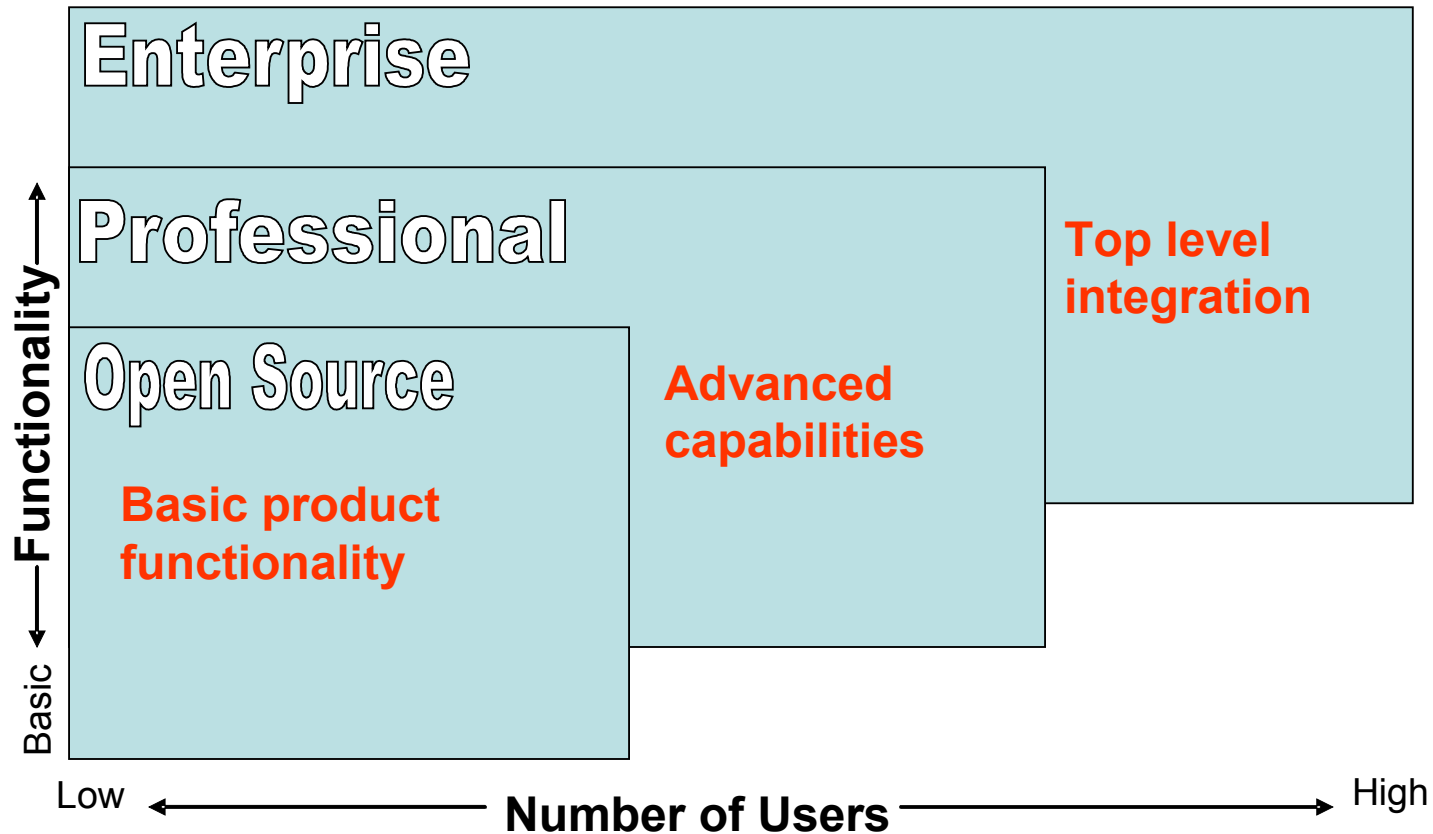
- Donation
- Membership
- Advertising
- Conversion
 - Licensed Software
- Software-as-a-Service
- Open Content

The conversion model: Evolution of the stack

Category leaders in the Open Source ecosystem



The conversion model: Licensed software sales



The conversion model: Channel strategies



MySQL Channel	Headcount	2005 Sales	2005 Sales Per
Internet Direct	3	\$0.6 M	\$200,000
Partner Network	4	\$1.2M	\$300,000
Direct Sales	30	\$18.2M	\$600,000
Total Sales Force	37	\$20.0M	\$540,000

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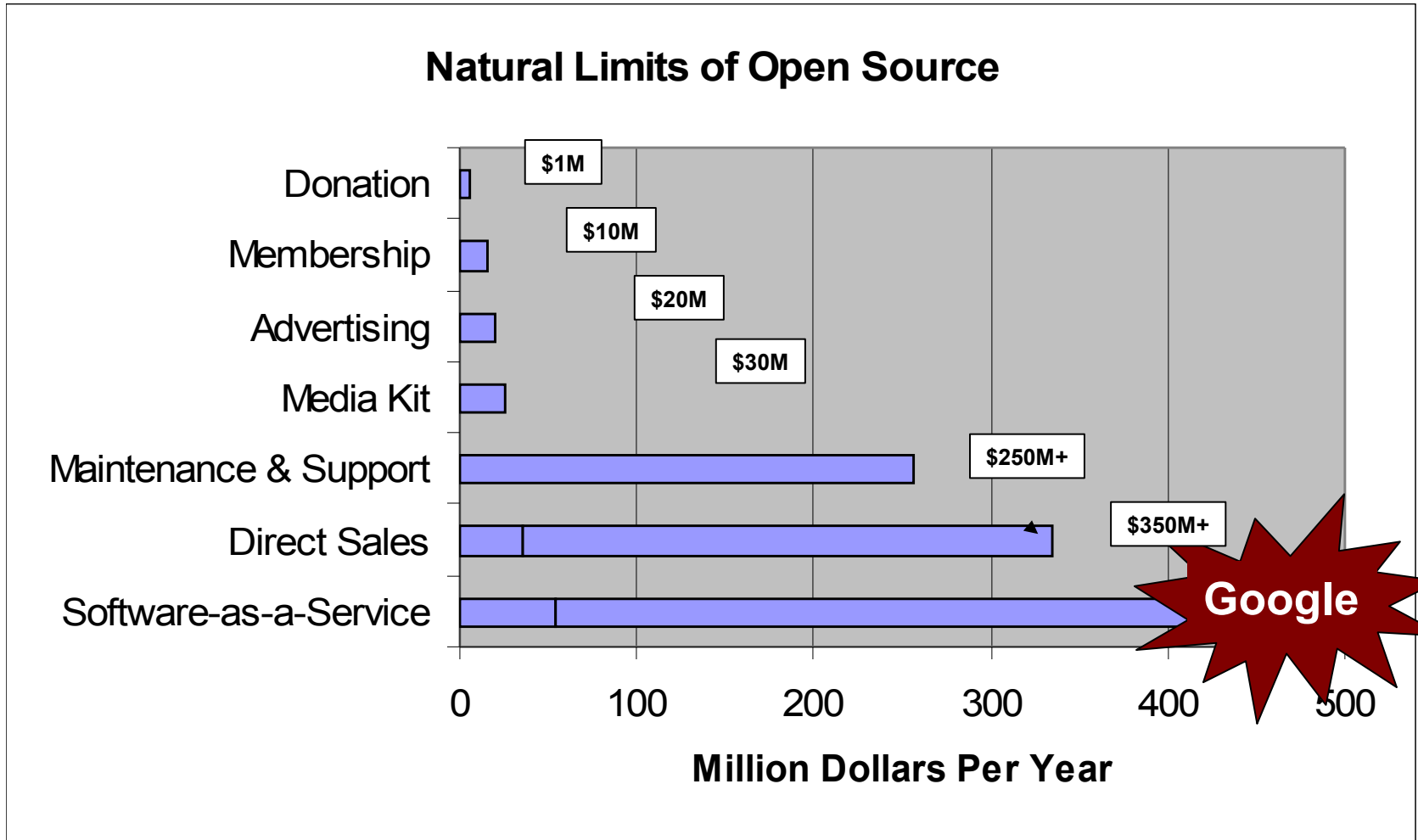


Software-as-a-service model

- Key success factor in software-as-a-service companies
 - Webex
 - Google
- Reduces operating system and middleware costs to near zero



Natural limits of business models



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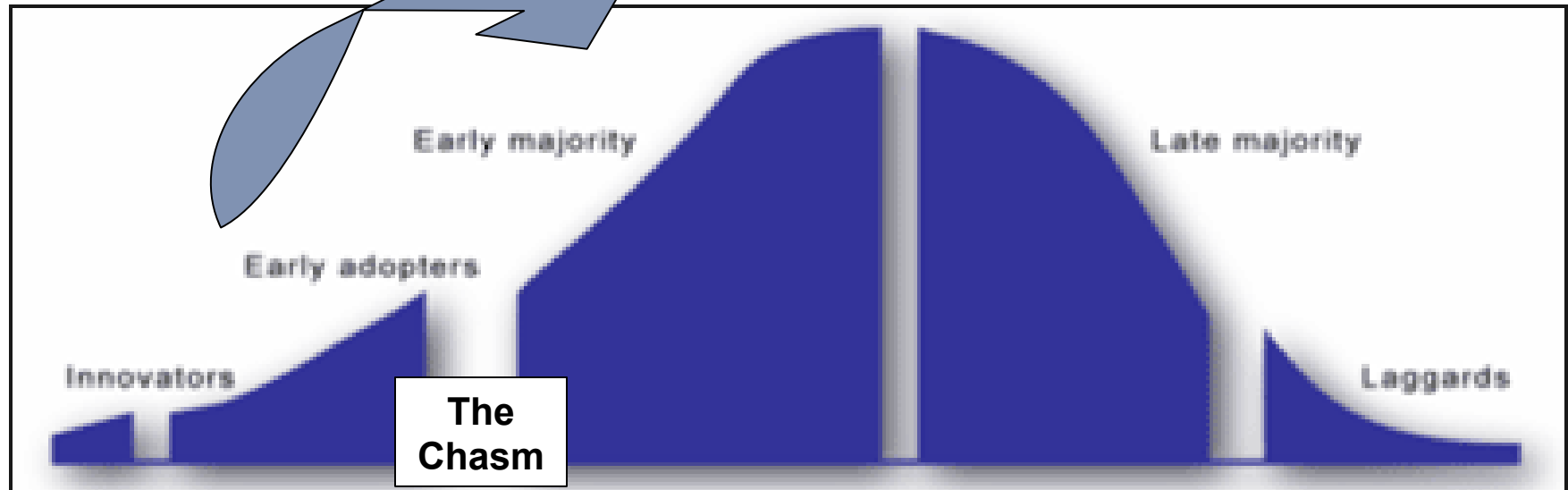


Crossing the Chasm

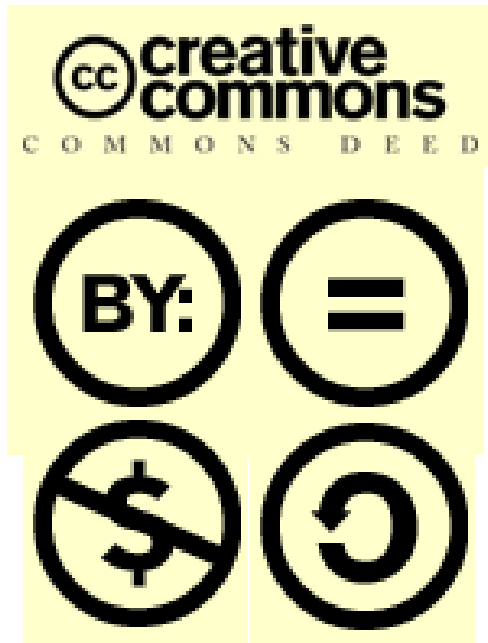
Creative Commons
Open CourseWare
Open Access

Open
Source

Open
Content



Basic Open Content Concepts



- Three components
 - Commons Deed
 - Legal Code
 - Digital Code
- Three features
 - Attribution
 - Noncommercial
 - Share Alike or No Derivative Works

Open Source Content:

Category	Major Players	Stuff	Services	Residuals
Music	Universal News Corp. Sony BMG Bertelsmann AG	CD's	Concerts	Airplay (ASCAP and BMI)
Image	Getty Corbis Corp	Photo	Shoots	Photo Rights
Video	Disney Time Warner	DVD	Tickets	TV/Cable Residuals



Conclusion

- The open source industry is vibrant
- It has progressed through a succession of successful business models
- Open content is the new frontier

