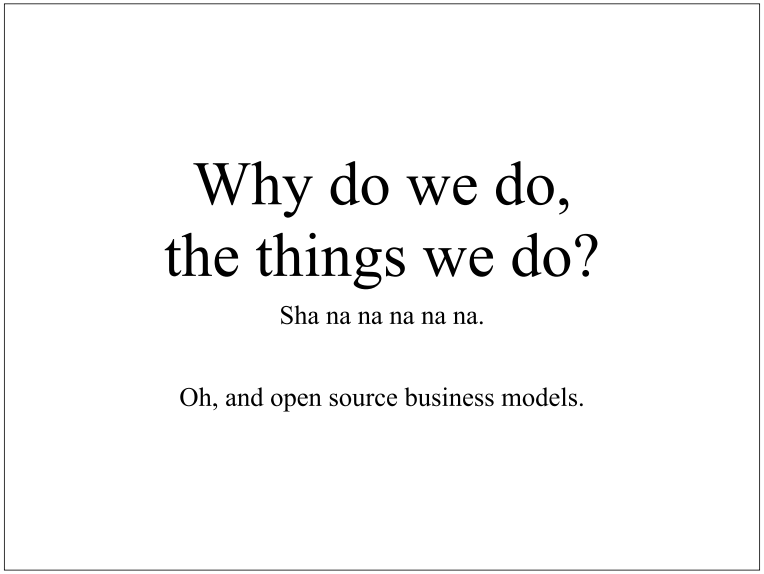


Why do we do,
the things we do?

Sha na na na na na.

Oh, and open source business models.

...title...

Lately, I've been teaching my daughter pig latin.

Igpay Atinlay!

Actually, a family variant called 'Arb'.

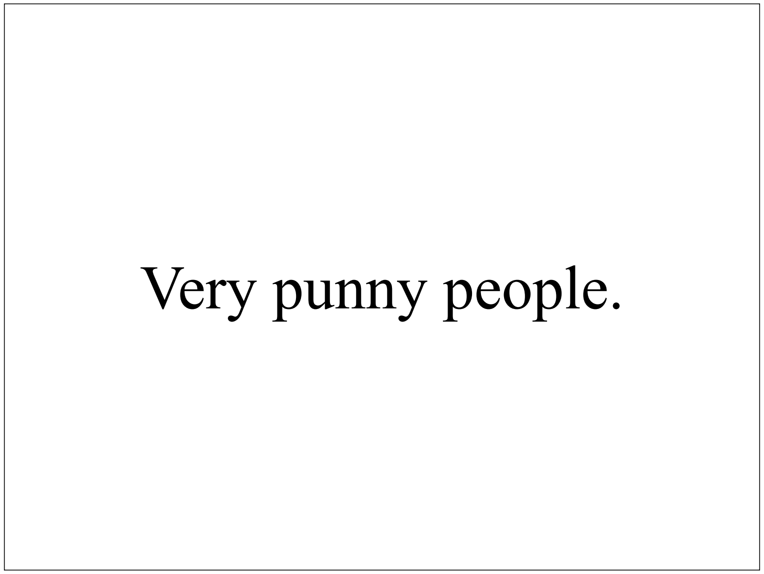
Parbig Larbatarbin!

<in arb> *which sounds a little like this*
My father and uncle taught it to me when I was nine
Like me, she is tickled to be able to say things that

Narbo warbay marbom!

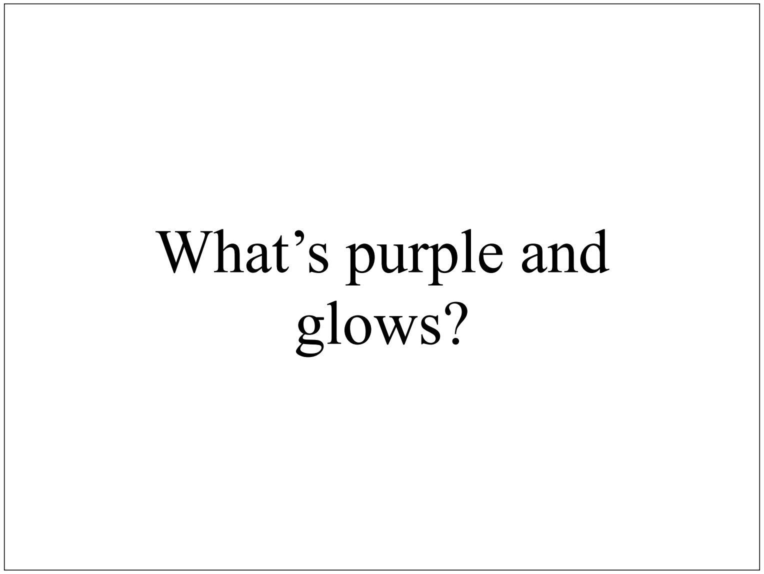
sound really silly that her mother can't understand.
Silliness is important in our family.
Family humour is a very specific thing.
Some families like teasing.

Other love pranks and practical jokes
(not mine, thank goodness).
On my fathers side,
the family loves puns.



Very punny people.

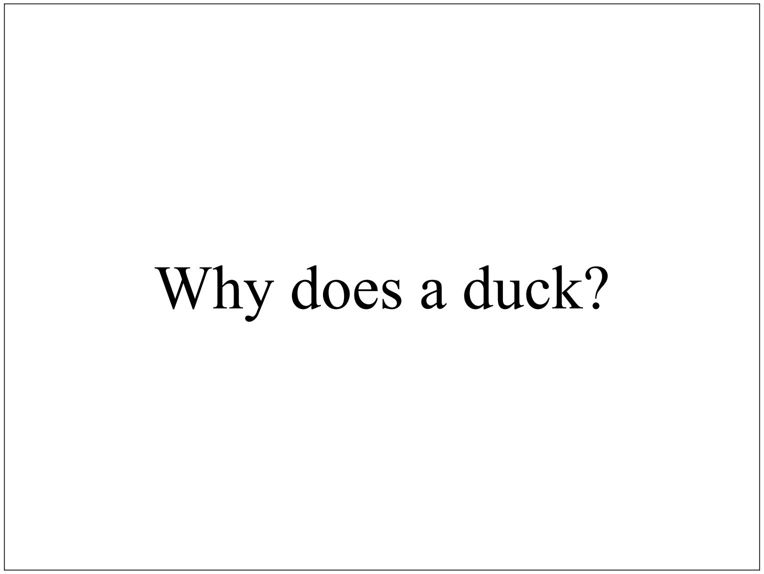
On my mothers side,
the taste runs to jokes and riddles,
and preferably absurdist ones.
As a young boy,
I liked the ones my mother collected,
simple ones from joke books and the like.



What’s purple and glows?

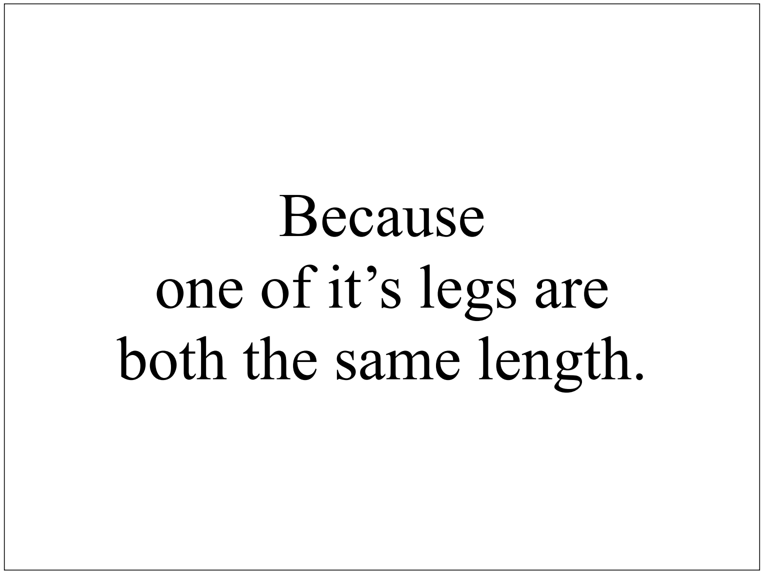
What's purple and glows? An electric grape!

But as I grew older, my mind craved
more twisted bits of language.
I still remember the moment,
I must have been around 10,
when my uncle dropped
this gem at the dinner table.



Why does a duck?

Why does a duck?
Because

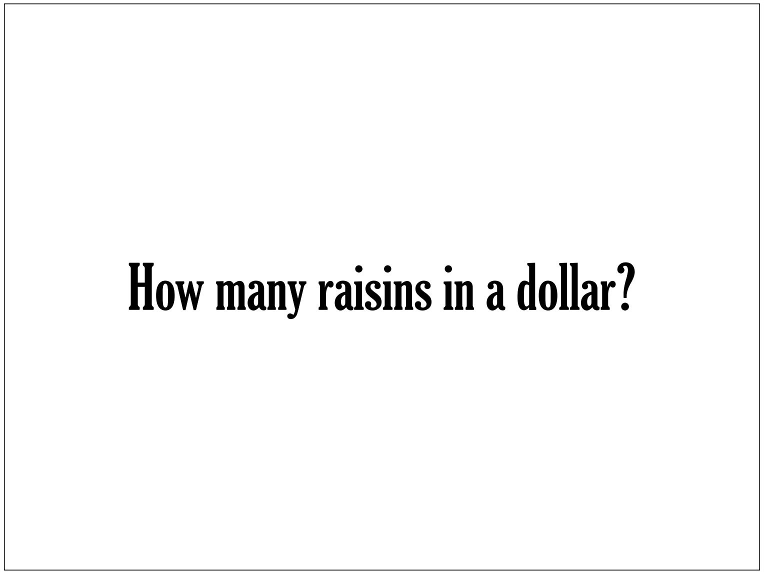


Because
one of it’s legs are
both the same length.

one of it's legs
are both the same length.
Let that jiggle around in your
brain for a while, like a mutant worm.
One of it's legs are both the same length.

Top 10 stupid questions
we have been sent

In university I was floored
by the #1 item in Letterman's
"top ten stupid questions
we have been sent", which was



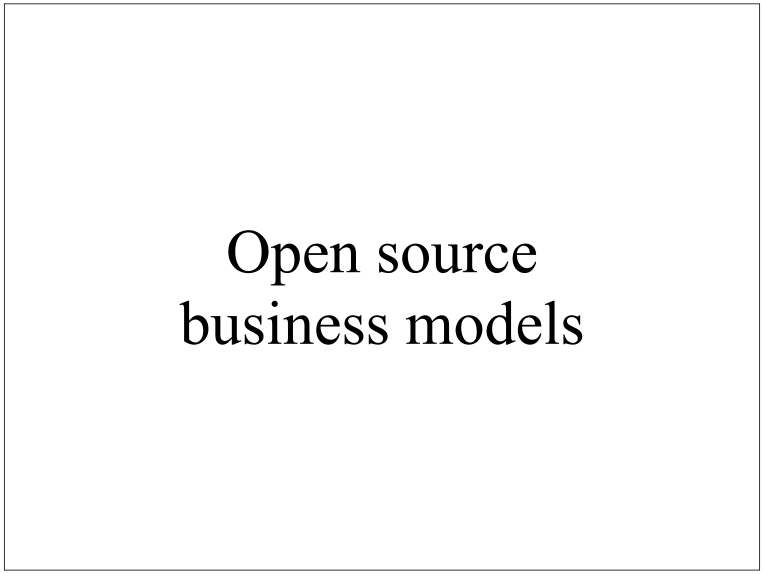
How many raisins in a dollar?

How many raisins in a dollar?
So, I'm a practitioner and
admirer of the absurd,
And so,
I'm pleased to be in the land that
gave us, back in the 40s

"Military intelligence",
And more recently,

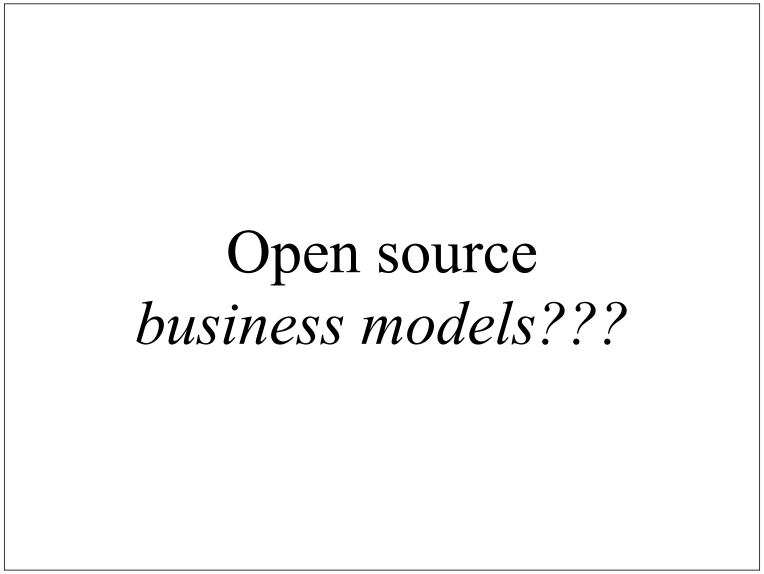
Goverment
Keep yore Hands of
my Medicare !
Don't Steal From Medicare to Support
SOCIALIZED MEDICINE
Medicare
KEEP GOVT OUT OF MY MEDICARE
STOP
DONT STEAL FROM MEDICARE TO SUPPORT SOCIALIZED MEDICINE

"Keep your government hands
off my Medicare."
America has a rich tradition of absurdity,
And I assume it's as a
practitioner of the absurd
that I've been asked today to talk about



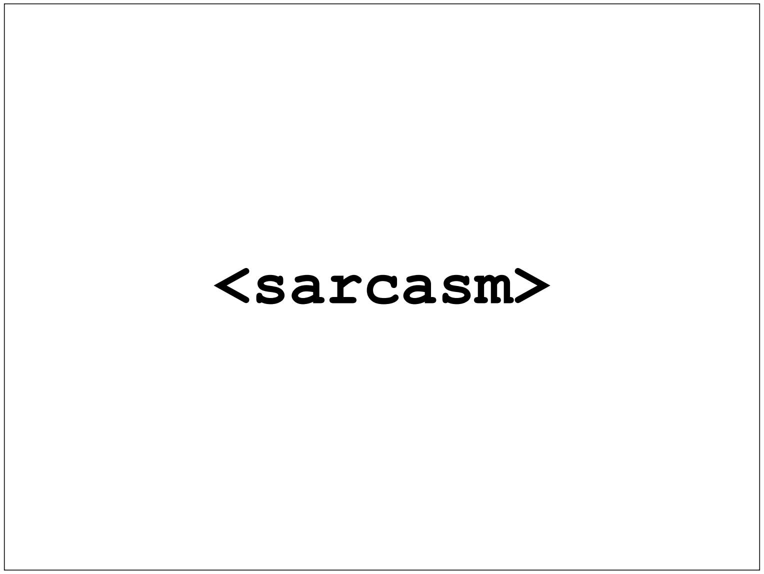
Open source
business models

Open source business models



Open source
business models???

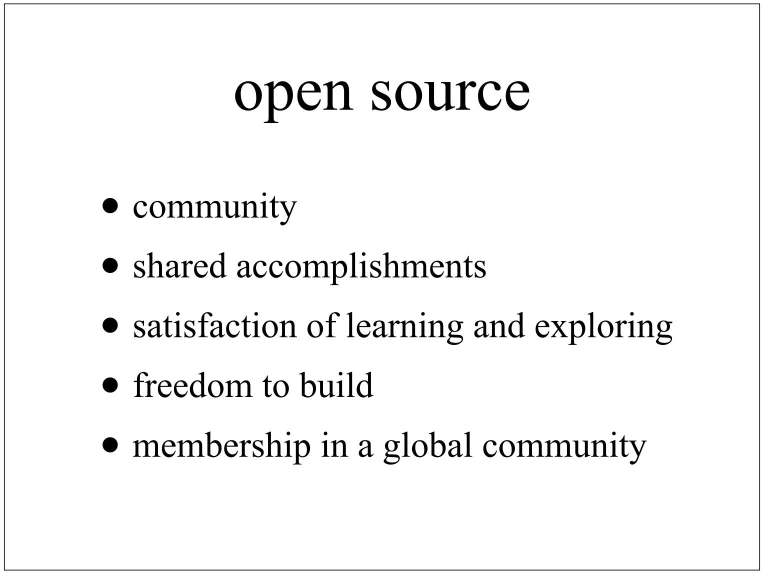
Open source business models???



<sarcasm>

hmmmm
Because we're all in open source
for the money,

right?



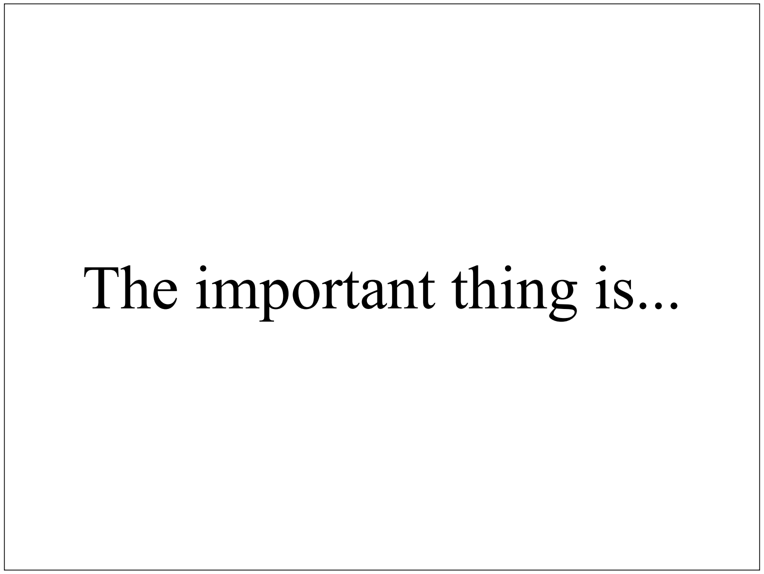
open source

- community
- shared accomplishments
- satisfaction of learning and exploring
- freedom to build
- membership in a global community

The sense of community,
the <X> shared accomplishments,
the <X> satisfaction of understanding
how something works all the way down,
the <X> freedom to build exciting
new things without asking permission first,
the <X> chance to work with a
global community of
talented and like-minded individuals.

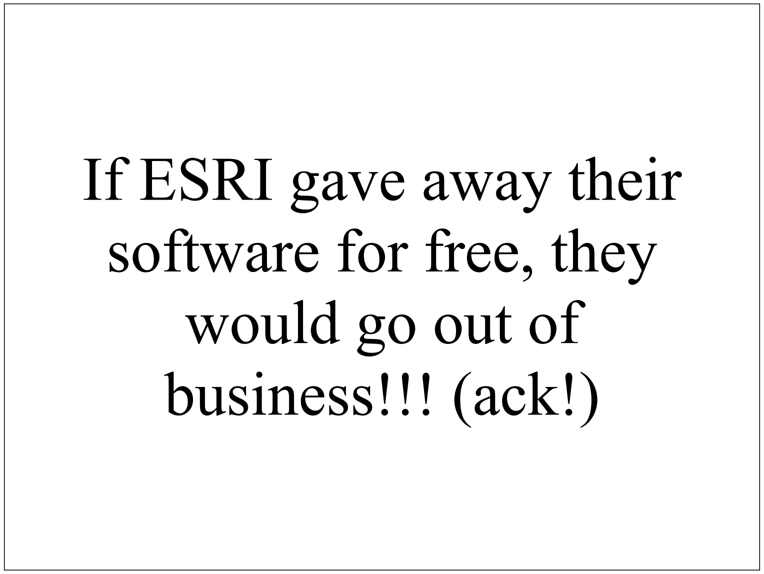
Those are all

secondary considerations.



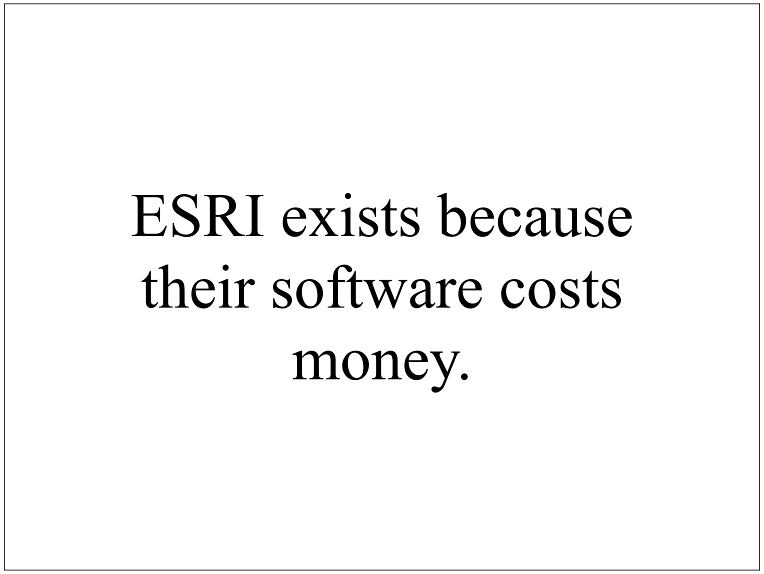
The important thing is...

The important thing is,
and it's surprising how often this
"objection" to open source is raised,
The important thing is,



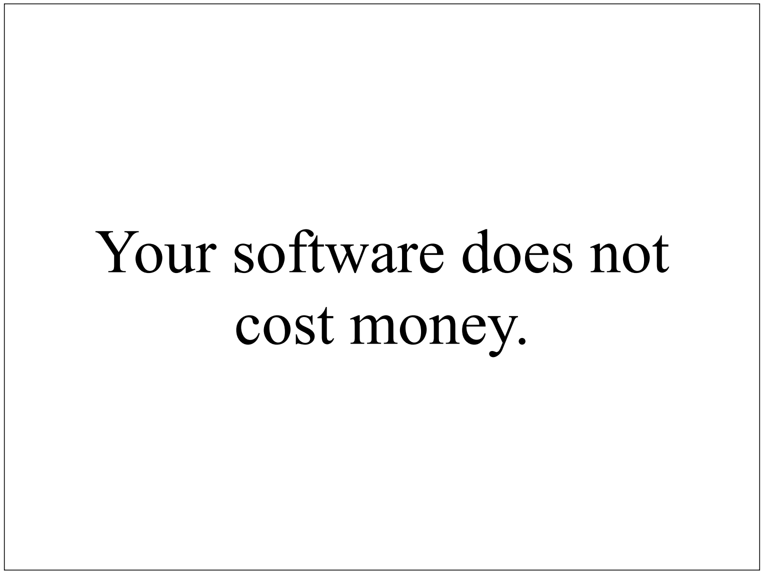
If ESRI gave away their software for free, they would go out of business!!! (ack!)

how can a traditional software company
make money
selling open source software?
The logic is straightforward,



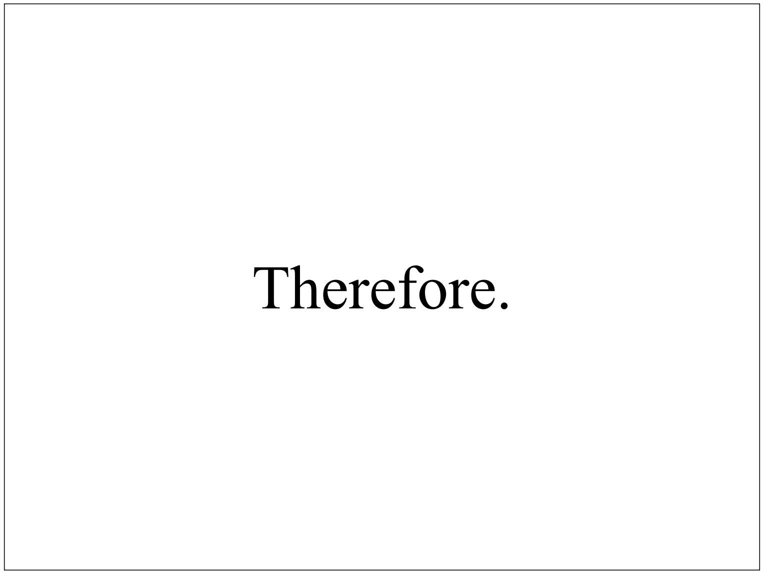
ESRI exists because their software costs money.

if the existing software companies
make money
by walling off their
intellectual property and selling
limited, licensed access to it
it necessarily follows that



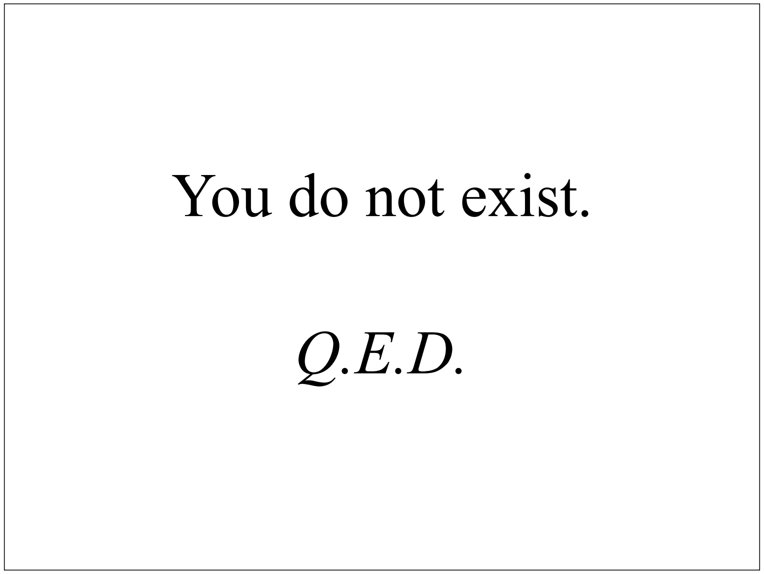
Your software does not cost money.

if a business does *not*
wall off their intellectual property



Therefore.

and sell limited licensed access to it

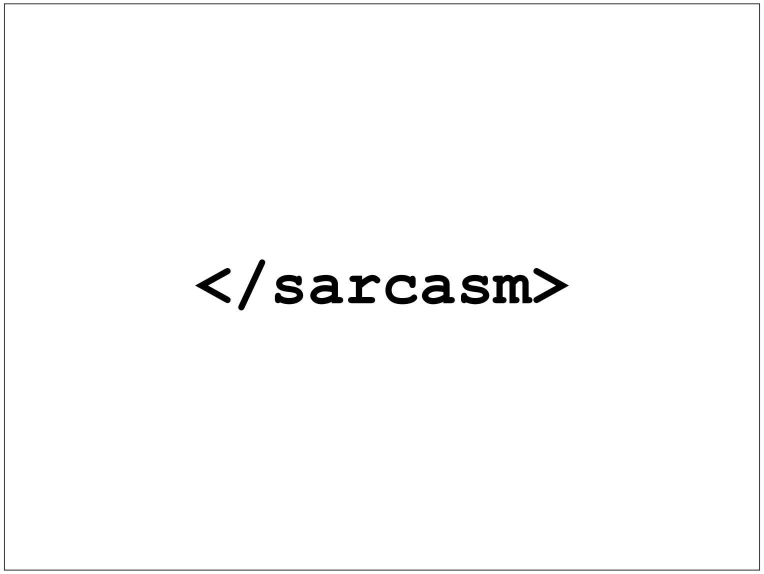


You do not exist.

Q.E.D.

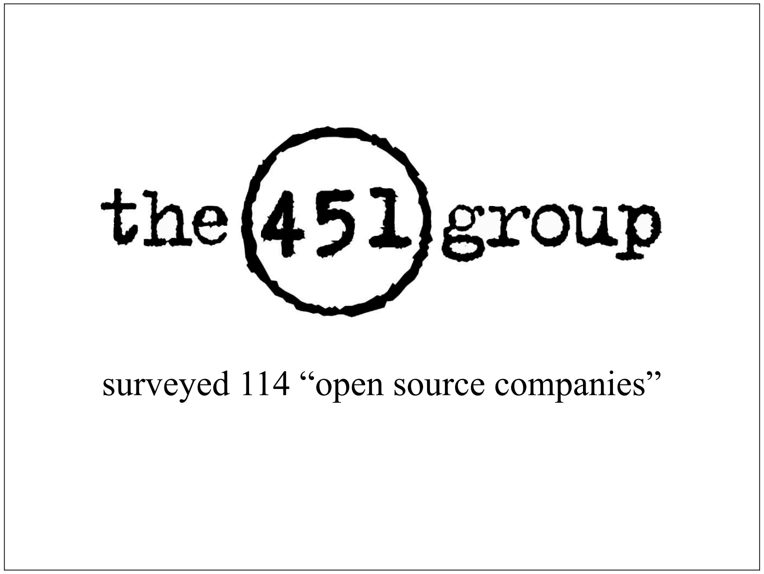
then the business will not survive.

Q.E.D.



</sarcasm>

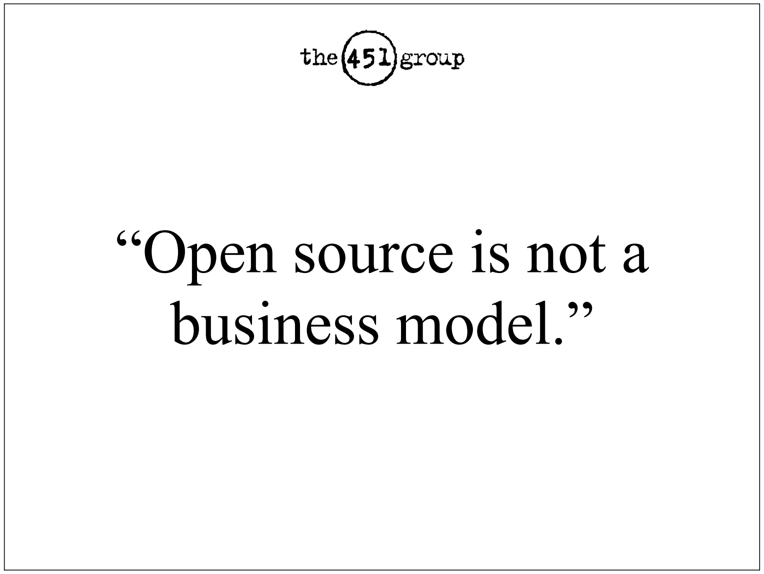
ok



the 451 group

surveyed 114 “open source companies”

The 451 Group, an IT industry
analysis company,
did a survey of "open source companies"
and they came up with the
best explanation of
open source business
models I have seen so far:



the 451 group

“Open source is not a business model.”

"Open source is not a business model."

the 451 group

“Open source is a **business tactic**, not a business model.”

"Open source is a business tactic,
not a business model.

the 451 group

“Open source is
not a market
in and of it self...”

Open source is not a market
in and of itself,

the 451 group

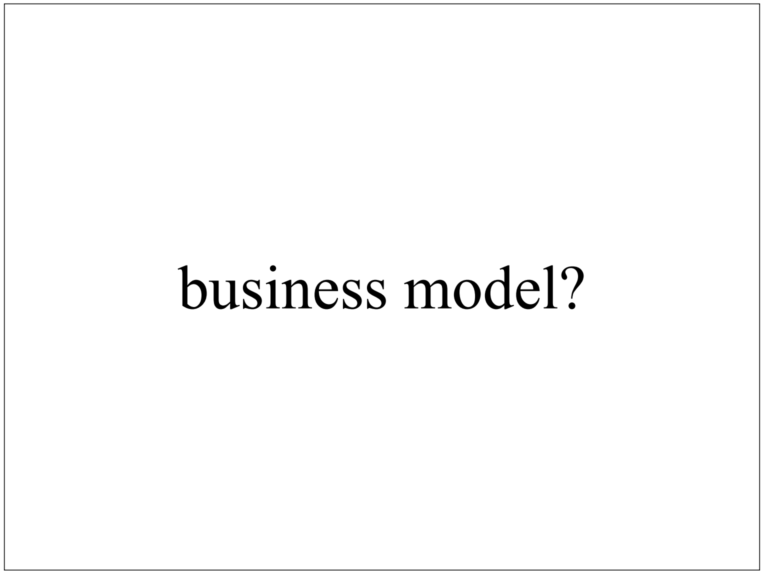
“... nor is it a
vertical segment
of the market.”

nor is it a vertical segment of the market.

the 451 group

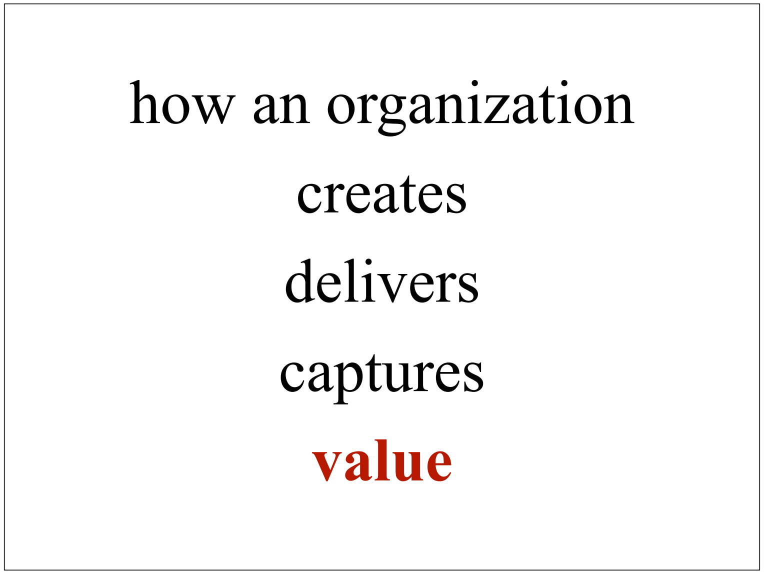
"Open source is a **software development** and/or **distribution model** that is enabled by a **licensing tactic**."

Open source is a
software development and/or
distribution model
that is enabled by a
licensing tactic."



business model?

OK, so what is a business model?



how an organization

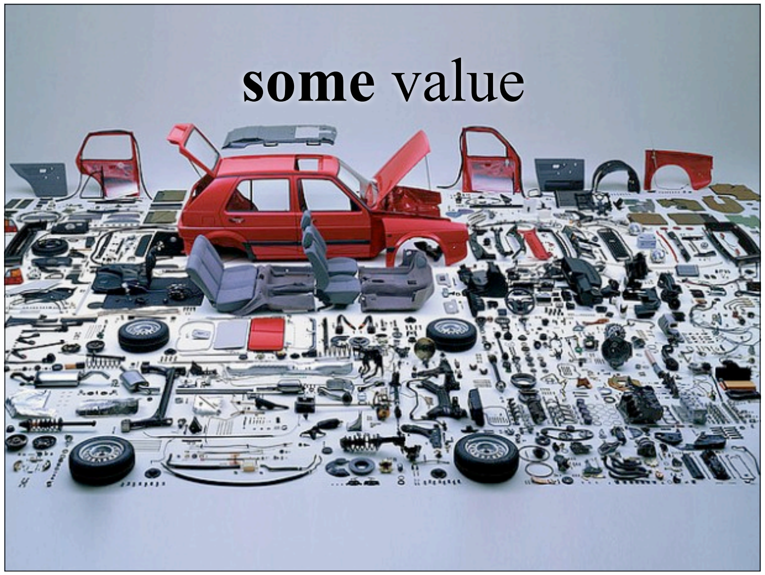
creates

delivers

captures

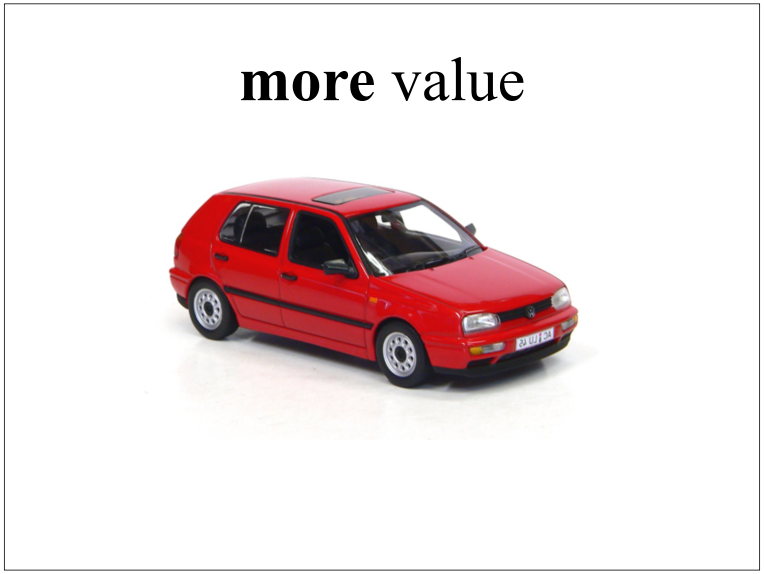
value

"A business model describes the
rationale of
how an organization creates,
delivers, and captures
value"
A business model is a process
that bundles something of value.
Where do we create our value?



some value

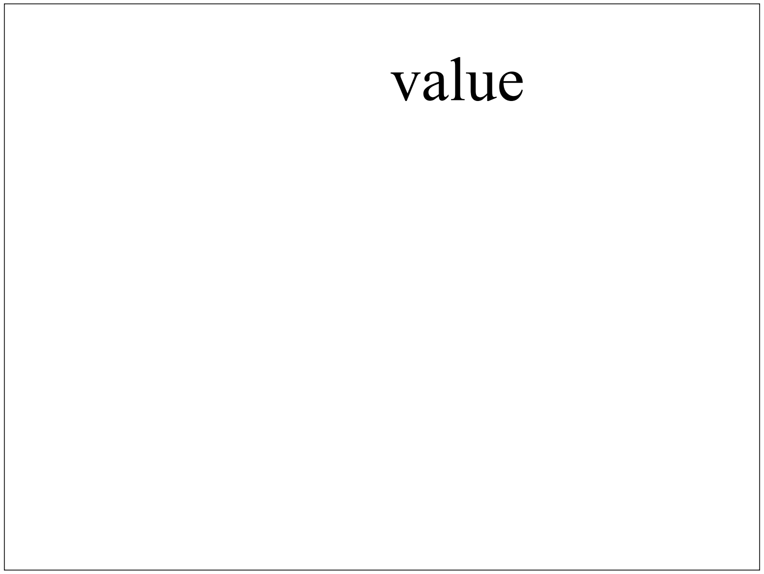
Business models can be as simple as
building an item from parts and



more value

selling the higher value result.

But they don't have to be.



value

The most disruptive models
tend to be the most surprising ones,
because they invert our notions of
where the intrinsic value of a product lies.

THE LONDON GAZETTE.

Publiſhed by Authority.

From Monday, Septemb 3, to Monday, Septemp 10, 1666.

Whitehall, Sept. 8.

THE ordinary course of this paper having been interuppted by a sad and lamentable accident of Fire lately hapned in the City of *London*: it hath been thought fit for satisfying the minds of so many of His Majesties good Subjects who must needs be concerned for the Issue of so great an accident, to give this short, but true Accompt of it.

On the second instant, at one of the clock in the Morning, there hapned to break out, a sad in deplorable Fire in *Pudding-lane*, neer *New Fish-street*, which falling out at that hour of the night, and in a quarter of the Town so close built with wooden pitched houses spread itself so far before day, and with such distraction to the inhabitants and Neighbours, that care was not taken for the timely preventing the further diffusion of it, by pulling down houses, as ought to have been; so that this lamentable Fire in a short time became too big to be mastred by any Engines or working neer it. It fell out most unhappily too, That a violent Easterly wind fomented it, and kept it burning all that day, and the night following spreading itself up to *Grace-church-street* and downwards from *Cannon-street* to the Water-side, as far as the *Three Cranes in the Vintrey*.

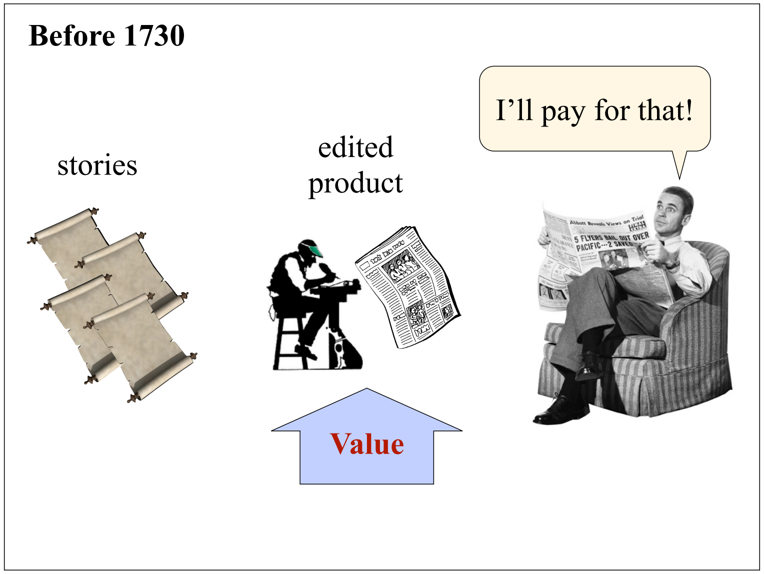
The people in all parts about it, distracted by

Church, neer *Holborn-bridge*, *Pie-corner*, *Aldersgate*, *Cripple-gate*, neer the lower end of *Coleman-street*, at the end of *Basin-hall-street* by the *Postern* at the upper end of *Bishopsgate-street* and *Leaden-hall-street*, at the *Standard* in *Cornhill* at the church in *Fenchurch street*, neer *Cloth-workers Hall* in *Mincing-lane*, at the middle of *Mark-lane*, and at the *Tower-dock*.

On Thursday by the blessing of God it was wholly beat down and extinguished. But so as that Evening it unhappily burst out again a fresh at the *Temple*, by the falling of some sparks (as is supposed) upon a Pile of Wooden buildings; but his Royal Highness who watched there that whole night in Person, by the great labours and diligence used, and especially by applying Powder to blow up the Houses about it, before day most happily mastered it.

Divers Strangers, Dutch and French were, during the fire, apprehended, upon suspicion that they contributed mischievously to it, who are all imprisoned, and Informations prepared to make a severe inquisition here upon by my Lord Chief Justice *Keeling*, assisted by some of the Lords of the Privy Council; and some principal Members of the City, notwithstanding which suspicion, the manner of the burning all along in a Train, and so blowen forwards in all its way by strong Winds, make us conclude the whole was an effect of an unhappy chance, or to speak better, the heavy

The initial business model for newspapers and newsmagazines was very simple.



Before 1730

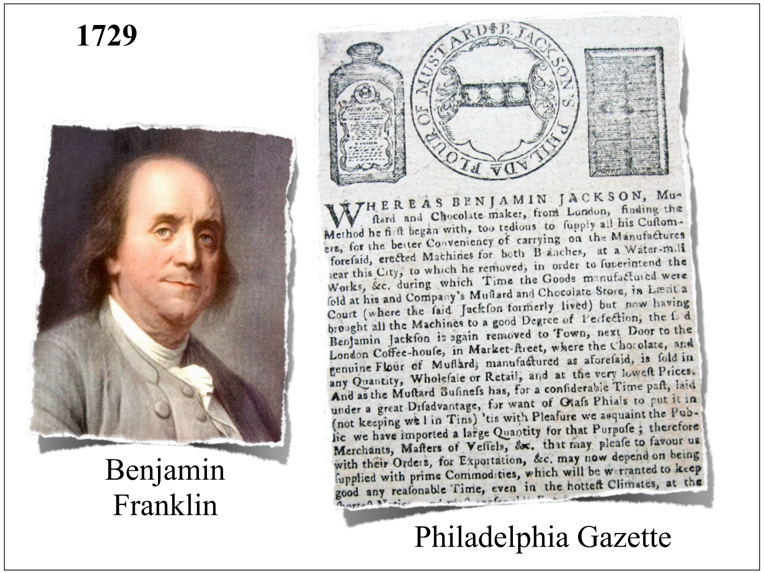
stories

edited product

I'll pay for that!

Value

The <X> publisher assembled the newspaper from original writing, <X> laid it out and printed it. <X> Readers paid the publisher for that product. The <X> value was in *content* delivered to a *reader*.

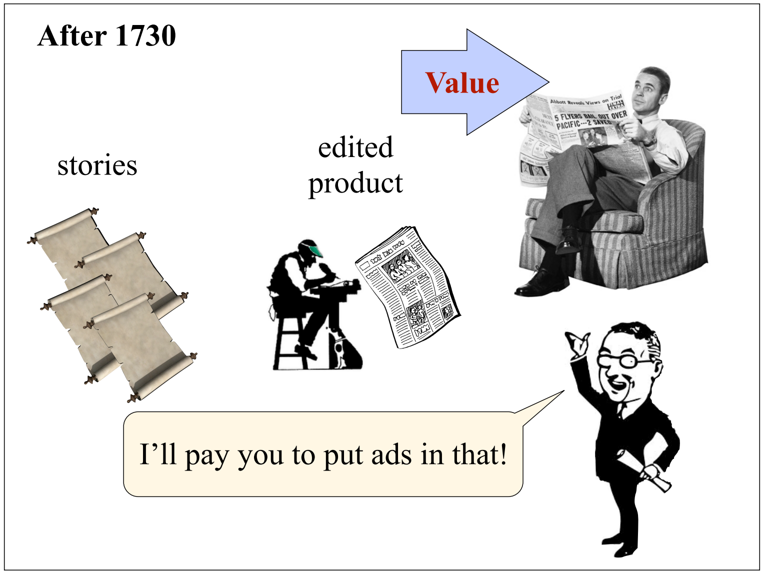


1729

WHEREAS BENJAMIN JACKSON, Mustard and Chocolate maker, from London, finding the Method he firſt began with, too tedious to ſupply all his Cuſtomers, for the better Conveniency of carrying on the Manufactures foreſaid, erected Machines for both Branches, at a Water-mill near this City, to which he removed, in order to ſuperintend the Works, &c. during which Time the Goods manufactured were ſold at his and Company's Muſtard and Chocolate Store, in Lætitia Court (where the ſaid Jackſon formerly lived) but now having brought all the Machines to a good Degree of Perfection, the ſaid Benjamin Jackſon is again removed to Town, next Door to the London Coffee-houſe, in Market-ſtreet, where the Chocolate, and genuine Flour of Muſtard, manufactured as aforeſaid, is ſold in any Quantity, Wholeſale or Retail, and at the very loweſt Prices. And as the Muſtard Buſineſs has, for a conſiderable Time paſt, laid under a great Diſadvantage, for want of Glaſs Phials to put it in (not keeping well in Tins) 'tis with Pleaſure we acquaint the Public we have imported a large Quantity for that Purpoſe; therefore Merchants, Maſters of Veſſels, &c. that may pleaſe to favour us with their Orders, for Exportation, &c. may now depend on being ſupplied with prime Commodities, which will be warranted to keep good any reaſonable Time, even in the hotteſt Climates, at the

Benjamin Franklin

Philadelphia Gazette



After 1730

stories

edited product

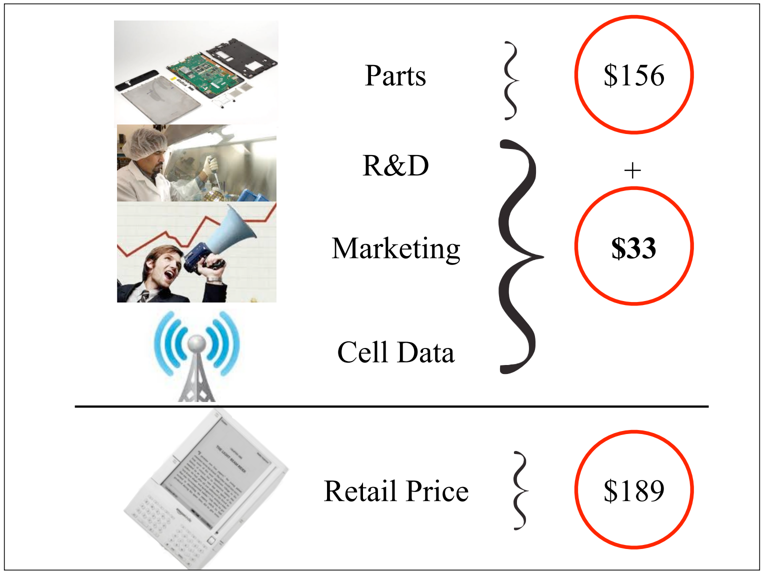
Value

I'll pay you to put ads in that!

In 1729, Benjamin Franklin started
publishing the Pennsylvania Gazette,
and he did something very odd.
He sold each copy for a
fraction of the production cost, so
he was losing money on every copy.
But he made up the
difference via by
sales of advertising.

He was still <X> commissioning
original writing, <X> laying it out,
printing it and <X> distributing the product,
but the <X> *value* was in the
readership delivered to *advertisers*,
not in newspaper itself.
The lesson of the newspaper business is,
you don't have to
sell a thing to capture value with it.
<repeat>
For a more recent example of indirect value
capture

look at the Amazon Kindle 3G.



Parts $156

R&D

Marketing

Cell Data

+ $33

Retail Price $189

The parts cost <X> $156.
The device costs <X> $189.
That leaves just <X> $33 per item to cover
all R&D, marketing and cell data charges.
Amazon is basically giving the Kindle away for free.

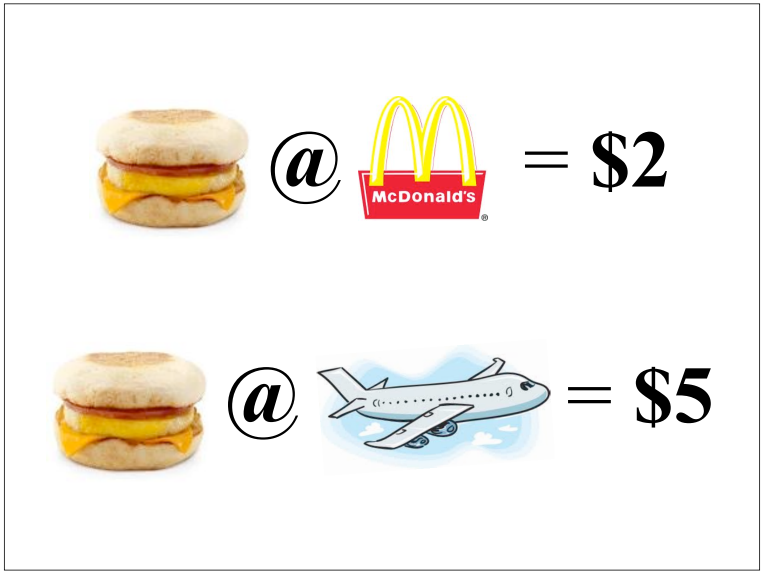
But the zero-profit Kindles are enabling a very
high profit business in
shipping digital books to customers.

So, it's not unsurprising if a business invests in an
unprofitable secondary business to create
value in a profitable primary one.

Or consider the venerable
concession model.

Why does every museum have a
gift shop?
Surely not for educational purposes?

Why does movie popcorn cost $7.50?



@ = $2

@ = $5

Why does an egg
McMuffin cost $2 at McDonalds,
but $5 on an airplane?
These lucrative side businesses have
exclusive access to a
buying population that is
primed and ready to
consume their wares.
So there's *value* in access to a market
of pre-qualified customers who are
ready to buy.

the 451 group

many tactics for open source business

often deployed simultaneously

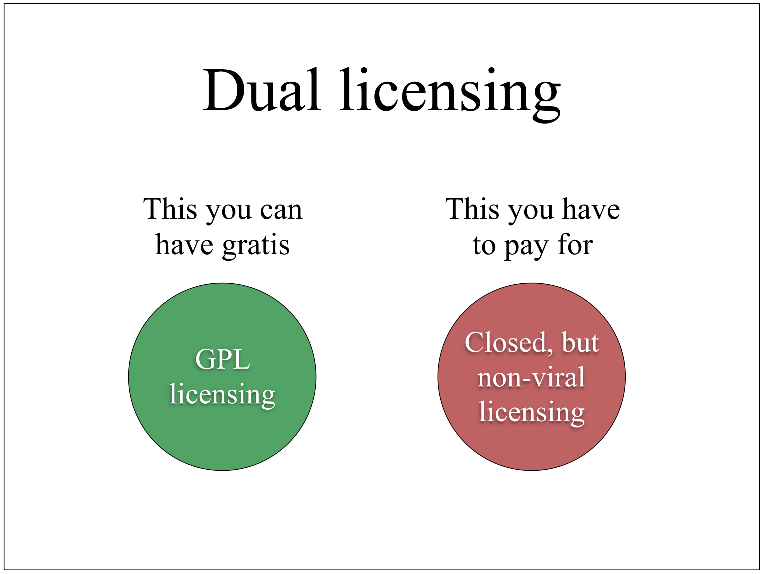
In their study of open source businesses,
the 451 Group noted that were a
large number of
different tactics for creating value
in the open source world,
and that any
given business might employ
several of them simultaneously.

Here's some of the tactics commonly
associated with extracting value around
open source.

Dual licensing

ORACLE
MySQL
SLEEPYCAT SOFTWARE
Makers of Berkeley DB

- Dual licensing -
Popularized by MySQL and
Sleepycat software
(both, curiously, now wards of
<X> Oracle corporation)
offers a GPL version of the software for
free but



Dual licensing

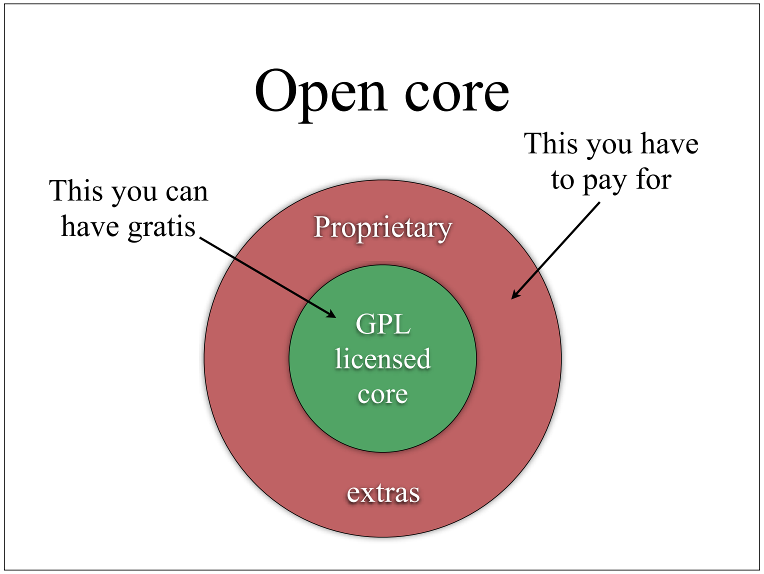
This you can have gratis

This you have to pay for

charges for
access to a non-GPL version. The
value is primarily for companies who want to
embed the software for re-sale,
but also derives from
misunderstandings and paranoia
around the GPL.

Open core

Open Core is a model
practiced by
relatively new,
venture funded business like
Xen, SugarCRM and Nagios.

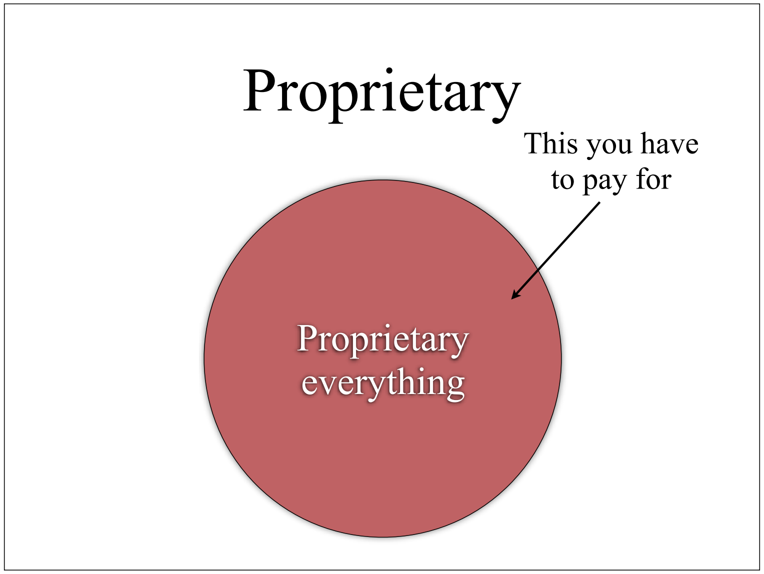


Open core

Open core combines an open source core
project with proprietary extra features
to provide sale value. The sale value is
in the extra features.

Dual licensing and open core require the company to hold all copyrights.

Both dual license and
open core projects
tend to be captive of a
single company, since
in order to carry out their
dual licensing scheme
the company must hold the
copyrights to the open
source project, which means they usually
employ the core contributors directly.



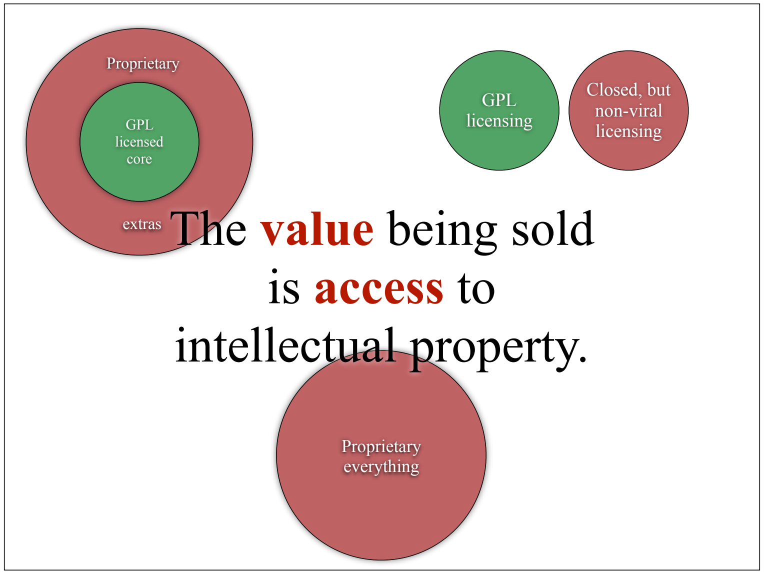
Proprietary

This you have to pay for

Proprietary everything

What these models have in common is that they look a lot like proprietary
software companies.

Open core, and dual licensing and
proprietary licensing all capture value



The **value** being sold is **access** to intellectual property.

in the same way, by charging for access to intellectual property.

This is perhaps why these models have been easiest to evangelize and have received the lion's share of venture funding over the past several years.

Moving away from the traditional software company model,

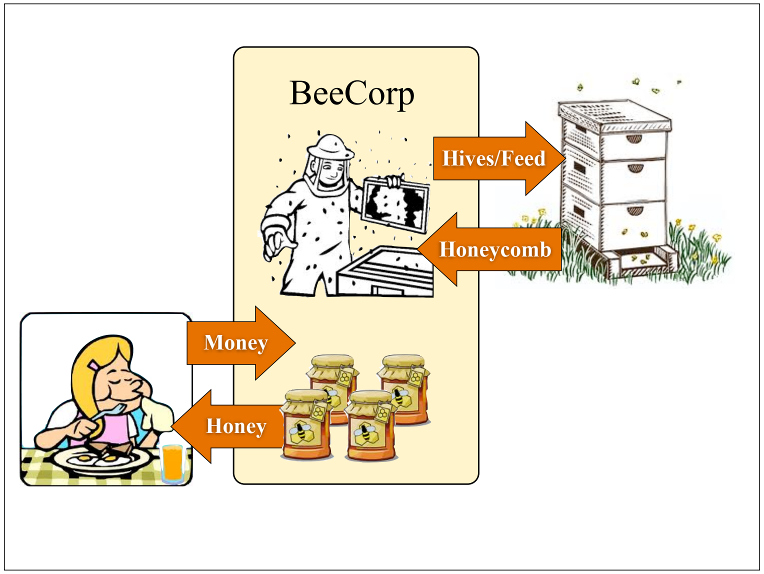
James Dixon
Pentaho.com

“Professional open source software”

my favourite system is articulated by James Dixon of Pentaho, for what he calls "professional open source software".

Imagine a bee hive.
Now, imagine you want some honey.
Knowing nothing about bees,
you might be understandably leery
about just opening up the hive
and trying to scoop some out.

What you need, is a bee expert!
A bee keeper!



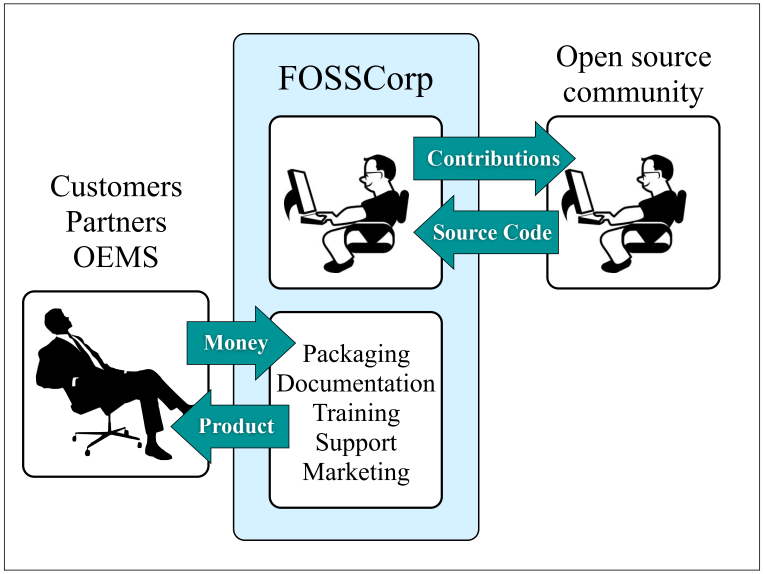
The beekeeper mediates our relationship with bees.
He <X> provides the bees with
hives and care, and the bees generate
raw honeycomb, which <X> he processes,
packages, markets and <X> sells to us
for money. Which he uses to buy hives
and so on.

Even though he doesn't make honey
himself, the beekeeper
adds value to the
product we buy.

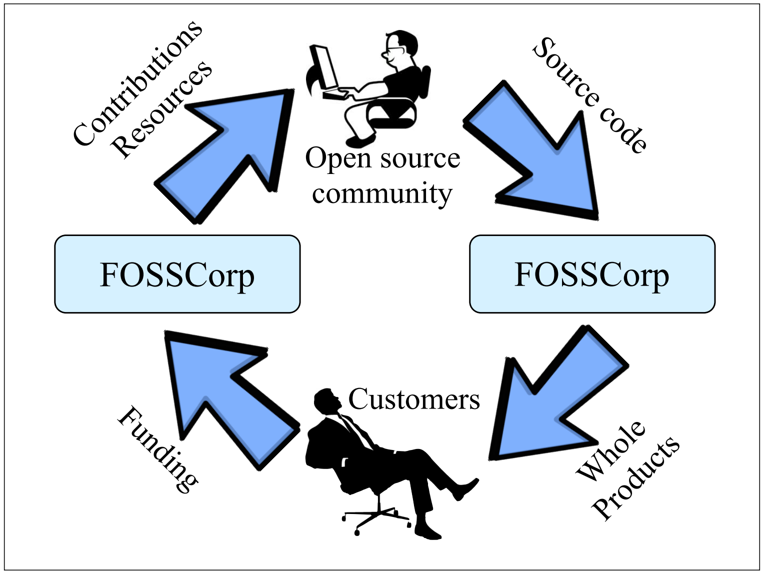
In Dixon's model,
open source developers are the
bees.

Developers, let's hear you all buzz.
....

Users, that's a pretty
intimidating sound, right?
Maybe you want someone who can work
with the bees to help you get the
best honey?



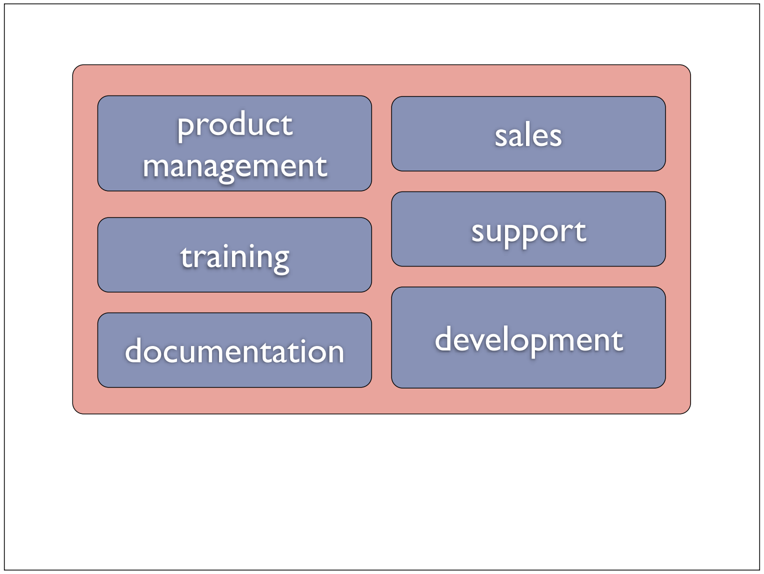
In this model,
the "professional open source software" company is the beekeeper.
<X> They provide development support to the community, and
<X> they also package the raw software for use by customers <X>,
adding things
like installers, documentation,
uniform branding and messaging,
and support agreements.



The professional open source company completes a virtuous circle, where the value in the raw software
produced by an
open source community is fused with the value from the company to become a salable product, which provides resources to employ staff and provide support that in turns
strengthens the open source community to provide yet more valuable software.

proprietary software company

Take apart a
proprietary software company,
you'll find



product management

sales

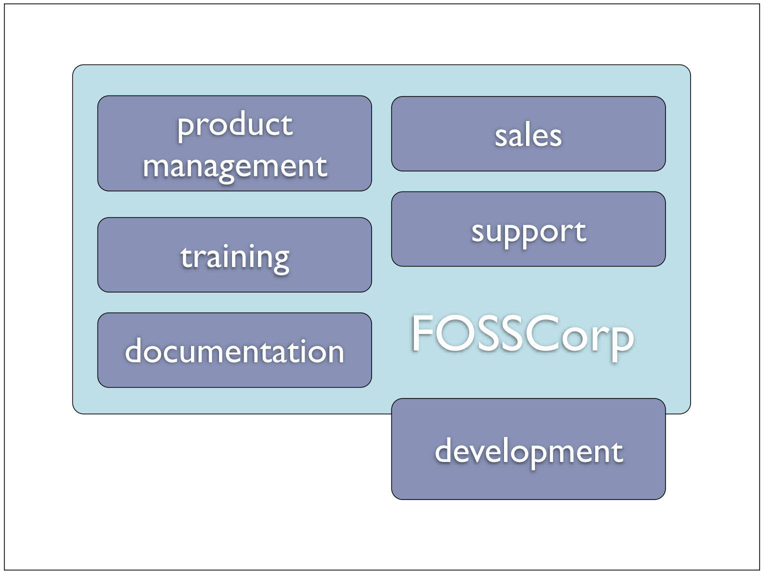
training

support

documentation

development

development, product management,
sales, support, documentation, training. The
"professional open source company"
is the result of looking at those
parts and asking <X>
"is there still
value here if we move most of the
development and intellectual property
outside the organization?"

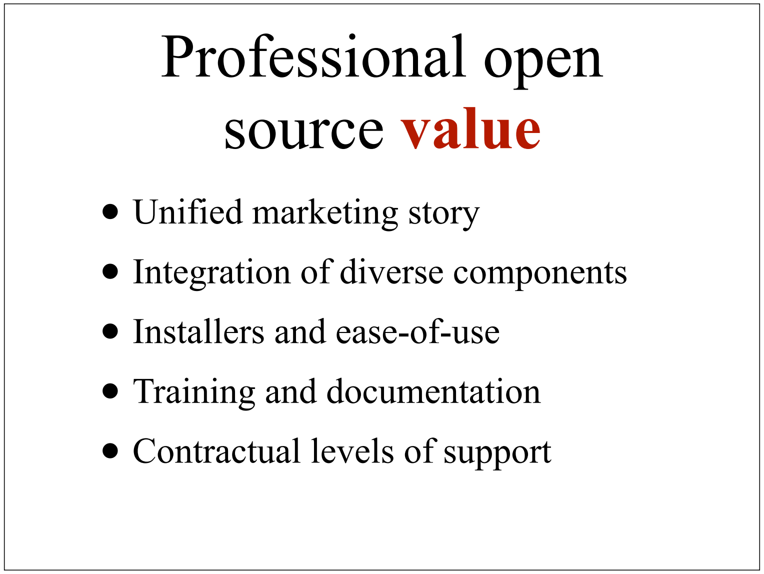


And the answer is
yes.

Professional open source companies

pentaho
open source business intelligence
redhat
OpenGeo

Dixon's company, Pentaho,
operates with this model. So does
<X> Red Hat. So does the company I work for,
<X> OpenGeo.



Professional open source **value**

- Unified marketing story
- Integration of diverse components
- Installers and ease-of-use
- Training and documentation
- Contractual levels of support

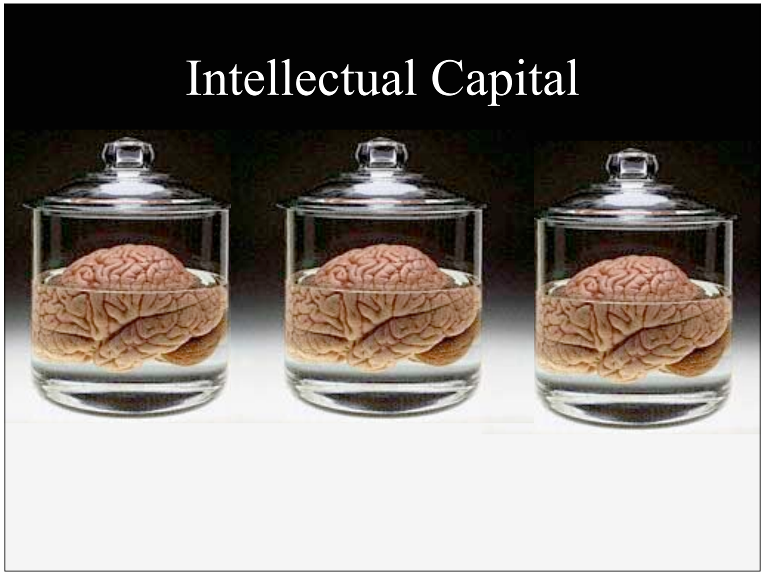
Professional marketing materials
provide value to purchasers
looking to rationalize their decisions.
<X> Integration provides value.
<X> Installation provides value.
<X> Training and documentation provide value.

But perhaps the biggest value sold by the
professional open source companies is the
<X> support contract.
We say we're providing "support", but
what we're really providing is
insurance

What, me worry?

for when things go
wrong.
Real insurance companies
protect against disaster by

hoarding a large pile of money
to fix things afterwards.
Professional open source companies
protect against disaster



Intellectual Capital

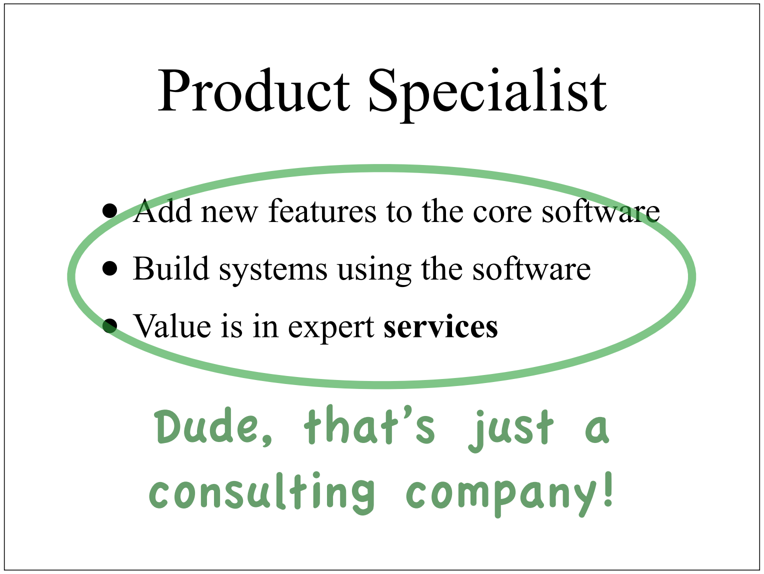
by hoarding a large pile of
intellectual capital, in the form of
... not disembodied brains ...
but
core developers in their
chosen projects.

Alan Cox

Matt Casters

So Red Hat employs Alan Cox, the Linux kernel guru, and <X> Pentaho employs Matt Casters of the Kettle project, and OpenGeo employs, well, me and many others.

There's a whole other category of open source business that employs core developers, too, the product specialist.



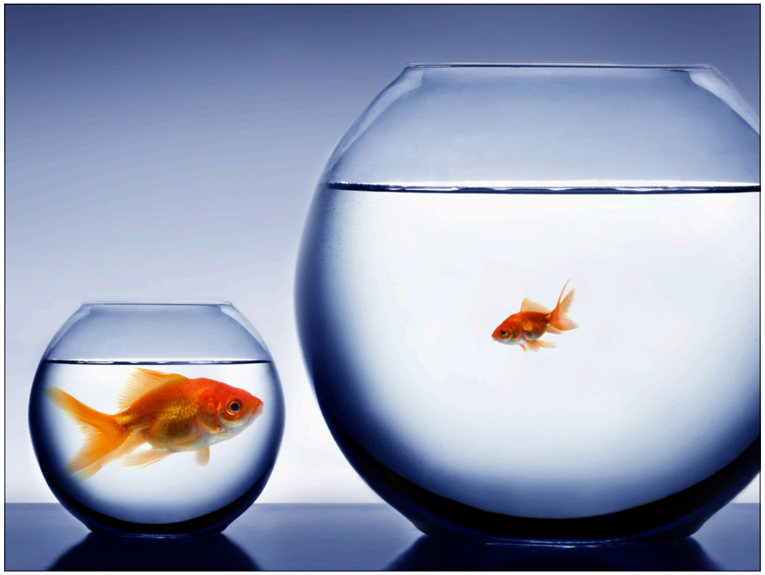
Product Specialist

- Add new features to the core software
- Build systems using the software
- Value is in expert **services**

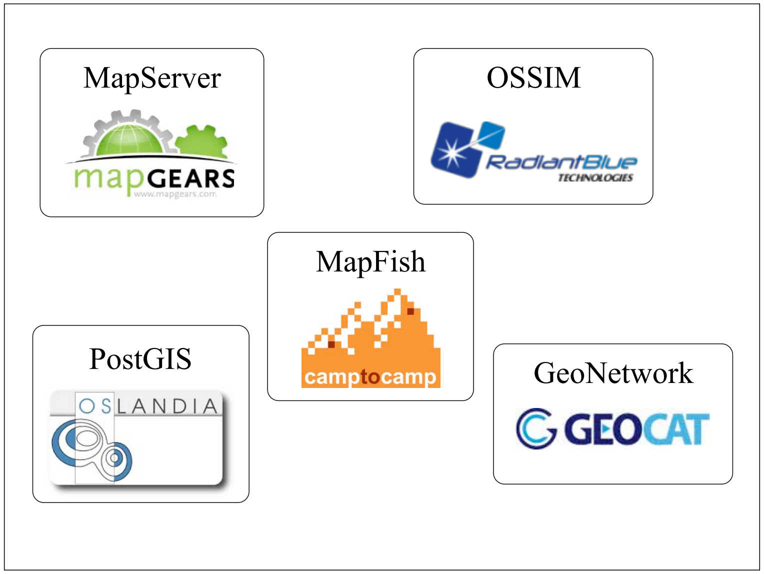
Dude, that's just a consulting company!

A product specialist company also employs core developers, but they frequently get paid for non-core development tasks. However, core developers on staff allows them to add new features for clients, and to perform complex system integrations with the open source code.

<X> But wait, aren't I just describing a consultancy? The goal of the product specialist is to become not just *a* consultancy, but *the* consultancy.



To dominate the mindshare around services for a particular project. To be the biggest fish in their pond.



MapServer

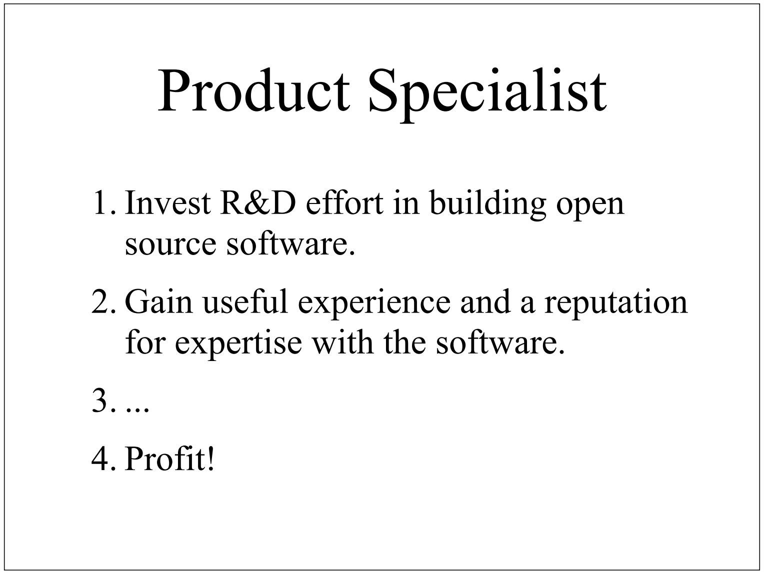
OSSIM

MapFish

PostGIS

GeoNetwork

So
<X> MapGears tries to be the
  go-to company for MapServer, and
<X> CampToCamp tries to be the
  go-to company for MapFish, and
<X> Oslandia tries to be the
  go-to company for PostGIS, and
<X> RadiantBlue tries to be the
  go-to company for OSSIM and
<X> GeoCat tries to be the
  go-to company for GeoNetwork.

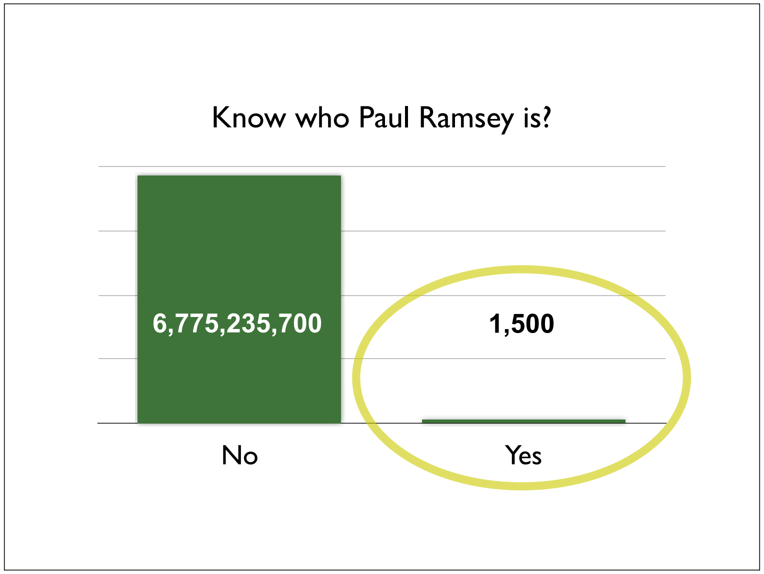


Product Specialist

1. Invest R&D effort in building open source software.
2. Gain useful experience and a reputation for expertise with the software.
3. ...
4. Profit!

Product specialists usually
spend less money on
sales and marketing,
they spend their spare resources on
core development, to
further hone their reputations
as the top experts in their field.

Folks back home ask me
how I get invited to speak
at all these conferences,



Know who Paul Ramsey is?

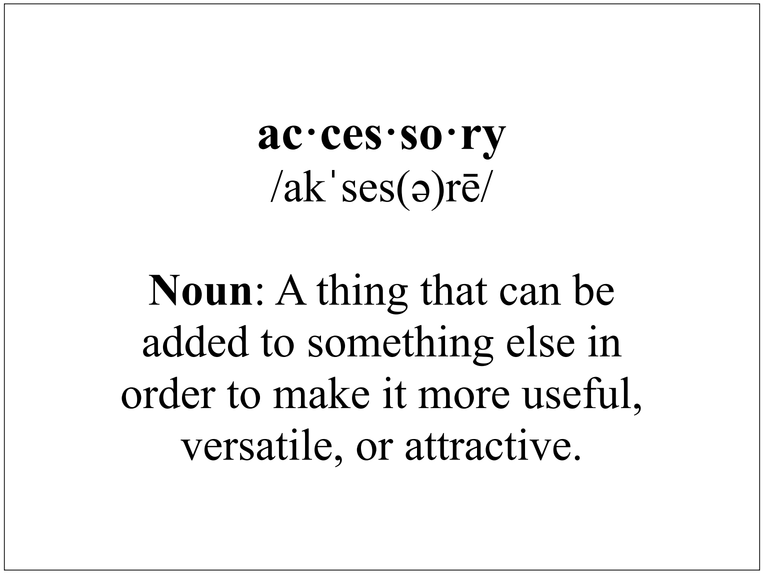
and I tell them
it's because I'm world famous,
as long as you ask
the right very small sub-set of people.

The same thing applies to
product specialists,
the niche they aim to
dominate may be quite
small, but it's still big enough,
on a global basis,
to support a profitable business.

But Wait...

THERE'S MORE!

So far examples have all looked a lot like existing software companies, but there is lots more value available in the world of open source!



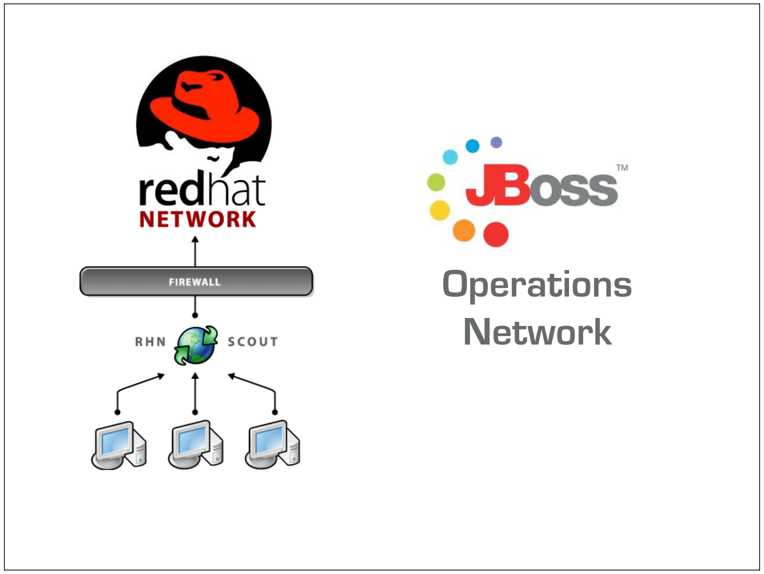
ac·ces·so·ry
/akˈses(ə)rē/

Noun: A thing that can be added to something else in order to make it more useful, versatile, or attractive.

Any open source project,
if sufficiently popular,
probably has a side market for
accessories of all kinds
things that aren't the software,
but add value to the software,
that make it prettier.

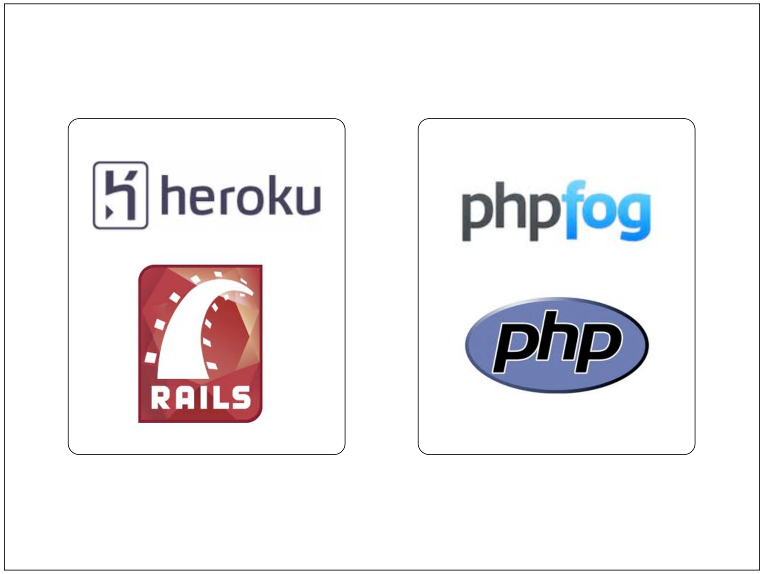
Production-oriented services

Production-oriented services and add-ons are a form of accessory.



In the Linux world, the Red Hat Network is an example. For JBoss, the <X> JBoss Operations Network provides tools that make it easier to operate the software in data centers.

Deployment platforms



Deployment platforms are an accessory that adds value by making it easy to put open source software stacks into production. Heroku provides this for Ruby on Rails, PHP Fog for PHP.

Accessories range from these kinds of

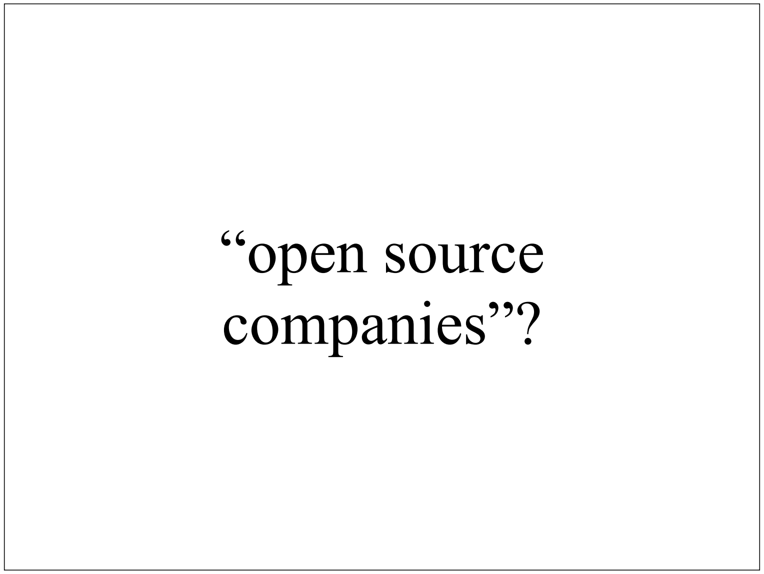
highly technical
services at one end,
all the way down to plush toys
and CDROMs at the other end.

In general, there is
value to be had in selling
"accessories" to popular
open source projects.

ac·ces·so·ry
/ak'ses(ə)rē/

Noun: A thing that can be added to something else in order to make it more useful, versatile, or attractive.

These businesses don't
necessarily look like
traditional software vendors anymore, because
they don't necessarily spend
much of their time working
on the core, and they extract no value
directly from the core software.



“open source companies”?

Are these "open source companies"?
Well, they
are creating salable value
through their association
with open source!

redhat
pentaho
open source business intelligence
OPENGEO
MySQL
mapGEARS
www.mapgears.com
OSLANDIA
camptocamp
Xen
RadiantBlue TECHNOLOGIES
GEOCAT
SUGARCRM
COMMERCIAL OPEN SOURCE
Nagios
SLEEPYCAT SOFTWARE
Makers of Berkeley DB

So,
there are all kinds of models for finding
value in and around open source, and
where are all
sorts of open source companies.

“open source company” ?

What about LinkSys?
are they an “open source company”?
They make routers,
but they put Linux on them!
They derive *value*
through not having to
license a proprietary OS and
by sharing development effort on
wireless chip drivers.

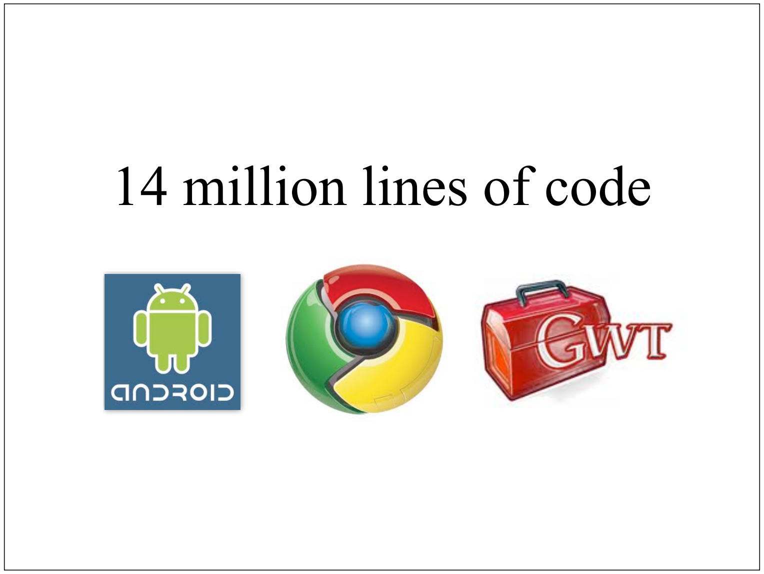
Or any of the many handset makers
using Android?
Are they open source companies?
They are definitely deriving
value through participating
in the Android community and process

Which brings me to the largest open source
company in the world.

Google™

It's not Sun.
It's not IBM.
It's not even Red Hat.
<X> It's Google, the big G.

Measuring
just volume of code released,

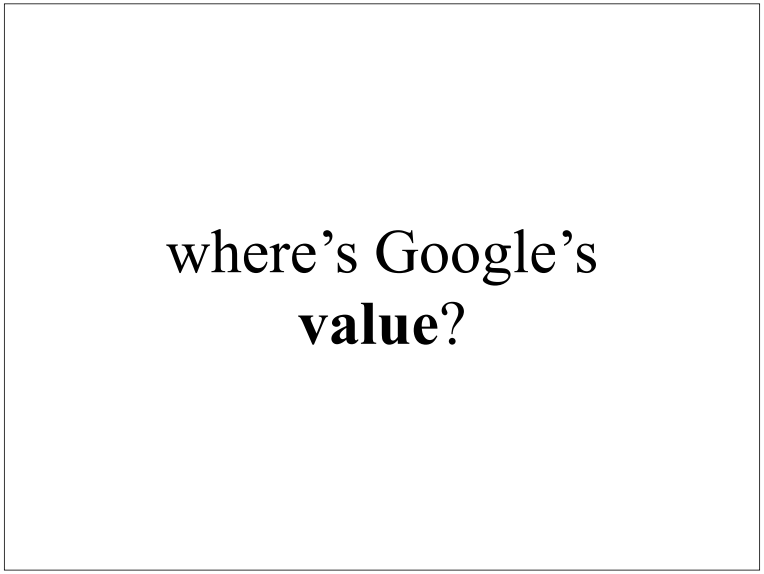


14 million lines of code

the 14M lines in only
Chrome, GWT and Android put
Google at the head of the
pack in terms of global contributions.

But it is the fact that Google's
core infrastructure,

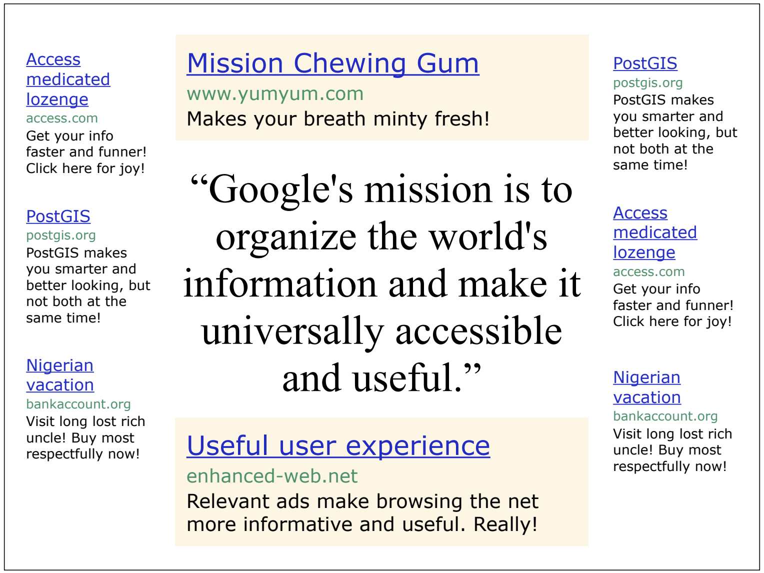
miles and miles of racks of
generic boxes running
Linux would not have been
possible but for open
source, and the fact that Google
engineers are
active in the communities of
open source projects Google
depends on that really make the case
for Google as the worlds biggest open source
company.



where's Google's
value?

But, notably, the place Google
creates value has
nothing to do with open source,
Google creates value through

INFORMATION ORGANIZATION.



Access medicated lozenge
access.com
Get your info faster and funner! Click here for joy!

PostGIS
postgis.org
PostGIS makes you smarter and better looking, but not both at the same time!

Nigerian vacation
bankaccount.org
Visit long lost rich uncle! Buy most respectfully now!

Mission Chewing Gum
www.yumyum.com
Makes your breath minty fresh!

“Google's mission is to organize the world's information and make it universally accessible and useful.”

Useful user experience
enhanced-web.net
Relevant ads make browsing the net more informative and useful. Really!

PostGIS
postgis.org
PostGIS makes you smarter and better looking, but not both at the same time!

Access medicated lozenge
access.com
Get your info faster and funner! Click here for joy!

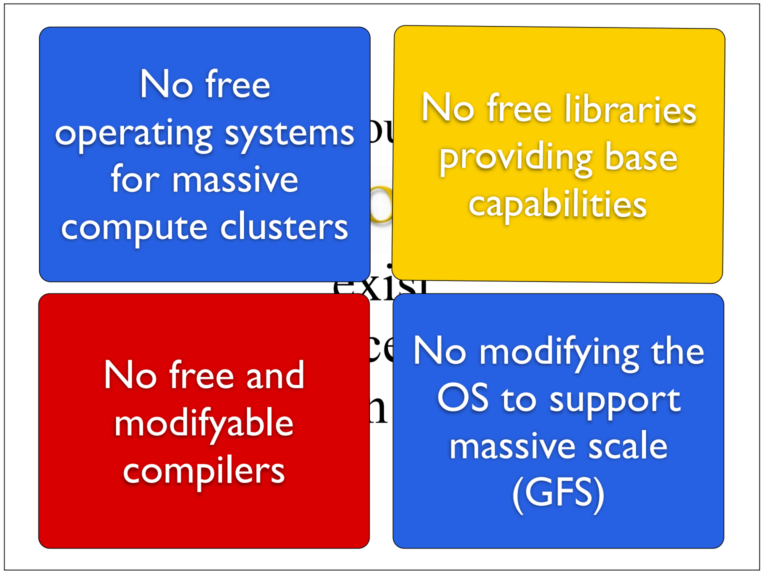
Nigerian vacation
bankaccount.org
Visit long lost rich uncle! Buy most respectfully now!

In the words of their mission statement,

Organizing all the worlds data.
Making it universally accessable.

<X>
(And then pasting little ads all around it.)

But that information organization
would not have been possible
without open source.



No free operating systems for massive compute clusters

No free libraries providing base capabilities

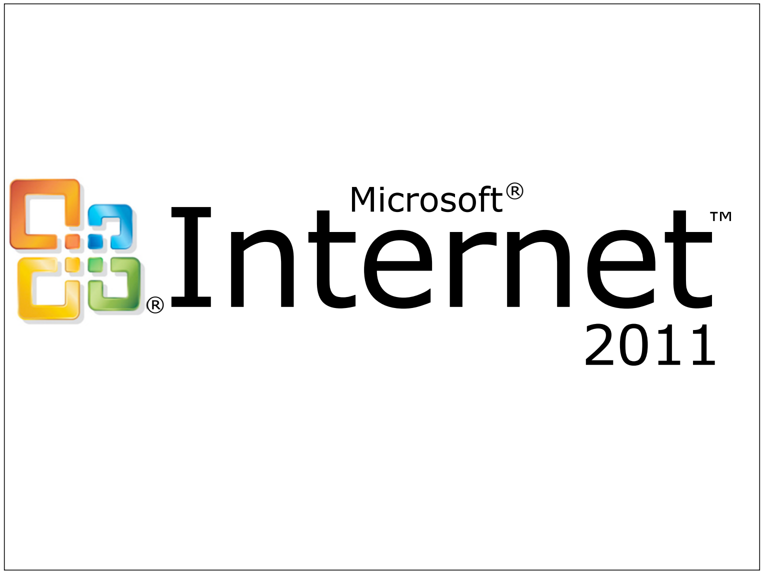
No free and modifyable compilers

No modifying the OS to support massive scale (GFS)

If, in the early days,
Google had to write or license
all of the code they needed, they would
never have gotten off the ground.
<X>
Without open source,
the only organizations capable of
running at web scale would have been
those who already
owned the necessary
intellectual property in
operating systems and file systems and databases.

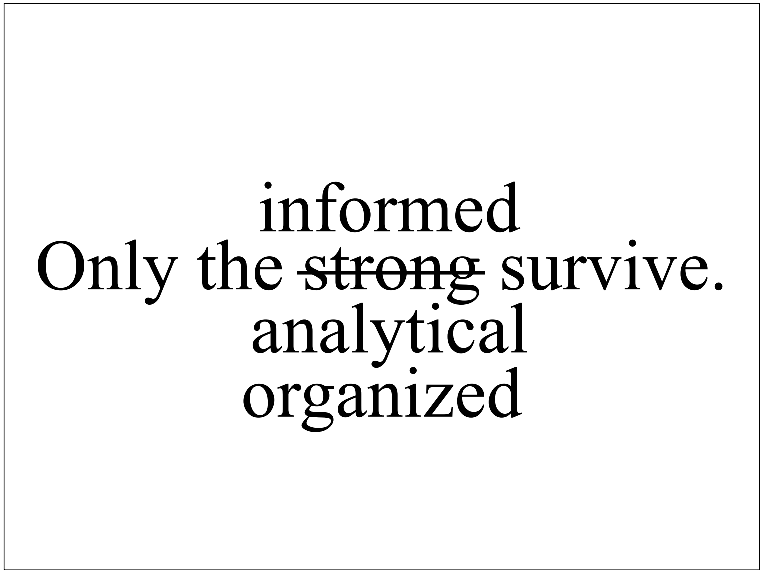
Microsoft, Sun, IBM.

Imagine what the
web would be, run by



Microsoft, Sun, and IBM.

But we didn't get that,
instead we got a world



informed

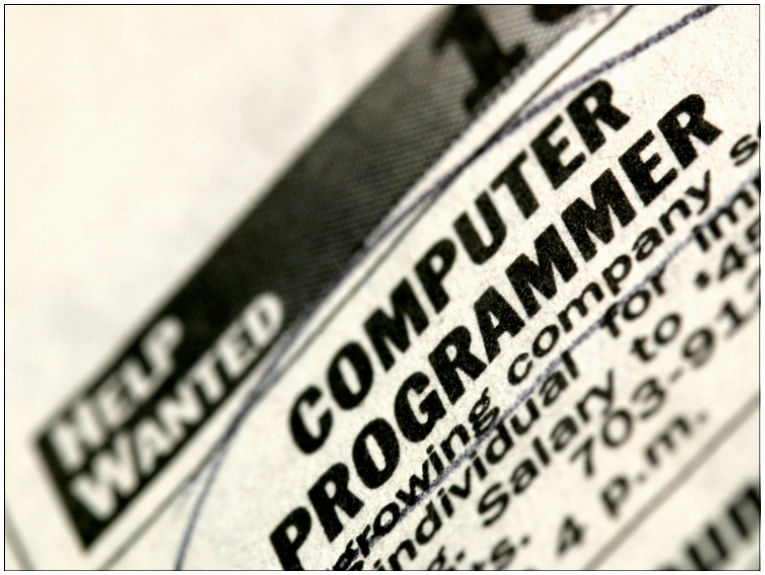
Only the ~~strong~~ survive.

analytical

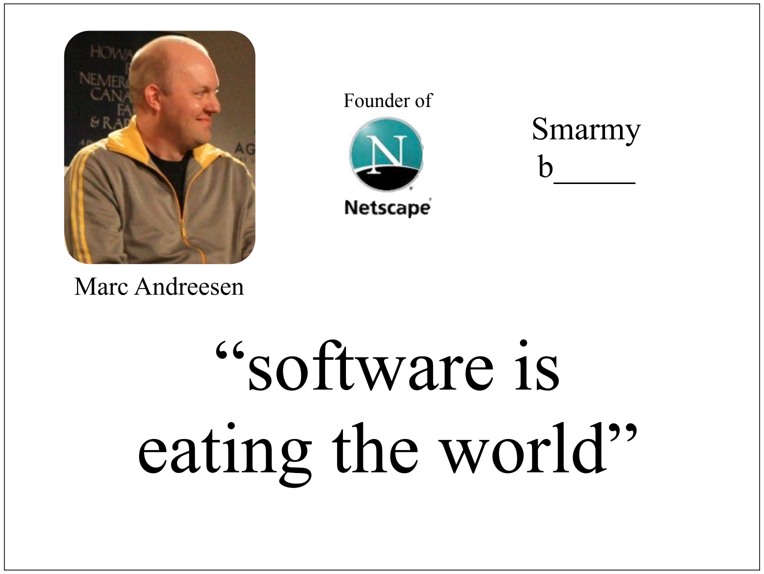
organized

where success is
determined by
the ability to quickly gather,
manipulate and
analyze information.

Which is why librarians are in
such high demand!
Oh wait, not librarians,



computer programmers.



Marc Andreesen

Founder of Netscape

Smarmy
b_____

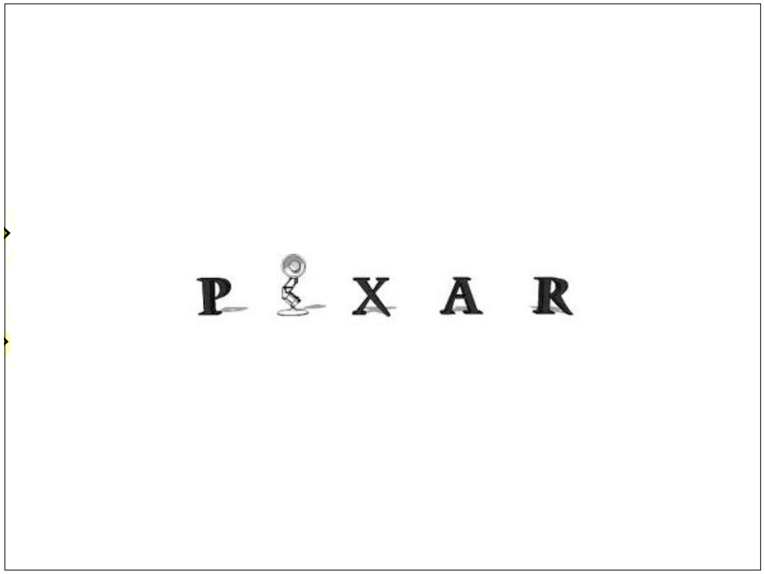
“software is
eating the world”

Marc Andreesen, one of the founders of Netscape, and all around smarmy bastard, wrote in the Wall Street Journal last month that "software is eating the world".

In support of his thesis, he points to numerous success stories, companies leveraging their superiority in software into superiority in the overall marketplace.

Borders being beaten by Amazon,

Blockbuster put out of business by Netflix



Disney having to buy Pixar

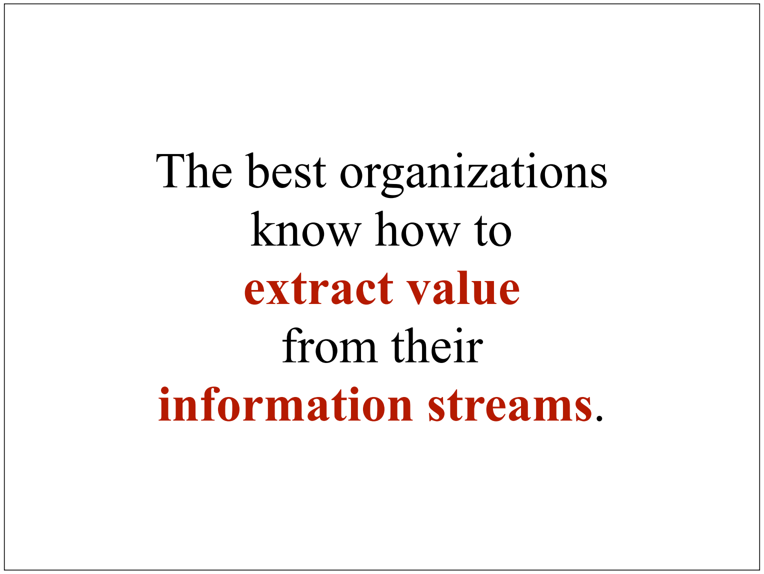
Kodak going under while Flickr flies

The recruiting market being
taken over by LinkedIn

The telecom industry being
taken down by Skype
and even the worldly success of
traditional organizations

like Fedex and Wal*Mart

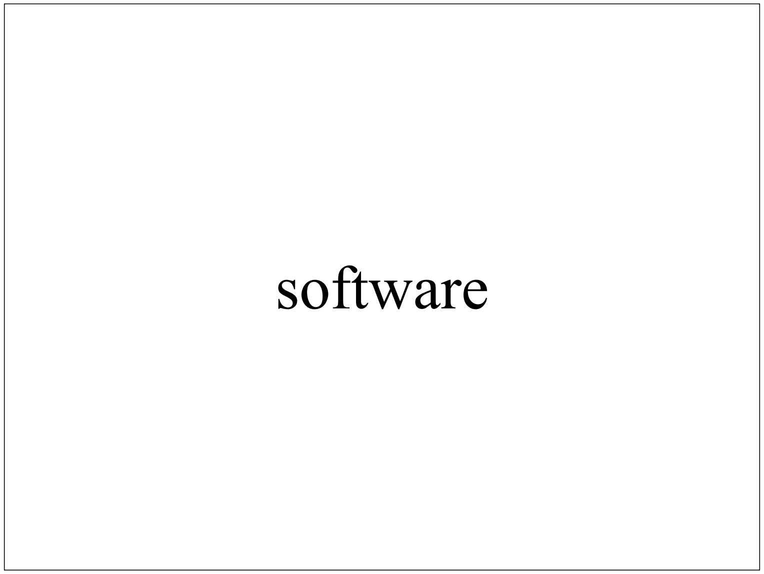
can be all be traced back
to superior use of information
technology and data management



The best organizations
know how to
extract value
from their
information streams.

These examples show
that victory is going to
the organizations that can most nimbly
extract value from their data streams.

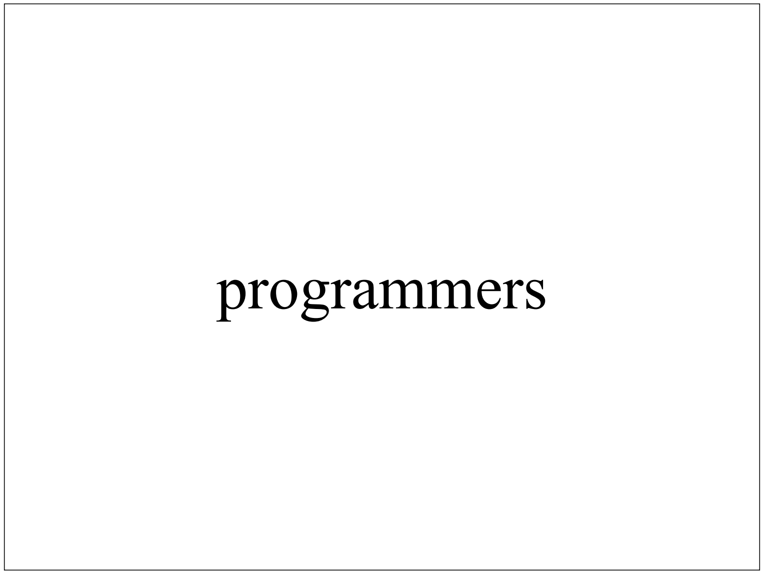
And how do we extract
value from data streams?



software

With software!

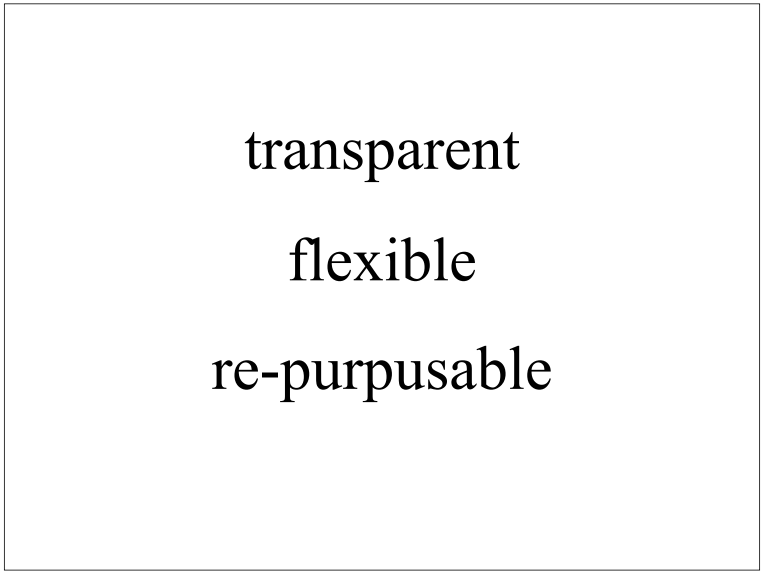
And who creates software?



programmers

Programmers.

And what tools are programmers most effective with?

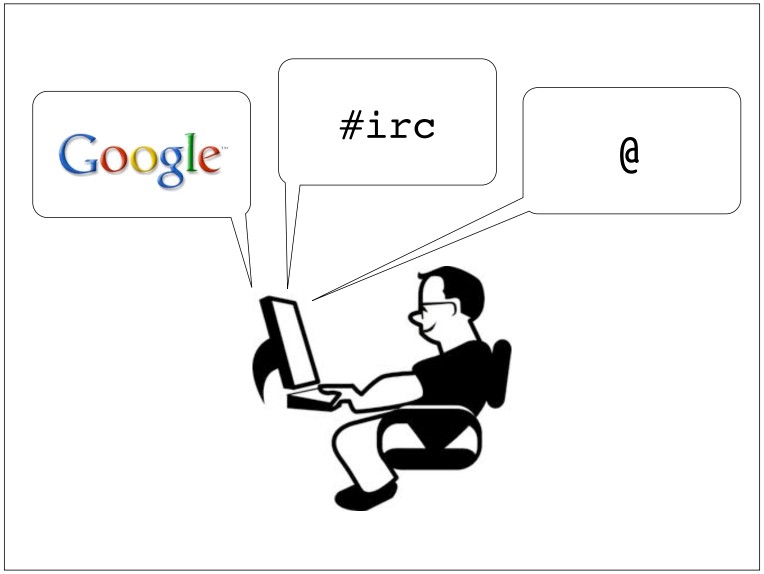


transparent

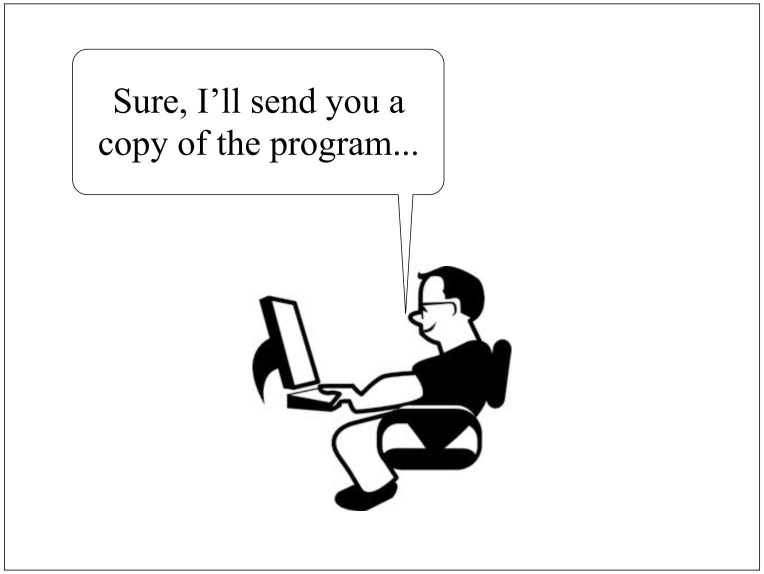
flexible

re-purpusable

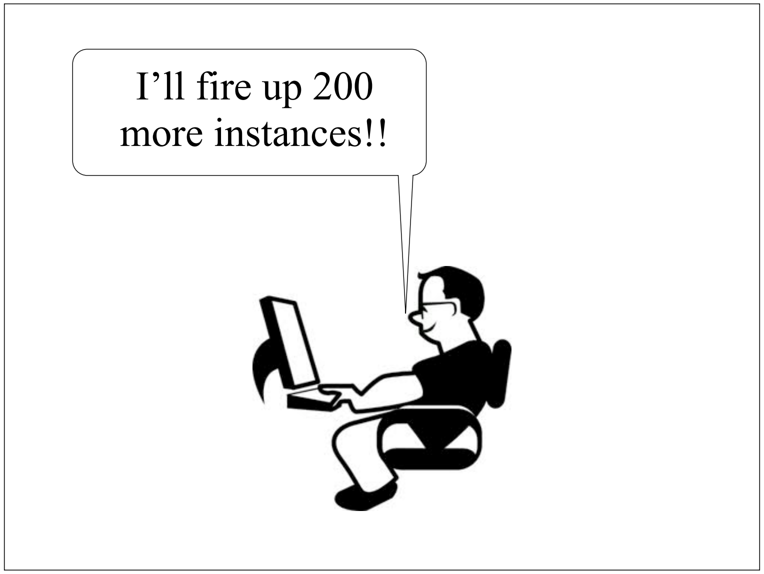
Transparent, flexible, re-purposable tools.



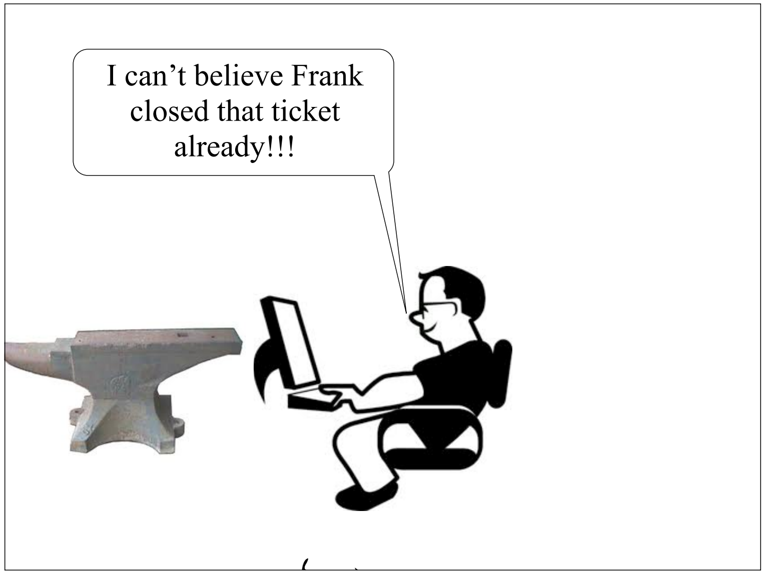
Tools where the answer is an e-mail or
Google search or
IRC question away.



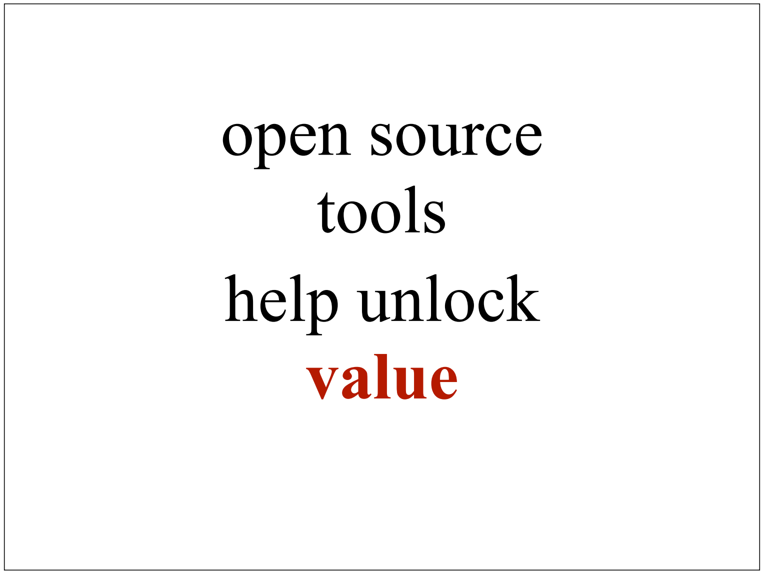
Tools where there are no deployment limitations.



Tools where scaling is just a matter of spinning up instances.



Tools where the bugs can be
caught and squashed in internet time.



open source tools

help unlock **value**

Open source tools.

Open source tools
<X>
help you and your developers
unlock value in information.

OpenGeo

It's intellectually entertaining
to look at the models of companies like
OpenGeo and compare us to established
proprietary companies and wonder if
we're going to make it.
Will our open source business model
work?
Who knows? *I* think so...

But it's not that relevant to *you*.

find your
own
open source
business model

You need to have your *own*
open source business model.
You need to do the research
and understood where open source
can add value to your business,
to your agency, to your department,
and I hope that's why you're
all here.

This week, go to the sessions,
talk to the developers,
talk to your peers,

join the open source community,
and find your
open source business model.

It's out there waiting for you.

tharbank yarbou