The Business Model of Commercial Open Source Software

(Or: How MySQL AB Got to a $1BN Valuation)

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Commercial Open Source

• Commercial open source definition:

  “Commercial open source is [open source] software that a for-profit entity owns and develops. The company maintains the rights and determines what is accepted into the code base [...]” [1]

• Core product is available to community under open source license
  • Available in source code form, modifiable, redistributable
  • See http://www.opensource.org for “approved” licenses
Growth of Commercial Open Source

• Gartner Group prediction:

  “By 2012, at least 50% of direct commercial revenue attributed to open-source products or services will come from projects under a single vendor's patronage.” [2]

• Open source is growing exponentially, on a non-trivial base [3]
  • Individual projects are growing linearly or polynomially
  • **Number of viable projects is growing exponentially**
  • Projects are growing in every conceivable domain
Benefits over Traditional Commercial Software

All other things being equal, commercial open source firms can go to market faster with a superior product at lower operations cost and sell more easily than possible for traditional competitors [4].
<table>
<thead>
<tr>
<th>Single product or product line</th>
<th>single proprietor</th>
<th>community-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Open Source (e.g. MySQL)</td>
<td><strong>Commercial Open Source</strong> (e.g. MySQL)</td>
<td>Community Open Source (e.g. PostgreSQL)</td>
</tr>
<tr>
<td>multi-product assembly (&quot;stack&quot;)</td>
<td>Commercial Distribution (e.g. Red Hat)</td>
<td>Community Distribution (e.g. Debian)</td>
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</tbody>
</table>
# Commercial vs. Community Open Source [1]

<table>
<thead>
<tr>
<th><strong>Commercial Open Source</strong></th>
<th><strong>Community Open Source</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>One single proprietor</td>
<td>Community of owners</td>
</tr>
<tr>
<td>Typically dual-licensed</td>
<td>Single license</td>
</tr>
<tr>
<td>Increasingly open-core</td>
<td>No functionality withheld</td>
</tr>
<tr>
<td>Venture capital backed</td>
<td>Cross-subsidized</td>
</tr>
<tr>
<td>Significant direct revenues</td>
<td>No direct revenues</td>
</tr>
<tr>
<td>Asymmetric community</td>
<td>Symmetric community</td>
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</table>
What's Different in Commercial Open Source
(When Compared With Traditional Closed Source Firms)?

Revenue Sources

- Intellectual Property Rights
- Open Source Community

Need to understand all three aspects to understand commercial open source
Revenue Sources of Commercial Open Source

- Core product
  - Provision of the software under a commercial license
  - Formerly equated with dual-license strategy

- Whole product
  - Provision of an extend version of the software under a commercial license
  - Now being called “open core” model

- Operational comfort
  - Provision of a quality-controlled update and bug-fixes service (subscription model)
  - Hotline support, bug-fixes on demand, 24x7 availability

- Support, consulting, and implementation services
  - Consulting and implementation services to customers and resellers
  - Second level support for OEMs and resellers
The Intellectual Property Rights Imperative

Goal: Provide product as open source to community but stall any possible commercial competition.

- Using a reciprocal (“viral”) license like the GPL stalls competitors
  - GPL prevents closed extensions that build competitive advantage
  - Puts everyone on equal footing except for the founding company

Intellectual property rights imperative: Ensure that this firm and only this firm has the relicensing rights for the software.

- Tightly control contributions to code base; require rights grant
Some Benefits of a User Community

- For sales: Lead is already using core product; in-house champion may help sales process
- For marketing: Product is widely known, hopefully loved, and supported by community
- For product management: Feedback is fast and comprehensive, getting users close to firm
- For engineering: Feedback improves product, contributions speed up development; potential employees are pre-screened
- For support: Self-supporting community lowers overall support costs, makes documentation more comprehensive
Average Structure of User Community

Non-paying Users
(50X-500X, 0%)

Casual Customers
(20X, 2%)

Enterprise Customers
(1X, 98%)
Goal: Drive adoption of free core product by growing a self-supporting open source community.

- Lead community to deploy and use core product
- Lead community to evangelize more new members
- Lead community to be self-supporting wrt core product
- Firm can steer its investment by user-conversion metric
- Many best practices of community building apply
The Sales Funnel of Commercial Open Source [5]
Open Source Sales

- Let the numbers play for you
- Reduce friction to the max
- Call on in-house champion
- Leave user community alone
- Many more best practices...

Traditional Sales

- Traditional sales funnel
- Luke-warm or cold calls
- Other well-known practices...

MySQL frequently finds in-house champion in competitive sales situation [6].

Community makes sales faster and easier.
Business Function: Marketing

- Much of commercial open source marketing is traditional
- User community evangelizes, micro-markets, virally
- Great and early source of believable testimonials

MySQL has found that its user community helps spread the word and evangelize new members [7].

Community makes marketing cheaper and more effective.
Business Function: Product Management

- User community provides fast and comprehensive feedback
  - Feedback on functional needs and issues (e.g. usability)
  - Faster and more immediate and more accessible than in traditional setting
  - Helps prioritization and triage of features and road maps
- User community is source of user innovation
  - Source of new feature ideas and insights
  - Helps find new application ideas
  - May even do biz dev for firm

MySQL got rapid feedback from its user community that was innovative and helped focus the product [8].

Community gets product management closer to user.
Business Function: Engineering

- User community provides fast and comprehensive feedback
  - Fast feedback on functional and non-functional issues (bugs, performance, …)
  - Also for most unusual circumstances

- User community extends core solution into new applications
  - Users can help themselves and develop free open source add-ons
  - Effectively, free market research and exploration
  - Pre-screening of potential future employees

MySQL got rapid feedback about bugs in the software and was able to identify and hire top developers [6].

Community makes engineering faster, better, cheaper.
Business Function: Support

• The user community is self-sustaining
  • Implies its own extended documentation
  • Fast source of support at any time of the day
  • Web-searchable content frequently faster than hotline

• All of this reduced support costs

The dev.mysql.com website is full of user-generated content that helps users and customers alike solve problems.

Community makes support cheaper.
Conclusions and Summary

All other things being equal, commercial open source firms can go to market faster with a superior product at lower operations cost and sell more easily than possible for traditional competitors.

- Distinguish between commercial and community open source

- To be successful, commercial open source software firms need to
  - Adjust to new or modified new revenue sources
  - Follow the Intellectual Property Rights Imperative
  - Develop new skills of community management

- Claims are validated by review of primary sources
References


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Feedback welcome!

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