Blogs

Selling services for stock open source components is not a business you want to be in

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I'm following up on my earlier post about corporations not buying services for open-source off-the-shelf components. That blog post showed there is much less demand for such services as could be expected.

But it is not only the demand-side. The supply of such services is also problematic. Why? Because it is a hard business to be in. Why that? Because there are no juicy profit margins. Now, that needs some explanation.

"Off-the-shelf open source components" means open source components developed by a community. Highly successful projects like PostgreSQL or Plone or MediaWiki are examples of such community projects. No single company owns these projects, and hence users/customers cannot get locked in by one vendor. Sounds great, doesn't it?

Now turn it around. Anyone can enter the services market around PostgreSQL. If there is a lot of money to be made, lots of companies will enter. If there is little demand and hence litte money to be made, service providers will leave. There are no barriers to entering this market.

Because anyone can provide services, pricing of these services will be competitive, and will be based on markup over cost. If you hire the core developers, you can charge a bit extra because you obviously have great expertise. But you can't push others out of the market.

As a consequence, the profit margins for services around a common open source component will be quite low compared with commercial open source (open source owned by a company, e.g. MySQL or Alfresco) or the traditional proprietary business. With little money, it will be hard hiring appropriate talent, which makes it hard to provide good services, which will make corporate customers want to do it themselves or get it as part of a larger bundle/stack.

There is a lot of money in open source, but it ain't in services for stock components.

Dirk Riehle leads open source research at SAP and is an enthusiast of all things wiki.

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