Why Open Source is Hard for Closed Source Vendors

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Issue Addressed by Talk

Open source can help software vendors

save on engineering expenses,
build a better product faster, cheaper, and
increase the share of their customer's wallet

yet many closed source vendors aren't doing it.

Why is this?

Part I: Cost Savings Through Open Source

- Many open source components are competitive

- Open source is often cheaper than closed version

- Some software components are non-differentiating

**Q: If software vendors can save money
by replacing closed source with open source components
what is keeping them from doing so?**

A1: Legal Uncertainty Around Licenses

- Embedding open source components requires certainty as to intellectual property implications

- *Most licenses are only partly proven in court if proven at all; interpretation various around the world*

- Large vendors have a different risk/reward profile than startups; with more to lose, they tend to be more cautious

Problem Solution

- Legal: Clarify intellectual property implications of existing licenses

- Engineering: Clearly define existing code coupling methods

- Legal: Clarify IP implications of code coupling methods

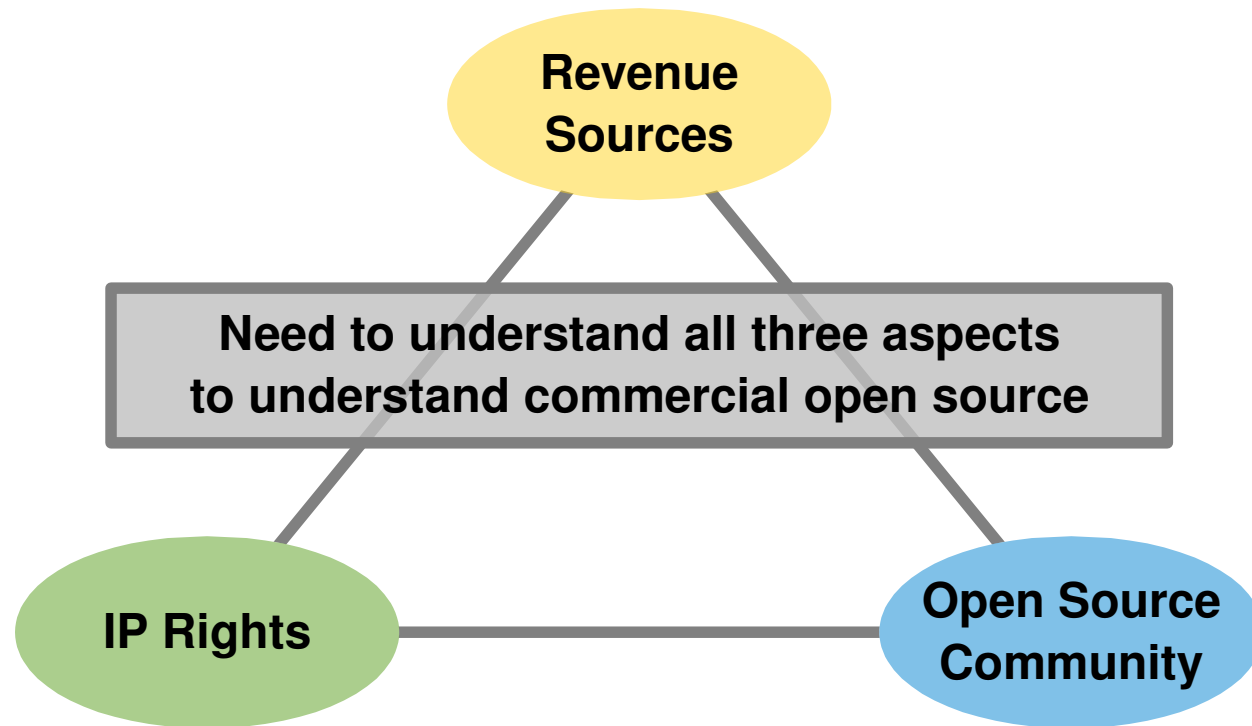- Engineering: Develop new decoupling mechanisms

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A2: Cost and Risk of Indemnification

- Indemnification of customers from potentially costly lawsuits is an important part of the value proposition of a software product

- Many open source components don't have appropriate commercial support; hence the vendor needs to provide the indemnification herself

- *Due diligence may be prohibitively expensive; competitors may have planted submarines; risk becomes unpredictable hence intolerable*

- Frequent consequence is the replacement of an open source component through a closed source solution

Problem Solution

- Legal: Reduce threats from patent infringement lawsuits

- Industry: Develop defense strategy against patent lawsuits

Part II: Build a Superior Product [1]

Revenue Sources

Need to understand all three aspects
to understand commercial open source

IP Rights

Open Source Community

**Q: If a self-supporting open source community
can help a vendor build a product faster, cheaper, better,
why isn't everyone doing it? [1]**

A1: Organizational Change too Painful

- Open source (can) lead to lower operational expenses than traditional closed source as much gets factored out to community

- Engaging with self-supporting community requires new skills and patience that needs to be developed

- *Some skills are getting old and people need to be moved or laid off for the vendor to remain competitive; this is hard to do*

Problem Solution

- Vendor: None, really; current behavioral pattern is to hope to out-innovate open source and work from established positional advantage

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A2: Undoes Truce Between Divisions

- Large vendors can have complicated internal revenue allocation schemes that determine sales commissions and bonuses

- These schemes are sometimes the result of long arduous negotiations and are hard to change

Problem Solution

- Vendor: Needs to review allocation schemes given revised business strategy

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Not an Answer: Because It is Cheaper

- Open source has traditionally not charged an upfront license fee

- Open source has traditionally lower license fees (subscription fees)

- This is only a historic accident or convention, not an economic necessity

- A superior open source firm might well charge upfront fees, be more expensive

Part III: Increased Share of Wallet [2]
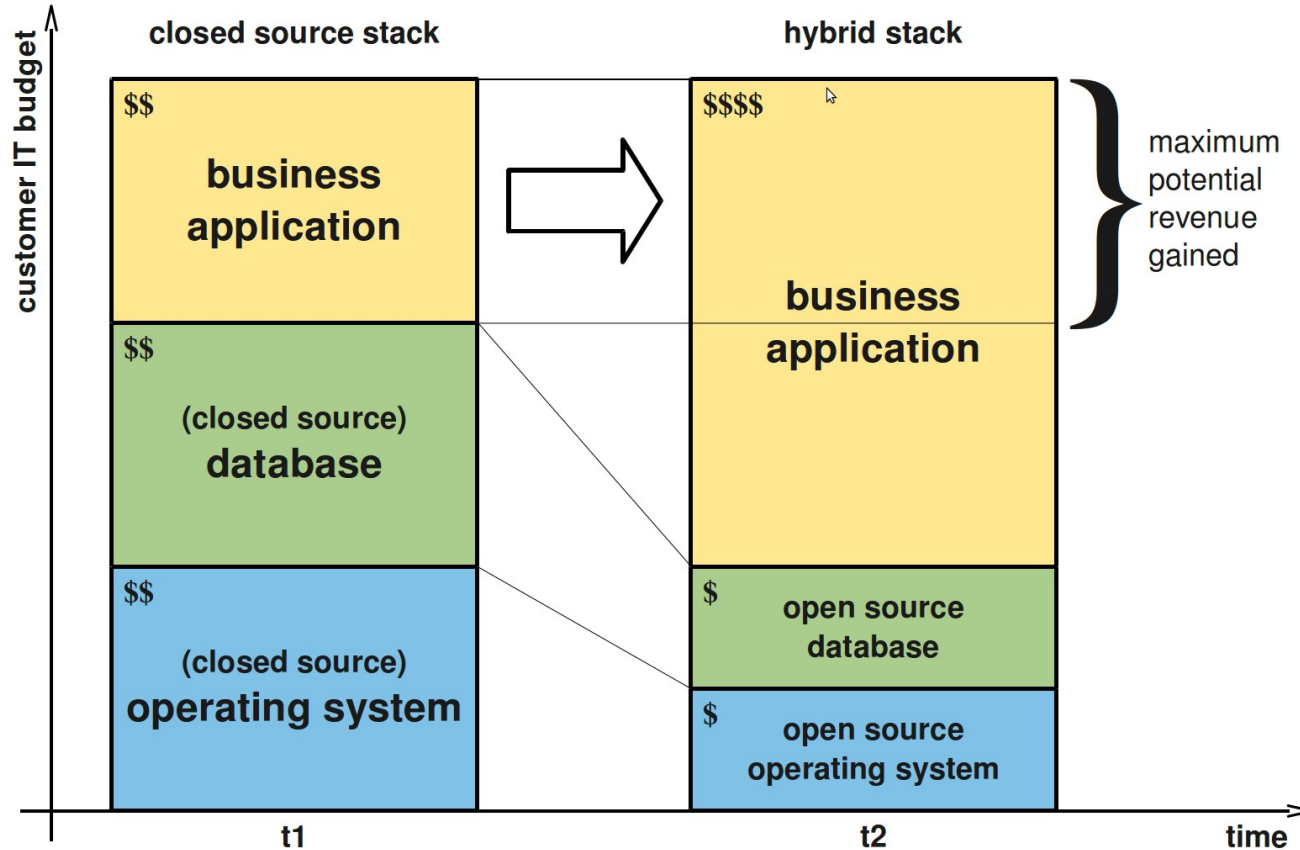
**Q: If vendors can increase revenue
by taking it from complementary products
why are there so few cross-subsidies? [2]**

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A1: Existing Cross-Selling Relationships

- To be a substitute, the open source component needs to be equal or better than the closed source solution

- *Established cooperation and cross-selling agreements provide incentives to sales people to ignore or downplay a possible open source solution*

- (Not community open source, but: single-vendor commercial open source is usually not as strong in sales as are traditional vendors)

Problem Solution

- Vendor: Change cross-selling relationships, sales commissions, etc. to be aligned with company goals

A2: Undefined Return on Investment

- Vendors lack understanding and models to make business case for subsidies

Problem Solution

- Research: Develop economic models to guide investment decisions

A3: Fear of Retaliation

- Fear of retaliation can keep vendors undecided, on the fringe

Problem Solution

- Public policy: Provide seed funding and support for non-profit foundations

A4: No Open Collaboration Expertise [3]

- Vendors lack expertise in setting up, participating in, and running non-profit organizations for community open source projects

Problem Solution

- Research: Determine best practices and processes of open collaboration

- Education, business: Educate and practice open collaboration

- Public policy: Support open collaboration based foundations

References

- Definition and explanation *commercial open source*

  [1]   Dirk Riehle. "The Commercial Open Source Business Model." In Value Creation in e-Business Management, LNBIP 36. Edited by M.L. Nelson et al. Springer-Verlag, 2009. Page 18–30.

- Definition and explanation *community open source*

  [2]   Dirk Riehle. "The Economic Motivation of Open Source: Stakeholder Perspectives." IEEE Computer, vol. 40, no. 4 (April 2007). Page 25-32.

- Definition and explanation *open collaboration*

  [3]   Dirk Riehle, John Ellenberger, Tamir Menahem, Boris Mikhailovski, Yuri Natchetoi, Barak Naveh, Thomas Odenwald. "Open Collaboration within Corporations Using Software Forges." IEEE Software, vol. 26, no. 2 (March/April 2009). Page 52-58.

- This and more at *http://dirkriehle.com*

Thank you! Questions?

Feedback and questions welcome!

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