

In academic settings, open source is misinterpreted as the opposite of commercialization; however, billion dollar companies frequently release software as open source. Why do companies choose to open source?

WHY DO COMPANIES OPEN SOURCE?

<h3>REVENUE VS. EXPENSES</h3> <p>In some industries:</p> <ul style="list-style-type: none"> Software small % of rev Main costs are dev. & marketing Brands drive purchasing <p>Open source release can result in a reduction of margin, but gains crucial dev. & marketing.</p>	<h3>NOT UNIQUE</h3> <p>Companies:</p> <ul style="list-style-type: none"> Invest in differentiation Divest/reduce expenses in non-differentiation <p>Also, open source is often used by Fast Followers, using a low-cost strategy.</p>	<h3>NETWORK EFFECTS</h3> <p>In many industries:</p> <ul style="list-style-type: none"> Value driven by user base <p>As the size of users grows the value of the network is enhanced.</p> <p>Network value is not exclusive to open source but is a great way to gain value.</p>	<h3>COMPETE W/ FREE</h3> <p>Monetizing free by :</p> <ul style="list-style-type: none"> Growing user bases Advertising Data reselling <p>Defensively Free:</p> <ul style="list-style-type: none"> Difficult to compete Leverage alternative revenue streams

OPEN SOURCE != GOOD

<h3>COMPETING WITH FREE</h3> <p>Large existing companies may release products open source simply to degrade revenue for competitors or to protect the company's alternative revenue streams.</p>	<h3>GOOGLE'S ANDROID OS:</h3> <p>Many have speculated that Android OS was released open source to reduce Apple's control & profit on mobile operating systems, a significant risk to Google AdWords.</p> <h3>GOOGLE ADWORDS:</h3> <p>Google AdWords is the primary driver of revenue to Google. The iPhone is a significant threat because Apple would control ads displayed for mobile searches.</p>
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OSS Commercial Examples

In past 5 years, OSS startups have **raised \$17B**



TAKE AWAY:

Open source projects can be very profitable.

Additional Resource: OSS Strategy vs. Standard Software Strategy: z.umn.edu/tcsource

OPEN SOURCE BUSINESS MODELS

DONATIONS		<p>DONATIONS: Simply a "Click here to Donate" button. Example, Wikipedia has been very successful with this model.</p>
USER BASE & DATA		<p>LEVERAGING USER BASE & DATA: Once a large network or user-base has been created there are numerous revenue strategies, including advertising, default search or app store sales.</p>
WIDGET FROSTING		<p>WIDGET-FROSTING Company primarily sells hardware. Software released OSS to enable more hardware sales.</p>
ENTERPRISE SUPPORT		<p>ENTERPRISE SUPPORT: Company charges for support, implementation & warranty of a software product that is free.</p>
FREEMIUM		<p>FREEMIUM: Company offers a free subscription to the software and sells a premium subscription to customers. Similar to Loss Leader, but with subscriptions.</p>
SaaS		<p>SOFTWARE AS A SERVICE (SaaS): Many open source licenses still allow for companies to charge for subscriptions, since it isn't a distribution of the code. Newer open source licenses have closed this loophole.</p>
MULTI-LICENSING		<p>MULTI-LICENSING: One free with multiple non-exclusive license types. A free one for community members who are willing to share their changes, other licenses for a fee or royalty that enable proprietary use.</p>
LOSS LEADER		<p>LOSS LEADER: A company uses OSS software to establish a customer relationships to sell additional products.</p>
OPEN CORE		<p>OPEN CORE: Core functionality is distributed OSS, premium functionality is contained in the premium software.</p>

Additional OSS Business Models: https://en.wikipedia.org/wiki/Business_models_for_open-source_software

OSS LICENSE SHOULD ALIGN WITH THE BUSINESS MODEL

