

## **OSS BUSINESS MODELS**

Download at: z.umn.edu/ossBM

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?**









#### REVENUE VS. **EXPENSES**

In some industries:

- Software small % of rev Main costs are dev. &
- marketing Brands drive purchasing

Open source release can result in a reduction of margin, but gains crucial dev. & marketing.

#### NOT UNIOUE Companies:

Invest in differentiation

- Divest/reduce expenses
- in non-differentiation

Also, open source is often used by Fast Followers, using a low-cost strategy.

#### NETWORK **EFFECTS** In many industries:

Value driven by user base

As the size of users grows the value of the network is enhanced.

Network value is not exclusive to open source but is a great way to gain value.

### COMPETE W/FREE

Monetizing free by: Growing user bases

- Advertising Data reselling
- Defensively Free:

Difficult to compete

Leverage alternative revenue streams

## **OPEN SOURCE != GOOD**

### COMPETING WITH FREE

Large existing companies may release products open source simply to degrade revenue for competitors or to protect the company's



#### GOOGLE'S ANDROID OS: 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. GOOGLE ADWORDS:

#### 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.



## **OSS Commercial Examples**

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







SUGARCEM

\$104M Raised





















NON-PROFIT

TAKE AWAY:

#### Open source projects can be very profitable. Additional Resource: OSS Strategy vs. Standard Software Strategy: z.umn.edu/tcsource

# **BUSINESS MODELS**

**OPEN SOURCE** 

### DONATIONS



#### Simply a "Click here to Donate" button. Example, Wikipedia has been very successful with this model.

**DONATIONS:** 

Once a large network or user-base has been created



**WIDGET** 

FROSTING

**USER BASE** 

& DATA



there are numerous revenue strategies, including advertising, default search or app store sales.

LEVERAGING USER BASE & DATA:

WIDGET-FROSTING

Company primarily sells hardware. Software

released OSS to enable more hardware sales.



**ENTERPRISE** 

**SUPPORT** 



**ENTERPRISE SUPPORT:** Company charges for support, implementation &

warranty of a software product that is free.



SaaS

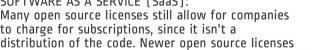
**FREEMIUM** 



FREEMIUM: Company offers a free subscription to the software and sells a premium subscription to customers.

SOFTWARE AS A SERVICE (SaaS): Many open source licenses still allow for companies to charge for subscriptions, since it isn't a

Similar to Loss Leader, but with subscriptions.



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**MULTI-**

LICENSING



MULTI-LICENSING:

have closed this loophole.

One product 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.



LOSS **LEADER** 



LOSS LEADER:

A company uses OSS software to establish a customer relationships to sell additional products.



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**OPEN** CORE



OPEN CORE: Core functionality is distributed OSS, premium

functionality is contained in the premium software.

OSS LICENSE SHOULD ALIGN WITH THE BUSINESS MODEL

cloudera Hheptio







PERMISSIVE (Mostly Apache Licenses)

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