URL: https://stvp.stanford.edu/clips/open-source-considerations

Entrepreneur Tim O'Reilly cautions entrepreneurs to carefully think through adopting an open-source-based business model, as new platforms and current services have changed the viability of this option.

Transcript

Let me point out a couple of things here.. First, I do think that the biggest open source success stories were not people like Red Hat.. They were people who actually built and sold services that used open source and obviously - it's a bunch of obvious players, Google, Amazon, Facebook, Twitter, they are all open source companies that took open source to use to deliver service.. But there is an even more direct example, the entire web hosting business, very thin skin of selling DNS as a service, selling WordPress as a service, selling web, selling Apache as a service, you have for a subscription fee.. And so, there is a pretty clear case where there was an open source business model that was sitting in plain sight that didn't look like the business model of a software company.. And I think it's really important to look a little sideways.. It was a wonderful talk at our Open Source Convention once by a guy named Robert Lefkowitz, goes by the name Rommel and he basically started in with this long conversation about Sharia compliant mortgages, which is - under Islam you can't loan money.. So he said basically that the Islamic banks, he went through the two or three different ways so they get around this, they basically rent your house for 30 years and at the end of 30 years they make a gift of it to you.. So there he kind of explains this and he says okay, so now let me show you the P&L for Borland versus the P&L for Red Hat.. And he says look the percentages are identical all the way down the line..

There is only one difference.. This line says licenses and this line says subscriptions.. Sharia compliant mortgage.. Basically Red Hat it was the same business as Borland.. And so when you think about open source the most important thing to think about is where do you get your business advantage? Now there are open source business models where you get your business advantage because, hey, at least in the early days this is a great way to get my software in people's hands.. But in the era of cloud that's actually not really much of an advantage anymore because anybody can get their software in other people's hands.. So that's really gone.. That was the idea from MySQL and the whole idea of dual licensing, we build the market by letting anybody use it then we will up-sell from there, but today that - it's probably easy to do that with a cloud app than it is with open source.. So you have to think I think a little bit harder about where you get your business advantage and why you want open source it.. You might want to get contribution from users..

I don't know anything about your business.. The huge way to do it is, is that with some other network effect that comes into play as a result of your software.. Either you get a network effect because lots and lots of people use it or because it produces data that you are actually going to monetize, is another.. So there are a lot of answers, but I would just urge you to think sideways, and don't get caught in open source being a simple variation on a business model where I would have charged and I would have had a proprietary fee...