

# **Open Source Is Taking Over the World, or Is It?**

**- Some Reflections on Both Successes and Failures**

Open Mind 11.11.2005

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## Short Bio

- Management Consultant 1993-
- Venture Capitalist (investment into MySQL in 2001) 1999-
- Researcher 2004-
- COSS 2005-



## Agenda

1. Current Research Activities
2. Market Sentiments
  - Linux Hype Cycle
  - Financing Reflections
3. State of Diffusion (adoption)
  - Linux, MySQL, Firefox
  - Technology Adoption Life Cycle
4. State of New Development
5. Business Success, Historical vs. Now
6. The Future
  - Some Analysts Predictions
  - Markets 2006(personal view)
  - Let's Make Our Own Future - A Proposal

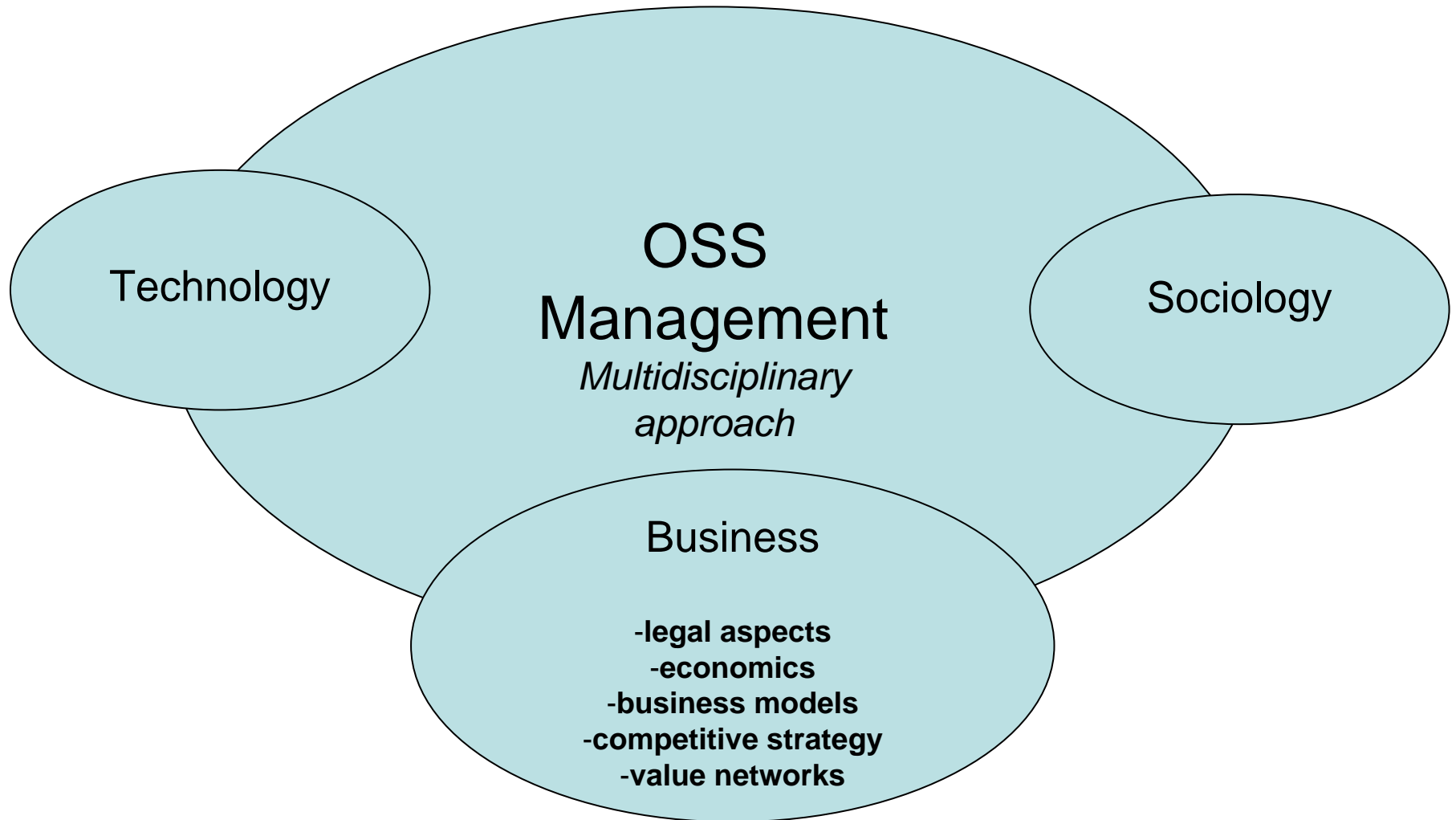


## Current Research Activities:

OSSI - underway

ServOSS - planned

# OSSi Multidisciplinary Approach:



## Research Objectives

- The objective is to develop methods and tools for companies to manage more effectively the utilization of open source as an integral part of their business
  - to develop an OSS management framework
  - co-operative effort of 4 Universities (Tampere and Helsinki) and Industry

## Industrial Partners:

- Nokia (Multimedia and Networks)
- IBM
- Novell
- F-Secure
- PricewaterhouseCoopers
- Plenware
- WM-data
- TietoEnator
- Technology Centre Hermia

## Market Sentiments 1/2

Signs of the renaissance are popping up everywhere. Venture capital is flowing more profusely than it has since the late 1990s; money invested in early-stage startups could top \$1.5 billion this year, up 50 percent from last year and almost double 2003 figure.

More significantly, the average seed investment, \$4.4 million, is three times what it was a year ago and larger than it was in 2000. That means that VCs are valuing startups at higher levels than at the height of the boom.

The downward trend in IT employment has abruptly reversed course, as companies both new and old hoard engineers. From January through June, tech added 161,000 new jobs, after losing 1 million from 2001 through 2004.

Business 2.0, November 2005



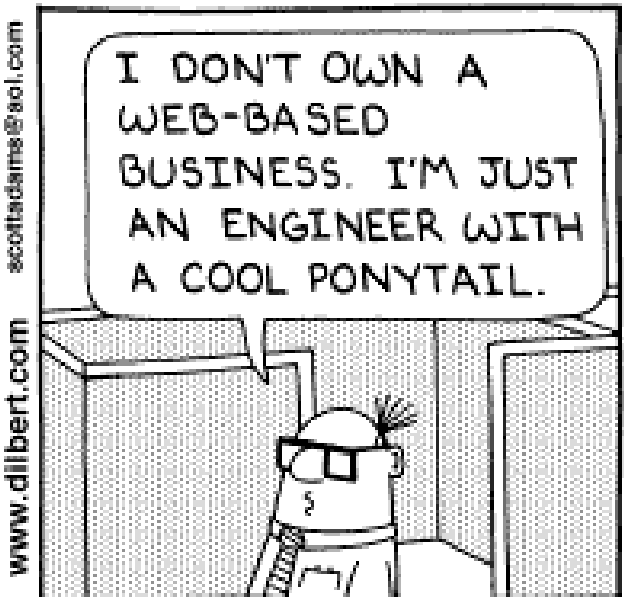
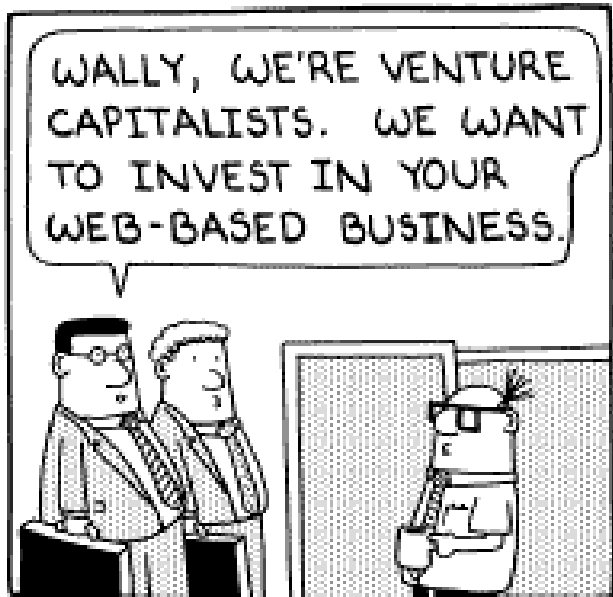
## Market Sentiments 2/2 Joe Kraus, Excite & Jotspot

Excite.com took \$3,000,000 to get from idea to launch. JotSpot took \$100,000. Why on earth is there a 30X difference?

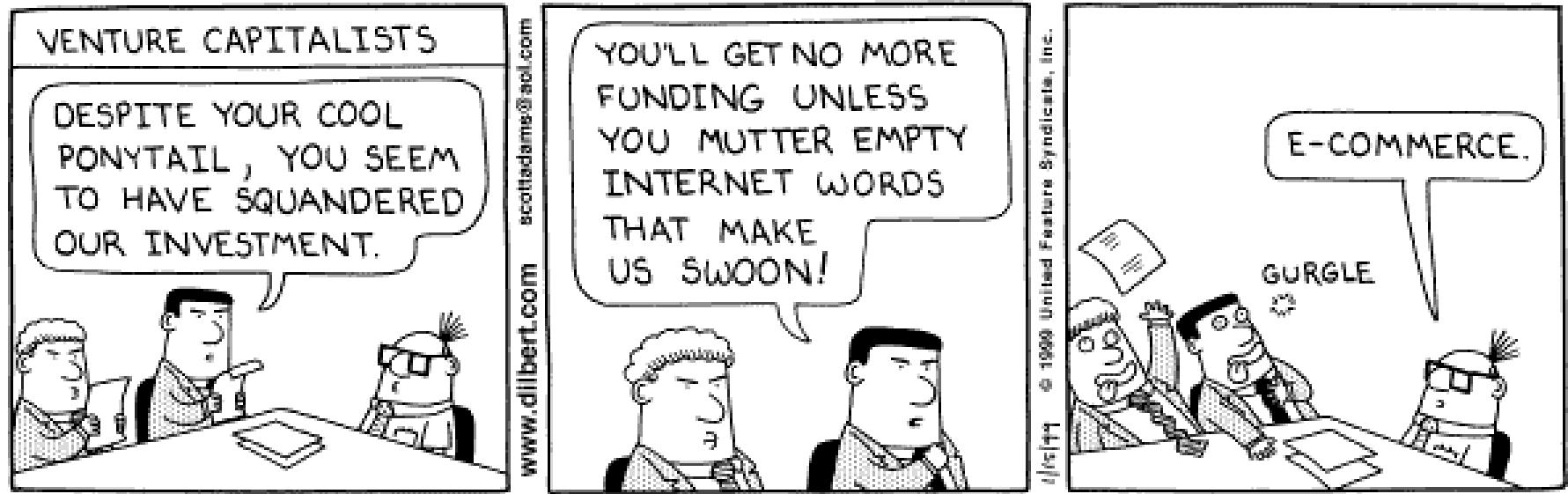
**Hardware is 100X cheaper** In the 10 years between Excite and JotSpot, hardware has literally become 100X cheaper. It's two factors 'Moore's law and the rise of Linux as an operating system designed to run on generic hardware. Back in the Excite days, we had to buy proprietary Sun hardware and Sun hard drive arrays. Believe me, none of it was cheap. Today, we buy generic Intel boxes provided by one of a million different suppliers.

**Infrastructure software is free** Back in 1993 we had to buy and continue to pay for maintenance on everything we needed just to build our service -- operating systems, compilers, web servers, application servers, databases. You name it. If it was infrastructure, we paid for it. And, not only was it costly, the need to negotiate licenses took time and energy. I remember having a deadline at Excite that required me to buy a Sun compiler through their Japanese office because it was the only office open at the time (probably midnight) and we needed that compiler NOW. Compare that to today. Free, open source infrastructure is the norm. Get it anytime and anywhere. At JotSpot, and startups everywhere you see Linux, Tomcat, Apache, MySQL, etc. No license cost, no maintenance.

# Web-Based-> Web 2.0



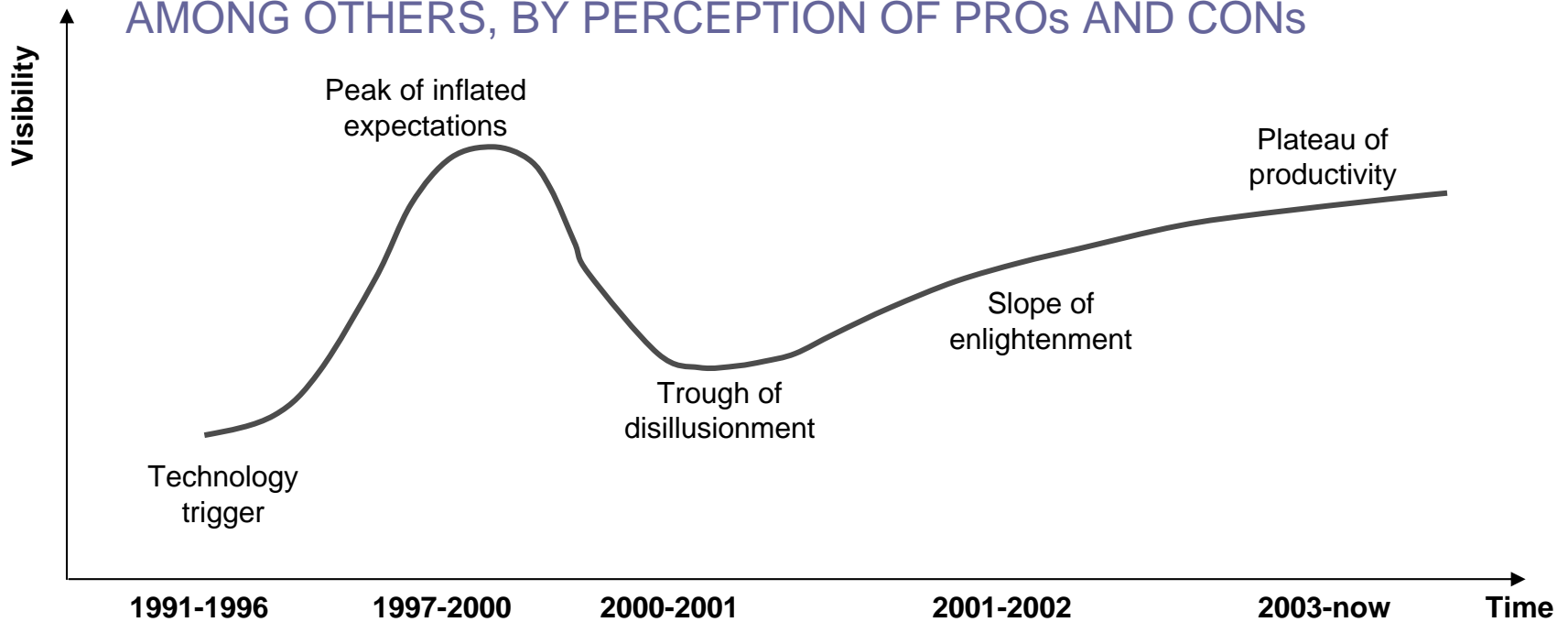
# E-Commerce-> Open Source



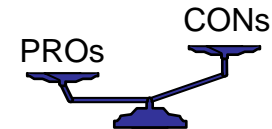
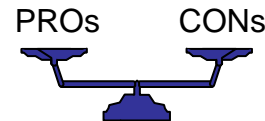
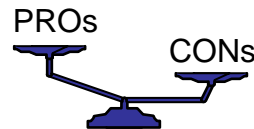
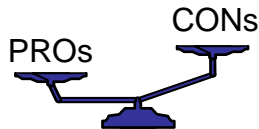
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# LINUX HYPE CYCLE HAS BEEN GUIDED,

## AMONG OTHERS, BY PERCEPTION OF PROs AND CONs



PROs & CONs in the press





## Financing Reflections 1/2

So far the OS experience has not been a happy one for venture capitalists. According to research firm VentureOne some \$714 million was invested in 71 Open Source companies in 1999-2000, and most of those projects collapsed or were run down.

One of the biggest successes of those experiences is Red Hat which went public in 1999 and makes money by selling enhancements and maintenance services to corporations using Linux open-source operating system. Still that is relatively mild success as it still has some \$200 million in revenues with capitalization of 2 billion. So this is certainly no Google or EBay that aggressive venture capitalists often use as a reference as companies they want to fund as the 'Next Big Thing'.

Source: Ripos Project



## Financing Reflections 2/2

After few years of trying to figure out whether money can be made by Open Source companies, the answer from venture capitalists seems to be again a reluctant yes. 20 Open Source businesses raised \$149 million in venture money in 2004 in United States alone (VentureOne).

There are no numbers available for the rest of the world, but at least in Europe several investments took place. Looking at that total it would seem that most of the investments are still on seed or first round level (comparing to average level on various rounds of realized investments) as if distributed evenly among companies the amount would be \$7.45 million. In other words, the first bets to the potential future successes have just been made and how successful those will be can only be known in the coming years.

Source: Ripos Project



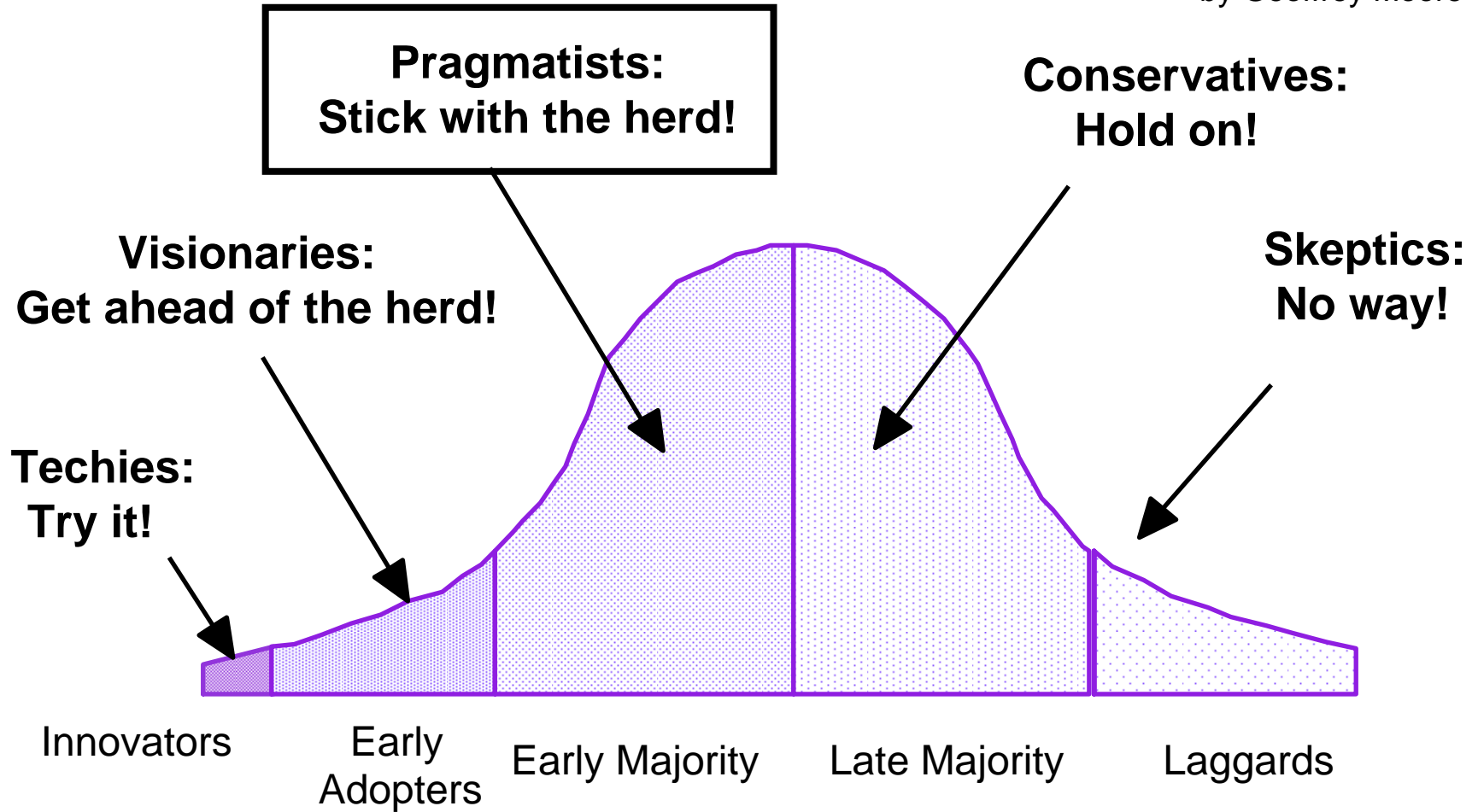
## State of Diffusion (adoption)

**Linux**-Linux Servers Surpass the \$1 Billion Mark in Revenue for the Third Consecutive Quarter Linux server revenue exceeded \$1.4 billion in quarterly factory revenue in 2Q05 as Linux server revenues showed 45.1% growth, the fastest rate of growth since 2Q04. Linux servers represented 11.5% of overall quarterly server revenue, reaching an all-time high. IDC

**MySQL** - open source database software is nearing a majority use share among developers -- and MySQL is leading the way in that group of critical users, with 44%. Open source database deployments were up more than 20% in the last six months alone and that MySQL represented 25 per cent of those. Evans Data Corporation.

**Firefox** - 11,5% marketshare (IE (85.45%) 300000-400000 downloads daily. Onestat.com

by Geoffrey Moore



**Pragmatists create the dynamics of high-tech market development**

## State of New Development

Krzysztof Klincewicz (Tokyo Institute of Technology) recently measured the levels of innovation in open source projects. Of course it's very difficult to measure what is, and what isn't, innovative, especially when so much value is attached to that word.

His findings? Using a base of the 500 most actively developed SourceForge projects as his sample (or 3% of overall projects - 81%, or 89,557 registered projects are not active), Klincewicz finds that open source is not very innovative (Only 64 projects, or 12.8% of the sample, were not "direct imitations of existing solutions", and "only 5 out of 500 SourceForge projects could be classified as technological breakthroughs", but a significant reason for this is the lack of "marketing" within the open source development community.

Most open source projects (innovative and otherwise) die on the SourceForge "vine" for lack of recognition and outside contribution.

Also, and almost shockingly, 100% of the "radically innovative" projects were started from 1999 - 2001: not a single one has started since then.



## Business Success - Historical vs Now

Initially very little compared to investments, remember 99-00!

Now some success among the true OS Start-ups, very little compared to competition (MySQL, JBOSS etc)

Real benefactors so far have been utilizers of Open Source such as Google, using Joe Kraus' formula would it have required 30x the used venture capital (26 million USD) to build Google, and would they have been able to raise that 780 million USD??? Maybe we would not have Google without Open Source??!!



## The Future 1/3 -Analysts View 1/2 (Gartner)

OSS will not destroy industry giants, such as IBM and Microsoft, but it will revolutionize software markets by moving revenue streams from license fees to services and support.

In doing so, it will be a catalyst that restructures the industry.

OSS refers to software whose code is open and can be extended and freely distributed.

In contrast to proprietary software, it allows for collaborative development, and a continuous cycle of development, review and testing.

## The Future 1/3 -Analysts View 2/2

By 2008 95 percent of Global 2000 organizations will have formal open-source acquisition and management strategies; and, OSS applications will directly compete with closed-source products in every software infrastructure market.

By 2010, IT organizations in Global 2000 companies will consider open-source products in 80 percent of their infrastructure-focused software investments and 25 percent of their business software investments.



## The Future 2/3 - Personal View

MySQL

JBOSS

SpikeSource

SugarCRM

One IPO by the time we meet at Open Mind in 2006 - One company struggling with increased competition



## The Future 3/3 - Let's Make Our Own - A Proposal

Let's save our software heritage and form a Software Bank!

Most Software projects and businesses fail because of wrong timing to market or bad execution in taking the products to market, not because of poor technology-> let's put these into a 'Software Bank' under a OS license.

Once yet another entrepreneur wants to start a 'CRM' company, he or she can get a platform from the bank, start development from there, saving resources (both its own and financiers) and improving time-to-market.



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