

# **Service-based Open Source Business Models in the Chinese Market**

Jing Jing-Helles

03.06.2008

Helsinki

# Stories from the China (1)

- **Google vs. Baidu**
  - Baidu started in 2001
  - Google China started in 2005
- **Search engine market listing:**
  - 2005, Baidu (~33%), Google (~20%)
  - 2006, Baidu (~62%), Google (~25%)
  - 2007, Baidu (~60%), Google (~26%)
- **Chinese search engine market in Q4, 2007 - \$131.3M**
- **Why lose to Baidu:**
  - Search engine is not designed specifically for searching Chinese text
  - Google AdWords needs to be purchased via international credit cards, not possible for many Chinese companies yet → payment issue
  - Use less sales channel agents than the local competitors → ways of sales and marketing operation
  - Search result update slow, content server outside China → service design
  - Google services being blocked
  - “Google” is English word and does not make sense to normal Chinese users. Baidu is Pin Yin
  - Started its official operation late in China
  - Baidu offers specific Chinese style services

# Stories from the China (2)

- **eBay vs. Taobao**
  - eBay China started in begin 2003
  - Taobao started in mid 2003
- Taobao started as a imitator to eBay China, but forced eBay China out in 2006
- **Why Taobao won?**
  - Specifically designed IM platform for communication between client and seller with additional functions such as product instant update, payment, etc
  - Creditability and accountability platform
  - secure and easy payment system
  - Active & aggressive advertising
  - Targeting on 2nd or 3rd level city users
  - Do not charge any transaction and service fee
  - Offer very Chinese style of service
- No more major competitors.
- **Jacky Ma, CEO Alibaba** – “now the only competitor of Taobao is itself.”

# Chinese Software Market Overview

- Very fast-growing industry with 30% growth rate annually (in the last few years)
- Very strong government support for developing ICT industry (No. 18 & 47 Documents to support in areas like finance, resource, import & export, tax)
- Huge market – 1.3 billion population, thousands of small, medium, large enterprises
- Young, immature – almost does not exist before the millennium
- Most of the exports go to Japan and Korea → culture & language similarity
- Lack of IPR legislation in IT field
- Pirate software ← low individual income
  - No respect to software license
  - Forcing the vendors to lower their prices, especially software for personal use
- Large talent pool from the universities → 150 – 200K students yearly
- Cheap labor costs
- Individual consumer do not wish to pay for software, but service is ok

# Chinese Open Source Market (1)

- Government attitude
  - No. 18 and 47 documents → software industry development, especially shed light on the OSS development
  - An operating system “Made in China” → RedFlag Linux
- 2 different markets
  - Government market (e.g. RedFlag)
  - Normal market sector
- Very young & immature – first boom started in 2004
- No market rules, turbulent changes but full of potentials
- Software piracy forces open source companies to appear in the Chinese market
  - People and small to medium size enterprise do not have money to buy proprietary software
  - Cracking software and source codes is common in China
  - Not easy for companies to earn money by selling software
- Competition is not yet fierce
  - Young companies with good products
  - Problem in local companies: hard to find feasible business model and protect their IPR

# Chinese Open Source Market (2)

- People & Communities
  - Premature understanding of open source (wrong or incomplete)
  - Lack of Linux knowledge and experience (Windows ~95% OS market shares)
  - Most OSS communities focus on making its members to understand what is open source
  - Almost no interaction with international communities (language barrier)
- IPR & Licenses
  - No existing knowledge and legislation on OSS IPR
  - Initial interests have been raised in the academy
  - OSS companies cannot apply common OSS licenses due to Software piracy problem → create own license
- Business Models
  - Lack of experience and knowledge on OSS
  - Service subscription & system integration models are used commonly

# Cross-Culture Business Context

*“Government policy is like the moon. It is different in the middle of the month than it is on the first day of the month. Government policy is also like the sun. When it shines on you, you flourish.” – Chinese proverb*

- Political and economy policies changes rapidly due to fast pace development
- The Chinese government could provide very good support for the business to grow.
- “Guan Xi” – networking and relationship

## Chinese vs. Finnish cultures

Finnish	Chinese
individualism	collectivist
modesty	modesty
Equality	hierarchy
Information oriented	Relationship oriented
seek the truth	seek the way
afraid to lose face	afraid to lose face
think silently	think silently
Serious	serious
Quiet	Loud
talk little	talkative
hard working	Hard working
direct	diplomatic
Argument culture	Haggling culture

## Chinese IT professionals:

Advantage	Drawback
Language skill	language skill
low costs	teamwork spirit
hardworking	domain knowledge
good programming skills	software engineering know-how
understanding local market	business management skills
	R&D capability

# Open Source Business Models

- Open Source Software Subscription (RedHat, RedFlag)
- Proprietary Extension Based on Open Source Software (SugarCRM)
- Dual Licensing (MySQL)
- Open Source Software Integration (SpikeSource, ExoWeb)
- Open Source Embedded in hardware Product (Nokia Maemo, Motorola Linux smart phones, Openmoco)
- Software as a Service (Google enterprise)
- Patronage (IBM Eclipse & RAD)
- OSS event and book publishing (O'Reilly)
- Advertising Model (Google AdWords)
- Partnership Model (Firefox → Google)

# Chinese Open Source Companies

- **Discuz! forum – OSS discussion forum**
  - Started in 2002, forced to go open source in 2005
  - Biggest and most successful private OSS company in China
  - Discussion forum, e-shop, etc
  - Product based service company: dual licensing and Service subscription
  - Products provide business opportunity to users to earn money → huge community with individual users and enterprise users
  - Own license fitting the Chinese market problems
- **Hoodong – the Chinese wikipedia**
  - Started in 2005
  - The second successful and fast growing private OSS company in China
  - Product based service company: searching for business model
  - Huge community base as both product and services are free till now
  - Own license similar to Discuz! license
- **LUPA – focused on building up the biggest Chinese open source community**
  - Started in 2005, with a good networking to lots of Chinese universities
  - Providing OSS training and certification to university teachers and students
  - A knowledge sharing platform with resources to OSS development and information
  - Eager to look for other open source opportunities based on the resource tool from the universities

# Thinking of going to China?

## **Approaches to reach the Chinese market:**

- acquire a local company
- set up joint ventures with a Chinese company
- outsourcing (not only development work, but also marketing and sales)
- set up subsidiaries
- establish partnership

**Matching the internal resource and capability to the external business opportunities and challenges is the key to success.**

- What is the growth rate of the market in the next 1 – 3 years? What is the ultimate market potential?
- Does the product have technology leadership?
- Does the management of the firm possess the quality of defend this technological leadership?
- Is there funding available for this?
- Do the product and service offering meet the Chinese market, culture and user needs?
- Where is the best location for setting up the business in China?

# Things good to know / keep in mind

- A market with 1.3 billion people or zero?
- Usability concept is different due to culture and interaction pattern
  - Desktop apps do not need much adaptation, Internet apps YES
  - Navigation behavior, communication channels
- Be aware of the Chinese Internet “long wall”
  - Global IT service infrastructure (Google, YouTube, etc)
- Understand the Chinese open source market and its unpredictability
- Be prepared and ready for the competition with the local fresh startups
- Pay attention to the Chinese culture, government policies, local legislations and supports
- Chinese OSS standards vs. global standards
- Listen to the local management advices and feedback
  - Global strategy and process may not be so suitable for the Chinese market
- Build a relationship with the Chinese government and leverage your business

# Instinct of Survival

- Be brave as a lion
- Be smart and alert as a fox
- Be the Darwin angels to adapt

# Questions?

- **Jing Jing-Helles**

Born in Beijing China, came to Finland in 1999

Studied:

- Polish & English language (in China)
- Software engineering & business (in Finland)

Currently working as a IT management consultant

Contact info:

+358 40 765 0468

[jing.jing-helles@gmail.com](mailto:jing.jing-helles@gmail.com)