Open Source
US industry perspective

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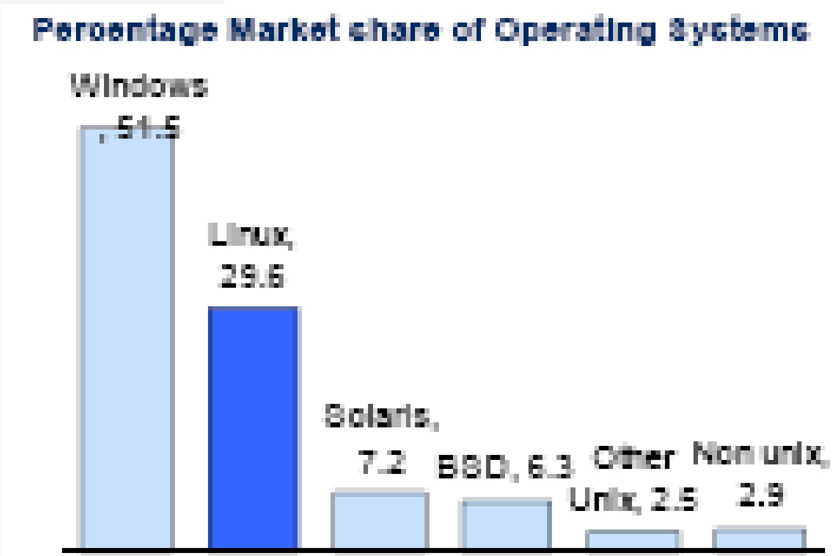
Agenda

- How is Open Source (OS) viewed & changing business?
- Investment View on Open Source (OS)
- Business models
- OS Applications
- OS Ecosystem
- What is needed to be more successful?
- Success Case examples
- Where is the opportunity?

How is OS viewed & changing business?

- IBM still dominate mainframe market operating systems – not growing
- SUN market share sinking, Microsoft growing – Linux fastest growing
- IDC predicts the overall market revenue for desktops, servers, and packaged software running on Linux will exceed $35 billion by 2008.



Source: Netcraft Survey

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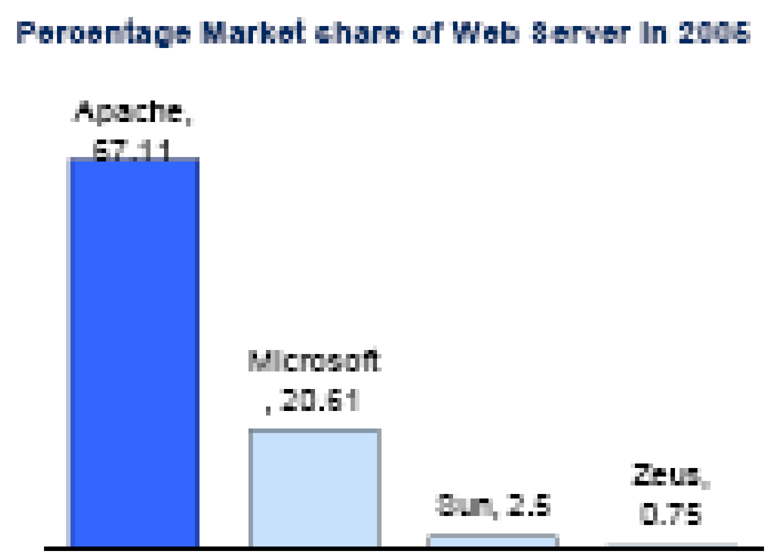

Source: Netcraft Survey

How is OS viewed & changing business?

- "The successful companies did what the explorer Cortez did – they burnt the boats that connected them to the past"
- North America still seen to be behind EU & APAC in adoption, however drives commercial revenues for OS
  - SugerCRM revenues driven by North America
  - Apache, OpenOffice sees larger adoption outside North America
  - Government adoption
- Big proprietary software companies can no longer ignore OS
  - Microsoft participation & doing program – effect of China?
  - Sun Microsystems doing more OS

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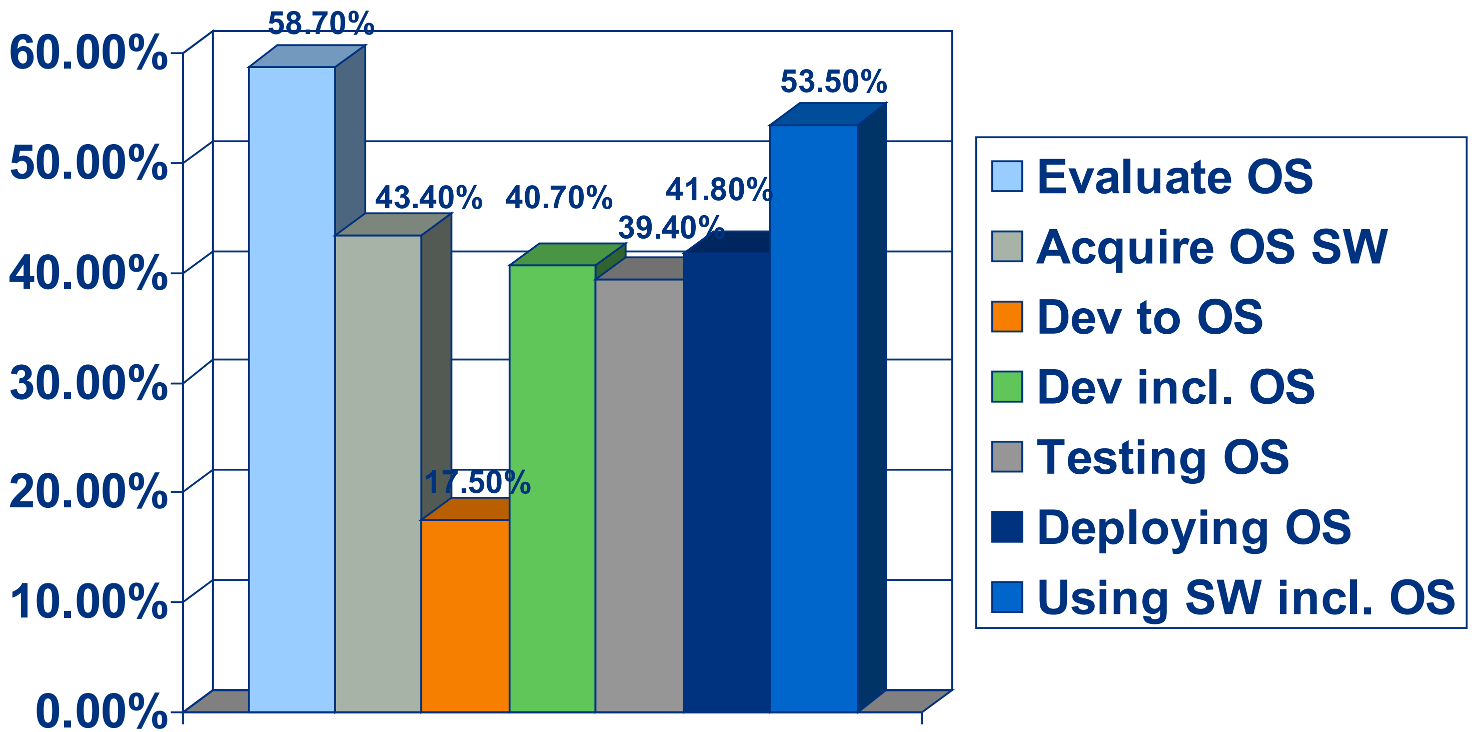
How is OS viewed & changing business?

- "Proprietary software companies starting to open up software to developer partners & companies to be competitive
  - Salesforce.com with AppExchange – offer payment, hosting & office space
- OS & proprietary software – starting to include both components
  - Impact of GPLV3?
- Differentiation is not on technical side any longer
  - Move from products to packaging & services
- More collaboration between established companies & startups

How is OS viewed & changing business?

- Consumer application services space driven by OS
  - Price sensitivity, low cost of operation, rapid innovation
  - Google built on OS, operating margins of 20-30%
  - Low start-up costs < $20,000 vs. proprietary which could be up to $5 million
  - Move to embedded space – Intel & Motorola launch of OS platform
- Enterprise applications growing but still low penetration
  - Buy business solutions, not piece-meal technology

How is OS viewed & changing business?



Source: IDC survey, 2006
N=5002 developers, 54% using & 59% evaluating OS

Can OS compete against IT?

- If have product that solves a problem
- Don’t save much from Engineering cost
- Need strong partner community to gain benefit
  - Microsoft Partner Community 24,000 strong vs OS side
- OS currently competing effectively on features & functionality vs. proprietary software – 75-80%
  - Need to move to 100% competition on support
- What is benefit?
  - More features that may not be part of core
  - Bigger footprint of developers without impacting

Investment View on OS

- So far more than $2 billion invested in OS companies
  - Created software that is equivalent to more than $12 billion to replicate
  - Successful projects, but where are the successful companies?
- Investment companies more educated – more caution
- Sustainability still not proven – where is the value?
  - Spikesource & Mozilla even Linux “open” version not making money
  - SourceForge – showing some revenues, but still relatively low
  - Sustainable business models needed for growth
  - Most successful projects & companies still sponsored

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Investment View on OS

- Seeing larger valuations
  - VMWare IPO for more than $900 million & valuation of $10 billion
  - XenSource- Citrix rumors with expected valuation of $5.5 billion
- Move to more service charging creating dilemma for VC's – want to own IP & have scale
- Questionable business models
  - Tools & services
  - Most projects are point solutions or services
- What interests VC's?
  - Sustainable business models & size of community (dev & users)
  - OS companies considered an ecosystem by VC's

Business models

- Licensing model is changing – move to free licensing & more focus on services?
- 3 main business models driving sustainability & disruption
  - Revenue potential, architectural control, socioeconomic motivations
- Subscription fees
- “Freemium” models
- Professional services
- Hosting fees
- Revenue share models with eco-community
- Applications & Tools sales & bundling

OS Applications

- Database – MySQL, PostgreSQL, Firebird, Ingres, Sleepycat, MaxDB, SQLite
- Middleware – JBOSS, Jonas (ObjectWeb), Geronimo, BeeHive, Apache, Resin
- ERP/CRM – Sugar, Compiere, OpenERP, ERP5
- Tools – Zend, Exadel, Eclipse
- Management – Cassatt, Open Country, IT Groundworks (Nagios)
- Content Management – Zope, Plone, Mambo
- Business intelligence – JasperReports, BIRT
- Productivity – OpenOffice, Firefox, Gnome
- Telecom – Synch4J(Funambol)

OS Community Ecosystem

Non profit entities play an important role in the open source

- Free Software Foundation (FSF)
  - Developed General Public License (GPL)
- Open Source Initiative (OSI)
  - Approves licenses as “open source”
- Linux Foundation
  - Commercial trade association for Linux
- Apache Foundation
  - Key open source community – developed and run by the community
- Eclipse Foundation
  - Less than two years has become a standard - commercially supported

OS Commercial Ecosystem

- OEMs - IBM, Sun, SGI, HP, Apple
- ISV - Oracle, SAP, CA, Adobe
- Service providers - IBM, IGS, CSC
- Open source companies - Redhat, MySQL, JBOSS, Sleepycat, Trolltech, MontaVista
- Technology consumers - Wells Fargo, Charles Schwab, Cargill, Google, Best Buy
- Investment community - VCs, strategic investors
- Startups and emerging growth - Zimbra, SugarCRM, JasperSoft, Zend, Laszlo

What is needed to be more successful?

- "CIO's don't care about source code, they care about support" – Olliance Group
  - past excitement phase, back to practicality
- Scalability and security still a major issue to compete with traditional proprietary software companies in Enterprise
- Support and service level still weak
  - Service level & project management thinking needs to improve
  - How to get out of cost mindset

What is needed to be more successful?

- Clear strategy on how to work with & leverage community
  - Strong partner model is key to success
    - SugarCRM, SourceForge
  - Accountability of eco-community
- Monetization of user base with "free" mentality
  - Strong partner network drives subscriptions
- Need clear proposition of value and differentiation
- Balance between 3 business models among speed, architectural integrity and creativity

Success Case example - SugarCRM

- Strongly competing with Salesforce.com
  - SaaS package sold at $200 pm/ 5 users, $40pm single users
- Big community of global developers (VARs & SIs)
  - Provide value to community & have community sell it
  - SI’s want services – add customization & support from VARs
- Free non-commercial product for 6 months seeded community
- Immediate benefit from partners with commercial launch
  - localizations in 1 day for French & German after launch
  - 19 languages supported within 3 weeks – Finnish link selling installation, hosting & development services

Success Case example - SugarCRM

- Software as Service approach & revenue share
- Hosting & support services
- Growth - more than 1200 paying customers within 2 years
- Accounting more complex – Google Maps use

Where is the opportunity?

- Companies, especially Enterprise looking for solutions, not software modules
- Recognize the OS ecosystem – partners key
  - What is value to the partners
- Consumer applications see strong growth
  - Monetization a question mark due to low price point

THANK YOU

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