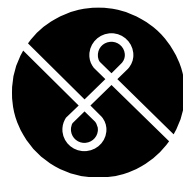


Challenges for 'Free Software as a Service' in business

Sam Tuke
phpList CEO
@samtuke @phpList



phpList
Open Source Email Marketing



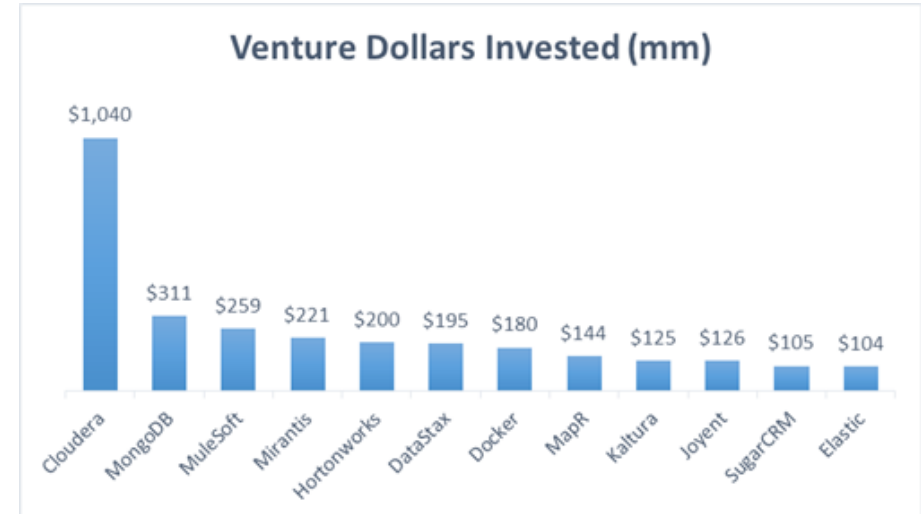
Previously:



Some Facts

Target	Aquirer	Valuation	Year
Jboss	Red Hat	\$420	2006
XenSource	Citrix	\$500	2007
Zimbra	Yahoo	\$300	2007
MySQL	Sun	\$1,000	2008
SpringSource	VMware	\$420	2009
Jaspersoft	TIBCO	\$185	2007
Ansible	Red Hat	\$150	2015

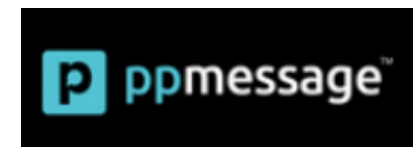
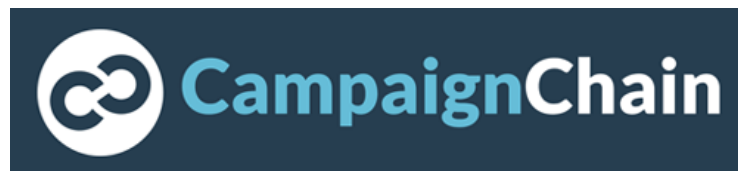
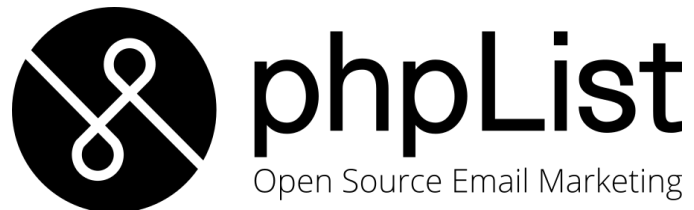
Few landmark Open Source exits



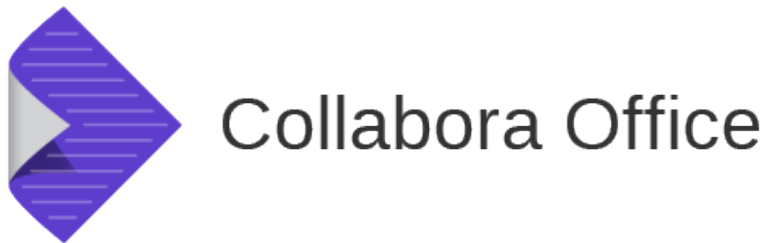
Underwhelming investment

Ref: Max Schireson, Techcrunch

Examples of FSaaS



Not examples of FSaaS



Mixed model FSaaS

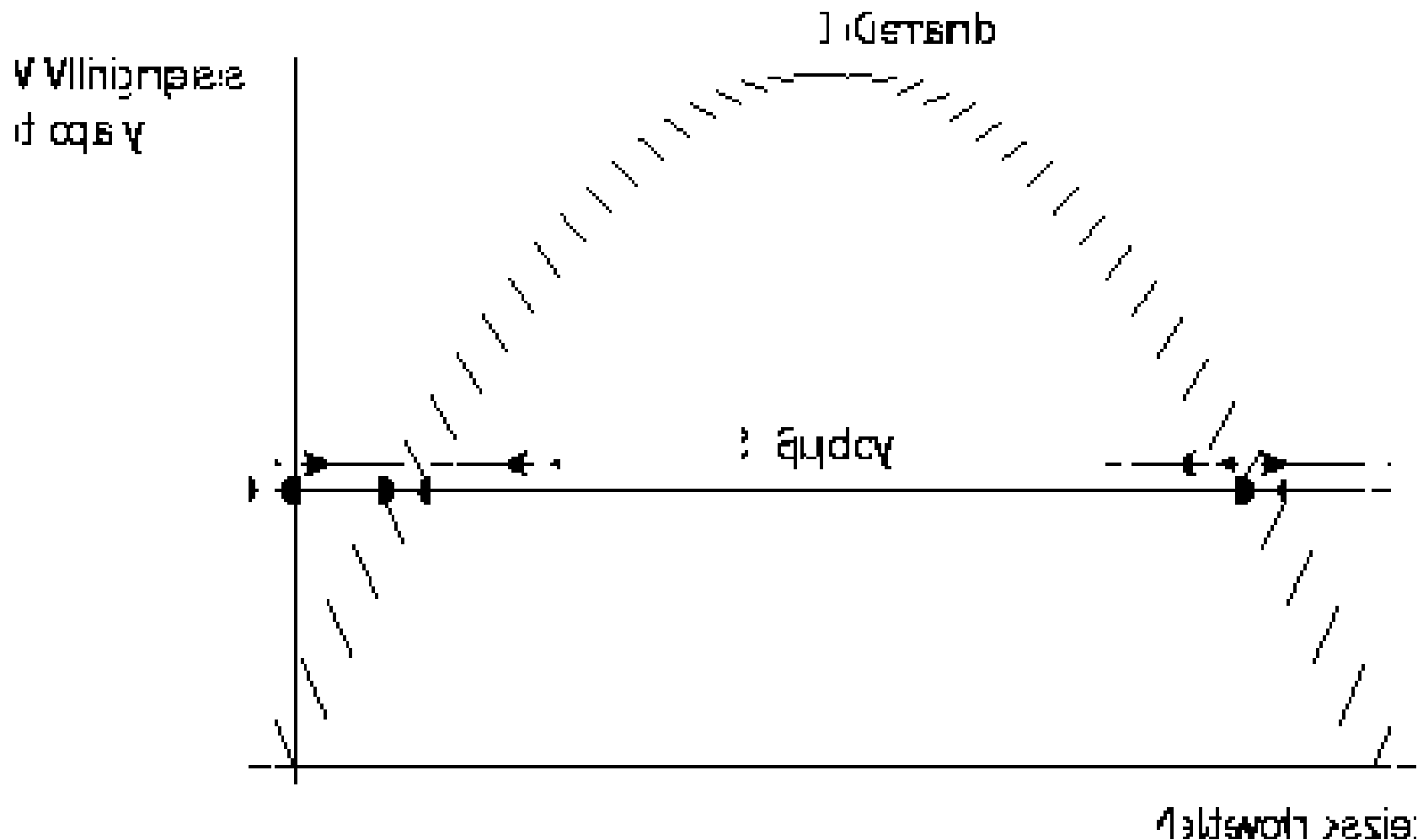


- Reusable product means low barrier to market entry
 - Hard to create sustained market differentiation
- No intellectual property
 - Harder to raise capital / investment
- Being subsumed by other products cuts off revenue
- Lacking differentiation + no lock in requires higher investment in retention, support becomes product
- Less profitable? “If you look at Red Hat, MySQL, KVM etc., in every case where there’s a proprietary vendor competing, they have more business traction and much more revenue than their open source counterparts”
- Typically underdogs: higher costs for market access, customer acquisition, cost per conversion

Ref: Peter Levine, a partner at Andreessen Horowitz Venture Capital

- The situation in which the benefit a consumer derives from owning a product increases when the number of other consumers increases is called network effect
- Direct (telephone) vs. indirect (video games consoles) network effects
- Blackberry

Challenges: Network effect



Hal R. Varian, University of California, Berkeley

- In the presence of strong network effects, competition between incompatible standards takes the form of a “winner-takes-all” game
- Once a technology gains an initial lead in terms of its installed base, every consumer will choose the leading technology and the industry gets locked-in to the technology
- The winning technology does not need to be superior from the social viewpoint
- Consider QWERTY keyboards

- Smaller margins hurt growth: "Open Source companies won't take you out to play golf"
- Adoption !== subscription revenue – Red Hat
- Both adoption and subscription revenue requires investment (more complex sales)

- Cost of establishing community, especially with strong copyleft – e.g. MongoDB
- Burden of community distribution (packaging, hosting)
- Experts are talented and unpredictable; higher standards, more critical audience than for competitors
- Cost of managing PR, issue handling and expert community (normally internal processes are public)
- Conflict between customer and community needs (prioritisation, timelines)

- Higher margin core product than mere support
- Opportunity for complimentary consulting and extension business
- App platform opportunities for large userbases – workaround for lock-in
- Free copies are powerful lead generator
- More indirect benefits from exposure (grow user base even if no sale)
- Every **user** is a potential customer, unlike pure service businesses
- No investment in copy protection mechanisms

- Resources from community to develop product (skills, time, network, donations)
- Direct marketing channels to developers / influencers, good value
- Community can generate its own positive press and engagement
- Marketing opportunities arise from independent position: you represent a community not just a product with a price tag
- Adds integrity to the enterprise

Benefits: Community



Ergest Nako of Protik Innovation Centre at StartupGrindTR



- Does Open Source benefit customers who don't value it?
- Does "the network effect" affect you?
- Do all small enterprises suffer similar problems?

Discuss

Thank you



@samtuke



mail@samtuke.com



@phpList



sam@phplist.com



phplist.com



phplist.org