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COSS Presentation - Building OS Businesses out of Finland

www.open-tuesday.com

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Short Bio

-Venture Capitalist (investment into MySQL in 2001) 1993-

-Researcher at Helsinki University of Technology 2004-

-COSS 2005-

-Open Tuesday 2006-

-OTSB 2007-

-McGill University's (Canada) and Helsinki School of Economics 'Management of High Growth and Continuous Change' research project Steering Committee 2006-2010

-Advisor to Fujian University 2007-

Agenda

- Me
- What is Open Source?
- OS vs Proprietary Approach
- State of OS Business
- The Finnish Software Challenge
- Models and Examples of Building OS Business
- Case MySQL, will it be a Billion Dollar Business?
- Key Messages and Q&A

What is Open Source?

1. Open Source
2. Open Content
3. Open Standards
4. Open Innovation
5. Open Access
6. Open Collaboration
7. Open Technologies
8. Open Hardware
9. Open Services
10. Open XXX

Acceptance of New Ideas such as Open Source
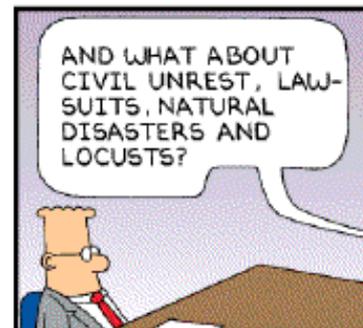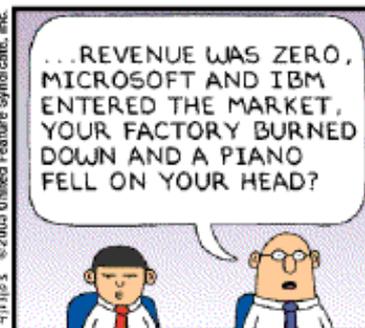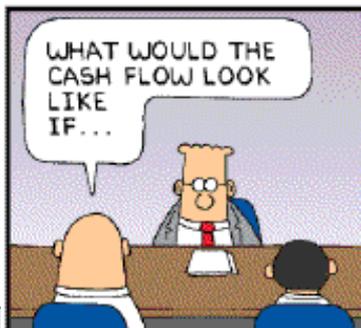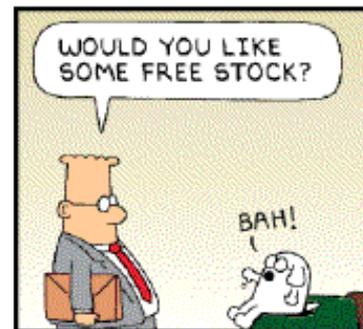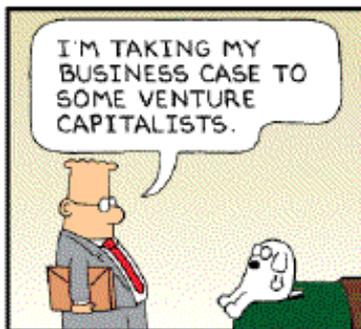
''There is one thing that is stronger than all the armies in the world, and that is an idea whose time has come''

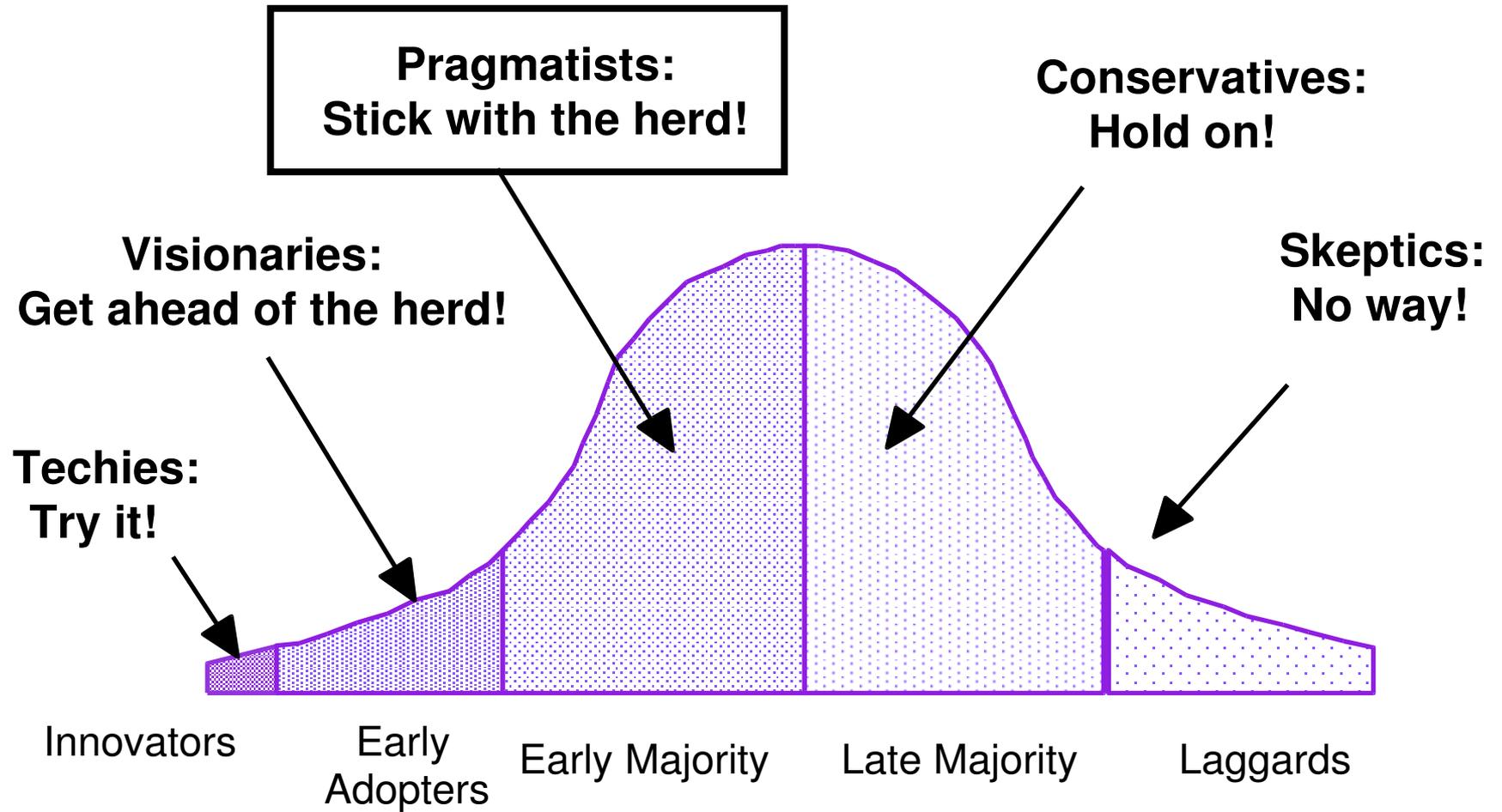Victor Hugo

Business "Logics" (Kapor)

- proprietary
  - power with suppliers
  - customer lock-in
  - profitable, but inefficient
- open source
  - power with customers
  - customer choice
  - less profitable, more efficient

Couple of Cases

- FIREFOX
- STARWRECK

OSS + Business By Accident business model

-> Now approaching Gary Player model ''The More I practice, the luckier I seem to get''

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**Pragmatists:
Stick with the herd!**

**Conservatives:
Hold on!**

**Visionaries:
Get ahead of the herd!**

**Skeptics:
No way!**

**Techies:
Try it!**

Innovators | Early Adopters | Early Majority | Late Majority | Laggards

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

Good things from Finland

- STARWRECK...the Content & some Business
- LINUX...the Technology & Some Business (recently)
- MySQL...the Technology & Business?
- IRC...the Technology

OSS + Business By Accident business model

-> Now approaching Gary Player model???
......more experienced Entrepreneurs, VCs, advisors etc..

The Challenge of Creating (OS) Businesses

- The Challenge of creating Valuable Software businesses is a Finnish challenge (compare e.g. Finland vs. Israel)

- The Challenge of creating Valuable OS Software businesses is a global challenge

- -> If you follow the service model, how do you convince the customers to pay enough to cover the tech development?

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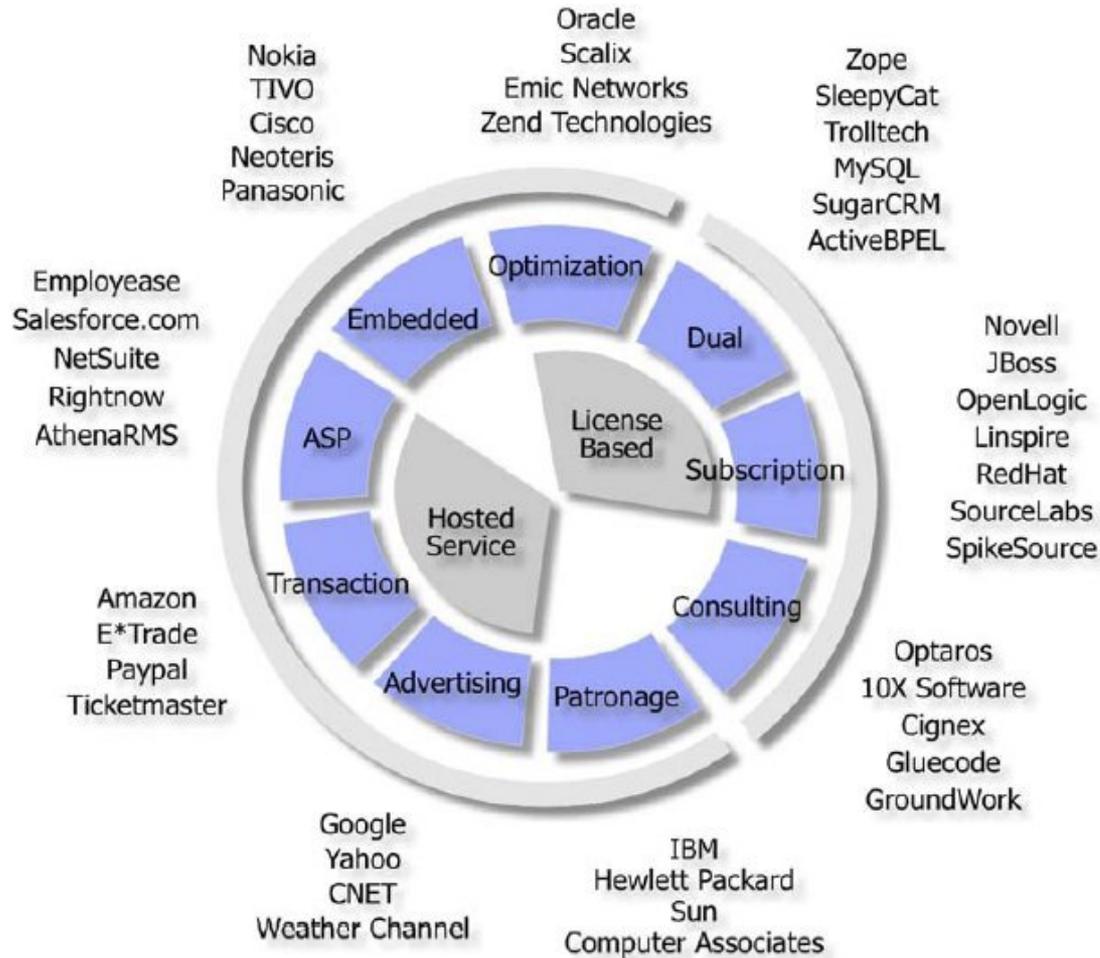
These companies illustrate some of the OSS strategies being used to create product value. (Riseforth)

"Blueprint to a Billion"

- All the US companies that have gone Public since 1980
  - altogether 7 454
- Out of these a Billion dollar revenue mark has been reached by 387 (5%)
- **Do these companies have common features?**

Thomson (2006): *Blueprint to a billion – 7 essentials to achieve exponential growth*. Wiley & Sons.

The Seven Essentials

1. Find or create a great value proposition.
2. Find a quickly growing market.
3. Get some marquee customers.
4. Leverage a "Big Brother" Partner.
5. Be capital efficient.
6. Get paired management teams.
7. Have at least one board member on your board, outside of your investor or management team that has grown a company to a billion.

Thomson (2006)

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Time-to-Something (Puhakka & Seppänen)

- Time-to-product?

- Time-to-market?

- Time-to-revenue?

- Time-to-profitability?

How MySQL as a developer and a supplier of OSS fits into the models presented?

Case MySQL and the 7 essentials

- **Find or create a great value proposition.** The price vs. quality ratio of MySQL is in place or even superior as MySQL has this with its database offering costing a fraction of competing incumbents.
- **Find a quickly growing market.** Rapidly growing markets tend to be much more forgiving of mistakes than slower growing ones. While addressing a big market, the database market is not growing that quickly in revenue. For instance, both PostGre and MySQL are slowing down the market growth although user amount in increasing According to IDC (2006), about 20% of size of the software market is disappearing because of open source software.
- **Get some marquee customers**. Having big customers helps you to figure out that your business model is a smart move. MySQL has many big name reference customers, but so far we have failed to identify any single customer that could be called a marquee customer providing significant revenue.

Case MySQL and the 7 essentials

- **Leverage a "Big Brother" Partner**. Many this type partners can be identified. For instance, SAP has stopped developing its own open source database and moved its developers and product as part of MySQL as an example how a 'Big Brother' can assist an ally. So far it has seemed that MySQL has been willing to partner with anyone, even though that has meant compromising some of open source movements ideals (partnership with SCO earlier this year).

- **Be capital efficient.** It's a myth that you need to spend lots and lots of money to build a billion dollar business. Most companies are self-funding after a certain point, and they have high margins early on that are sustainable, and they do not consume that much cash to get there. MySQL has raised quite a bit of money with the last VC round taking place early 2006 which makes us to wonder if the money-making machine exist in MySQL? Almost in every case fast-growing companies have been able to create "the money-machine" that ensures profitability in early stages (e.g. Google, Ebay, Cisco).

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Case MySQL and the 7 essentials

- **Management team**. You will need the both sides: external and internal persons in the management. Oftentimes, it is the CEO who focuses on e.g. vision, product, marketing, and sales, and respectively, the internal CEO (perhaps the COO) focuses on e.g. delivering on that vision profitably. MySQL has, indeed, a CEO that fills the first position, but the latter one is harder to identify. Certainly, MySQL has covered also the technological perspective, but the question of internal business perspective still remains.

- **Have at least one board member on your board**, outside of your investor or management team that has grown a company to a billion. With the addition of Verisign's CFO to its board this fall, this essential was met. What this basically states is that the board has to have an objective, strong member that looks after the interests of the company, not only investors or owners.

Case MySQL and time-to-somethings

1. **Time-to-product**: Unarguably MySQL has been able to develop very cost-efficiently a world-class database, in one sense to time to world class product took a while, but on the other hand, it was accomplished with relatively small resources compared to those of e.g. Oracle. The main benefit being that the nature of open source development model allowed early users to detect and comment accurately as to where bugs in the software were and even suggest fixes to them.

2. **Time-to-market**: With around 100 million downloads and recognition as one of the top 500 websites, MySQL has certainly managed to get to market. This is mainly about positioning, since the company gains a large install base as the product is easy to acquire for testing.

3. **Time-to-revenue**: With around USD 40 million in revenue in 2005 after being on the market only for ten years, MySQL has outpaced many companies, growing from zero to about 40 MUSD in ten years.

4. **Time-to-profitability**: With a lot of VC money needed, this also has not been that efficient, compare to e.g. Google, Ebay and Cisco (Cf. Thomson's book, p. 136).

Key Messages

1. It is OS Time
2. The Business Model is different & we are starting figure out how to make money
3. We need to figure out how to Scale businesses out of Finland...we do not understand this yet...but we are getting there
4. You get ''luckier'' with practice

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