The challenge of making money through open source software

Computing speaks to two vendors with very different approaches

How do open source software companies make money? First off, it's worth mentioning that most open source projects don't make anything at all, at least not directly. They are collaborations that aim to meet a specific shared need. Sometimes these collaborations are very large, involving many thousands of developers, but still, no-one expects to make any money from them. They are free as in beer as well as free as in speech.

But to meet the needs of organisations and to ensure continuity, as well as an opportunity to earn a living, many more general-purpose applications have commercial entities built around them.

The introduction of commercial models to open source was initially controversial, and charging for support often failed to make ends meet, Red Hat being an early exception. The arrival of venture capital (VC) and cloud together with altered perceptions about the value and potential of open source mean the landscape is very different these days, but there are still tensions between the various approaches.

Revenue-raising approaches include charging for support and enterprise features either per use or as a subscription, seeking investment by VC or other external sources, selling shares (or latterly a cryptocurrency), and reselling software as a service. The most viable mix of approaches will depend on the type of software (platform or point solution, specialised or general purpose), how fast it seeks to grow, the level of community engagement, and the ideological roots of the project.

Some businesses, like EnterpriseDB, offer services around a community-based effort, in this instance the PostgreSQL database, while contributing back to the codebase. Others, like MongoDB, retain a high degree of control of the main codebase.

So, there is a range of permutations and combinations. Computing spoke to representatives of two very different open source companies in to dig a little deeper.

Liferay is a long-established provider of open source enterprise portals and digital experience platforms with customers that include the NHS, Walgreens Boots Alliance, Airbus and Hayes Recruitment. In this space, it competes with the likes of Adobe, SAP and IBM. The company has grown organically without any external investment and it now employs 950 people in 22 offices around the world.

The community version of the software is released under AGPL2 while the commercial version comes under a commercial open source licence, meaning that companies building on the

software retain their IP. Liferay makes its money by following the traditional model of charging for support via subscription (a quick web search suggests prices start around $23,500 per year).

In large organisations there are plenty of ways that an open source company can add chargeable value through bespoke configurations and integrations because of the complexity of their existing estate and business processes, said Mike MacAuley, general manager UK & Ireland.

"There's a long tail with digital transformation. In a lot of businesses you're dealing with this heavy process engineering and business transformation and you have a lot of legacy that you can't abandon. It's not a clean slate."

Such organisations see a subscription as simply the cost of a stable transformation, he said.

Liferay's software is largely installed on premises; the company only recently added a hosted cloud option to its roster. By contrast, Percona, a database-as-a-service (DBaaS) company that offers managed services around a number of open source databases as well as providing its own version of MySQL, makes full use of cloud as a way to distribute and update software.

"Today software is not distributed in the same way," said CEO Peter Zaitsev. "You can use cloud services to get access to software projects as a service, and they include improvements that might not be provided back into the open source version."

"The opportunity comes through making [community based projects] easy to deploy as a cloud service or an as-a-service product. That's the approach that we favour at Percona."

The main difference is that Liferay offers a platform that touches multiple areas of the business, whereas databases are more specific and easier to distribute via the cloud model.

However, cloud can be a double-edge sword, particularly for point-type solutions like databases, where CSPs can fork the code or otherwise create their own competitors to the likes of Redis and MongoDB without contributing significantly to the codebase of the originals. Those two vendors have changed the licensing on core components to prevent them being monetised by as-a-service companies. Recently, MongoDB CTO Eliot Horowitz told Computing he wanted to see a 'level playing field' with cloud providers and more VC money pumped into core open source code.

Then again, CSPs offer a distribution and marketing network that vendors could never hope to equal on their own. In part, says Zaitsev, the problem is with the demands of venture capital for a quick return or market dominance. This leads to projects becoming controlled by a small number of people within a single company, rather than being community-led, which has created its own issues.

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"We have to recognise that businesses will contribute back to open source only for business reasons. For venture capital firms, the value around open source is through capturing a market and acting as a monopoly, which can be the opposite of what the open source community might want. Instead, we have to look at creating the opposite of a monopoly; where companies can get the most value out of open source, and where they might be willing to accept a certain level of lock-in as well."

The open source advantage

For customers to be willing to pay for something they could otherwise get for free, there must some tangible advantage. Sometimes enterprise open source is simply cheaper than proprietary alternatives, other times it's all about flexibility.

At Liferay, most of the development is done in-house, in response to the needs of customers. In this way, it follows the single-company model rather than being a community-based project. As the only significant open source vendor in the digital platform arena, MacAuley open source as "an absolutely key differentiator". Liferay works on problems identified by its corporate users, with many of these efforts making their way into the community version six weeks down the line. The ethos of cooperation inherent in open source makes solving 'real world' problems much more flexible than the proprietary model, he said.

Zaitsev said in the world of databases most users go straight to the open source options. Referencing a study commissioned by Percona he said that users are eight times more likely to adopt an open-licensed database than a proprietary alternative.

"When you look at what developers care about, having the right approach to licensing can have a material effect on the adoption of a project, and that can support the growth and health of a whole community," Zaitsev said. And it's not just developers, increasingly management sees the advantages too.

"There's a huge amount of open source getting used to support critical applications, and adoption is for two main reasons: to reduce cost, and to prevent lock-in"

As to the future, MacAuley believes open source is unstoppable as a process of evolution. "It's like the infrastructure around electricity, it follows a similar pattern. It started off very proprietary and then slowly moved towards a sort of open standards, open source model."

Zaitsev says projects must keep community-building in mind as they seek to monetise their code. They should "take an approach to business that supports the community from the outset," he said.

"The aim here should be to increase the size of the pie by increasing the overall community, and then providing what the community needs. Sometimes, that means having competition, which is not a bad thing. What will win out is ease of use, having trusted support on the developer side, and being easy to do business with for management."

This article first appeared on [Computing](#) on Friday 8th November