EOSA MASTERCLASS #1

European Open Source Academy

Building and Sustaining Open Source Impact

How open source business owners and corporate users can drive the change.

Amandine Le Pape

Funded by the European Union

European Open Source Academy

Lesson #4: Finding Business Models That Work

European Open Source Academy

Masterclass Overview

Finding Business Models That Work

- **An open source product is harder to monetise**

  ⇒ Need to find new ways of winning market shares and bringing revenue
- Good news: **Sustaining a company whilst promoting and growing open source is not impossible!**
- There are **several proven business models** which can also be combined and will ultimately amplify the impact of open source.

Commercial Open Source Taxonomy

European Open Source Academy

Open Source business models can be considered via two angles:

1. **What is monetised**
   a. The software, hardware or final product
   b. Services and/or the ecosystem as a whole
2. **Who is the primary customer**
   a. Individuals and/or the community
   b. Enterprises or organisations in general

Finding Business Models That Work

European Open Source Academy

Commercial Open Source Map

Code / Product

⇒ Monetizing the software itself for broad adoption.

- Dual Licensing (MySQL, Qt)
- Hardware Bundling (Arduino, Raspberry Pi)
- Donations & Sponsorships (Mozilla, Blender)

⇒ Selling enhanced software to enterprises.

- Open Core (GitLab, Elastic)
- Proprietary Add-ons (Grafana, HashiCorp)
- Managed Hosting / SaaS (MongoDB Atlas, WordPress.com)

Community / Individuals

Enterprise / Organisations

⇒ Supporting the community user base.

- Training & Certifications (Linux Foundation, Kubernetes certs)
- Marketplace models (WordPress plugins, Eclipse marketplace)

⇒ Serving large organizations with expertise & trust.

- Support & Consulting (Red Hat, Canonical)
- Custom Integrations & Partnerships (enterprise Kubernetes vendors, Cloudera)

Services / Ecosystem

Proven Revenue Models: Managed Hosting / SaaS

European Open Source Academy

Core / Product

Enterprise

Analysis:

- Supported by the focus on cloud hosting in the last 10-15y.
- Sustainable and scalable business.
- Not a good fit if customers are looking for sovereignty.

- **How it works**: Offer the OSS as a hosted, fully managed cloud service with convenience and scalability.
- **Why it works**: Many users prefer "pay to use" rather than self-host and maintain.
- **Ease of differentiation**: hard. Anyone with good experience with the product can do a good job at hosting the product. *Differentiators*: packaging, quality of service etc.

MongoDB Atlas

WordPress.com

Finding Business Models That Work

Proven Revenue Models:
Dual Licensing

European Open Source Academy

Core / Product

Community

Analysis:

- Generally comes alongside copyleft licences which will force any derivative work to be distributed under the same terms. The commercial licence is the alternative.
- Many big corporation forbid their teams to use software using copyleft license.
- This blanket prevention may be a turn-off to some potential customers.

- **How it works:** Software is open source under a restrictive license, but businesses that want to embed/distribute it in proprietary systems need a commercial license.
- **Why it works:** Gives freedom to the community while monetizing commercial redistribution.
- **Ease of differentiation:** medium. The ecosystem can copy but hard to not infringe the copyright.

MySQL™*

MariaDB

Qt

* *Before Oracle*

Finding Business Models That Work

Proven Revenue Models:
Open Core

European Open Source Academy

Analysis:

- Often a dirty word as sometimes the open source version is crippled to the extreme.
- But other (better) approaches include:
    - Only gate features valuable to commercial organisations
    - Put the features which empower the user in the open source (orgs like to keep control)
    - Gate simplicity and leave busy-ness and high customisation in open source (for user facing products)
- A problem for customers (like governments) mandating pure open source software.
- Need to educate: proprietary software doesn't necessarily create vendor lock-in, it probably shouldn't be entirely banned.

Core / Product | Enterprise

- **How it works**: Core software is open source, but advanced features, plugins, or enterprise editions are paid/proprietary.
- **Why it works**: Free version builds community & adoption → upsell power users who need enterprise-grade features.
- **Ease of differentiation**: hard. It will be easy for the ecosystem to copy any useful proprietary feature you added if it becomes important.

GitLab

redislabs HOME OF REDIS

elasticsearch

Proven Revenue Models:
Open Source with Proprietary Add-ons

European Open Source Academy

Core / Product

Enterprise

Analysis:

- Lighter and less invasive take on the Open Core model.
- More acceptable by organisations mandating open source, as only the tools around the product are proprietary.

- **How it works:** The core stays free, but extra tools (analytics, security, dashboards) are proprietary and sold separately.
- **Why it works:** Keeps adoption wide while generating revenue from premium features.
- **Ease of differentiation:** easy. Each company can bring the value they specialise in.

HashiCorp *

Grafana

** Before licensing changes*

Finding Business Models That Work

Proven Revenue Models: Support and Services

European Open Source Academy

Core / Product

Enterprise

Analysis:

- One of the most obvious choice for open source businesses.
- Basis of some of the biggest open source companies, like Red Hat.
- Not a very scalable (team needs to grow proportionally with the business).
- Requires a mindset of contracting and services, rather than product building.

- **How it works:** The software is free, but the company charges for professional support, consulting, or custom development.
- **Why it works:** Companies pay for peace of mind, expertise, and guaranteed SLAs.
- **Ease of differentiation:** hard. Anyone who knows the open source product well can provide support and services.

Red Hat

Canonical

Proven Revenue Models: Training and Certification

European Open Source Academy

Services / Ecosystem

Community

Analysis:

- Mostly viable for the not-for-profit organisations hosting an open source project.
- Unlikely to be a recurring revenue stream.
- Companies may add training to their Support & Services products (e.g. Red Hat)

- **How it works:** Offering official courses, certifications, or workshops for OSS technologies.
- **Why it works:** Companies value certified skills for hiring, individuals pay for career advancement.
- **Ease of differentiation:**
  - Training: hard.
  - Certification: easy as needs authority.

THE LINUX FOUNDATION

Red Hat

CLOUD NATIVE COMPUTING FOUNDATION

European Open Source Academy

Proven Revenue Models: Marketplace and Ecosystem

Services / Ecosystem

Community

Analysis:

- Not all open source products are fit to use this model.
- When available, and once a revenue model is established it becomes a great scalable source of revenue.

- **How it works:** The open source project becomes a platform, and the company monetizes through plugins, marketplaces, or partnerships.
- **Why it works:** Leverages network effects—community builds extensions, customers pay for curated solutions.
- **Ease of differentiation:** medium.
  But hard to displace once a marketplace has taken the leading position.

eclipse

WordPress

kubernetes

Proven Revenue Models: Hardware Bundling

European Open Source Academy

Core / Product

Community / Individuals

Analysis:

- Even if the hardware is open source, it is easily justifiable to make it a paid product to cover material costs.

- **How it works:** The open source software is tied to a physical open source product, which is monetized.
- **Why it works:** The operating system increases adoption and reduces software cost; revenue comes from hardware sales.
- **Ease of differentiation:** easy.
  Others could reproduce the hardware but producing hardware efficiently will be where the value lies.

ARDUINO

Raspberry Pi

Purism

European Open Source Academy

Proven Revenue Models: Donations, Sponsorships, Grants

Analysis:

- Only viable for the not-for-profit organisations hosting an open source project.
- There rarely is a simple way for an organisation to donate.
- The donations may not be recurrent.
- How does the donation amount relates to the usage being made of the software?

Core / Product

Community / Individuals

- **How it works:** Funding from users, nonprofits, or companies that rely on the OSS.
- **Why it works:** Works well for community-driven projects, especially if mission-driven (privacy, education, research).
- **Ease of differentiation:** easy.
Mostly targets the non-profit organisation hosting the project.

Mozilla Foundation

blender

open collective

European Open Source Academy

Hybrid Approaches

- Open source companies often blends multiple models.
- This allows diversification and cumulation of different revenue streams.
- For example:

Red Hat

- Support & services
- Certification & training
- Proprietary add-ons

mongoDB®

- Open Core
- Managed cloud
- Proprietary add-ons

element

- Open Core
- Support & services
- Managed cloud
- Proprietary add-ons

European Open Source Academy

Selecting a Business Model

The choice of business model depends on many criteria which will help define how to best capture the value you need to bring revenue:

1. The **type of open source project or product** (is it an end-user facing app, an infrastructure product, a library?)
2. Your **position in the ecosystem** (are you the founding team or not?)
3. The **market using it** (individuals, governments, enterprises…)
4. Your **goals** (support the project or focus on building a successful company)
5. Your **DNA** (product vs services)

In any cases, **recurring revenues should be the ones to optimise for**, in order to reduce the risk and burden.

Examples of value capture 1/2

Type of project/product	Example of value capture
End user facing app	Simplicity or complexity of the UI, branding
Infrastructure product	Performance, scaling, certification

You position in the ecosystem	Example of value capture
Founding team	Expertise
Community	Marketplace

Examples of value capture 2/2

Your market	Example of value capture
Consumer	Ease of use (hosting), volume
Businesses	Compliance, integrations, support
Government	Compliance, managed services for on premise deployments

Your DNA	Example of value capture
Services company	Support, custom development
Product company	Open core models

The Example of Element: Initial Thinking

For example, at Element we had the following constraints:

1. **We have a set mission to ensure the Matrix ecosystem can thrive**
   → Our contributions to Matrix ensure they help everyone in the ecosystem
2. **We have a set mission to ensure that the Matrix network grows**
   → We want members of the ecosystem (community and individuals) to be able to run small Matrix deployments → we can't cripple the open source (not that we wanted to, but still)
3. **We have had traction from governments looking for sovereignty since Day One**
   → Limitations on what can be made proprietary
   → SaaS was not a valid model
   → There are several features that the general public don't care about and can be monetised
4. **We want to build a scalable company, not a services one**
   → We have been pushing back hard on support and services

Finding Business Models That Work

The Example of Element:
The Plan

- A product company.
- With an open source product providing enough features for individuals, small companies to use, liberally licensed (Apache v2.0).
- Put features which undermine end-to-end encryption (e.g. anti-virus, audit) behind a paywall.
- Put features which only benefit professional orgs behind the paywall.
- Run a SaaS platform.

The Example of Element: What Really Happened

Our customers:

- Want sovereignty and self-hosting → SaaS doesn't help
- Want customisation and forking → Looking to buy professional services.
- Have a requirement for open source → Cannot buy proprietary code, but cannot pay licences for open source software neither.
- Are always broke (governments...) → Will make do with whatever is free, at any cost.
- Have a procurement system which makes it easier to hire contractors to fork than buy anything from anyone.
- Base their tender on price → Favour freeloaders.

The Example of Element: What We Have Done

Want sovereignty and self-hosting → SaaS doesn't help	⇒ **build a nicely packaged operator**
Want customisation and forking → Looking to buy professional services.	⇒ **sell some, under condition of unlocking recurring revenue**
Have a requirement for open source → Cannot buy proprietary code, but cannot pay licences for open source software neither, even with modules only.	⇒ **no solution yet**
Are always broke (governments…) → Will make do with whatever is free, at any cost.	⇒ **hold up key enterprise features to make the free version unusable by professional organisations**
Have a procurement system which makes it easier to hire contractors to fork than buy anything from anyone	⇒ **no solution yet** (beyond evangelisation)
Base their tender on price → Favour freeloaders.	⇒ **switch licence to AGPL v3.0**

European Open Source Academy

Summary

- Sustaining a company whilst promoting and growing open source is not impossible!
- There are several proven business models which can be classified based on **what you sell** and **who you sell to**.
- To determine what will make your business a success you need to consider **different dimensions**:
  - The type of open source project or product you use/build
  - Your position in the ecosystem
  - Your target market
  - Your goals
  - Your DNA

What you sell	**Who you sell to**
Core / Product	Enterprise / Organisations
Services / Ecosystem	Community / Individuals

Additional Thoughts

- The most successful open source companies **think of open source as the adoption engine and then monetize** convenience, trust, or enterprise features.
- It will then allow them to **reinvest even more in the open source side** (be it development or evangelisation), increasing the impact of open source overall.
- However, the **market does not make it easy** and some additional education is needed.

EOSA MASTERCLASS #1

European Open Source Academy

Building and Sustaining Open Source Impact

How open source business owners and corporate users can drive the change.

Amandine Le Pape

Funded by the European Union