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

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Lesson #3:
Leveraging the Right Enablers

Masterclass Overview

Lesson #0 – The Story of Matrix and Element

Lesson #1 – Recognising the Open Source Opportunity

Lesson #2 – Foundational Elements for the Success of an Open Source Business

Lesson #3 – Leveraging the Right Enablers

Lesson #4 – Finding Business Models That Work

Lesson #5 – Navigating the Corporate Buyer's Dilemma

Lesson #6 – Driving Open Source Impact through Procurement and Policy

Leveraging the Right Enablers

With a clear understanding of the foundations, the next step is to determine the enablers at your disposal and how to tune it for your case:

- Licence choice
- Value capture model, i.e. the sustainable business model which fits your project
- Community governance
- ...

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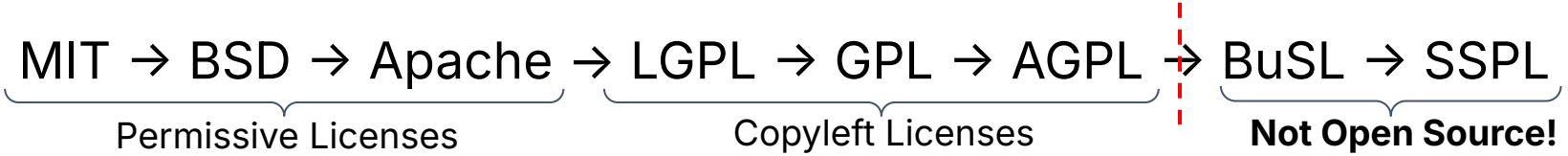
Open Source Licences

- We've seen that the definition of open source by OSI still leaves the door open to many different licences with a wide range of restrictions.



- Open source businesses need to find the right equilibrium point for their business model: based on your context, which limits, if any, do you need to set?

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Open Source Licenses

- **The world of open source licenses is a busy one, but whilst there are hundreds of them they are not all equal.**
  - Only a subset are officially recognised by the Open Source Initiative, considered as the guardian of the Open Source Definition (~80-90 licences)
  - There is overlap but also differences between the OSI approved licences and those defined by the Free Software Foundation from the GNU Project.
- **They can be split into two main groups: permissive and copyleft.**

Permissive licences

- Allows the software to be used in proprietary works.

Copyleft licences

- Forbids use of your software in non-copyleft works (granularity depends on license).

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Common Licences

- From most permissive to least permissive
- Permissive:
  - **MIT**: Almost no restrictions: requires just attribution and license copy.
  - **BSD 3-clause**: Adds forbidding use of author's name for endorsement
  - **Apache**: Adds explicit patent license and protection clauses
- Copyleft:
  - **LGPL**: Requires modifications to LGPL code to be released as LGPL.
  - **GPL**: Requires all distributed derived work to be released as GPL.
  - **AGPL**: Like GPL, but applies even when code is accessed via network.

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A survey of high-value players (2023)

Player*	Valuation	ARR	Stars	Commercialisation Approach	Licensing
mongoDB	> $25bn	> $600m	22k	free community edition, proprietary SSPL, not considered free commercial license with managed on-demand service (Atlas)	
GitLab	~ $8bn	~ $230m		free community edition with MIT license commercial edition with add-ons geared towards enterprise (open core)	
WordPress, Automattic	~ $7bn	> $400m	16k	free community edition under GPLv2 or later free SaaS edition with limited features and WP.com ads commercial hosted Personal, Premium, Business and eCom editions + VIP	
elastic	> $7bn	~ $600m	61k	free standard license, transitioned from Apache to SSPL commercial license with resource-based pricing in cloud	
kafka / Confluent	> $6bn	~ $400m	23k	kafka is free under Apache2.0 commercial cloud native or software subscription license (open core)	
CockroachDB	~ $5bn	~ $24m	25k	free core edition with BSL, CCL, MIT and BSD licenses free serverless edition with limited 5 GB storage and upgrade path commercial hosted license	
grafana	> $3bn	~ $500m	51k	free OSS edition, transitioned from Apache to AGPLv3 to balance protection commercial cloud and self-hosted enterprise edition	
redis	> $2bn	> $150m	56k	free open source edition with BSD 3-clause license commercial Enterprise edition (open core)	
neo4j	> $2bn	> $100m	10k	free community edition under GPL3, 1 node only commercial license with online backup and high availability extensions (closed source)	
docker	> $2bn	> $50m	27k	free community edition (< 250 FTE, < $10m rev, eduction, etc…) commercial license for proprietary code, e.g. Docker Desktop (open core)	
Timescale	> $1bn	> $20m	14k	free community edition with mix of Apache2.0 and proprietary license commercial hosted edition	
ansible	part of RedHat		54k	free edition under GPLv3 commercial use >10 nodes requires ansible tower and RedHat subscription	
posthog	unknown		9k	open source edition under MIT, limited to 1 project and no user permissions commercial license for cloud, self-hosted and enterprise editions with event pricing and SSO (open core)	

free community edition
- with restrictive non-opensource license, e.g. SSPL
- or with open core approach
- or AGPL

commercial edition
- with commercial license
- or combined with hosting

** Well-known OSS companies from the top 200 GitHub stars list*

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License Selection Framework

- If you explicitly want 3rd parties to be able to use and monetise your software without any obligation to support the upstream, **go permissive**.
  - Great for getting your code in as many hands as possible.
  - Great if you derive value not from the code, but from something else which you are best to provide (services, support, separate branding license)
  - But encourages freeriding: someone who doesn't bear the dev costs will compete with you on providing services based on the code, with no obligation to fund the upstream costs ⇒ tragedy of the commons.

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License Selection Framework

- If you want to ensure that people building on your code are obligated keep their work open source, **go copyleft.**
  - Great for ensuring that derived works keep the code open, and can't freeride on it (unless they are happy to publish their changes for the benefit of everyone else).
  - Gives the authors the option to also provide the code under a commercial dual license as a way to fund their open source development.
  - Means that many proprietary vendors won't touch your project for fear of being "infected" with copyleft licensing terms.

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To CLA or not to CLA?

- A **Contributor Licence Agreement** is a side-agreement used by some projects as a way to give the project more control over how it can use 3rd party contributions.
- Like software licenses, each one is different.
- Can be used for good...
  - e.g. to give the project the right to dual-license 3rd party contributions in order to fund development
- ...or evil:
  - e.g. to give the project the right to “rug pull” or “rights ratchet” the 3rd party contributions to no longer be open source.
- Can be a significant obstacle for 3rd party contributors (individual & corp)
- CLAs can include terms to ensure contributions must remain distributed as open source (e.g. Signal’s or Element’s CLAs).

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About Value

- Open source creates value available for everyone: users, developers, businesses etc.
- **Commodity value** is value “the customer believes they could construct (or reconstruct) given enough time and money”*.
- A key enabler for an open source business is to determine the threshold for the commodity value in order to define the right balance between:
  - **Value creation** (how much value is created by the business)
  - **Value capture** (how much value turn into revenue for the business)
- In other words: **Where do you draw the line between what is given away as part of the open source product and what is commercialised?**

* Scott McCarty - https://opensource.com/article/21/2/differentiating-products-upstream-suppliers

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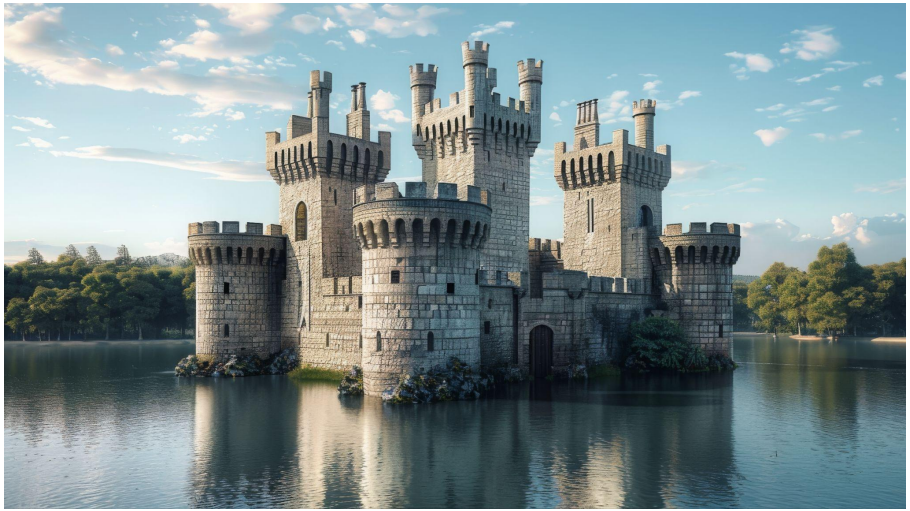
Building Sustainable Moats

- A typical metaphor for the line defining where the value becomes too difficult to reproduce is to call the monetisable features the moat.
- **So what is the moat which will ensure your company can make some revenue, and how sustainable is it?**



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Type of Value Capture

In the context of commercial open source, there are five different types of value that can potentially be commercialised:

- Expertise (support, development, training)
- Service (hosting)
- Features (enterprise specific or value adding)
- Peripheral tooling (analytics, dashboards)
- Marketplace, partnerships

⇒All of these lead to valid business models which will support the growth of open source adoption.

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Community Governance

- A strong community brings resilience and energy to the project:
  - if the organisation leading it goes under, the community can take over
  - It brings organic growth and potential leads to a business
- But it can also bring a lot of entropy and may bring a lot of politics
- Community governance is an art which can either turn into a blessing or a curse, depending on how successfully it is harnessed.

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Summary

- There are several enablers available to the entrepreneur building an open source business, but figuring out which one to pull entirely boils down to answering one question:

What is the moat I can sustainably monetise?

Or in other words:

What is the value I can capture?

- Once this is define, the licence will give you one framework, but then it’s a matter of selecting the standalone values, and taking into account the status of the community.

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