

## **In Search of an Open Source Business Model**

**The former head of Oracle apps and new CEO of an open source ERP vendor shares his tips for developing a successful open source business model.**



**By Don Klaiss, Compiere**

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Open source is a disruptive business model that continues to gain traction with customers. But any open source CEO will tell you that there is no well-worn road to success. Finding the right open source business model takes a combination of research, analysis, experimentation, community relations - and lots of hard work.

Since taking the CEO reins earlier this year, I have worked with the Compiere team to restructure and expand the product offerings, reposition the company, launch a new Web site, rebuild the partner network, hire a world-class development and support team, open a European office – and we're just getting started.

Based on our first-hand experience, I've created a list of considerations for emerging companies aiming to find the right open source business model.

### **Find Your Market**

After 15 years with Oracle, I decided to move on. Building and running such a large applications business had been challenging and exciting, but as the industry matured and began to consolidate, I felt there was a lack of innovation happening in traditional enterprise software.

On the other hand, outside the proprietary world innovation is rampant. Business solutions leveraging open source, software as a service (SaaS), software appliances, and other new technologies that traditional vendors would never adopt are proving their value to customers. After working with venture capital firm, NEA, on open source investment strategies, I became convinced that Compiere could leverage these disruptive forces in a very exciting way.

Why? The mid-market ERP segment was not well served – and it needed to be. On the high end, Oracle and SAP offer a variety of products. But these products are complex, bloated with features, and too expensive for most mid-size companies.

And, many of the traditional mid-market software vendors have disappeared in the consolidation crossfire. Customers continue to pay maintenance fees to the new owners for products that receive little new investment, and without access to source code customers have very few options. CIOs are left wondering how they will be able to meet their ERP needs in the future.

It became clear that a commercial open source ERP player with a flexible, easy to implement product, and the right ecosystem, could completely change the

economics of ERP and deliver the solution that mid-size businesses desperately need. Prior to my arrival, the Compiere open source project already had a large and active community working with the publicly available source code and using the solution. The challenge was not creating a market but harnessing the innovative technology and community enthusiasm toward building a great company.

### **Carefully Structure Product Offerings**

I have been a student of the open source business model for the past year. I came out of the traditional enterprise software world which made money by charging upfront license fees and service contracts. Of course, open source is very different.

I spent a significant amount of time talking to more than 20 open source CEOs to find out how their companies worked. No exact “model” for open source success emerged, but all strategies involved carefully structuring product offerings to match what the customer would perceive as delivering value.

In order to be considered “open source,” a fully-functional, open source release – including the source code - must be available for download free of charge. This facilitates customer evaluation and, for companies with internal IT skills, the ability to obtain a base ERP platform which can be evolved internally to meet the individual needs of the company.

On top of the free version, our analysis led us to determine that we could offer three different value-added support subscriptions for Compiere. This enables customers to engage at one of three levels on an annual subscription basis, depending on the level of service desired. Matching the various product offerings to the market is critical in order to build a profitable business.

Compiere is in a unique position because we own all of the intellectual property used in the product. This gives us the flexibility to offer an open source license or a standard commercial license, depending on the customer’s preference.

### **Capitalize on Innovation**

Compiere is more than an open source company. We are an innovative ERP and business solution provider. Our software utilizes a powerful model-based application platform. This enables Compiere to define all of the business logic of the application in a data dictionary. The platform allows customers to modify, extend or build on top of our system by simply specifying the business logic in our dictionary. It is rapid, productive, and results in higher-quality applications.

In general, smaller businesses lack the skill or desire to tailor a particular system internally. These companies like the idea that they can customize apps but don’t need to do it themselves. Generally, this type of firm turns to a business partner for customization. On the other hand, large companies like the flexibility because they do have staff capable of performing customization and the unique flexibility of Compiere gives their business a competitive advantage.

As a result, Compiere delivers more than just open source ERP software. We offer a solution that gives customers unprecedented adaptability, rapid deployment and low cost of ownership which is backed by a stable vendor and a global business partner network.

## **Embrace Partnerships**

One of the advantages of open source software is that it opens new avenues of collaboration and partnerships. When the product was still a “project,” the founding team did not need to do outreach to find partners. Partners found Compiere.

Unlike some open source applications, ERP products can be fairly complex and often require some level of assistance to implement. Compiere Partners were key to helping customers succeed with Compiere by adding needed capabilities such as language packs, support for local tax laws and implementation assistance.

Partners remain critical to Compiere’s success. Compiere has a large variety of partners and supports their differing business models. Some partners function as traditional systems integrators, while others are complete VARs. We also have partners that OEM the product and build vertical solutions on top of it.

Our current focus is on expanding the number of partners with broader geographic presence to meet the demands of our larger global customers. We’ve found that when Compiere was more of a project than a company, the large SIs weren’t interested. Now that we’ve become a viable commercial entity, we anticipate that we’ll be able to move up the ladder in terms of the volume and capability-level of partners we attract.

## **Optimize Communication**

The nature of open source and the ease at which customers can evaluate applications does not necessitate a large sales force, but it does require easy access to information about your solution. As a result, all open source marketing and selling efforts start with the Web. The Web site must be very good at articulating the value of the offerings because it will always be the primary means of communication with customers – and potential customers.

I was surprised by the degree to which customers manage their own open source sales cycles. No sales team flies out to run a two-week demo. Instead, customers download the product and a set of demo data and drive their own evaluations (sometimes with the assistance of a partner). For this model to succeed, we need to provide as much information as possible to help customers embrace our product.

In this model, Compiere succeeds and profits by maximizing innovation and minimizing cost of sales. Customers benefit from an economical solution, with free source code and without vendor or implementation partner lock-in.

## **Avoid R&D Peanut Butter**

Compiere receives requests for new features every day and in every area of the product. We quickly realized that it is not possible to be effective by spreading R&D investment like peanut butter all over every market.

Open source companies – like all software vendors – have to determine the “sweet spots” of their market and focus on those areas. You must take your best cut at where the highest potential is for the market in the short term and make hard choices. You can’t serve everybody at the same time.

Compiere, for example, realized that most of our customers were in the distribution, professional services and light manufacturing industries, and we have worked to

best serve those customers now. Going forward, we'll continue to re-analyze our base and adjust our offerings accordingly.

### **Respect the Community**

An open source company has a big responsibility to be responsive to its user-base community. Because source code is in the public domain, individuals or groups within the community can choose at any time to break away from the core community, its software and services by creating a "fork."

Earlier in its history, when the excitement around Compiere exceeded the project's resources, several forks emerged, creating confusion among customers. In order to keep pace with growing demands and to reunite the community, greater resources were needed. This led us to seek venture capital investment in order to accelerate the development of product capabilities and services offerings.

While some open source purists believe all of the product should be cost-free, it is important to remember that the amount of development necessary to keep an ERP system fully functional is significant - and expensive. Few (if any) volunteers will spend their hours coding, testing, documenting and supporting a world-class solution without a financial return. Determining the appropriate balance between which Compiere products and services are cost-free and fee-based requires a respectful dialog between the company and community.

### **Improve Your Pedigree**

The community and company see value in the success Compiere has achieved in the marketplace. I'm proud to say that we've closed some big deals recently with multi-billion dollar customers. That is the first time Compiere has added such customers to its list.

As we attracted external investment and hired a new team, these A-list clients became convinced that Compiere wouldn't disappear overnight. As our pedigree has improved, more big customers are willing to entrust their core business system to us.

### **Start Early to Figure Out How You'll Make Money**

Most open source companies today are still struggling to find the right business model. Lots of early-stage open source companies aim for millions of downloads to build a loyal following- but then what? At some point, all vendors must turn a corner and start getting paid. It is important for open source project leaders to think about monetizing their software solutions as early as possible.

I'd like to think that I've been able to bring a lot of best practices to Compiere from the traditional enterprise software world. But I've learned just as much from my open source colleagues. As we tune our open source business model, we'll keep listening to our customers, innovating around our products and services, building our partner ecosystem and communicating with our community – and in the end, we'll become the ERP company of the future.

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