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The July issue of the OSBR marks two major milestones. First, the OSBR enters its fourth year of publication, as the very first issue of the OSBR rolled off the virtual press on July 23, 2007. Since then, we've explored 37 editorial themes and published the works of over 200 authors.

The second milestone involves an announcement and an introduction. I'll be stepping down as Managing Editor in order to start a new position as the Director of Community Development for the PC-BSD project (http://pcbsd.org). PC-BSD is an open source desktop operating system, based on the popular FreeBSD operating system. It is designed to be an easy-to-use open source desktop and has a vibrant and growing community of users, developers, translators, and documentation writers.

I'm pleased to announce that Chris McPhee will be taking over the helm of the OSBR. Chris' previous experience in management, design, and editorial roles will serve him well in his new role of Managing Editor. Having worked closely with him over the past few months, I'm confident that his sharp attention to detail, sense of humour, and eagerness to expand his knowledge of open source issues will ensure that the OSBR continues to be a quality and informative resource. Please join me in welcoming Chris to the OSBR.

It has been a great pleasure to see the steady growth of the OSBR from a nascent idea to a monthly publication that consistently brings value to its readership. While I'm looking forward to the challenges of my new position, I will miss working with the OSBR advisory board, the guest editors, the authors, and those readers who provide valuable feedback.

The editorial theme for this issue of the OSBR is Go To Market. The authors in this issue provide insight into target market selection, the advantages of a volume market strategy, strategies for aligning with business partners, improving product-market fit, and traditional as well as emerging open source business models.

The editorial theme for the upcoming August issue of the OSBR is Interdisciplinary Lessons and the guest editor will be Mekki MacAulay. Submissions are due by July 15—contact Chris McPhee (chris.mcphee@osbr.ca) if you are interested in a submission.

Dru Lavigne

Editor-in-Chief

Dru Lavigne is a technical writer and IT consultant who has been active with open source communities since the mid-1990s. She writes regularly for BSD Magazine and is the author of the books BSD Hacks, The Best of FreeBSD Basics, and the Definitive Guide to PC-BSD.

Historically, the concept of going to market is fraught with misinterpretation, doubt, and anxiety. In Canada, the term "go to market" typically means the task of readying a product for market. In this context, it is interchangeable with "commercialization," which is another concept suffering in Canada from a definition that generally does not go beyond a software maker's front door. In other parts of the world, and specifically in the U.S., the term "go to market" is clearly interpreted as meaning all the activities required to successfully launch a product into the marketplace and realize both market share and profit.

Going to market is about bringing the right benefit to the right market at the right price through the right channels. Ideally, the entire go-to-market process begins with the identification of a problem or sought-after benefit that a market segment has deemed a priority. More realistically, though, it begins with identifying the segment that best suits the software offering and then determines the business model, positioning and message, pricing, channels, and engagement techniques that will work best in building share in that segment. This issue attempts to take some of the doubt and anxiety from what seems to be the daunting task of pushing a product out of the door and into the harsh realities of a demanding market. It provides clear-eyed discussions of some of the main components, tips and advice from the "battle-scarred," and useful tools that can be readily used.

As author of this issue's first article, I discuss the importance of segmenting the larger market and then determining the right target segment in which to move, which is perhaps the most critical moment of a go-to-market process for start-up companies. Choosing a good target segment and then focusing effort and resources on that segment significantly reduces go-to-market risk. The article explores what it means to segment an addressable market and provides six steps to help young companies sort through its options and make an intelligent, informed decision.

Fred Holahan, Founder and President of Open Source Advisory, discusses how open source has changed traditional ways of connecting with prospects and customers and recommends a move away from more traditional software vendor market approaches toward a volume market strategy. Building from the premise that the familiar, old sales funnel does not work in open source markets, the article explores the lifecycle of open source relationships through a "progressive engagement" model that all makers and sellers of software, open source or not, should pay attention to.

Susan Riekki-Odle, Founder and President of ChannelGain, highlights the importance of treating the degree of alignment among your business partners as a key performance indicator. Effectively taking a new product to market is not a solitary task and usually involves a range of different types of business partners. Riekki-Odle looks at the degree of alignment among partners as a key performance indicator and provides insight into how a long-term view of partnering, combined with concrete steps such as ecosystem analysis and economic modeling, can improve the success of partner strategies. Using best practices and actual examples, this article provides core takeaways that can make an immediate difference for emerging companies.

Craig Fitzpatrick, author and entrepreneur, follows by keying onto a unique aspect of the open source world: community. His article delves into how open source, community-based software projects can improve product-market fit by integrating users into the development process. Fitzpatrick uses the experience of Shopify, a maker of e-commerce software, as it turned to its community for help with enhancements that were beyond the company's ability. The result was a product that better suited its users and provided a range of benefits for the company, which spanned from tighter customer engagement to a supportable continuous-improvement model.

Thomas Prowse, a legal expert and business advisor with deep experience in open source software, answers questions about currently prevalent models, particularly dual licensing and services, as well as emerging models such as open core, hybrid, and entersource. Prowse's conclusion is telling: trying to identify who is and who is not an open source vendor is becoming increasingly difficult as software vendors of all stripes incorporate some aspect of open source in their processes, applications, and usage.

Corien Kershey

Guest Editor

Corien Kershey is a partner in Marketing Magnitude (http://www.marketingmagnitude.com), specializing in strategic market and communications planning and execution. Corien has more than 20 years of marketing and executive management experience, and before Magnitude most recently with HBS, one of Canada's foremost agencies in technology marketing. Corien has developed successful brand and communication programs for technology accounts such as Mitel, Borderware, Compugen, Omnivex, and Pyrophotonics. Before joining HBS, Corien held CEO and Vice-President roles with satellite carrier TMI, Simware, NetManage, Buystream, FuseTalk, Serviceswitch, and Trigence.

Corien served as Director of the Marketing Certification Program at the Sprott School of Business and continues to actively teach in Lead to Win. She holds three degrees from the University of Waterloo and a Ph.D. from the University of Toronto.

"If one does not know to which port one is sailing, no wind is favourable."
Lucius Annaeus Seneca

This article explores the importance of good segmenting and targeting to early-stage companies. Most software companies fail within the first three years, and one of the prime reasons is a lack of a focused approach to a single, carefully-chosen target market. Most software companies take the approach of attacking multiple segments simultaneously to see which will work out best, but run out of time and money before they reach an answer. A concentrated strategy that focuses resources on a single segment that the company can win and dominate quickly significantly reduces go-to-market risk. Choosing a segment in the right direction is more important than choosing the right segment.

This article provides a series of six steps to help companies work through a segmenting and targeting exercise that will give them the best chance of success. The article provides real-world tools to help deal with an essential issue.

Background

This article is based on marketing lectures given by the author to entrepreneurs in the Lead to Win program (http://www.leadtowin.ca/). Lead to Win is a vendor-neutral business ecosystem designed to grow creative companies for the purpose of generating technology and knowledge jobs in Canada's Capital Region. When the first Lead to Win program ran over eight years ago, the majority of software entrepreneurs in the room were pursuing enterprise, proprietary business models. At the time, open source was thought of as "freeware" and very few were aware of its future significance. Since then, things have changed. Among the software entrepreneurs in Lead to Win, open source software startups now find themselves in the majority.

As business models have changed, much of the content in the Lead to Win program has changed accordingly. It is interesting to see what content areas have not changed, particularly the section on segmenting and choosing target markets. The reason may be that some things don't, or rather can't, change. There are fundamental truths about running a young company that function like the Laws of Physics:

1. Over the long term, a growing company cannot spend more money than it brings in.

2. A young company cannot build profit and win significant market share at the same time as these are mutually exclusive.

3. There is always competition.

4. The greatest competitor is apathy.

5. Any company should know its customers better than anyone else.

6. A young company that focuses on a single target market has a far greater chance of success.

The Importance of Market Segmentation

Segmenting and targeting together comprise the task of examining a product's entire potential addressable market, segmenting that market into sub-segments according to various criteria and then choosing a single segment as the go-to-market target. A simple and common example is soap. The entire addressable market for soap is all persons in the

world who wash themselves. From there, broad sub-segments may divide that huge market up by continent, then by gender, and then by age until there are several dozen large sub-segments. From there, segments can be further refined until certain underserved and undominated ones emerge, such as organic soap for babies or soap for very old and delicate skin. From there, the new soapmaker looking to focus on a promising single market may choose the latter as the target, concentrating product development, distribution, marketing, promotion, and pricing to become the dominant brand in that one particular sub-segment. Moreover, it is important that the soapmaker be able to build critical mass in the segment quickly, preferably dominating it.

Between 80 and 90% of software startups fail within the first three years, depending on how failure is defined. While they mostly run out of money, the root of the problem is often poor marketing, specifically poor segmenting and targeting. Most people think of marketing as promotion through events, advertising, social media, direct email, or viral methods. But those activities, correctly and collectively known as marketing communications, are the very last marketing activities that should be done. Marketing is better described as bringing the right product to the right market at the right price at the right place. If this function is executed poorly, nothing else matters and nothing else can be done to fix the problem. No amount of promotion or creative sales technique will save a company that practices poor segmenting and targeting.

A common mistake, made by open source and proprietary software companies alike, is to create something and then look for a market that will buy it. The company that designs a product and then enters the market looking for a customer will struggle. The company that first asks potential customers about their most pressing problems and then designs a compelling product to solve one of these problems is far more likely to succeed, even more so if the problem is a priority to the customer. Unfortunately, software companies tend to have a technology bias rather than a market bias.

Why do so many software companies get this wrong? And more importantly, what can they do to get it right, or at least as right as possible? There are a number of reasons why poor marketing is prevalent, including technology arrogance, lack of market information, indecision, and ignorance of segmenting and targeting. The latter is particularly common, and in open source and other software communities, it generally takes the form of creating differently-priced product feature sets, licensing, and support packages for different target segments. That kind of segmenting only starts to be successful after a company becomes well established and has enough customers that meeting their differing needs becomes a priority. A new open source company trying to go to market for the first time should instead focus on developing a clear idea of who they are selling to, what their customers' problems are and why the customers would use this product over any other. Pricing models should clearly serve the needs and preferences of that single target.

Ideally, a company should identify their target market and the value they bring to it before their product even enters the design stage. But that rarely happens. At a minimum, they should have a market

in mind before they take the product to market. It is less important that the target market is the absolute right one than it is to have a target market that is more or less in the right direction. If there is no target to aim for, there is no way to measure progress or success. If there is no target market, it is impossible to build critical mass or penetration. And, trying to sell into multiple segments to see which one works the best usually fails as the company will run out of time and money before finding the answer.

Segmenting and Targeting Exercise

How does a company decide which market segment to target first? There are a number of steps that an entrepreneur can take to help establish an initial target market. The remainder of this article describes a practical exercise of six steps to help identify a company's initial target market.

1. Define the total addressable market and all possible sub-segments: the first step in determining the target market is to create as broad a definition of an addressable market as possible, and then break it down into all possible sub-segments. This should be done in a group setting that includes colleagues and knowledgeable friends who are willing to contribute ideas creatively. The goal is to reach a generic definition of what the product could be used for, and then write down as many broad applications and uses for the product as possible. The challenge to the participants is to think in terms of how *people*, rather than organizations or other entities, could use the product. The best results are achieved when the participants are encouraged to be open-minded and imaginative, and contribute any and all ideas.

The number and range of ideas that will be generated will depend on the group and on the product itself. Some software products will have many different applications and uses, while others are more limited in how and where they can be used. If a sufficient number of ideas is generated, it may be possible to sort them into groups based on common characteristics, such as "industry type" or "problem that is addressed".

2. Create customer profiles: a constant problem that software companies face, especially those in the business-to-business market, is obtaining market data. It is difficult to know much about the target segments, such as what their problems are, what benefits they really want, what their priorities are, their ability to pay, and how many of them are out there. A company must turn to informed intuition, rather than analytical reasoning, in order to paint a picture of their customer.

This second step presumes that the company has some experience with the broad addressable market. Most entrepreneurs have worked in a related domain or have experience with related software, making it unusual for someone to start a company cold. Past experience is the start of intuition. From that basis, the company will sketch a brief single-page profile of a typical customer in the market segments previously identified in the first step.

The approach should be wide and ranging, building upon the team's own experience, readings, and colleagues as sources. Additional sources may include experience from unsuccessful deals, past customers, related software product categories, and any current customers. Team members should resist the urge to rely only on web-based information sources. The telephone remains one of the most effective information-gathering tools and companies should not hesitate to use it.

Each profile should consider the customer from both the organizational and individual-buyer perspective—unless the opportunity is targeted at consumers, in which case only the individual is relevant. The profile need not be lengthy but should answer the following questions:

- What problem causes the pain or frustration, or gets in the way of the benefit?
- How does the customer try to cope with the problem now?
- Is the problem on the customer's priority list for this year?
- What is causing the problem? What is interfering with a speedy solution? What goes wrong and why?
- How much money is the customer losing, either in additional costs or lost revenue? Can the pain be quantified?
- Who is the individual who feels the pain first and how does it propagate upward or downward within the customer's organization?
- Who else feels the pain? The customer's customers? Suppliers? Partners? Investors?
- What is the buyer's personal motivation and at what level are they in the organization?
- What is the buyer's demographic profile?

A simple chart, seen in Figure 1, can help focus and organize this part of the exercise. The middle column quantifies, or at least describes what is happening for each characteristic. The right column describes how the customer is dealing with the issue now. A pain or frustration point in this context can include quality of life, inconvenience, lost opportunities, and other aspects that are not problems per se. The characteristics should suit the segments under consideration.

3. Assess how well the product fits the customer's need: the next step is to determine how well the solution addresses the customer's problem. This involves a critical evaluation of whether the

Figure 1. Customer Profile Chart

Characteristic	Pain	Solution
Frustration point		
Costs		
Current solution		
Stakeholders		
Cause		

product: i) matches the customer's pain point; ii) is a compelling improvement over the current solution; or iii) will introduce new problems. A slightly modified version of the previous chart, seen in Figure 2, helps describe the company's solution relative to what the customer is currently doing. As much as possible, this should be an honest and objective assessment.

Once this assessment has been completed, the result should be a short stack of one-page profiles. To complete this step, the profiles should be sorted into categories with common characteristics such as industry, type of buyer, pain point, and current solution.

4. Create a short-list of promising segments: at this point in the process, there may be many appealing candidates among the profiles. It would be unwise, however, for a company to attempt to target all of these segments. A focused approach makes better use of limited resources, is more resistant to competitive pressure, produces a better product, and builds community.

Now begins the process of filtering the stack until eventually one segment remains. Each profile will be assessed against critical-flaw criteria that can "make or break" the chance of succeeding in that segment. This is done by asking a series of questions and rating the answers on a binary scale of yes or no, including brief details that justify the rating and eliminating any profile that fails.

The first question is: of all the possible ways of solving the problem, is the proposed solution the obvious choice from the point of view of each of the following?

- total cost, including installation, services, training, and adoption costs
- risk of new problems
- speed to implement
- ease of use and adoption
- maintenance and support
- stability of technology and company

Figure 2. Product-Customer Fit Assessment Chart

Characteristic	Pain	Current Solution	New Solution
Frustration point			
Costs			
Current solution			
Stakeholders			
Cause			

It is difficult to rate the solution honestly. Of course a company loves its product, but will its customers? It is important to remember that both companies and individuals have a laundry list of problems and wishes and limited time and money. Most companies and individuals will only spend money and time on those problems that are a top priority. As a CIO once told the author years ago, "I have 958 problems, but I only have the capacity to solve the top 30 in the next two years". This suggests that the success of a solution depends on it addressing something in that all-important "top 30".

Next, answer as honestly as possible the next series of questions:

1. Can the company supply the entire solution or does it depend on others for certain elements such as training, specific skills, hardware or applications? Is this a barrier? Are the missing components of the offering readily available? If the proposed solution is part of a bigger offering, does that offering satisfy the requirements?

2. Does the customer have the ability to pay? Do they have budget? Do the individuals have the authority? How do they prefer to buy and can it be delivered by the company in an appropriate way?

3. Is there entrenched competition that the customer already prefers to buy from or that will be a formidable foe? A new entrant should not attempt to fight toe-to-toe with entrenched offerings, particularly if the incumbent has brand strength. Is there a great deal of dissatisfaction with the competition? How quickly can the competition correct the cause?

The chart seen in Figure 3 can help when assessing a product against critical-flaw criteria. Following this assessment, the stack should be reduced to about four or five target candidate profiles.

5. Select a target segment: in this step, the remaining profiles are continuously assessed against seven selection variables that determine the solution's market viability until the top segment remains.

Variable 1: at what price will the customer buy? At what price can the company sell and stay in business? Total cost to the customer should be considered here, including training, support or maintenance, transition expenses, and expected costs of installing and testing updates. This assessment should also consider the software company's investment in development, ongoing costs, any margins that may be required, and whether the priority is to be profitable or to quickly obtain market share without going under.

Variable 2: does the company have the right sales channel to reach that segment? New software enterprises often overlook this aspect or simply assume that sales will be driven by their website or salespeople. If the software is truly simple to install, requires no training, and performs a minor function in the general scheme of things and therefore presents little risk, then web-based sales may be sufficient. If the product is open source and the customers are open source developers, web-based sales may be sufficient. But organizations and people prefer to buy major products from known and trusted brands and are loathe to buy from a small company they have never heard of or directly from the

Figure 3. Critical-Flaw Criteria Chart

Criteria	Yes	No	Reason
Compelling reason to buy			
Deliver entire solution			
Buyer with economic power			
No competition			

web without ever speaking to anyone from the company. The right sales channel is critical to bringing the product into the market successfully.

Variable 3: is the segment reachable? There is little point in targeting a segment that the company cannot communicate with. What type of media do they consume? Is it social media? Does the company have resources to market the product adequately? Does the company know and understand the segment sufficiently to be credible?

Variable 4: is the segment small enough for the product to gain critical mass and dominate? This seems counter-intuitive, but large segments are usually heavy with competition, are hard to capture any significant share in, and cost more money to penetrate. The segment should be small enough to dominate, but large enough to meet the company's needs within the first two years. If capturing 50% of the buyers in the segment does not allow the company to break even at that point, then it is likely not a viable segment to target.

Variable 5: will the segment survive? Is the segment at risk for its own survival because of competitive saturation, financial instability or a technology shift? Can the remaining lifespan of the segment be estimated?

Variable 6: can the company approach and win lead customers in that segment? This requires connections, the right calling cards, the right offering, and the right marketing. The segment has to have a history of adopting and actually deploying new solutions throughout the organization. Are there some in the segment who feel the pain more acutely? Do the potential lead customers have credibility with others in the segment? Will they participate in the design, development, and test processes? Will they pay? The product shouldn't be given away just to win a lead customer. A lead customer who does not pay is not a customer.

Variable 7: does the segment open doors to other, related segments? A viable long-term business cannot be built on one small segment that can be dominated. It requires branching out to other related

segments. A company should ensure adjacent segments are available, not already dominated by a competitor and will lead to profitability over time.

These seven selection variables are assigned weightings and rankings to determine which segment will come out on top. An example of a chart to help with this assessment is shown in Figure 4. Priorities are based on weighting where "1" is least important and "7" is most important. The solutions are ranked on a quality scale where "1" is poor and "10" is excellent. After the weightings and rankings are multiplied, the segment with the highest score moves on to the final round. The figure below provides a basic example, but weightings may change depending on the characteristics of the seg-

Figure 4. Selection Variable Assessment Chart Example

Segment 1				
Criteria	**Rank**	**Weight**	**Final**	**Reason**
Price	8	5	40	Price-sensitive market: we have low-cost business model
Channels	2	3	6	Market varies in buying preference: we have no partners or sales staff, web-only right now
Reachability	8	1	8	Market responds to a mix of approaches: we have strong opinion leaders onside
Segment size	4	2	8	We have the capital and resources to overcome segment size issues
Survivability	4	6	24	Product is long-term, high-value sale: segment is long-term
Lead customers	2	4	8	Segment respects opinions of others: we have no leads, will take time
Adjacent segments	7	7	49	Need other segments to be profitable: several promising ones adjacent
Total			**143**	

ment. For example, one segment may be more price-sensitive than another, requiring a shift in weighting. Rank indicates the company's strength in meeting the segment requirement. These variables are provided as a starting point, but depending on the context, segments may require assessment against other variables.

6. Test the target segment: the previous five steps have narrowed the segments down to one target segment with the second-highest-ranking segment as a standby. The final step is to test the target segment using a SWOT analysis (http://en.wikipedia.org/wiki/SWOT_analysis) against overall performance goals. If applicable, investors input is recommended. The results of this exercise depend upon an honest and faithful approach at each of the six steps. If the final target segment does not "feel right," the standby can be considered. Alternatively, the process can be repeated with a view to reducing bias, including invitations to neutral business colleagues to participate.

Conclusion

In going to market, a strong focus on a single segment that can be dominated quickly is imperative to success. Pursuing a number of segments simultaneously to see which one "sticks" risks disaster. Following the steps described in this article can help a company identify a market segment to target. While it is not essential to choose the perfect target market from the start—although to do so would have notable advantages—it is essential to have a well-defined target in mind and make course adjustments along the way. This approach increases the chances of having a more successful journey and reaching a more profitable destination.

Corien Kershey is a partner in Marketing Magnitude (http://www.marketingmagnitude.com), specializing in strategic market and communications planning and execution. Corien has more than 20 years of marketing and executive management experience, and before Magnitude most recently with HBS, one of Canada's foremost agencies in technology marketing. Corien has developed successful brand and communication programs for technology accounts such as Mitel, Borderware, Compugen, Omnivex, and Pyrophotonics. Before joining HBS, Corien held CEO and Vice-President roles with satellite carrier TMI, Simware, NetManage, Buystream, FuseTalk, Serviceswitch, and Trigence.

Corien served as Director of the Marketing Certification Program at the Sprott School of Business and continues to actively teach in Lead to Win. She holds three degrees from the University of Waterloo and a Ph.D. from the University of Toronto.

"If you want to succeed you should strike out on new paths, rather than travel the worn paths of accepted success."

John D. Rockefeller

This article discusses the unique challenges commercial open source companies face in bringing their products and services to market. It recommends an overhaul of traditional software vendor market approaches in favour of a volume market strategy and identifies the core technology, content, ·and best practice methodologies of that strategy.

The article is organized into five sections. The first section discusses the nature of open source customer relationships. It explains why the traditional sales funnel metrics do not apply in a commercial open source context. The second section introduces the concept of "progressive engagement" and discusses the lifecycle of open source relationships. The third section, multi-channel demand generation, identifies techniques for improving lead flow and quality by incorporating traditional lead sourcing techniques into the volume market model. The fourth section makes the case for marketing automation software and discusses some of the critical elements of an automated marketing infrastructure. The fifth section covers high-value content—the raw fuel of a volume market engine. It offers helpful insights for marketers to build and manage their content portfolios.

Background

Commercial open source companies face formidable challenges in bringing their products and services to market. While open source provides a proven outlet for reaching target adopters and evangelists, it also presents a unique monetization dilemma: motivating customers to pay for something that is fundamentally free. Whether a company is a "pure" open source vendor that makes money selling services or an "open core" vendor that offers both open source and proprietary commercial products, they face a variant of this monetization dilemma.

As recently as the new millennium, the go-to-market path for software vendors was simple and well traveled: build a product, hire an enterprise sales team, sign on resellers, run print ads, and attend trade shows. But open source distribution radically changes the way prospective customers find, evaluate, and acquire software. What used to happen through a high-touch, closely managed sales process now happens autonomously and anonymously. This shift is subtle but profound and requires a complete overhaul of traditional market strategies. Specifically, it requires commercial open source vendors to master and apply the concepts of a low-friction, volume market engine.

This article examines key elements of a volume market strategy:

- understanding open source customer relationships
- progressive engagement
- multi-channel demand generation
- marketing automation solutions
- high-value content

The objectives of this article are to describe the principles of volume marketing and discuss the key elements of a viable volume market strategy. This article is targeted primarily at commercial open source vendors—companies that leverage open source distribution to gain organic market adoption, with the objective of monetizing the value they deliver through their products and services.

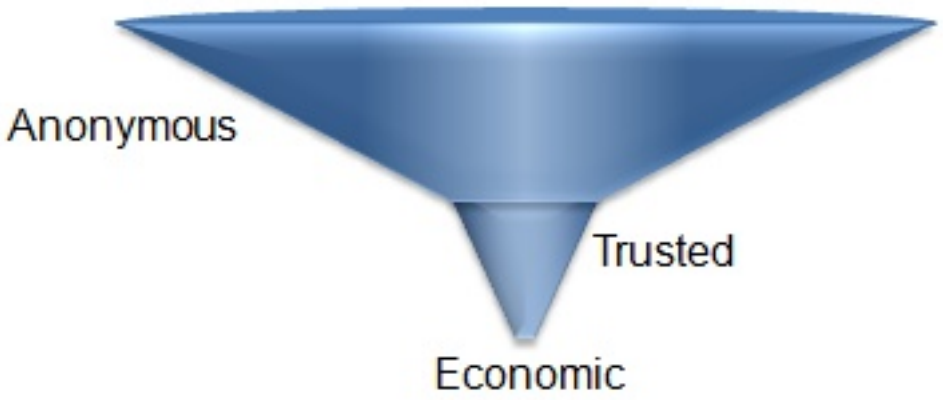
Understanding Open Source Customer Relationships

Over the years, the author has had the benefit of reviewing many pitches and business plans for commercial open source ventures. Regardless of whether a chosen business model involves pure services, open core, or a hybrid approach, entrepreneurs and investors consistently misunderstand how customers discover, engage, and buy. A tell-tale warning sign is the presentation of sales funnel slides depicting traditional relationships between leads, qualified leads, pipeline, and deals. Suspicion is also raised when forecasts of the average selling prices for initial subscriptions exceed $10K USD.

Figure 1 illustrates a typical commercial open source relationship funnel. At any point in time, the vast majority of user interactions are *anonymous* and free. Over time, some users will choose to self-identify. For example, they may register on the vendor's website to download a white paper or to attend a relevant webcast. Although no money has yet changed hands, the vendor has earned user trust through high quality interactions and compelling value exchanges. Ideally, an increasing number of *trusted* relationships will develop into paying customers.

Figure 1 is instructive on three levels. First, it illustrates the extreme magnitudes of activity, both large and small, at different stages of engagement. There are a lot more anonymous community users than cash-paying, trusted customers. Second, it suggests that the underlying processes—the ones that motivate users to engage and progress down the funnel—must be highly automated. Finally, it implies that vendors must provide compelling reasons for users to engage, trust and, ultimately, buy.

Figure 1. Commercial Open Source Relationships



It is noteworthy that not all open source relationship profiles are the same. Pure open source vendors, such as Red Hat (http://redhat.com), have vast anonymous communities relative to their trusted and economic relationships. Conversely, vendor-managed open source projects have relatively smaller anonymous communities. Examples include InfoBright (http://infobright.org), Alfresco (http://alfresco.com), and Talend (http://talend.com). Regardless of the chosen business model, all open source engagement funnels are heavily skewed toward anonymous users, suggesting the need to systematically, continuously, and progressively develop those relationships.

Progressive Engagement

The objective of a volume market engine is to move as many relationships through the funnel as quickly as possible. Figure 2 illustrates the notion of "progressive engagement". Open source offers an easy and convenient means through which customers discover, evaluate, and acquire technology solutions. Vendors must understand customer needs at each stage of the cycle and offer compelling motivations to progress more deeply. In the words of David Skok (http://forentrepreneurs.com), a venture capitalist and volume-market thought leader, "You have to make the customer's decision to progress from stage to stage an absolute no-brainer."

What assets do open source vendors have to offer in exchange for progressive engagement? The answer is somewhat dependent on the market and the company, but Figure 3 provides some examples to aid the discussion.

Figure 2. Progressive Engagement

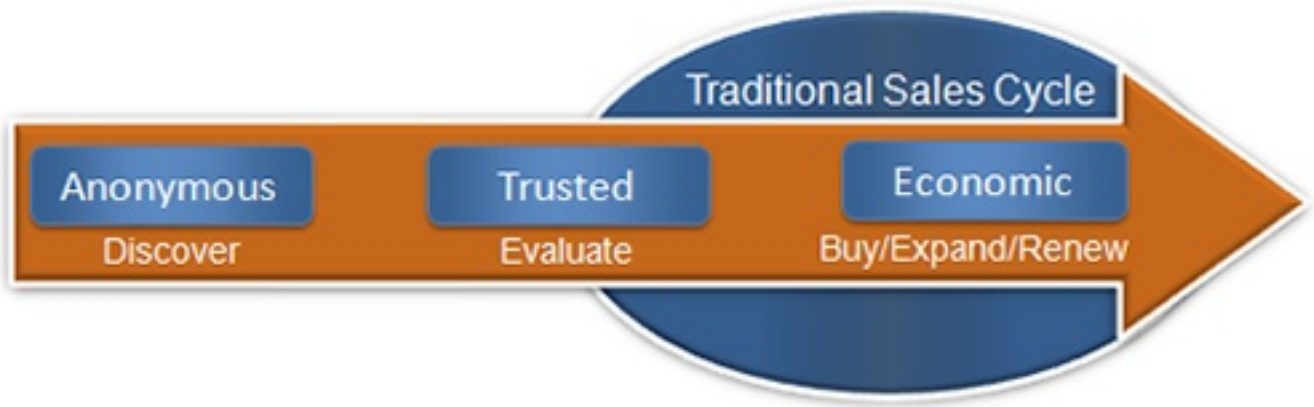


Figure 3. Progressive Engagement Value Exchanges

During the *discovery* stage, anonymous visitors typically download software, peruse support forums, and view other available technical information. Vendors sometimes choose to make certain high-value content, such as white papers and webinar archives, available to anonymous visitors to allow unfettered access during the discovery process.

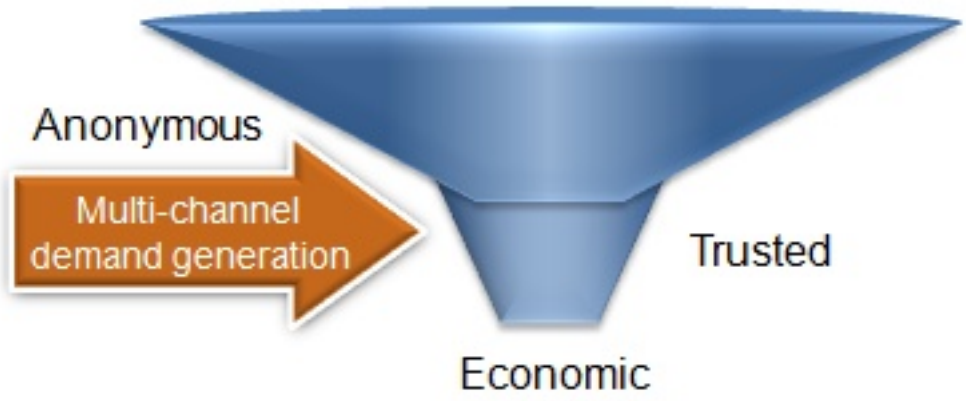
By the time visitors have progressed to the *evaluation* stage, they have gained enough confidence in the product and vendor to invest more time. It is vital for the vendor to understand that time, identity, and higher-value assets are the currencies of trade at this stage, not money. To motivate visitors to invest further and surrender their identities in the form of website registrations, the vendor must offer compelling value exchanges. Figure 3 illustrates that certain forms of content offering high educational value or portability, such as PDF-formatted product documentation, may represent suitable value exchanges. Every asset being offered at this stage should motivate target visitors to willingly register.

Once a trusted relationship is established, visitors may or may not be ready to begin a traditional sales cycle. For example, a visitor who registers to attend a webinar may not be receptive to a sales call, while one who downloads portable documentation and attends a mini-training session may be highly receptive. Marketing and sales automation software provide the technological foundation for iteratively testing lead generation programs and nurturing visitor leads until they are ready to be passed to the sales team for personal follow-up.

Multi-Channel Demand Generation

From a marketing perspective, some open source vendors operate in the dark. Their attempts at demand generation are limited to promoting their products on

Figure 4. Improving the Relationship Funnel



blogs and other social media, organizing a few local meet-up events, building a degree of download traction, and then praying for a miracle to occur.

For commercial open source vendors, building a community is the beginning of the monetization journey, not the end objective. Vendors cannot rely on their open source communities as the exclusive source of commercial leads. While it is true that some community relationships will cross over from free to economic, the percentages are small and the cross-over durations can be very long. Many commercial open source vendors have "died on the vine" waiting for community users to purchase support subscriptions.

Figure 4 illustrates how vendors can improve the profile of their relationships through multi-channel demand generation. To supplement community-sourced leads, vendors often acquire lead lists from secondary market research sources, syndicate high-value content on domain-specific websites, and execute integrated campaigns with targeted media partners. Multi-channel lead sourcing can significantly broaden lead flow, but those leads must still be developed and qualified before they can be passed to the sales team.

Lead sources vary widely in terms of cost and quality. Lead lists acquired from secondary market researchers are often relatively inexpensive, but they generally yield lower-quality results. Leads generated through an integrated campaign with a media partner often perform better, but they can be very expensive—often on the order of $100 USD per lead. For this reason, it is essential to have appropriate metrics in place to continuously evaluate the performance of each lead source.

Marketing Automation Solutions

Effective demand generation will yield a large number of raw, unqualified leads. Raw leads are usually not mature enough to justly follow-up by the sales team. The lead records may be incomplete; the prospect may not have need, budget or buying authority; or the prospect may not wish to speak with a sales representative. Marketing automation (MA) solutions al-

low raw leads to be programmatically developed to a point where they can be passed into the sales process. Companies like Eloqua (http://eloqua.com), LoopFuse (http://loopfuse.com), and Marketo (http://marketo.com) provide MA solutions based on software as a service (SaaS, http://en.wikipedia.org/wiki/Software_as_a_service). These MA solutions enable large volumes of raw leads to be programmatically nurtured into qualified leads. Key components of MA solutions include:

1. Visitor tracking: website visitor activity should be tracked from the first visit, including every page visited, every link clicked, and every asset consumed. MA applications do this tracking through cookies. When visitors ultimately disclose their identities, for example by registering or clicking through from an email, all of their historical activities are automatically linked to their registration records.

Consider the discovery stage and how much anonymous activity happens during those early interactions. By observing website visitor patterns, marketers can devise effective lead segmentation, nurturing, and scoring strategies. Individual visitor histories also provide sales representatives with rich information that they need to conduct informed, efficient sales calls with leads that have been moved into the sales process.

2. Email marketing: a lot of software packages and services are available for managing email lists. However, systematic campaigning goes well beyond the mass email event. MA solutions cover all of the mechanical campaign requirements, plus they provide advanced message configuration and monitoring capabilities.

Why is this important? First of all, corporate spam filters change regularly. It is critical to be able to configure email headers and subject lines to navigate through those gates. Second, it is vital to know whether message content is, or is not, resonating with recipients. Tracking how many messages are opened provides useful insight about the strength of an email message's subject line. Tracking how many recipients click a link within the message provides a good measure of the strength of the message's "call to action". Tracking landing page activity gives an overview of the effectiveness of the campaign. Successful campaigning is all about trial and error, running tests, and continuously improving. Contemporary MA solutions provide the ability to tune email and landing page content to optimize campaign performance.

3. Lead management: leads are not static. Sometimes leads enter the demand cycle as fully-formed prospect records, complete with name, company, email address, and telephone number. Most leads, however, begin as nuggets of data and develop over time. In volume markets, the vast majority of interactions occur in the realm of partial lead information, so it is essential to cultivate those leads efficiently. MA applications provide powerful lead segmenting, nurturing, and scoring capabilities for managing large volumes of leads.

Lead segmentation and nurturing allow batches of leads to be systematically developed until they are sufficiently mature enough to warrant attention from a sales representative. To illustrate this process, consider two batches of raw leads consisting of email addresses and no telephone numbers. The first batch (A) was sourced directly from a vendor's community; the other batch (B) was sourced

from responses to a promotion for the vendor's enterprise product. A MA system allows these leads to be programmatically pursued with different campaigns. Both campaigns may include scheduled distributions of the vendor's e-newsletter. The campaign for batch A adds scheduled mailings of technical white papers, webcasts, and forum participation details, whereas the campaign for batch B adds mailings for white papers, webcasts, and a free day of proof-of-concept (POC) consulting. In this hypothetical scenario, the vendor may be nurturing tens of thousands of leads using different approaches, all without any direct involvement by a sales team.

Lead scoring usually happens at two levels. First, within the marketing domain, scoring is the mechanism through which lead maturity is measured. As leads respond to email campaigns, visit key website pages, and download specific assets, their scores are changed to indicate increasing interest. Once a lead has achieved a defined score, it is transferred to the customer relationship management application (CRM, http://en.wikipedia.org/wiki/Customer_relationship_management) for sales follow-up. The second level of scoring happens during the transfer process. Leads with certain properties are scored higher than others, allowing sales representatives to pursue the highest priority leads first, such as leads from sources known to have resulted in past sales.

4. CRM integration: all MA applications integrate with Salesforce (http://salesforce.com) and a subset of them also integrate with other CRM systems, such as SugarCRM (http://www.sugarcrm.com). The choice of MA solution may be influenced by the chosen CRM product, so it is critical to select products that are already pre-integrated.

Although data typically flows from the marketing automation system to the CRM, it is not unusual for lead data to enter the CRM first. For example, a sales representative receives a lead from a partner and enters it into the CRM manually. It is critical that the integration between the MA and CRM systems be bidirectional, so all leads in the CRM can be included in future campaigns driven by the marketing team.

High-Value Content

If MA systems provide the power behind a volume market engine, high-value content is the engine's fuel to motivate visitors to progressively engage, particularly in transition from anonymous to trusted relationships. The essence of that transaction is the visitor receiving something of value in exchange for revealing their identity.

Many vendors miscalculate this value exchange. Some solicit registrations using assets that visitors do not value. Others do not require registrations for high-value assets, leaving precious leads ungathered. The following proven rules of thumb can help vendors calculate an effective value exchange:

1. Content with significant educational value, when properly promoted, will consistently command quality registrations. Examples of premium content are white papers, live and on-demand webinars, and podcasts.

2. Content that is perceived to be largely promotional in nature, such as data sheets, newsletters, customer case studies, will generally not induce quality registrations.

Although properly packaged high-value content will drive quality registrations,

they are among the most expensive, time-consuming assets to create. However, white papers, webinars, and podcasts can be considered different distribution media for the same content. We recommend building and delivering the webinar version of the content first, re-recording webinar audio for podcast distribution, and finally, developing the narrative version of slides for the white papers.

Many commercial open source marketers do not understand the mathematics of content. Consider a hypothetical scenario where leads have been segmented into three distinct target groups: i) end-user enterprises; ii) independent software vendors (ISV, http://wikipedia.org/wiki/Independent_software_vendor) and original equipment manufacturers (OEM, http://wikipedia.org/wiki/Oem); and iii) system integrators. Through automated marketing, the company wishes to contact all leads once a month with an offer for high-value content. In producing 3 segments every 12 months, the raw math says that the company needs to produce 36 high value content assets per year to fuel the automated engine. If half the content can be created in an audience-agnostic way, the requirement drops to 18 assets.

It is noteworthy that not all assets have to exist at the beginning of the cycle; different assets can be developed during the course of the execution period. However, the math suggests that a significant commitment must be made to content development, which requires appropriate plans, schedules, and resource allocations to meet those requirements.

Conclusion

Commercial open source companies face formidable challenges in bringing their products and services to market. The unique motivations and behaviors of open source users render traditional software market strategies ineffective. To succeed, commercial open source vendors must employ volume market strategies that leverage multi-channel demand generation, marketing automation software, and high-value content. In combination, these tools allow open source marketers to progressively and continuously engage open source users, developing anonymous, arms-length relationships into trusted, economic partnerships.

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"The greatest good we can do for others is not just to share our riches with them, but to reveal theirs."

Zig Ziglar

Technology companies have historically viewed partnerships through myopic, one-way lenses, asking only: "What can this partner do for me?" This type of thinking is even more pervasive with channel sales partnerships, where technology vendors limit the exploration of value to short term revenue contribution.

Vendors must broaden their scope and range of site when embarking on a path of partnership strategy. Ecosystem analysis, economic modeling, and creative go-to-market development are critical components of successful partnership strategies. This article discusses this critical business strategy through a real world example and an overview of best practice.

Partnership Overview

A partner is a third-party organization, association or individual who provides a vendor with a capability or advantage in the market. In the technology domain, there are many different types:

- technology integration partners
- joint ventures
- original equipment manufacturers (OEM, http://wikipedia.org/wiki/Oem)
- industry alliances such as associations and think tanks
- distributors and resellers
- consultants and agents

Each of these partner categories is different in nature but there is a key consideration that is common to all: core business alignment. The degree of alignment between two wholly separate organizations will have a significant impact on the success or failure of any partnership.

By their nature, open source businesses present what looks like an obvious opportunity for service-based partners. Open source vendors may naively assume that, because their software is open source and they have a service-based revenue model, partners will consider their product a prime opportunity for growth. While that may be true for service partners whose revenue is based, or growing, in the vendors domain, it may not be true for partners whose revenue is substantially diversified across many solution areas. The vendor's job is to quickly identify whether or not a target partner has sufficient focus on their core market to justify investment by both parties.

Analyzing Core Business Alignment

How does a partnership help achieve both partner's primary objectives without distracting or impeding each partner's focus on these objectives? Partnerships are complex and an upfront analysis of core business alignment is a key to success. At the highest level, this analysis is an evaluation of the economic model between the vendor and the partner. Economic analysis will tell the vendor what the chances are of building a successful and profitable partnership over time. Through this analysis, the vendor seeks answers to the following questions:

- what is the partner's focus?
- how is their revenue segmented?
- how are they organizationally structured to execute?
- how much time and attention will the vendor receive?

- how will that partner realistically contribute to the vendor's revenue?

This type of evaluation applies to any partnership analysis, but with open source vendors, the analysis is more heavily weighted toward the partner's service-based revenue model and technical ability to deliver.

A Real-World Example

A software as a service (SaaS, http://wikipedia.org/wiki/Software_as_a_service) vendor with a license revenue model partners with consulting and resale organizations that are 100% focused on the same markets as the vendor. For confidentiality reasons, the company's name cannot be disclosed. Partners, on average, generate 30% of their revenue from this specific niche and see this contribution to revenue growing by 30 to 40% over the next two to three years. Partners generate the majority of their revenue from services. However, the vendor's SaaS model does not produce as much service opportunity as the partner would see from traditional client server technology.

The vendor should see opportunity in this partnership because:

- the target markets are aligned
- a significant percentage of the partner's existing revenue comes from the vendor's target market
- the partner is projecting significant growth in the vendor's target market
- sales representative's annual sales quotas are directly tied to vendor's products and services
- the service and support teams are knowledgeable

The vendor must set realistic expectations of the partnership by:

- recognizing that the partnership cannot be based on revenue from implementation services and product margin alone
- working with the partner to develop services related to the technology that assist clients in achieving their business and technical objectives
- enabling qualified partners to deliver support and training to their clients for increased opportunities for service revenues

The example provided above is not open source, but it is relevant to open source partnerships involving service-based revenue models. In the case above, services are limited because the solution is hosted and easily configured. For open source vendors whose revenue is based on services supporting the application, the challenge will be to develop partnership models that grow the business at a lower cost of sale, while making enough service opportunities available to the partner.

Best Practice

There are many things to consider in developing a partnership strategy. The following examples of best practice are relevant to any vendor.

Know your market data. Whether it is from Gartner (http://www.gartner.com), IDC (http://www.idc.com), Aberdeen (http://www.aberdeen.com), or niche analyst organizations, look closely at how

the market data can guide your partnership strategy. There is a direct relationship between the stage of market adoption and the success rates of various partner models. An example of this is Gartner's Hype Cycle (http://rte.gartner.com/it/products/research/methodologies/research_hype.jsp).

According to Gartner, the Hype Cycle is "a graphic representation of the maturity, adoption, and business application of specific technologies". Within this cycle, there are five phases:

1. Technology Trigger: this phase coincides with the launch of a product or a technological breakthrough. This event triggers the initial media attention and market interest.

2. Peak of Inflated Expectations: the hype generated by the technology trigger creates high expectations, which prove to be unrealistic in most cases.

3. Trough of Disillusionment: interest plummets as the technology falls short of expectations and media attention moves elsewhere.

4. Slope of Enlightenment: realistic expectations are developed as businesses come to understand the value of the technology.

5. Plateau of Productivity: this final phase occurs after the technology has evolved to the point where its value is widely appreciated, even though its true potential still may not match the expections generated at the peak of the cycle.

This powerful tool is not just about market hype; of its five stages, two are measurable points of market adoption. Towards the end of the "Trough of Disillusionment", 5% of the potential audience has fully adopted the innovation. At the mid-point of the "Plateau of Productivity", 20-30% of the potential audience has adopted the innovation.

The adoption of an innovation directly relates to the type of partnership that will be effective and successful. As it relates to this model, the reality is that:

1. Direct sales and strategic partners can be effective and successful at any of the five stages of market adoption. Direct sales can be effective for two obvious reasons. First, they provide a direct representation of the vendor within the market. Second, they can adjust quickly to changes in innovation positioning and the market. Strategic alliances are effective at any stage because they address very specific product functionality or market requirements.

2. Solution providers are early adopters of third-party technology representation and are effective in stages three to five. They see potential in an early market and seek to become thought leaders as market adoption grows. They generally wrap services around technology and do not rely on margin alone in growing profitable partnerships. Solutions providers will resell, but that is not their primary motivation.

3. Resellers are primarily motivated by the margin on technology and do not fully invest in a market before there is enough demand to produce consistent and repeatable opportunities for transactional revenue. Therefore, resellers are not effective until the latter end of the fourth and fifth stages. Their services are typically related to licensing options and basic installations.

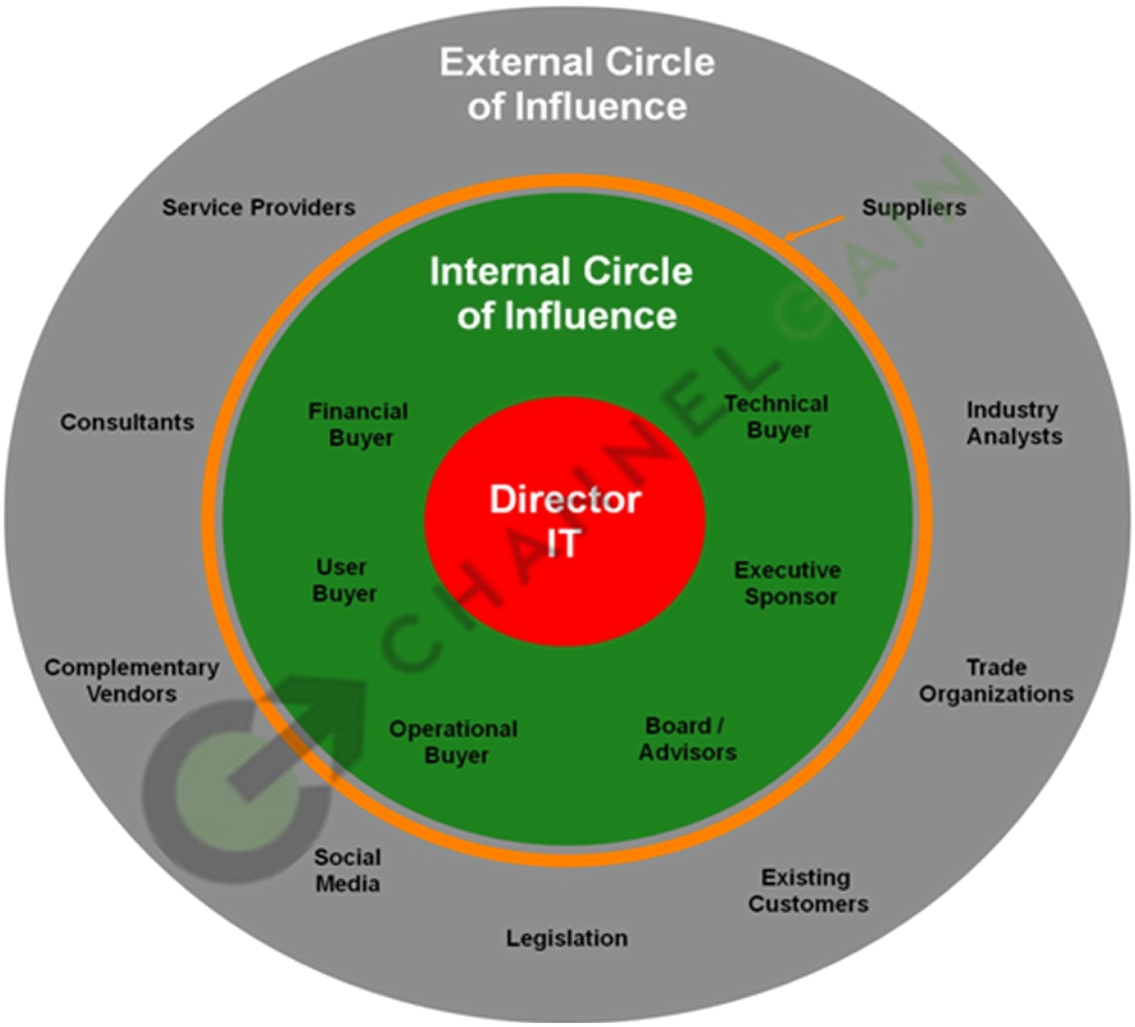
Analyze your Market Ecosystem

Unless a vendor's offering is mature with market adoption rates of 30% or higher, partnerships are primarily about influence first and secondarily about sell-through. As a result, influence can be found in areas that are not obvious in the context of traditional partnership.

In some cases, the most effective routes to market are based on influence and not direct sell-through. · Influenced-based routes are more profitable because they do not demand the same level of compensation and, in some cases, prefer not to receive compensation in order to maintain autonomy and a role as a trusted advisor. ChannelGain's Partner Ecosystem Analysis Tool (Figure 1) is intended to help vendors identify the best route to end-user decision makers.

In this example, the "Director of IT" is the target buyer who holds the technical requirement. The "Internal Circle of Influence" represents those individuals within the target account that will influence and be affected by the decision to go with a selected vendor's technology. The "External Circle of Influence" contains any organization, individual, or associate that supplies to, educates, or legislates the Inner Circle and Buyer.

Figure 1. ChannelGain's Partner Ecosystem Analysis Tool



Every vendor must understand their circles of influence in order to map the best routes to the decision makers. This will give vendors a clear partnership target map so that all efforts are focused on the client.

Further Recommendations

We also recommend the following best practices when analyzing partnerships.

Survey the install base to understand who the potential partner's typical customer is buying from, influenced by, and partnered with.

Establish a program to bring partners on board and take care of their needs on an ongoing basis. These programs should be customized to suit each partner type, but all must include training, guidance on primary market opportunities, business value propositions, and engagement processes guidelines.

Allocate resources to partner relationships and be capable business advisors who are able to work with partners to establish partner-level plans that take into account internal/external business dynamics, financial considerations, executive relationship management, long term partnership development, and short-term tactical engagement.

Create a partnership scorecard that includes validating the partnership in five key areas:

1. Financial: can they afford to invest in this partnership? Do they generate enough revenue related to the vendor to maintain their focus and motivation?

2. Technical skill: do they have the technical resources? Are these resources deep and broad enough to independently manage the sales cycle and post-sales implementation?

3. Operations: does the vendor have the partner's executive support for this partnership? Is there capacity across their sales, technical, marketing, finance, and administrative functions to deliver the plan?

4. Market position: is the partner well known? Are they a respected leader who has influence?

5. Partner's competitive position: are they representing a competitive product? What is their plan to manage competitive vendors? What investment and protection can the vendor expect? Are there any synergistic opportunities?

Finally, create individual partner plans with measurable business development activities and timelines. These plans should also identify key team contributors on each side (peers) and post-sales marketing activities, such case studies.

Conclusion

Partnerships are complex. Many vendors struggle with the decision to invest in partner strategies because when the don't work, they are very expensive to manage and exit. Up front analysis is a vendors best defense. It takes most of the work and complexity out of developing successful partnerships because it helps target partners who will be dedicated due to a shared business alignment.

Recommended Resources

Channel Management Experts LinkedIn Group
http://www.linkedin.com/groups?home=&gid=129519

Alliances and Channels Friends LinkedIn Group
http://www.linkedin.com/groups?home=&gid=35747

SaaS Channel Consultants LinkedIn Group
http://www.linkedin.com/groups?home=&gid=139116

Channel Excellence Blog
http://www.channelexcellence.com/blog/

Susan Riekki-Odle is Founder and President of ChannelGain (http://www.channelgain.com). ChannelGain enables early-stage and early-growth technology companies to succeed in channels and strategic partnerships. It does this by objectively assessing existing programs, identifying gaps, and opportunities, developing customized strategies that support the corporate plan and mentor resources to increase overall effectiveness.

Over the past 16 years, Susan's high-tech experience has touched every function within the sales organization. At a management level, Susan has performed the role of Manager of Channels, Director of Sales, Director of Channels, Vice President of Sales, and Vice President of Operations. Susan has held these permanent revenue-based roles with Quest Software, FastLane Technologies, neuroLanguage, Omni-Mark Technologies, and Peak Sales Recruiting.

"When all is said and done, the real citadel of strength of any community is in the hearts and minds and desires of those who dwell there."

Everett Dirksen

While many commercial software vendors still balk at the idea of open source, producing and participating in open source software (OSS) projects can provide significant benefits to a company. One benefit is improving product-market fit.

This article introduces the concept of product-market fit. It then provides an example of one startup's experience with opening a portion of their code. Finally, it discusses the importance of building community and some of the motivators of community participation.

Improving Product-Market Fit

The term "product-market fit" is often used by marketers and investors. It means that the product on offer is a good match to the needs of the target market. When launching a new product, a company strives to achieve a reasonably good fit early on, so that paying customers will buy the product. The next step is to improve the fit over time until as many qualified people as possible buy the product.

It is very difficult to make one product that is right for everyone. One strategy is to add requested features in order to complete a sale. As a result, software products are often significantly bloated and cumbersome by the time they reach their third release. We believe that releasing strategic software components as open source can help to improve the market fit of a software product while reducing the tendency towards feature bloat.

Opening Code to Address Customer Requirements

Consider the case of a small e-commerce product vendor. The vendor's product easily allows anyone to set up an online store and sell their own goods. When the product is shipped, it includes support for a payment gateway to handle credit card transactions. After some time in the market, the vendor realizes that the target audience uses a range of different payment gateways that are not currently supported by its e-commerce product. This creates a catch-22 situation. As a small company, the programming time required to support the range of possible payment gateways is limited. However, not supporting at least the most popular gateways is severely limiting sales. This was the experience of Shopify (http://www.shopify.com), an Ottawa-based company that was started in 2006 by two Ottawa based entrepreneurs, Tobias Lütke and Scott Lake.

Open source provided the solution to Shopify's payment gateway problem. Shopify created an open source project by releasing the portion of their code that connected their product to the payment gateway. In doing so, they demonstrated to the development community a method of integrating a payment gateway with Shopify. They then invited the community to write connectors for any payment gateway they would like to see supported by Shopify.

The community responded. Within months, developers wrote several connectors for third-party payment gateways that Shopify was previously unable to support. As a result, the addressable market for Shopify increased dramatically. Now their product could work with virtually any payment gateway. Shopify was no longer locked out of market seg-

ments due to gateway incompatibility. The developers that wrote the connector code also benefited as Shopify now worked with the payment gateway that they needed to use. Further, thousands of future Shopify customers benefited because they could now choose Shopify knowing that the product had a community of developers behind it, keeping it on top of the compatibility layer and making sure it continued to support a range of payment gateways.

Next, the company opened its shopping cart component to the open source community and once again, the community responded. At the start of the project, there were major third-party shopping carts that the product didn't support. Within months, all major shopping cart modules from third parties were enabled by the community.

Benefits of Shopify's Approach

In taking this open source approach to enhance two of their product's components, Shopify benefited in several important ways:

- product-market fit was improved by adding desirable features that were not in the initial product
- the typical bloat associated with adding features was avoided as customers could select only the payment gateways that they required
- switching costs for potential customers were reduced as they could continue to use their preferred gateway system with Shopify
- a community of supporters was established to actively promote the product online
- significant development effort was volunteered by the community to enhance the product
- by perceiving customer need and providing the developer community with the code required to meet that need, the company demonstrated goodwill
- evidence of a community of developers visibly adopting Shopify created proof of the product's value, something that usually does not occur with users simply using off-the-shelf products in isolation
- no trade secrets or intellectual properties were sacrificed in the process, even though Shopify is a commercial product

Building Community

It is said that "it takes a village to raise a child". Indeed, it appears that an increasing number of new products are brought to market not only by the vendor that creates them (the parents) but by the community behind them (the village). But how are these relationships managed? One method of dividing responsibilities is for the vendor to focus on the core value proposition and for the community to assist with increasing the breadth of the offering. A community can help extend a product beyond the vendor's initial vision and capacity to deliver.

While community members tend to volunteer their efforts because they perceive value in the product, they may gain additional motivation through a sense of inclusion. Another possible benefit is that the developer community may overlap with the user community, which provides an excellent opportunity for feedback about the product-market fit from the product's target audience.

With respect to product loyalty, platforms tend to receive more loyalty than standalone products. Part of the reason for this is switching costs. Once a customer adopts a particular platform, it can be

very time consuming and costly to switch to another platform. In contrast, the barriers to switching from one standalone product to another are usually lower. By engaging customers at the level of code, the likelihood that they will switch based on short-term pressure can be reduced.

Building momentum behind a product can be achieved by winning the hearts and minds of developers, an activity that can also be thought of as building community. OSS projects can be a great tool for building a vibrant community around a product.

For the vendor, great benefits can be realized by enlisting the support of a developer community through an OSS project. But what does the community of volunteer developers receive in return? The concept of a community is somewhat abstract, yet it is comprised of real people who are contributing their valuable time, skills, and effort. The following conditions and motivators can encourage developers to make valuable contributions to an open source project:

- a substantial existing base of technical users with a demonstrated desire to see the product extended beyond the vendor's current plans

- evidence that the product can address a significant portion of an important customer problem that potential users are trying to solve, particularly if enhancements can be added by the community

- a project that captures the imagination of developers: a large portion of the development community developed their skills as hobbyists and enthusiasts and are motivated to work on projects that they find interesting

- the project publicly recognizes developer contributions

The opportunity to reduce the likelihood that a single vendor will gain exclusive control in a particular domain is also a motivating factor. However, for vendors developing commercial products with open source components, this can have a negative effect on contributions if the vendor is perceived as a threat.

Finally, the use of an up-and-coming programming language can have an effect on contributions. Developers tend to rally around their favourite programming language. It can be worthwhile for a community to contribute to an open source project simply because it is one of the few projects in their language of choice. The newer the language, the better the chance that this is the case.

Concluding Thoughts

Strategic opening of code can help a startup or a company that is launching a new product to cost effectively meet the needs of its customers. Factors that contribute to the success of such a strategy include an existing customer base of technical users and a demonstrated need that is currently not being addressed by the existing solution. The company should take care that the released code allows for the development of enhancements to the product without affecting the core value proposition of the product itself.

Craig Fitzpatrick is an Ottawa-based software entrepreneur who has been involved in building several software companies over the last 17 years. He currently leads product development at SWIX (http://www.swixhq.com), a new social media startup. SWIX is like Google Analytics for social media.

Q. What business models are currently used with open source software (OSS)?

A. Over the past 15 years, I have seen OSS move from a technological novelty or curiosity to a key foundational element of our information economy. As a technology lawyer, I have found it fascinating to witness the parallel evolution of business models in this space. To answer this question, I will give a broad overview of some of the established and emerging OSS business models that companies, organizations, and individuals are currently using.

Established OSS Business Models

1. Service model: this well-established OSS business model is premised on charging for services to support the use of OSS software. While there are many companies of various sizes that have implemented this as their core business model, the best example is Red Hat (http://www.redhat.com/), which generated $750 million in revenue last year and has a $6 billion market cap.

At a high level, this business model is designed to benefit from large-scale adoption of certain types of OSS software. The OSS company target those user companies and organizations that prefer or require commercial support for the OSS. For example, the Red Hat business model focuses primarily on the popular Linux open source operating systems. In targeting user companies, it may offer its support service to a bank that is using Linux in its enterprise servers. In most cases, the OSS company positions itself as a supplement or alternative to relying on support from either the applicable open source community or an internal support team within the user company. In addition, this class of OSS company typically focuses on the addition of complementary services and products to drive revenue opportunities.

A recent post by Glyn Moody entitled 'Why No Billion-Dollar Open Source Companies?' (http://tinyurl.com/2aq46tv) discusses the challenge that the fundamental economics of OSS are bringing to the service-based OSS business model. Glyn's post has triggered a very interesting and healthy debate on OSS business models in general.

2. Dual licensing: this established, yet declining, OSS business model is premised on a dual (or multiple) license approach. Typically, this has involved the combination of a reciprocal (copyleft, http://wikipedia.org/wiki/Copyleft) license with a more conventional commercial software license. One of the most cited examples is MySQL, which licensed its database product under both a GPL and a largely conventional commercial software license.

At a high level, this business model is designed to use the OSS license to facilitate large-scale adoption of the licensed product and then follow such adoption with the offer of the commercial license. The commercial license is positioned to address certain actual or perceived deficiencies of the OSS license for certain types of adoption and use of the licensed product. In many cases, the marketing of the commercial offering has focused on creating "Fear, Uncertainty, and Doubt" (FUD, http://en.wikipedia.org/wiki/Fear,_uncertainty_and_doubt) in the mind of actual or potential end users about the legal implications of licensing software under the so-called "viral" GPL (http://en.wikipedia.org/wiki/GPL), and now Affero GPL (http://en.wikipedia.org/wiki/Affero_GPL).

According to a study by the 451 Group (reported on by GlobalThoughtz Research, http://tinyurl.com/2bn546p), the proportional use of a dual-licensing approach among open source software vendors has declined from 20% of

vendors two years ago down to just 5% of vendors using this approach today. I believe that the decline in dual licensing is being driven by both the inherent challenges of creating and maintaining a code base that is capable of being dual licensed as well as the increasing education and sophistication of end users with respect to OSS licensing.

Emerging OSS Business Models

3. Open core: this somewhat established, but still emerging OSS business model is premised on the open source licensing of the core software offering and the proprietary licensing of certain add-ons to that core product. Good examples of this approach include SugarCRM and Word Press.

At a high level, this business model is designed to use the OSS license (and OSS economics) to drive the large scale adoption of the licensed product and then follow on or supplement that offering with proprietary add-ons. In the case of SugarCRM, this may take the form of new CRM modules or increased scalability. In the case of Word Press, which hosts my personal blog, this may take the form of premium services that it makes available as part of its hosted-service offering.

While the open core model has generated a lot of interesting debate and polarized positions, such as the scathing critique by Brian Prentice of Gartner in his 'Open-Core: The Emperor's New Clothes' blog post (http://tinyurl.com/ydv55rl), it does, by most accounts, represent an important evolution in OSS business models.

4. Hybrid: this novel OSS business model is premised on the combination of the commercial licensing of a software product with the availability of both the source code for the product and certain rights to modify and use the source code under the umbrella of the commercial license. Since QNX, which was recently acquired by Research In Motion Limited, is the pioneer in this space, I have quoted its description of this business model type from its About Page (http://www.qnx.com/company/) below:

"The company has pioneered an innovative hybrid software model with three main components: 1) open access to product source code; 2) a commercial-friendly licensing model that lets customers modify source code and retain ownership of their modifications; and 3) a transparent development process that allows customers and community members to participate in product development—a benefit normally restricted to open source projects. Put simply, the new approach combines advantages of both commercial and open-source software models."

While we are still in the very early days, the hybrid model represents an intriguing twist on existing OSS business models and offers an interesting blend of openness, transparency, and commercial certainly.

5. "Entersource:" earlier this year, I came across the term "entersource" in Eric Knorr's post on Infoworld's Modernizing IT blog entitled 'Open source: Less profit, more fun' (http://tinyurl.com/23r7llr), which leads off with the provocative statement that "Open source ain't what it used to be. It's both more and less." According to Eric, "a diminished percentage [of developers] work for healthy open source software vendors, where the old-fashioned business model—give away the code and make money on support—isn't doing so hot." Eric quotes Black Duck CEO Tim Yeaton, who sees the area of enterprise application development as the "real open source explosion", and Eric reports that Michael Skok of North Bridge Venture Partners dubs this co-mingling of open source and enterprise software "entersource".

Since the four other models discussed above are grounded in the fundamental business equation of how the company makes money, it may seem, at first blush, that the customer-centric approach of entersource is a poor fit as a business model. In Sesame Street lingo, “one of these things is not like the others”! In fact, I see entersource and its variants as the major emerging OSS business model.

According to Eric’s blog, Michael Skok sees entersource "chiefly as a means for collaborative development". As I noted in my related blog post (and discussed in greater detail in my October 2008 OSBR article 'Treasury of the iCommons: Reflections of a Commons Sourcing Lawyer', http://tinyurl.com/2fnfr5l), this exploding trend of "commons sourcing" is increasing. As Eric points out, this is reflected in the fact that "enterprise developers are collaborating across company boundaries to develop components that can be shared under open licenses". This phenomena is driving unprecedented cost savings within companies that are frequently order-of-magnitude improvements over the status quo. When interviewed by Makesh Sharma in The Australian article entitled 'Open source enables innovation without lawyers or fees' (http://tinyurl.com/258vr3w), Roger Burkhardt, Ingress CEO, makes the point that "the open source model allows us to bring together the best minds in the world to work on a problem" and allows engineers from different companies to "collaborate without months of legal work."

As Michael Skok notes, there is an increased focus around OSS on "real ROI and payback, which has had the effect of making open source a 'mainstream, reliable, de facto part of the landscape'". In addition, Michael observes that "very few of these [open source] projects will reach the critical mass required to create a company," adding that, "a good product doesn't make a good open source project." In fact, he says, it is the reverse: you need a community first, and then a project to serve that community." In this context, we can expect to see entersource and its variants as a critical addition to the OSS business model landscape.

Conclusion

I'll end with Matt Aslett's quote from the GlobalThoughtz Research post noted above, "it is now more difficult to actually isolate and identify all of the vendors that have an open source business strategy. More vendors than ever are now using open source at different points in their process and applications and usage is not limited to pure-play open source vendors." As such, it is tough to wrap up a piece on open source business models since there is always more to write!

Thomas Prowse is a Partner with the Gowlings Kanata Technology Law Office (http://www.gowlings.com), where his practice focuses on providing legal advice in the areas of technology law and technology-related commercial matters. Before re-joining Gowlings, Thomas was Senior Counsel with Nortel where he worked extensively on OSS matters as the Global Law Department leader on the Nortel Open Source Advisory Team. Thomas is also the President and Founder of n2one inc., which is currently developing a subscription-based open source software legal information service offering. He is a frequent speaker, writer, and blogger (http://www.commonsresource.com) on open source and other commons sourcing matters.

The Open Source Developer Report: 2010 Eclipse Community Survey

Copyright: Eclipse Foundation

From the Executive Summary:

Eclipse is a large, vibrant, well-established open source community with over 200 open source projects, close to 1,000 committers, 160 plus member companies, thousands of companies embedding Eclipse into products and applications and million of users. Eclipse began as a Java IDE but has evolved into a much larger and more diverse open source community. Eclipse has become a major destination for people involved in developing software that includes open source software. In April 2010, the Eclipse Foundation undertook a survey of the Eclipse community to better understand how people are using Eclipse, using other open source software (OSS) and participating in open source communities. The purpose was to create a profile of how open source developers interact with the community.

http://www.eclipse.org/org/community_survey/Eclipse_Survey_2010_Report.pdf

Annual Report to Parliament 2009: Report on the Personal Information Protection and Electronic Documents Act

Copyright: Office of the Privacy Commissioner of Canada

From the Executive Summary:

The dominant theme of our work in 2009 was the protection of privacy in an increasingly online, borderless world. A case in point was the investigation that resulted in more public attention than any other in our Office's history: Facebook. The need for a global privacy standard is clear, given global data flows and ubiquitous communication and information technologies. In our interconnected world, we need to take a co-operative approach to protecting personal information.

http://www.priv.gc.ca/information/ar/200910/2009_pipeda_e.pdf

June 4

Linux Wins Quebec Court Case Against Microsoft

Montreal, QC

A Quebec court ruled a provincial agency was wrong to install Microsoft software on its computers without allowing others, such as Linux dealers, to bid on the lucrative contract, AFP learned Friday. The province's public pension fund administrator (Régie des rentes du Québec) spent $720,000 beginning in the fall of 2006 to install Microsoft software on its computers. Quebec Superior Court Judge Denis Jacques ruled the province should have searched for alternatives as required by its own rules for expenditures over $25,000.

http://www.google.com/hostednews/afp/article/ALeqM5iThaz1W8F19aDrcs3OQYudn9EOCw

June 23

Eclipse Helios Released

Ottawa, ON

Today the Eclipse community delivers its annual release train, a coordinated release of the major Eclipse projects. For the seventh year in a row, the 2010 release train, code named Helios, arrives on time and is now available for download.

The Helios release is the largest release train produced by the Eclipse community, including 39 different project teams, over 33 million lines of code are released and the work of 490 committers. The release train makes it easier for users and adopters of Eclipse technology to adopt new versions of the different Eclipse projects. The Eclipse community also makes available 12 different Eclipse packages that target different types of developer usage, including Java EE developers, PHP developers, C/C++ developers and many more.

http://www.eclipse.org/org/press-release/20100623_heliosrelease.php

July 18-24

Entrepreneurship @ McMaster

Hamilton, ON

An intense, one week course for people who are starting an entrepreneurial venture. The Summer Program is intended to help you map a route to start your business. Featuring an international faculty of veteran entrepreneurs, the program blends lectures, workshops and one-on-one mentoring.

http://milo.mcmaster.ca/emu

July 26-30

GeoWeb

Vancouver, BC

Meet with senior decision-makers, industry leaders and technologists that are interested in the convergence of web technologies, XML, web services and GIS. Learn more about the development of new GeoWeb technology, the impact of the GeoWeb on businesses and government policies, the emergence of new business models for the GeoWeb, and the multitude of applications associate with the new GeoWeb technology.

http://geowebconference.org

August 3-6

Balisage

Montreal, QC

Balisage is an annual conference devoted to the theory and practice of descriptive markup and related technologies for structuring and managing information. We welcome anyone and everyone interested in open information, reusable documents, vendor and application independence, and the other benefits of descriptive markup.

http://www.balisage.net/

August 14

Summercamp

Ottawa, ON

This event will bring together industry, academia, government, and community to learn about open source. Over 30 talks during the conference will cover technical, legal, and business aspects of open source use in private industry, community, and government. This event is relevant to technical and non-technical audiences. This event is relevant to all industries as 85% of businesses already use open source today. Talks will be a mix of skill levels with emphasis on approachable material suitable for beginners making this an excellent learning opportunity.

http://fosslc.org/drupal/summercamp2010

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The goal of the Open Source Business Resource is to provide quality and insightful content regarding the issues relevant to the development and commercialization of open source assets. We believe the best way to achieve this goal is through the contributions and feedback from experts within the business and open source communities.

OSBR readers are looking for practical ideas they can apply within their own organizations. They also appreciate a thorough exploration of the issues and emerging trends surrounding the business of open source. If you are considering contributing an article, start by asking yourself:

1. Does my research or experience provide any new insights or perspectives?

2. Do I often find myself having to explain this topic when I meet people as they are unaware of its relevance?

3. Do I believe that I could have saved myself time, money, and frustration if someone had explained to me the issues surrounding this topic?

4. Am I constantly correcting misconceptions regarding this topic?

5. Am I considered to be an expert in this field? For example, do I present my research or experience at conferences?

If your answer is "yes" to any of these questions, your topic is probably of interest to OSBR readers.

When writing your article, keep the following points in mind:

1. Thoroughly examine the topic; don't leave the reader wishing for more.

2. Know your central theme and stick to it.

3. Demonstrate your depth of understanding for the topic, and that you have considered its benefits, possible outcomes, and applicability.

4. Write in third-person formal style.

These guidelines should assist in the process of translating your expertise into a focused article which adds to the knowledgable resources available through the OSBR.

Upcoming Editorial Themes

August 2010:	Interdisciplinary Lessons
September 2010:	Founders
October 2010:	Governance

Formatting Guidelines:

All contributions are to be submitted in .txt or .rtf format.

Indicate if your submission has been previously published elsewhere.

Do not send articles shorter than 1500 words or longer than 3000 words.

Begin with a thought-provoking quotation that matches the spirit of the article. Research the source of your quotation in order to provide proper attribution.

Include a 2-3 paragraph abstract that provides the key messages you will be presenting in the article.

Any quotations or references within the article text need attribution. The URL to an online reference is preferred; where no online reference exists, include the name of the person and the full title of the article or book containing the referenced text. If the reference is from a personal communication, ensure that you have permission to use the quote and include a comment to that effect.

Provide a 2-3 paragraph conclusion that summarizes the article's main points and leaves the reader with the most important messages.

If this is your first article, include a 75-150 word biography.

If there are any additional texts that would be of interest to readers, include their full title and location URL.

Include 5 keywords for the article's metadata to assist search engines in finding your article.

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