

Open Source Business Models – IBM and Microsoft

Week 6

Announcement

- The Midterm 1
 - Wednesday, Oct. 20
 - Scope
 - Week 1 – Week 6
 - Multiple choice questions
 - Bring a scantron

Homework Assignment #6

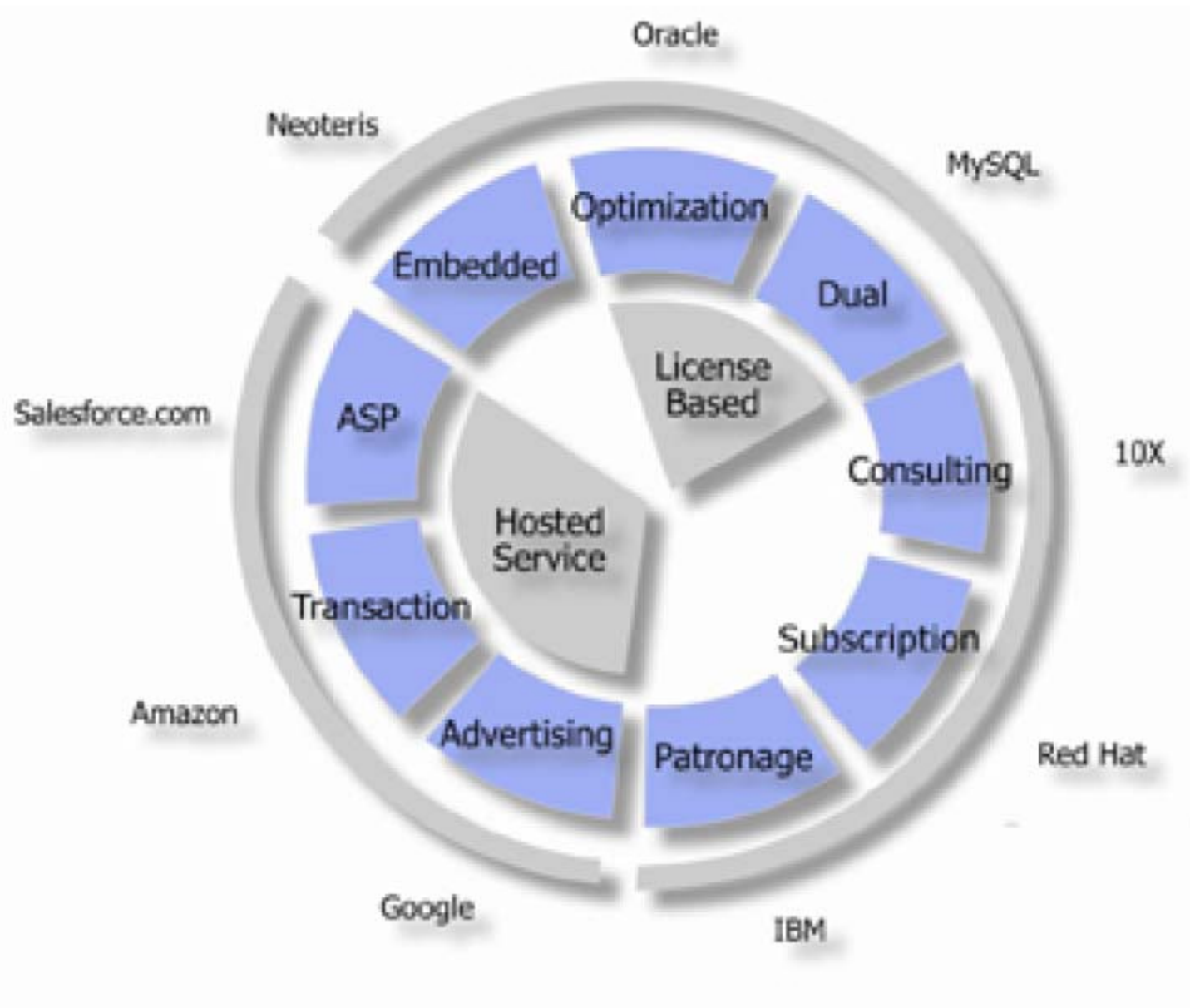
- Homework assignment #6 is a team assignment: 1) Break up these articles into a number of “small assignments” and assign small assignments; 2) make sure that all members understand these articles. Create three “meaningful” questions about these articles respectively and answer these questions. Prepare to debate on these articles.
 - <http://www.csun.edu/~twang/595OSE/HomeworkAssignments/HW6-1.pdf>
 - <http://www.csun.edu/~twang/595OSE/HomeworkAssignments/HW6-2.pdf>
 - Due date: Oct. 6th

(Team) Homework Assignment #4

- Submit the snapshot(s) of the user interface of your product
- Due date
 - The beginning of the Oct. 27th lecture

Seven Open Source Business Strategies

- The Optimization Strategy
- The Dual License Strategy
- The Consulting Strategy
- The Subscription Strategy
- The Patronage Strategy
- The Hosted Strategy
- The Embedded Strategy



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IBM vs. Microsoft

Strategy for Software Companies

- Do you want to be mainly a products company or a services company?
- Do you want to sell to individuals or enterprises, or to mass or niche markets?
- How horizontal or vertical is your product or service?
- Can you generate a recurring revenue stream to endure in good and bad time?

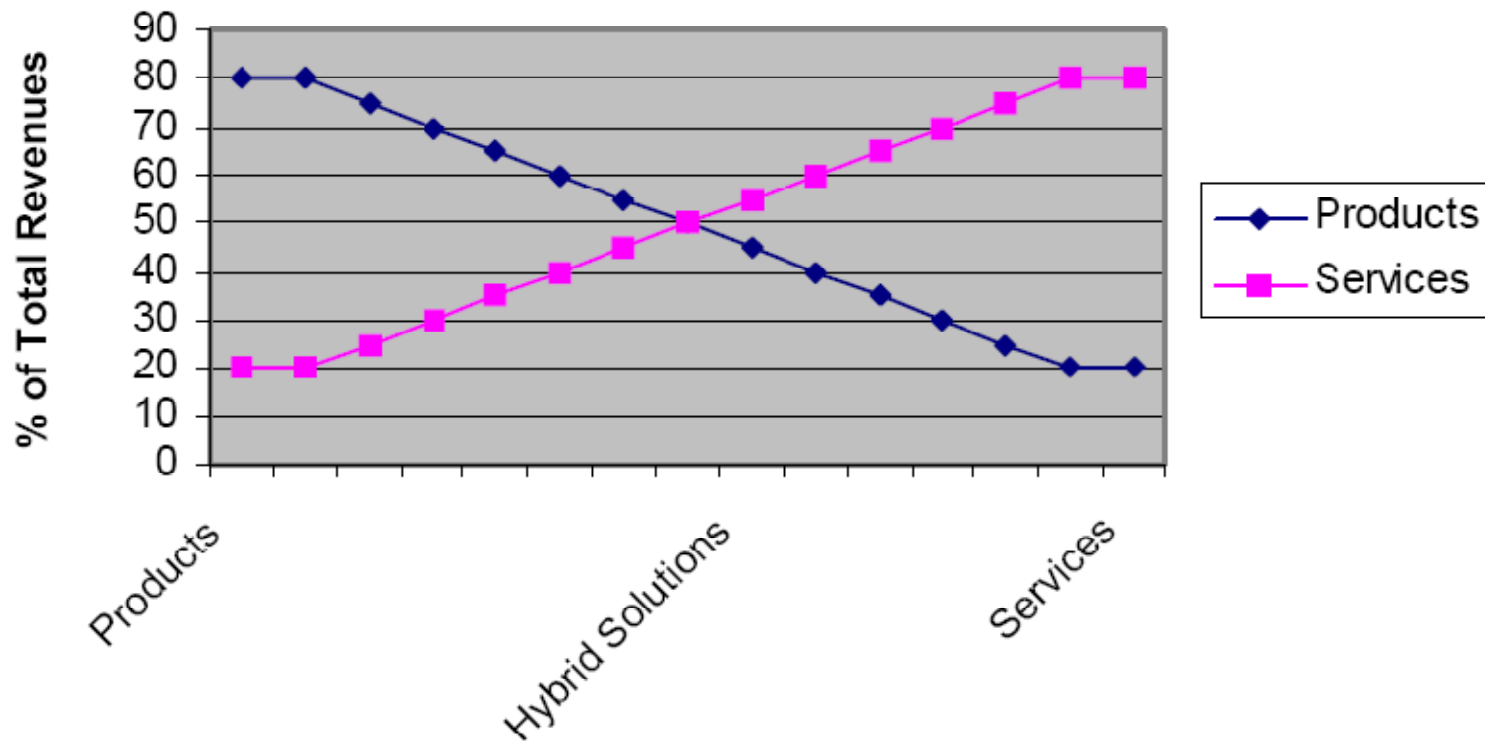
Product vs. Service

Product	Service
General users	Individual customers
“Shrink-wrapped” software packages	Customizing products and providing services such as ...
R&D-intensive	Labor-intensive
“Best-selling book”	“Bank account”
High profit	Low profit
Economics of scale	Economics of scope
Microsoft, Adobe, etc.	EDS, PricewaterhouseCoopers, Accenture, etc.

Hybrid

- Balance between product-model to a service-model
- IBM, SAP, Oracle, PeopleSoft (acquired by Oracle), etc.
- The pipeline of potential service revenues is dependent on the that of product sales

Three Business Models for Software Companies



Who Do You Want To Sell To?

- A niche or mass market
- Enterprises or consumers

Product Lines and Market Segmentation

- Segment markets horizontally or vertically or both
- Beware the lure of the horizontal
- Beware the lure of product bundling
- Beware the lure of too much growth and diversification

The Importance of Recurring Revenues

- Services and maintenance generate recurring revenues
- Products companies can generate predictable revenues, too

Company Character

- Be careful with revenue recognition
- Lose your credibility, and you lose your customers
- Industry leadership comes with industry responsibility

What to Look for in a Software Start-up

- A strong management team
- An attractive market
- A compelling new product, service, or hybrid solution
- Strong evidence of customer interest
- A plan to overcome the credibility gap
- A business model showing early growth and profit potential
- Flexibility in strategy and product offerings
- The potential for a large payoff to investors

Lab Activities

- Submit the team homework assignment #1
 - Work on team homework assignments
- Submit a weekly project progress report, addressing
 - The team number and a list of team members' names
 - A list of activities that have done in the previous week and the names of the corresponding contributors
 - A list of activities that will be conducted next week