

Outlines of Bruce Perens speech at De-2007 – Innovation Goes Public

Innovation Goes Public!

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Going Public?

When a company first becomes available on the stock market, that's called "Going Public"

Innovation isn't a company. How can it go public?

It turns out that Free Software / Open Source development shares a lot in common with investment markets.

But this talk isn't about Open Source companies going public.

Open Source does not mean Open Source Vendors like Red Hat and IBM. It means Open Source teams like the Apache and Linux developers, and their products. The vendors are middle-men.

It's about the new way of innovating in a public setting.

Free Software vs. Open Source

When I started the Open Source Initiative with Eric Raymond, I intended it to be a way of leading business people to an appreciation of Richard's ideas.

It was supposed to be just another way of talking about Free Software.

It didn't work out that way, unfortunately.

But fortunately, the reason it didn't work out is no longer important.

When I say "Open Source", I mean the same thing as Free Software.

What is Open Source?

A specific kind of software licensing, that gives you special rights.

Right to use, modify, and redistribute.

Enables a very powerful form of collaboration.

Creates powerful and innovative products that are the best in their markets:

Linux, Apache, Firefox, Wikipedia, etc.

Available to everybody without charge. You can pay for it, but you don't have to.

Who is Open Source / Free Software?

It is NOT the Open Source vendors like Red Hat, Novell, IBM, and HP. They are a part, but not the majority.

Open Source is development teams that make the products. The people who make Apache, Linux, Wikipedia. These are not companies, but less formal groups in which companies, individuals, and organizations participate.

What's Special About Open Source?

Open Source appears to go against capitalistic economic theory, but only until you look more closely.

It's self-sustaining: 25+ year history and going strong.

Its main developers are NOT its vendors.

Where are the sales? Where are the profits?

It is extremely customer-centric in its emphasis, rather than vendor-centric.

Why do companies go on the stock market?

To distribute cost and risk, with the motivation of sharing in the reward.

Cost: Non-Open-Source software developers must pay for development
FIRST. They only start to make a profit after they build their product.

Risk: Stock will be worth nothing if the product is not desirable or the company is mismanaged.

Reward: If the company makes money, the investors are paid back, and more.

Through the stock market, many investors share the cost and risk of a company.

What about Open Source / Free Software?

Its developers are its customers.

It distributes the cost and risk of development among many developers, because each shares in development, and no one puts in too much.

The pay-back is working software that is high-quality, and uniquely suited to its users needs, because some of them wrote it.

Its Developers Are Its Customers?

User companies like Amazon.com, Google, Merrill Lynch, Pixar

But how can those companies give away software and still make a profit?

How can those companies give away software without giving away their critical innovations?

How Can You Make Open Source, And Give It Away, And Still Make A Profit?

Selling Open Source is not a good way to make a profit, because someone else is giving it away.

But most companies do not sell software to make a profit. They sell books, wine, computers, services, etc.

But all of those companies still need software to do many different jobs in their company, for example to serve web sites.

Software is not a profit-making item for most companies, it's part of the cost of operation.

How Can You Give Away Free Software Without Giving Away Your Critical Innovations?

There are two different kinds of software in a company: Differentiating, and Non-Differentiating.

Differentiating: Makes your company look better than its competitor.

Non-Differentiating: You could give it to your competitor and that wouldn't make a difference in how customers perceive either company.

Companies must keep their business differentiators to survive.

How Much Software is Differentiating, vs. Non-Differentiating?

Differentiating: Amazon "recommendation" feature, Google "page-rank".

Non-Differentiating: Operating systems, web servers, word processors.

About 95% of the software in any company is non-differentiating.

But you still need non-differentiating software for most operations, infrastructure and "enabling technologies".

What Lesson Can Business Leaders Take From Differentiating and Non-Differentiating Software?

You should move as much as possible of your software development budget from non-differentiating software development to differentiating.

That will help your company get more customers.

But where, then, will you get the other 95% of the software your business needs?

Who Makes Differentiating Software?

If your competitor can get it, it's not differentiating. Thus:

Microsoft does not make differentiating software, because anyone can buy it.

Open Source does not make differentiating software, because anyone can download it.

For software to be differentiating, you must be able to control who gets it.

This, differentiating software must be made by your employees, or a consulting company.

Two Kinds Of Innovation.

Business-Differentiating Innovation: Has very high value to a company.

Non-Differentiating Innovation: Has value too, because it improves some internal aspect of your business, but usually less value than differentiating.

Methods Of Trading Non-Differentiating Innovation.

Patent it and license it to others, pay others for theirs. Market is extremely inefficient because of the cost of transactions and the cost of litigation.

Cross-licensing is a form of patent detente that has lower transactional costs for the parties involved, but has high barriers to participation.

Share non-differentiating innovation between companies as Free Software. Gets rid of the transaction cost. Low litigation cost unless governments increase software patenting.

Sharing Non-Differentiating Innovation Simply Pays Off

Open Source is the best way we know to do it.

Open Source has consistently trumped consortia: X.org over X Consortium, Linux over Taligent and Monterey, GNOME over CDE.

The difference is that the structure of Open Source puts the product first, the structure of Consortia lets companies work to the detriment of the product.

How Do Open Source / Free Software Teams Form?

It used to be that when something odd happened, police would say that it was the action of "an isolated crazy person".

In the age of the Internet, there are no more isolated crazy people.

Put together 50 people with the same crazy idea, and that's as powerful as a start-up company.

What Is The Marketing Paradigm of Open Source?

A massively-parallel drunkard's-walk, filtered by a Darwinistic process.

Projects start with one person's idea.

Projects do not become Open Source until they are at least a little useful to someone else.

What Happens When An Open Source / Free Software Team Dies?

Someone else takes over.

Anyone has the right to do so, without any signatures, because of the Open Source / Free Software licensing.

This very strongly protects companies that use Open Source from having the software become useless if some company goes out of business.

The only equivalent in proprietary software is escrow, and it doesn't work well.

Open Source also drives quality up and cost down due to "Adam Smith's Invisible Hand": the economic effect of competition on services.

Where Do "Open Source Companies" like Red Hat, Novell, even HP and IBM Fit In?

Sometimes not very well, because there is often a conflict of interest.

Remember, the vendors are NOT the main producers of the software. They are not as important as the user-developers.

If Open Source is a stock market, the Open Source projects are the companies that trade on that market. Red Hat, Novell, and IBM are the stock-brokers.

Brokers are useful, but they are a middle-man, not the product or the user.

Are We Communists?

What, do you think that Karl Marx invented helping your neighbor?

Does Open Source / Free Software Hurt Jobs?

Only 30% of programmers work for firms that actually sell software (U.S. Bureau of Labor Statistics).

Most programmers work for companies that use software, rather than sell it.

Job-elimination theories assume a fixed demand for software. But the demand for software has not reached any kind of limit. If we could make software for less money, companies would want more of it.

If you are looking for where jobs are going, it's not Open Source, it's the nations where well-educated people will work for less money. The Internet has enabled them.

Should Open Source Be Allowed To Displace Proprietary Software?

Please entertain the question for a moment, because we will have to answer it in order to get what we want from government.

Should refrigerators have been allowed to displace the tremendous ice industry?

It's important how we state this in political forums: Only where Open Source has advantages over proprietary software should it be allowed to displace it.

But of course some of those advantages are the freedom that comes with the software, not just the software's features.

The way we ask for things will effect whether or not we get what we want.

Open Source / Free Software vs. Copyright and Patent

Copyright does not present a problem for Open Source because copyright does not prevent anyone from writing their own program and making it Open Source.

Software patents do present a problem for Open Source because they prevent anyone from using certain ideas, even certain mathematics.

Copyright protects proprietary software authors without doing harm to others.
Software patents work against innovation in general by imposing the inefficiency of high transaction and litigation costs.

Software patents impose many forms of injustice, I have an entire paper just to detail the problems they create for standards.

Europe is Important to Open Source / Free Software

If Europe does not support software patenting, the global initiative to increase it will fail.

This is important, because software patenting can entirely stop Open Source.

The litigation load is simply too much for the independent participants and small-to-medium sized enterprises to sustain.

But how to stop EPLA?

Currently, the U.S. believes itself to be one leg of an "Intellectual Property Triumvirate" with Europe and Japan. Obviously, India and China have become important as well.

What Should Laws Do?

Laws should help to promote innovation.

Open Source is an important way of innovating.

That means that more restrictive or enforcible Intellectual Property law, for example EPLA, is not necessarily going to help innovation.

At the same time, we should not throw out proprietary software for the sake of Open Source.

What Should Laws Do? Part II

Laws should promote both Open Source and proprietary software without damaging either.

Laws should encourage competition between them.

Laws should be fair to both of them.

Should We Have Laws That Prefer Open Source?

We should have an Open Source law, but not necessarily a PREFERENCE.

We should have laws that require that Open Source be considered.

Open source and proprietary software should be compared on their merits, but merit does not just mean software quality and features. Open Source licensing IS a merit because it encourages service competition that drives cost down and quality

Lessons

Open Source is an important means of innovation.

Open Source is an innovation in itself. The world is changing. Will you help, hinder, or get out of the way?

Do not mistake Open Source vendors for Open Source. They are participants in a larger whole that often have a conflict of interest with Open Source.

Laws should place Open Source and proprietary software on a level playing field, considering both of their merits, and Open Source licensing is a merit in itself.

EPLA could be a big step toward killing Open Source.

Digital Rights Management

The Internet is like the Gutenberg Press. It puts the power of political discourse in the hands of the individual again.

The freedom, and the ability for everyone to participate in political discourse is fundamental to democracy.

The greatest anti-democracy forces operating today are the fight against net-neutrality and the use of digital rights management in Internet media devices.

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