

Why there will be new software winners in ten years time, and how the giants will fall

Bygone market consensus was that Open Source (OS) software wasn't worth the investment. Open means free, and free means you can't monetise it. Yet today, technology investors are throwing money into Commercial Open Source Software (COSS) companies like it's going out of fashion.

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Let's make no bones about it: open source is changing the game. Open Source is eating software - driven forward by vibrant communities, product-led growth and instantaneous distribution, which has already led to parabolic growth rates. Due to this rapid and systemic transformation, the software giants dominating both public and private markets in ten years time will look completely different.

This begs two questions: How did we get here? And what happens next?

What is Open Source?

Let's start with the basics. Open Source software is published under a license that makes it openly available to anyone and for (almost) any purpose. This means anyone can do almost anything they want with it - i.e. study, change or use it in commercial projects, suggest changes, develop further features etc.

It is therefore deemed to have been developed “in the open”, collaboratively, and in a decentralised manner by a community. It isn't owned by private individuals or companies, but rather it is given to a non-profit foundation that performs administrative oversight and licenses the software. It can be used and accessed freely without copyright infringement.

The OS concept emerged in the 1980s when MIT researcher Richard Stallman wrote his own code to change functionality of a university printer, and exploded following the adoption of GNU and Linux throughout the 1990s. Commercially, the IPO of Red Hat in 1999 was the first major success. Since then, the company was long considered the only viable business built around OS, with consulting services at its heart. This is in stark contrast to the realities of today thanks to three key developments in recent decades.

Business model innovation

Ever since the widespread adoption of Linux, OS has delivered significant value for end users. Although, until very recently, only a fraction of said value was economically quantified by Red Hat, which was considered an outlier.

However, more recent innovation in business models has led to a new wave of very successful COSS companies, most of which employ a combination of three monetisation strategies - Open Core, Cloud Hosting and Services/Consulting (like Red Hat).

Open Core is a commercial model, where only a basic version of the product is freely available under an OS license, while a commercial version is closed source that customers need to purchase if they want all functionalities.

The general pattern is to make a distinction between an essential core providing everything that a single user or a small project needs (community version) and an enterprise version, which offers additional features. Individual developers and non-commercial users can then freely test the product, with businesses paying for extra features.

The shift towards cloud computing has also allowed businesses to monetise OS through managed services. Companies used to run software hidden away on their own servers, whereas now they increasingly outsource the heavy infrastructure lifting.

Unsurprisingly, the big three cloud providers (AWS, GCP and Azure) are leading the way here. Nonetheless, OS creators know their software better than anyone and are well positioned to offer a superior service. Examples like Confluent, MongoDB and Atlas all come to mind.



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Market proliferation and novel distribution models

Not only has the complexity of software development increased exponentially in recent times, but so too has the number of developer tools available. As a result, organisational decision-making power has

flipped. End users - not C-level executives - are driving purchasing decisions.

Increasingly we are seeing many high-growth vendors embracing a developer-first and product-led culture. The success of this approach goes hand-in-hand with OS software, which leads to better tool choices and more innovation. Small startups are empowered to compete with tech behemoths with much less money.

As a VC, this is something to be admired. Cheap, instantaneous distribution through a viral community, where in the best case scenario your enterprise customer has already made their purchasing decision before having even spent a single dollar on the sales process.

Perception shift and Big Tech

Having once been considered the cheap and inferior alternative to closed source software - and somewhat of a niche movement - the worlds of open and closed software have become somewhat symbiotic.

Many of the most popular OS projects were born from internal tooling at large companies, which were later donated to the community. Some standout examples include React/Facebook, Kafka/LinkedIn and Kubernetes/Google. Almost all larger projects are now also sponsored by big tech firms who pack developer power.

In fact, there are now barely any closed-source software projects that are not using OS and big tech is heavily reliant on it. Microsoft, historically an enemy of open-source, has shifted its stance in dramatic fashion. The company has been incredibly active in the OS space; having embraced projects like Linux and Kubernetes and acquiring Github, the epicentre of OS collaboration too. After an inauspicious start, Microsoft has come full

circle.

Where next then?

As Marc Andreessen famously said, “Software is eating the world”. Well, Open Source is now eating software. Open core and managed services are paving the way for new software giants and OS projects. This will be driven by product-led growth and cheap distribution, leading to parabolic growth rates.

This is real innovation. A true shift that is creating a totally new type of software company. Therefore, the dominant software companies of the future will include so many new players. And it’s already happening, Plausible Analytics and Posthog are coming for Google Analytics, and there’s no reason why an Open Source ERP/CMS couldn’t replace the likes of SAP or Hubspot.

This presents opportunities for founders, and of course, for the investors that back open source software companies early. This also means there will be casualties. If market leaders fail to keep up with the pace of innovation, they will fall by the wayside.

The next ten years will see tectonic shifts in software, and I look forward to open source becoming the dominant force.

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