



Stanford eCorner

The Value of an Open Source Model

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Video URL: <http://ecorner.stanford.edu/videos/1892/The-Value-of-an-Open-Source-Model>

Ping Li, Partner at Accel, argues that open source can be an effective business model for some startups although not all startups. Li argues that the key value of an open source model is not the collective input of a broad contributor base--the reality is that the application creator almost always puts in a great deal more effort creating the application than the community. Rather, the value of an open source model is free distribution across a broad base of contributors and users without costly sales forces or overhead. However, monetization of an open source model is a little different as it requires offering optional value-add features that users may want.



Transcript

From an investment perspective, we've invested quite a bit in open sourced models. J Boss and Zen Source are two recent ones, and a slope of others. And I think open source is not a model for every business, so don't every go start of with open source businesses. But I think there are certain dynamics about open source that are really effective. One is in terms of building a community of developers early on to kind of get this thing going and evangelize in this case, Bram had his kind of community built around him to go ahead and add to the product. But overtime that's actually not where most of the value is, because you're building the technology yourselves. Frankly the open sourced community never contributes nearly as much as the actual developer, the originator of the open source. The real value of open source as we've seen is distribution. You get free distribution, whether it's Linux, you don't need a sales guy, people just download that. J Boss, you don't need a sales guy, people just download J Boss at server.

So it's the bill you have, distribution without a sales force. And the sales force is what cost a lot of money, right? So, what Bit Torrent was able to do is get massive distribution, 150 million peers. In to my earlier comment, you're not a peer-to-peer network unless you have a lot of peers. So for us, the open source of actually was a really an efficient way of getting the distribution problem solved. How are you going to convince everyone to download your clients, unless you kind of do an open source time model? And that's kind of what we thought was particularly powerful. From a monetization perspective, where there are all great open source companies, you have to do something other than the core protocol in this case in order to monetize. And as what was mentioned, there were a lot of propriety extensions that we built on top, that you have to basically participate or pay for in order to get that value. But the good news is once you already have this stuff out there, then it's a lot easier to go back to the person and say, "Hey, do you want to pay a little bit extra more to get this additional value?" Now you have 150 million peers, it's easier to go to a gaming company and say, "hey by the way, do you want to reduce your bandwidth cost by X? Because we got all these peers out there, and it's already out there." So they get immediate value without you having to go sell and do all that kind of work. So the model doesn't fit for everything. But in this particular case, we saw open source as a very smart and actually distinctive way of getting distribution and the proprietary stuff and all the other technology that has been built on top, that's only Bit Torrent.