

# Successes and Challenges for Open IP Business Models

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# Overview

- Comparing Traditional and Open IP Business Models
- Example
- Implications
- Some Questions

# Capitalism vs Communism?

- Many businesses are built on earning revenue from exploiting rights under traditional copyright, eg:
  - Textbooks
  - Software
  - Research Journals
  - ...many others
- For many of these businesses, the idea of providing all copyright material at no cost sounds crazy at best...
  - “Communist”, “IP destruction”, “viral” at worst

# Open ≠ Revenue Free

- Earning revenue is quite common in the “open world”
  - Many FOSS developers provide fee-based development services (with code often released to all)
  - Stallman supports fees for distribution; dual licensing for FOSS
  - Fee-based training & consulting services
  - Pay-for printed books, with no cost version online
  - Articles/blogs/pictures online with in-page advertising
  - CC Non-Commercial: potential revenue from commercial use
- Even non-revenue-based approaches (eg, free content online) may lead to financial benefits later
  - Personal (and institutional) promotional and reputational benefits

# Conflicting Business Models?

Traditional Copyright Business	Open Copyright Business
Earns Revenue	Earns Revenue
Relies on copyright law as the foundation for business	Relies on copyright law as the foundation for business
Giving material away for free helps with promotion, marketing	Giving material away for free helps with promotion, marketing
Take legal action against those who break licenses	Take legal action against those who break licenses

# Conflicting Business Models?

- Obvious difference
  - Do you pay for copyright material or not?
    - (For open, are you free to change and redistribute)
- Underlying difference
  - A business model capable of providing large returns on risk capital investment
  - vs
  - Individuals who develop open software/content (and accept the personal risk of wasted effort); and some hope to gain modest income from fee-based services (...eventually)

# Hypothetical Example

- Educational software – organisation level system
- Compares two market leaders
  - Proprietary software company
  - Free/Open Source Software community
- Assumes approximate equivalence of functionality in later years from perspective of many users
- Many assumptions required, would benefit from refinement, many issues need further discussion...
  - But a very rough comparison is sufficient for current purposes

# Basic Spreadsheet

## Traditional Software Business

Yr	Yrs of Dev (pr Yr)	\$ Development	Org Users	Cost of Sale	Exec & Admin sta	Exec & Admin cos	Total Yearly cost	Revenue	Yearly P/L	Cumulative P/L	Investment
1	50	\$2,750,000	50	\$5,000,000	5	\$250,000	<b>\$8,000,000</b>	\$1,500,000	-\$6,500,000	-\$6,500,000	\$7,000,000
2	60	\$3,300,000	200	\$15,000,000	10	\$500,000	<b>\$18,800,000</b>	\$6,000,000	-\$12,800,000	-\$19,300,000	\$13,000,000
3	70	\$3,850,000	500	\$30,000,000	15	\$750,000	<b>\$34,600,000</b>	\$15,000,000	-\$19,600,000	-\$38,900,000	\$20,000,000
4	80	\$4,400,000	1000	\$50,000,000	20	\$1,000,000	<b>\$55,400,000</b>	\$30,000,000	-\$25,400,000	-\$64,300,000	\$40,000,000
5	90	\$4,950,000	1500	\$50,000,000	25	\$1,250,000	<b>\$56,200,000</b>	\$45,000,000	-\$11,200,000	-\$75,500,000	
6	100	\$5,500,000	2000	\$50,000,000	30	\$1,500,000	<b>\$57,000,000</b>	\$60,000,000	\$3,000,000	-\$72,500,000	
7	110	\$6,050,000	2500	\$50,000,000	35	\$1,750,000	<b>\$57,800,000</b>	\$75,000,000	\$17,200,000	-\$55,300,000	
8	120	\$6,600,000	3000	\$50,000,000	40	\$2,000,000	<b>\$58,600,000</b>	\$90,000,000	\$31,400,000	-\$23,900,000	
9	130	\$7,150,000	3200	\$20,000,000	45	\$2,250,000	<b>\$29,400,000</b>	\$96,000,000	\$66,600,000	\$42,700,000	
10	140	\$7,700,000	3400	\$20,000,000	50	\$2,500,000	<b>\$30,200,000</b>	\$102,000,000	\$71,800,000	\$114,500,000	

Notes                      \$55000 per yr of dev                      \$100000 per org                      \$50000 per staff                      Av \$30000 per org per yr

## Open Software Business - "Hard" \$s

Yr	Yrs of Dev (pr Yr)	\$ Development	Org Users	Cost of Sale	Exec & Admin sta	Exec & Admin cos	Total Yearly cost	Revenue	Yearly P/L	Cumulative P/L	Investment
1	1	\$0	0	0	0	\$0	<b>\$0</b>	\$0	\$0	\$0	*
2	2	\$5,000	1	0	0	\$0	<b>\$5,000</b>	\$5,000	\$0	\$0	*
3	5	\$10,000	5	0	0	\$0	<b>\$10,000</b>	\$10,000	\$0	\$0	*
4	10	\$25,000	10	0	0	\$0	<b>\$25,000</b>	\$25,000	\$0	\$0	*
5	20	\$40,000	50	0	0.2	\$10,000	<b>\$50,000</b>	\$50,000	\$0	\$0	*
6	40	\$90,000	100	0	0.2	\$10,000	<b>\$100,000</b>	\$100,000	\$0	\$0	*
7	80	\$225,000	500	0	0.5	\$25,000	<b>\$250,000</b>	\$250,000	\$0	\$0	*
8	120	\$475,000	1000	0	0.5	\$25,000	<b>\$500,000</b>	\$500,000	\$0	\$0	*
9	160	\$750,000	5000	0	1	\$50,000	<b>\$800,000</b>	\$1,000,000	\$200,000	\$200,000	*
10	200	\$1,500,000	10000	0	1.5	\$75,000	<b>\$1,575,000</b>	\$2,000,000	\$425,000	\$625,000	*



# Detail on FOSS Development

Open Software Business - "Hard & Soft" \$\$

Yr	Yrs of Dev	Self-funded Dev	Org Paid Devs	Volunteer Dev	Self only implied	Exec & Admin cos	Total Yearly cost	Revenue	Yearly P/L	Implied Invest	Invest/self-fund
1	1	1	0	0	\$55,000	\$0	\$55,000	\$0	-\$55,000	\$55,000	55000
2	2	1	0.5	0.5	\$55,000	\$0	\$55,000	\$5,000	-\$50,000	\$50,000	50000
3	5	1	2	2	\$55,000	\$0	\$55,000	\$10,000	-\$45,000	\$45,000	45000
4	10	2	4	4	\$110,000	\$0	\$110,000	\$25,000	-\$85,000	\$85,000	42500
5	20	3	8.5	8.5	\$165,000	\$10,000	\$175,000	\$50,000	-\$125,000	\$125,000	41667
6	40	4	18	18	\$220,000	\$10,000	\$230,000	\$100,000	-\$130,000	\$130,000	32500
7	80	6	37	37	\$330,000	\$25,000	\$355,000	\$250,000	-\$105,000	\$105,000	17500
8	120	8	56	56	\$440,000	\$25,000	\$465,000	\$500,000	\$35,000	\$0	0
9	160	10	75	75	\$550,000	\$50,000	\$600,000	\$1,000,000	\$400,000	0	0
10	200	12	94	94	\$660,000	\$75,000	\$735,000	\$2,000,000	\$1,265,000	0	0

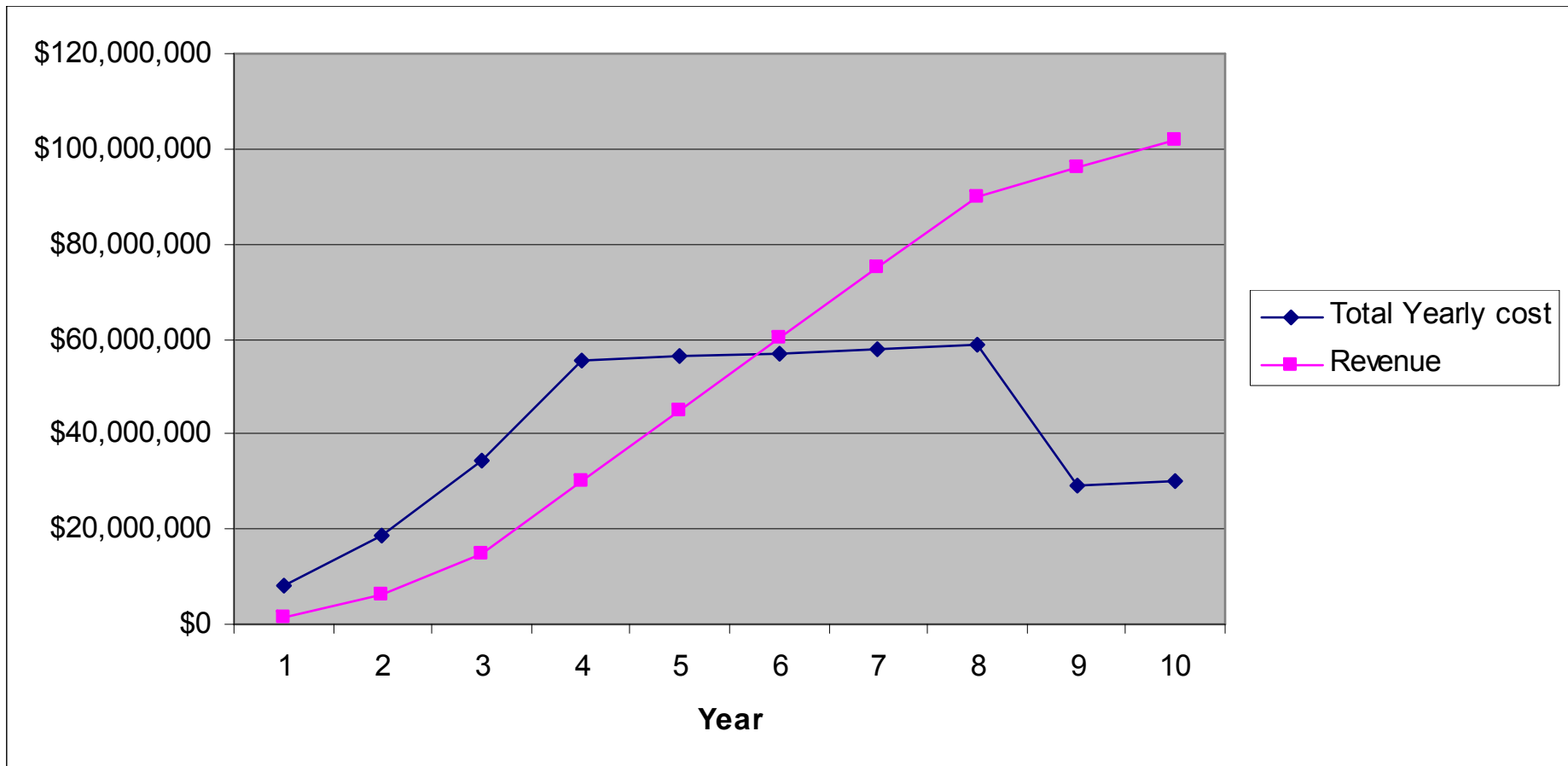
## Self & Org imp cost

\$55,000	\$0	\$55,000	\$0	-\$55,000	\$55,000
\$82,500	\$0	\$82,500	\$5,000	-\$77,500	\$77,500
\$165,000	\$0	\$165,000	\$10,000	-\$155,000	\$155,000
\$330,000	\$0	\$330,000	\$25,000	-\$305,000	\$305,000
\$632,500	\$10,000	\$642,500	\$50,000	-\$592,500	\$592,500
\$1,210,000	\$10,000	\$1,220,000	\$100,000	-\$1,120,000	\$1,120,000
\$2,365,000	\$25,000	\$2,390,000	\$250,000	-\$2,140,000	\$2,140,000
\$3,520,000	\$25,000	\$3,545,000	\$500,000	-\$3,045,000	\$3,045,000
\$4,675,000	\$50,000	\$4,725,000	\$1,000,000	-\$3,725,000	\$3,725,000
\$5,830,000	\$75,000	\$5,905,000	\$2,000,000	-\$3,905,000	\$3,905,000

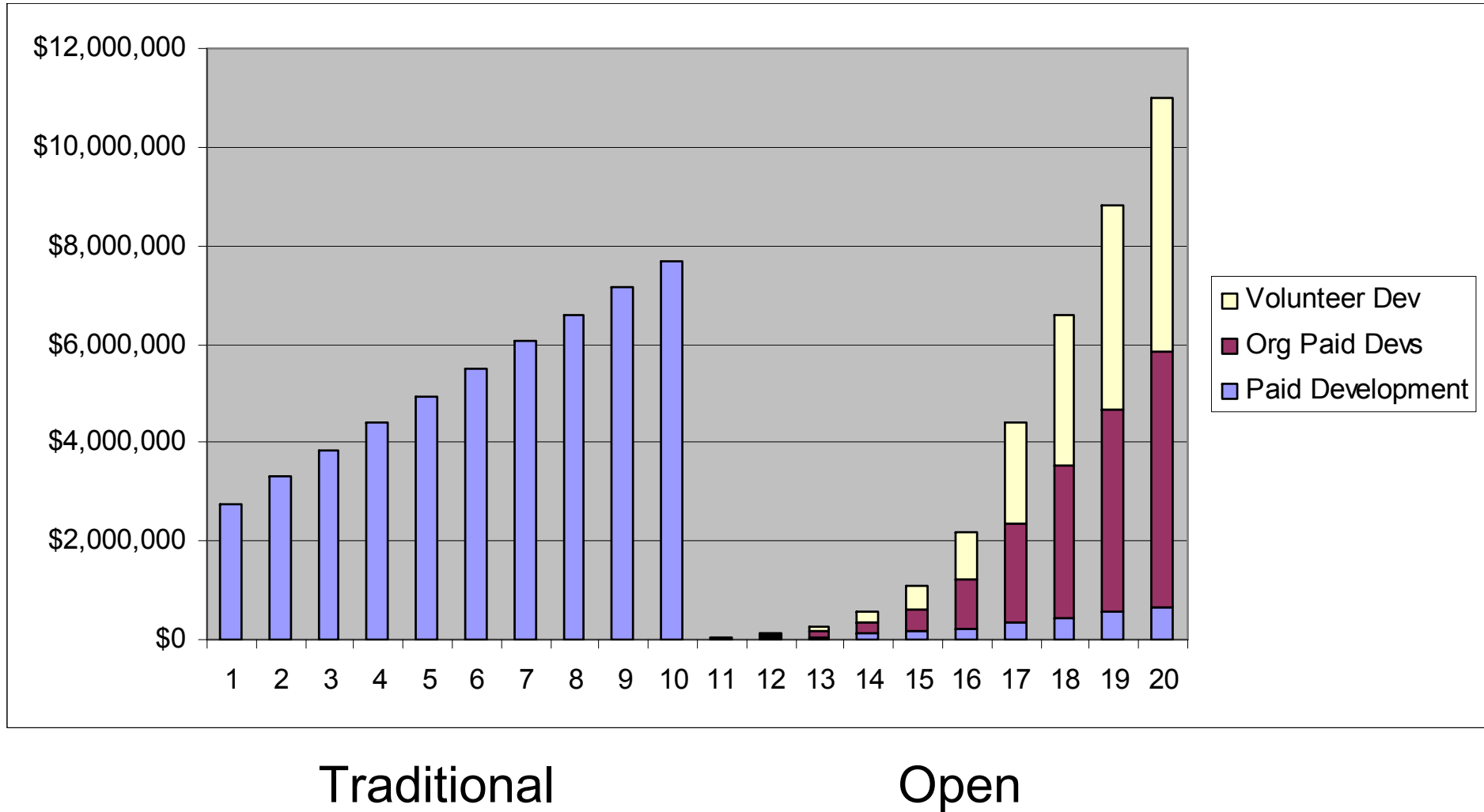
## All imp cost

\$55,000	\$0	\$55,000	\$0	-\$55,000	\$55,000
\$110,000	\$0	\$110,000	\$5,000	-\$105,000	\$105,000
\$275,000	\$0	\$275,000	\$10,000	-\$265,000	\$265,000
\$550,000	\$0	\$550,000	\$25,000	-\$525,000	\$525,000
\$1,100,000	\$10,000	\$1,110,000	\$50,000	-\$1,060,000	\$1,060,000
\$2,200,000	\$10,000	\$2,210,000	\$100,000	-\$2,110,000	\$2,110,000
\$4,400,000	\$25,000	\$4,425,000	\$250,000	-\$4,175,000	\$4,175,000
\$6,600,000	\$25,000	\$6,625,000	\$500,000	-\$6,125,000	\$6,125,000
\$8,800,000	\$50,000	\$8,850,000	\$1,000,000	-\$7,850,000	\$7,850,000
\$11,000,000	\$75,000	\$11,075,000	\$2,000,000	-\$9,075,000	\$9,075,000

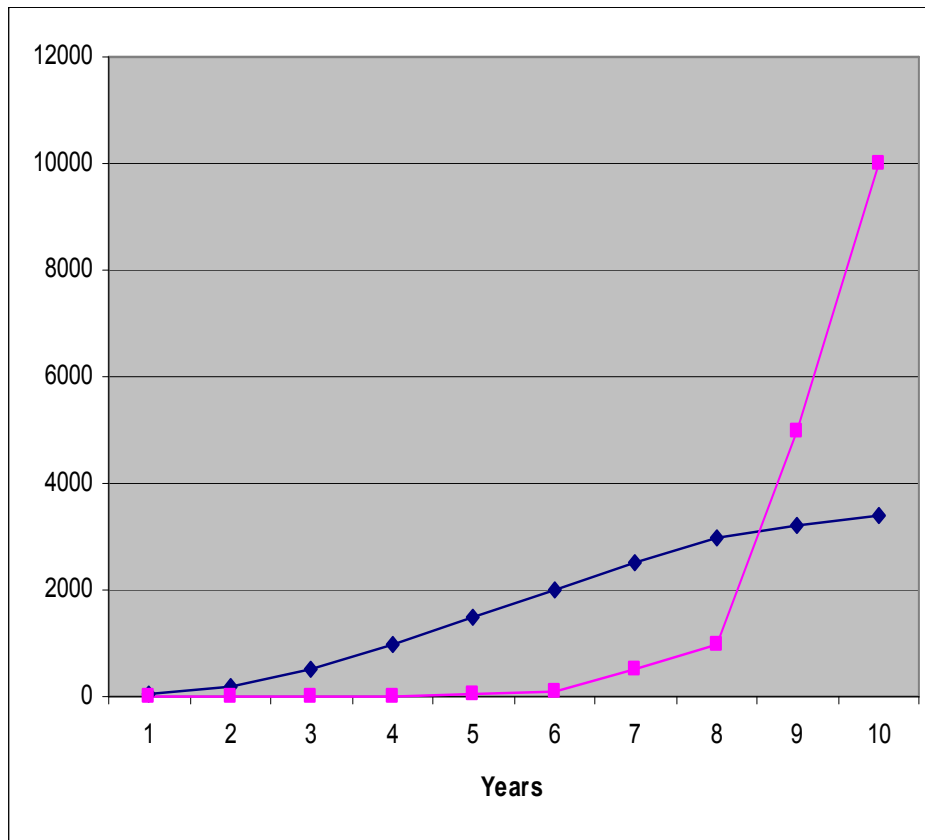
# Cost & Revenue for Traditional Software



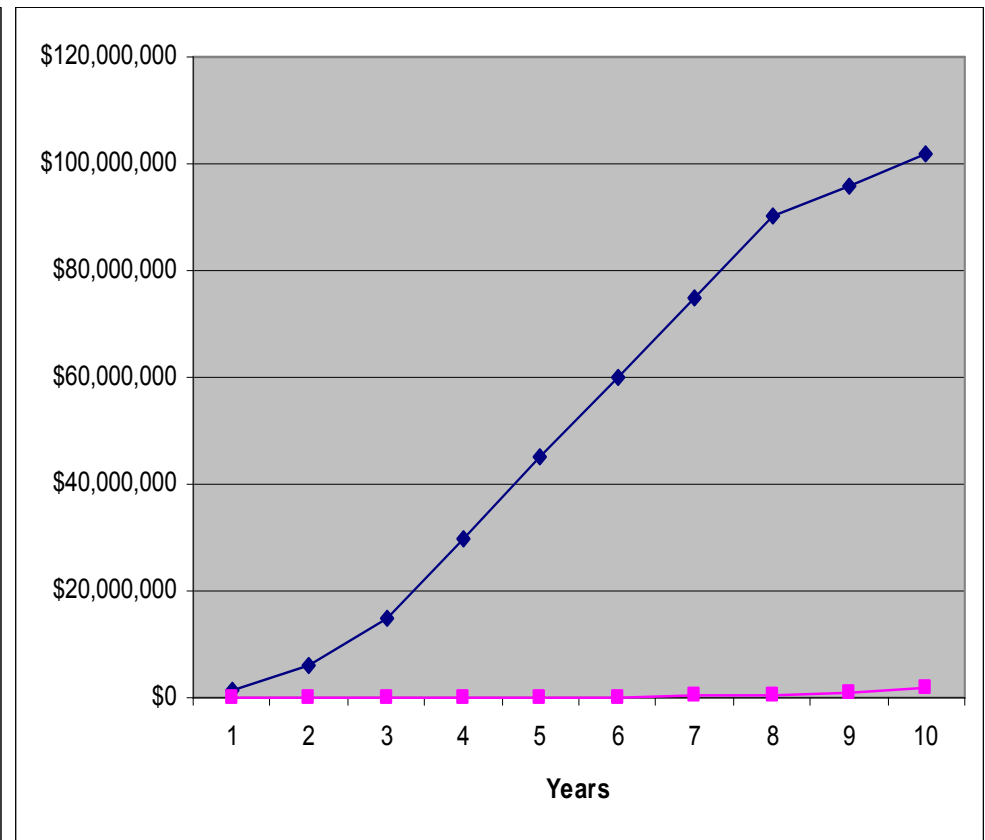
# Development Costs: Traditional vs Open



# Organisational Users of Software & Revenue (Traditional vs Open)



Total Organisational users



Revenue per year

*Average year 10 revenue per organisation: Traditional = \$30,000  
Open = \$200*

# Implications

- For a traditional software business, high “cost of sale” and development & admin costs force the need for substantial software license fees and large early investment
  - Risk capital investment requires high returns (eg, 50% IRR)
  - And assumes perfect execution (no wasted investment)
- For FOSS business, assumes free word-of-mouth marketing and a project leader (and later a small core group) who risk years of “bread and water” income until success & moderate services income
  - But with benefits of running own project/business (control, esteem, etc)
  - NB: Role of unfunded development from volunteers and organisations who contribute development effort (ie, pay salaries of developers)

# Open IP Business Models

- Similar models could be constructed for:
  - Other kinds of software (eg, Linux, Open Office)
  - Textbooks (Traditional vs Free collaborative textbook)
  - Encyclopedias
  - etc
- Key lesson: Open IP Business models can work under certain circumstances
  - Bread & water early years; Government/Charity Grants; Organisational support for creators/developers; Volunteer army

# The Question

*Can you make money from  
Open IP Business models?*

Answer

Yes



# The Big Question

*Can companies built on traditional copyright business models make the transition to an Open IP business model?*

Answer

*No*

## (Reason)

*It's not that you can't make money from Open IP business models, it's just that if you already use a traditional copyright business model, you can't make enough money to make up for lost earnings (in the example, open earnings are \*2%\* of traditional earnings) and/or meet the expectations of return on risk capital investment*

# The Really Big Question

*If traditional copyright business models can't transition to Open IP models, but Open IP models start to take market share, what does this mean for traditional copyright businesses?*

Answer

*War*