From Internet 'Traffic' to Open-Source 'Community'

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People often ask me why I invest in both consumer Internet companies and open-source enterprise software companies -- two "such different spaces."

My answer is that both are "Internet companies," and many of the lessons we learned first from consumer Internet companies are turning out to be directly applicable to more recently emerging open-source companies. There is exceptional overlap between successful companies of both types, and, taken together, the two types of companies offer almost perfect models for the future of Internet-based customer relations.

Consider the similarities:

Both consumer Internet and open-source companies deliver their primary services through the Web. To do so, each attempts to build an attractive Web "property" filled with free and compelling content that entices users to visit often, invite their friends, and make user-generated contributions. Consumer Internet companies refer to their customers as "traffic." Open-source companies refer to their developers as "community." But both employ many of the same techniques to acquire, engage, grow, and monetize their user base.

When either type of company fails to grow a community of users, it is usually a *product* rather than a *marketing* problem. The sites are not adding enough value for people to return. Maybe people will read about the site, visit once, and leave a blip in the site's online ratings. But until enough value is engineered into the service so that people come back again and again -- and think it's cool enough to invite their friends -- the company has not engineered it correctly. Thus, the most successful consumer and open-source companies tend to be engineering-centric. More like Google (Nasdaq: GOOG) than, say, AOL Inc. (NYSE: AOL).

Once the service or product becomes attractive enough, it then draws value from its new expanding community; e.g., users uploading videos, merchants listing products on comparison shopping sites, or developers contributing code. The sites that aggregate the most contributions also attract the highest number of users, creating a virtuous cycle and a dominant leader. The Websites evolve from "useful" to "essential." The companies have (almost) arrived.

The final step is actually making money, and here is where the two types of companies diverge. Consumer Internet companies monetize their free offerings by selling targeted advertising or clicks. Open-source companies monetize their offerings by identifying the one out of 100 business users who need 24/7 support or additional training. (Both need to develop traffic analytics to automatically identify, track, and convert a growing fraction of their users to revenue-producing customers.)

Yet the differences in the two business models are minor compared to the similarities. The latter extend, perhaps most distinctly, to management style. Much has been made in the popular media about 20-something entrepreneurs, often still in college, sensing the needs of their generation and creating social networking sites that turn into a YouTube Inc. , Facebook , or imeem Inc. Yet the best open-source entrepreneurs, though typically older, are every bit as adept at sensing their particular developer community's needs and building broad enthusiasm around solutions.

To see how vital this quality is, compare for a moment how a traditional enterprise software company -- an Oracle Corp. (Nasdaq: ORCL) or an SAP AG (NYSE/Frankfurt: SAP) -- interacts with its customers: It's a slow torturous process. Product managers spend six months interviewing customers to produce a Product Requirements Document. Engineers then spend 12 months building, and QA follows by spending another six months debugging a product. It can be *two years* before the feature a customer requests actually finds itself into a product. By then, the market may well have moved on so that the feature is no longer even required. User groups? With the long and painful development cycle, you can easily see why such groups often turn their meetings into venting sessions that lead to love/hate relationships with the companies that sponsor them.

Traditional software companies are typically dominated by high-powered, "elephant hunter" sales people -- ones who know how to wield influence up and down the hierarchies of both their own organizations and those of Fortune 500 customers, supported by leads generated from marketing and telesales. Such highly paid sales executives have been essential to traditional enterprise software success because their value proposition to customers is fundamentally such a tough one: "How would you like to be involved in a pilot project that will cost you $200,000 and six months just for a prototype and that will ultimately give you the right to buy a license for several million dollars?" Selling that requires exceptional *one-to-one* selling skill.

A successfully run open-source company, however, turns this model upside down. When customers are ready to buy, they contact the company -- typically after they've already built a proof-of-concept and are moving into widespread deployment. Hence, the open-source executives require *one-to-many* and *many-to-many* community building skills through an engineered Website and self-help sales and support processes. They must be community builders and facilitators who can get their organizations to absorb the constant feedback from the user community of "What I Want" and make the necessary adjustments to the next monthly software release.

A typically successful open-source executive is likely to be a compulsive blogger, constantly online, interacting with the developer community. All of the hottest emerging open-source companies -- MySQL AB , Alfresco Software Inc. , MuleSource Inc. , etc. -- have someone in a leadership position who is always interacting with his community via the Web.

In our experience, executives who come from the hierarchical world of traditional enterprise software are not well suited for such a mission -- for the same reasons that they would be ill-suited to run a consumer Internet company. Instead, successful open-source executives are likely to come from such nontraditional backgrounds as (believe it or not) computer journalism, as in the case of MuleSource's CEO, Dave Rosenberg.

In short, one more lesson in how the Internet is replacing hierarchy with the power of the networked community. I don't know where the next new industry proving the same point will emerge, but I'm certain there will be more.

— Gary Little, *VC at Morgenthaler, former GM at Apple*