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Open Source: A Silver Lining in the Economic Slump

Sales at open-source software companies are booming, even as stock prices slump and corporate IT spending plummets. Are the good times here?

By [Rachael King](#)

The economy may be a shambles, but [Brian Gentile's](#) software company, JasperSoft, is doing better than ever. [JasperSoft](#) posted record revenue for the quarter that ended in October, and its customer tally rose 63% over the previous period. The gain is all the more notable considering the record cutbacks in corporate software spending.

JasperSoft is thriving as other vendors struggle because it provides software at a lower price than competitors. In fact, JasperSoft supplies the basic software for free, making money by selling support services or additional features. Its annual fees can be as much as 85% to 90% lower than its competitors. "We're seeing more interest from companies looking to replace an older software product they can no longer afford," says Chief Executive Officer Gentile.

JasperSoft can afford to sell its reporting and analytics software for considerably less because it relies on what's known as an open-source model of development, wherein the source code—essentially the blueprint of a software program—is openly shared. The company's product benefits from the input of some 90,000 developers worldwide who volunteer their time writing code to enhance the program, though few work for the 80-person company. In October, the free version of JasperSoft software was downloaded 300,000 times. This "try-before-you-buy" phenomenon is common in the open-source world, and the vendors say they don't need to keep an army of sales people because customers can easily find their products. Today, JasperSoft has 9,000 paying customers located in 96 countries.

BUDGET SQUEEZE BOOSTS ASTERISK

The demand for JasperSoft's wares reflects companies' increasingly urgent search for low-priced alternatives to products no longer supported by shrinking IT budgets. Corporate software purchasing in the current quarter is undergoing its sharpest decline ever, according to an October study by ChangeWave Research of companies' 90-day outlook for IT spending.

The economic slump is fueling a miniboom in open source [open source](#). [Digium](#)—which sells business phone systems built off the free, open-source Asterisk software—said the number of downloads of that free software increased 32% from the beginning of September 2008 to the end of October 2008. "There are customers who are delaying purchases and putting off decisions," says Digium CEO [Danny Windham](#).

In addition to Digium and JasperSoft, four other open-source vendors said in interviews that they've posted record third quarters, and most are optimistic that the current quarter will bring more gains. The companies are [Zenoss](#), which makes networking monitoring software; [SugarCRM](#), a seller of customer relationship management software; [Alfresco](#), a maker of content management software for Web sites; and [MuleSource](#), which sells infrastructure software.

SUPPORT AND ADDED FEATURES

"We have seen an acceleration of our growth as things have gotten worse," says [Bill Karpovich](#), CEO and co-founder of Zenoss. He says customers can save as much as 80% using Zenoss instead of products from such rivals as Hewlett-Packard ([HPQ](#)), [IBM Tivoli](#), Computer Associates ([CA](#)) and BMC ([BMC](#)). Zenoss customers include [Formica](#), Tyco ([TYC](#)), and [LinkedIn](#).

But downloads of a free software don't bring in much money unless customers also opt for support services or added features, such as security enhancements. In the case of Digium, the unprecedented number of downloads was also matched by record revenue.

At publicly traded open-source companies, rising sales don't necessarily result in a climbing share price. At Red Hat ([RHT](#)), third-quarter sales rose 29% amid new demand from such battered businesses as retail, airlines, and construction, said CFO [Charles Peters](#) in a Sept. 24 conference call. That was the first time in three years that billings for the August quarter had exceeded billings for the previous period. Yet the stock price has swooned 42%, to 9.48, in the two-month period that ended Nov. 25.

OPEN-ENDED GROWTH?

Despite near-term interest in open-source alternatives, many investors remain concerned about the long-term [growth prospects for Red Hat and other purveyors](#) ([BusinessWeek.com, 8/18/08](#)) of open-source software. Red Hat Executive Vice-President [Paul Cormier](#) says there's still plenty of room for growth.

JasperSoft's Gentile is plenty bullish, too. He says customers these days are opting for JasperSoft and its lower maintenance fees at a faster pace than they were six to nine months ago, when customers were using JasperSoft as an add-on to competitors' software. "We weren't displacing competitors" at the time, he says. But the company is doing that now, he says. "I can't say that I have a crystal ball," Gentile says, "but I believe the advantages of open source will endure in a tough economy."

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