

Eric Raymond, “The Magic Cauldron”

Read the article at <https://edtechbooks.org/-oXHM>

Background

Eric Raymond, a substantial contributor to the theory and conversation in the open source community, strikes again with his paper “The Magic Cauldron.” The essay, he claims, will “begin by exploding some common myths about software production economics; then continue the line of analysis of these essays into the realm of economics, game theory and business models.” Though written in 1999 before the rise of the many of the open education resources and businesses currently seen, Raymond lays out clearly the most plausible business models that could work to sustain open-source or open-content companies and the usefulness of each model. Understanding this article will provide an ability for comprehensive analysis of the rise and fall of companies that used one or more or none of his models to capture the money in the markets and create sustainable businesses.

Key Points

Raymond first points to the differences between “use value” and “sale value.” To be clear, software production is in many ways dissimilar from traditional manufacturing. In many businesses, software (and to a lesser extent, content) can be extremely valuable to a company, but not sellable. In this case, this means the software has “use value” but not “sale value.” This theory of “use-value” is the driving reason why companies can open-source their software without ruining their business. With open-source, they are increasing the efficiency and effectiveness of their code—improving the “use value”—without losing potential future earnings.

The remainder of the article deals with different models that might help companies turn the open-sourced use-value resources into possible financial resources.

Use-value Funding Models

Models that create open-source products that are so valuable because of their open-source-ness that they actually attract money to create a sustainable business.

- **Cost Sharing:** Open-source resources can spread costs of development or maintenance so low that businesses benefit by joining the network.
- **Risk Spreading:** Likewise, open-source reduces risk by spreading risk across companies. This mitigates risk that companies won't be able to adapt or maintain their internal-resources to meet outside challenges.

Indirect Sale Models

- Loss Leader: Use open software to capture the market for related proprietary software that creates revenue.
- Widget Frosting: Used primarily by hardware companies who sell hardware that requires software that will not create revenue.
- Give away a recipe, open a Restaurant: In this model, businesses focus on providing paid services around their free open-source products. This can be useful when customers do not want to hassle with managing the product themselves.
- Accessorizing: Sell complementary goods to the product ranging from brand paraphernalia to complementary code-products.
- Free the future, sell the present: In this model you release software with a closed license that will expire at a pre-determined time. This allows users customizability and guarantees that the product can be taken over by the open source community.
- Free the software, sell the brand: This is a relatively untested and risky model. The core idea is customers can pay the code originator to be officially branded as compliant with certain qualifications so everyone with the same brand name have compatible software even if it is modified.
- Free the software, sell the content: Subscription-based sales on the content.

Strategies and Ecosystems: In the remaining sections, Raymond speaks of strategies to apply the above models. In the “When to be open, when to be closed” section, he gives examples how companies have balanced the return of open source against the return to proprietary source to decide which one they wanted to use or when to switch from one to the other. He also explores more examples about how companies have stayed ahead of competition that has access to all the same materials and code produced. All in all, Raymond sees open source as a wonderful thing for companies and the market because it brings out the best strengths and services. Companies can collaborate to become stronger and then compete to provide better service for the customer. Of course this is not easy for businesses to do so Raymond spends time discussing more about how a company should deal with these challenges.

In summary, the following discriminators push towards open source:

- (a) Reliability/stability/scalability are critical.
- (b) Correctness of design and implementation cannot readily be verified by means other than independent peer review.
- (c) The software is critical to the user’s control of his/her business.
- (d) The software establishes or enables a common computing and communications infrastructure.
- (e) Key methods (or functional equivalents of them) are part of common engineering knowledge.

Discussion Questions

1. Is this list of open-source business models comprehensive? What other models exist in the world?
2. Which models can be mixed together? Are there synergistic strengths from combining different models?
3. How would open-source businesses affect the average, non-hacker consumer?

Additional Resources

Raymond mentions Digital Creation’s move to open-source their “secret weapon” product. Here is an article by Paul Everitt, Digital Creation’s CEO, on why they made the decision.

“How We Reached The Open Source Business Decision” <https://edtechbooks.org/-LBL>



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