

# The Next Wave of Open Source: Applications

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**Proven Healthcare Information Solutions**

# First we made games...

- First we made games...
  - Adventure - 1977
  - Rogue - 1980
- And people said, "Sure, they'll make toys like games, but no one will ever write something serious, like a compiler, for free."
- Then we made compilers...
  - gcc - 1987
  - And linkers and editors and other serious development tools
- And people said, "Sure, they'll make programming tools. After all, they're developers. But they'll never make anything that requires real work, like an operating system kernel."
- Then we made operating systems...
  - Linux - 1991
  - 386BSD - 1992
- And people said, "Sure, they'll make a Unix-like operating system. They studied how to in their computer science classes. But they'll never make anything for real users, like applications..."

# So We Made Applications...

- The Next Wave of Open Source: Applications
- Examples
  - SugarCRM: CRM
  - Compiere: ERP
  - Asterisk (Digium): PBX
  - VISTA (Medsphere): EHR
- What do these applications have in common?
  - 6 Rules for identifying applications that are ripe for Open Source
- Why now? Multiple drivers
  - Developer interest: Fodder for the next wave
  - Enterprise software model is broken
- What does an Open Source business look like?
  - Business model for Open Source applications
- Conclusions
  - Open Source applications are here to stay
  - Open Source is a fundamental disruptor of enterprise software



# Example Application: SugarCRM

- Customer Relationship Management (CRM) Software
- Mozilla Public License
- [www.sugarcrm.com](http://www.sugarcrm.com)
- SourceForge.net top 10
- 20,000+ downloads/mo
- 400,000+ pageviews/mo

The screenshot displays the SugarCRM web application interface. At the top, there is a navigation bar with links for Home, Activities, Contacts, Accounts, Leads, Opportunities, Cases, and Dashboard. The main content area is divided into several sections:

- Shortcuts:** A sidebar menu with options like Create Contact, Create Account, Create Lead, Create Opportunity, Create Case, Create Note, Create Call, Create Meeting, and Create Task.
- New Contact:** A form for creating a new contact with fields for First Name, Last Name, Phone, and Email.
- My Upcoming Activities:** A section indicating no activities are scheduled.
- My Top Open Opportunities:** A table listing opportunities with columns for Opportunity, Account Name, Amount, and Close.
 

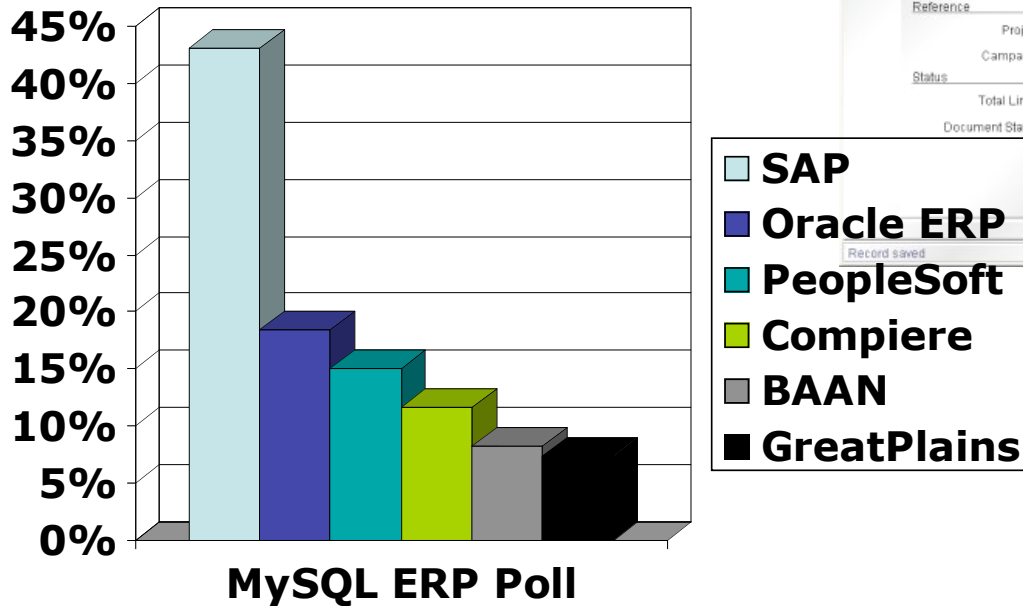
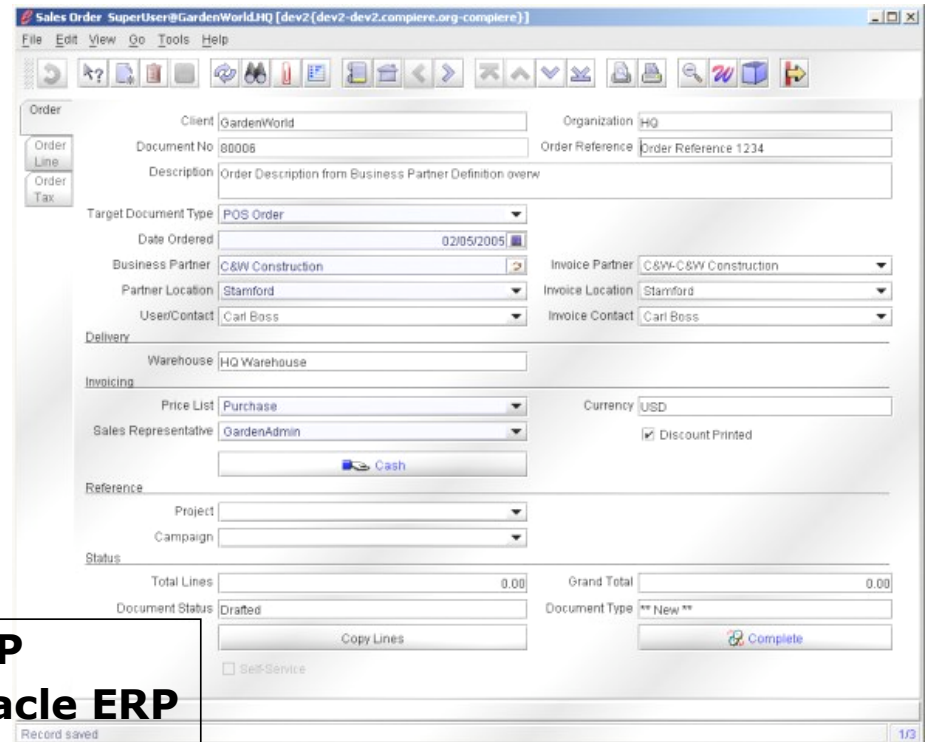
Opportunity	Account Name	Amount	Close
Ott. Bb - 1000 units	Ott. Bb	\$ 75000	2005-05-26
Ag Media Group Inc - 1000 units	Ag Media Group Inc	\$ 75000	2005-10-21
Arts Inc - 1000 units	Arts Inc	\$ 75000	2005-09-19
All Intech - 1000 units	All Intech	\$ 75000	2005-06-30
ArtInternational Inc - 1000 units	ArtInternational Inc	\$ 75000	2005-04-09
- My Open Tasks:** A table listing tasks with columns for Close, Subject, Contact, Related to, Due Date, and User.
 

Close	Subject	Contact	Related to	Due Date	User
<input checked="" type="checkbox"/>	Send literature	Dominique Vilameal	A-S China Plumbing Products	2005-11-09	admin
<input checked="" type="checkbox"/>	Send literature	Dianne Shelton	Rentenostat	2005-11-04	admin
<input checked="" type="checkbox"/>	Send a follow-up letter	Janine Parrish	First Capital Realty/Deb	2005-10-31	admin
<input checked="" type="checkbox"/>	Assemble catalogs	Elizabeth Brown	A-Com Ab	2005-10-28	admin
<input checked="" type="checkbox"/>	Make travel arrangements	Hermia Whitley	A B S A Group Limited	2005-10-10	admin
<input checked="" type="checkbox"/>	Make travel arrangements	Maribel Bullock	Aoi Coal Co	2005-10-07	admin
<input checked="" type="checkbox"/>	Make travel arrangements	Kristy Dennis	A B Wally Group Inc	2005-10-04	admin
<input checked="" type="checkbox"/>	Send fax	Alta Pruitt	Uncle B's Bakery Inc	2005-09-21	admin
<input checked="" type="checkbox"/>	Send fax	Maureen Little	A.T.E. Corp	2005-09-08	admin
<input checked="" type="checkbox"/>	Send fax	Maricela Stout	Eob Business Partner Asa	2005-08-31	admin
<input checked="" type="checkbox"/>	Send contract	Cassandra Rati#	Job Holdings Plc	2005-08-17	admin
<input checked="" type="checkbox"/>	Send a follow-up letter	Sharlene Puckett	Arts Inc	2005-08-10	admin
<input checked="" type="checkbox"/>	Send contract	Janelle Gaines	Ott. Bb	2005-08-08	admin
<input checked="" type="checkbox"/>	Make travel arrangements	Wilma Richards	Jbe Bancshares Inc	2005-08-02	admin
<input checked="" type="checkbox"/>	Send a letter	Elise Ayla	A&D Co Ltd	2005-07-13	admin
<input checked="" type="checkbox"/>	Assemble catalogs	Bethany Hammond	Lexington B & L Financial Corp	2005-07-08	admin
<input checked="" type="checkbox"/>	Send literature	Audra Rush	Job Holdings Plc	2005-06-24	admin
- My Pipeline:** A bar chart showing the pipeline total is \$399K. The chart displays the amount in each stage:
 

Stage	Amount
Prospecting	645
Qualification	550
Needs Analysis	250
Value Proposition	300
Id. Decision Makers	645
Perception Analysis	505
Proposal/Price Quote	405
Negotiation/Review	305
Closed Won	350
Closed Lost	195

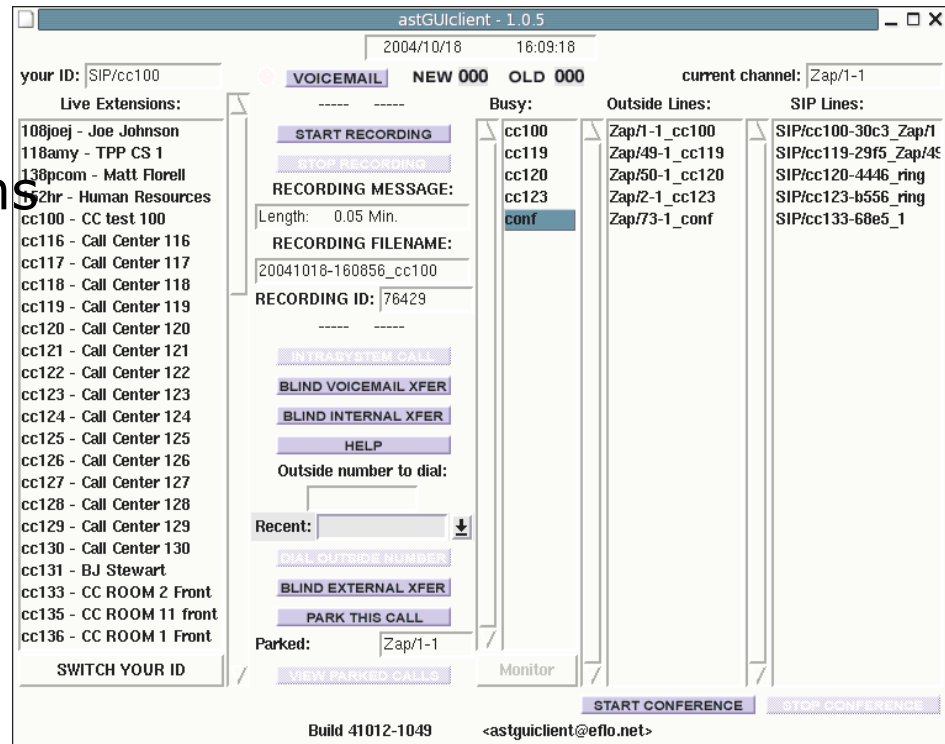
# Example Application: Compiere

- Enterprise Resource Planning (ERP)
- Mozilla Public License
- [www.compiere.org](http://www.compiere.org)
- 800,000+ downloads
- 50,000+ page views/mo



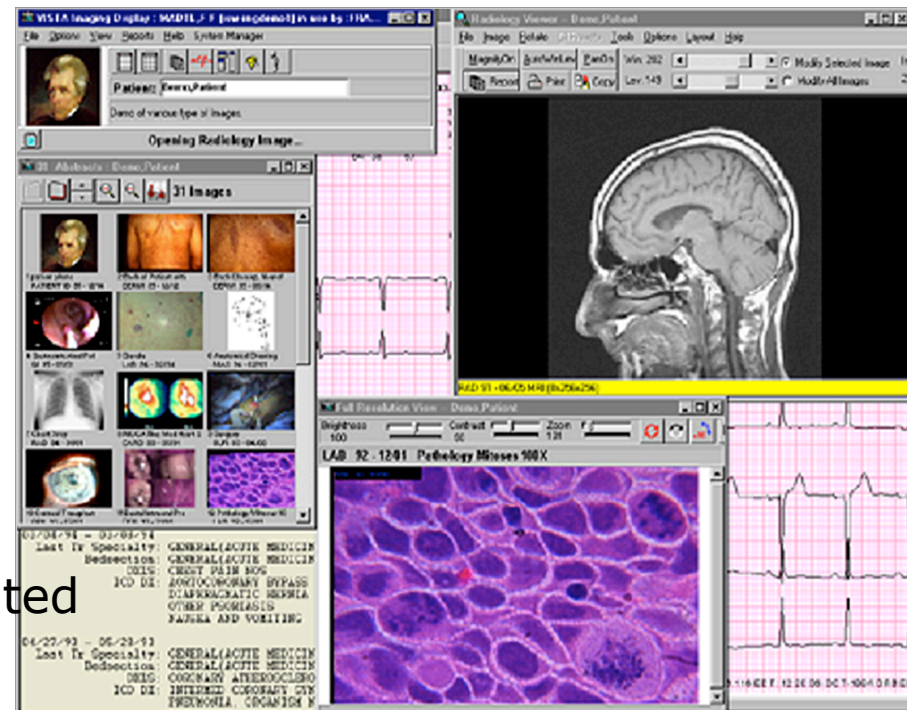
# Example Application: Asterisk (Digium)

- Voice Over IP PBX
- Company – Digium
- GPL
- [www.digium.com](http://www.digium.com),  
[www.asterisk.org](http://www.asterisk.org)
- Over 130 Asterisk systems vendors worldwide



# Example Application: VISTA (Medsphere)

- Electronic Health Record (EHR)/Clinical Information System
- Veterans health Information Systems and Technology Architecture (VISTA)
- Company – Medsphere
- Public Domain
- [www.medsphere.com](http://www.medsphere.com),
- [www.va.gov/vista](http://www.va.gov/vista)
- Over \$2B investment by VA
- 200+ dedicated VA developers
- Proven, complete, fully integrated clinical system



What do these applications have in common?





# #1 – Traditionally a Big, Expensive, Heavy Application

- SugarCRM
  - CRM
- Compiere
  - ERP
- Asterisk (Digium)
  - PBX
- VISTA (Medsphere)
  - EHR

*Opportunity for market disruption*



## #2 – Big, Traditional, Proprietary Competition

- SugarCRM
  - Siebel
  - Oracle
- Compiere
  - SAP
  - Oracle
- Asterisk (Digium)
  - Nortel
  - Siemens
  - Avaya
- VISTA (Medsphere)
  - Cerner
  - McKesson

*Vulnerable competition*



## #3 – Large, Enthusiastic Free User Base

- SugarCRM
  - 20,000+ downloads/month
  - 400,000+ pageviews/month
- Compiere
  - 800,000+ downloads
  - Ranked ahead of BAAN, GreatPlains in MySQL ERP survey
- Asterisk (Digium)
  - 250+ attendees at Astricon 2004 in Atlanta
- VISTA (Medsphere)
  - Used daily at 1,300+ facilities
  - 200,000+ users
  - 85% of all US trained physicians have used the system

*Sales leverage*



## #4 –Enthusiastic Developer Ecosystem

- SugarCRM
  - SourceForge.net top 10 project
  - 25 related projects on SugarForge
- Compiere
  - SourceForge.net top 10 project
  - 50+ Compiere partners worldwide
- Asterisk (Digium)
  - Asterisk developers mailing list > 30 messages/day
  - Over 55 Asterisk systems vendors in North America alone
- VISTA (Medsphere)
  - VISTA Software Alliance Corporate members include HP, SAIC, Perot Systems, IDX, others
  - 200+ dedicated developers within VA

*Development leverage*



## #5 – Big Enterprise Market Opportunity

- SugarCRM
  - CRM is \$2.2B license revenue market today
- Compiere
  - ERP is \$5.4B license revenues and \$19.7B overall
- Asterisk (Digium)
  - VoIP growing to \$6B by 2008
- VISTA (Medsphere)
  - 5,800 hospitals in US, growing to \$25B IT market by 2007

*Up-market opportunity*



## #6 – Big, Under-Penetrated SMB Market Opportunity

- SugarCRM
  - \$1B SMB CRM market size today
  - 28M+ customer facing employees, 1% market penetration
- Compiere
  - 4.2M SMB businesses in US
- Asterisk (Digium)
  - Estimated 1M businesses will use VoIP PBX by 2008
  - \$4.5B revenue opportunity
- VISTA (Medsphere)
  - Estimated 2,300 hospitals < 400 beds
  - Less than 3.5% of hospitals do computer physician order entry
  - \$1.8B+ recurring revenue opportunity

*Market entry below competition*



# Summary

1. Traditionally a big, expensive, heavy application with long, slow and expensive sales cycles.
2. Big traditional competition addicted to enterprise sales model.
3. Large, enthusiastic free user base to build on.
4. Enthusiastic developer ecosystem.
5. Large, established Enterprise market opportunity.
6. Large, under-penetrated SMB market opportunity.



Why now?





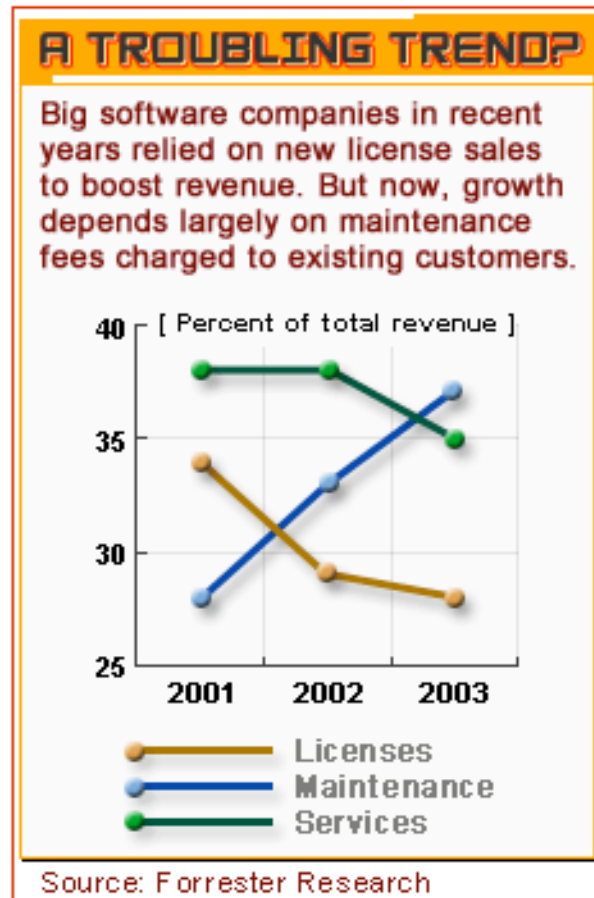
# Fodder for the Next Wave of Developers

- Each generation of developers needs new challenges
- Each generation of developers builds on prior work
- It takes 5 to 7 years for a project to mature
- A developer generation is 5 to 7 years
- 1970 to 2000 == about 4 generations of developers
- What will the next generation of developers work on?



# Enterprise Software Model is Broken

- Enterprise software today
  - Long sales cycles
  - Expensive
  - Inaccessible to SMB
  - Inaccessible to small developers
  - Disconnect between license cost and manufacturing cost
- 76% of New license revenue today goes to sales and marketing<sup>1</sup>
- We are charging customers (a lot!) to convince them they need our software!



<sup>1</sup> Source: Goldman Sachs

What does an Open Source applications  
business look like?



# The Open Source Promise

- Reduce sales and marketing costs
  - Free try before you buy model
  - No expensive pilot
  - No evangelical sale: potential customers are already users
  - Sell enterprise software more like we sell small business software
  - **Let the user come to us!**
- Reduce development costs
  - Still do most of the development work
  - Leverage Open Source for testing, edge cases, interfaces, etc.
- Open Source results in a fundamental business model advantage



# Example: Siebel Meets Open Source

	Siebel Proprietary		Siebel Open Source	
<b>Revenue</b>				
Software license	\$487,127	36.4%	\$0	0.0%
Maintenance	\$469,751	35.1%	\$469,751	55.1%
Professional Services	\$382,915	28.6%	\$382,915	44.9%
<b>Total Revenue</b>	<b>\$1,339,793</b>	<b>100.0%</b>	<b>\$852,666</b>	<b>100.0%</b>
<b>Cost of Revenue</b>				
Software license	\$13,316	1.0%	\$13,316	1.6%
Maintenance	\$0	0.0%	\$0	0.0%
Professional Services	\$443,585	33.1%	\$443,585	52.0%
<b>Total Cost of Revenue</b>	<b>\$456,901</b>	<b>34.1%</b>	<b>\$456,901</b>	<b>53.6%</b>
<b>Gross Profit</b>	<b>\$882,892</b>	<b>65.9%</b>	<b>\$395,765</b>	<b>46.4%</b>
<b>Expenses</b>				
R&D	\$299,051	22.3%	\$149,526	17.5%
S&M	\$337,690	25.2%	\$84,423	9.9%
G&A	\$104,541	7.8%	\$66,508	7.8%
<b>Total Expenses</b>	<b>\$741,282</b>	<b>55.3%</b>	<b>\$300,456</b>	<b>35.2%</b>
<b>EBITDA</b>	<b>\$141,610</b>	<b>10.6%</b>	<b>\$95,309</b>	<b>11.2%</b>



Did we just shrink the market? No!



# Broader Market Availability

- Lower cost means broader market availability
- Lower cost grows overall market
- CRM
  - 1% market penetration today among potential users
  - 100x growth opportunity
- EHR
  - 3.5% of physicians use computerized order entry today
  - huge growth opportunity



So what did we learn?





# Open Source Advantages - Summary

	<b>Proprietary</b>	<b>Open Source</b>
Sales cycle	Long	Short
Pilot	Yes	Do it yourself
Enterprise ready	Yes	Nearly
Install time	Long (months)	Short (weeks)
Large up-front license	Yes	No
Developer community	Small	Large/Open

# The Next Big Thing? Look Down Market!

- Look for
  - Enterprise applications
- With
  - Long sales cycle
  - Long installation time
  - Inability to go down market
- For which there is
  - A large SMB market demand



**Thank you.**

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