Brian Gracely (00:03.278)
Good morning, good evening, wherever you are. Welcome back to the Cloudcast. We are coming to you live from massive Cloudcast studios here in Raleigh, North Carolina. Hope everybody is doing well. We are getting towards the end of May, actually not the end of May, the end of April 2024. Hope everyone's having a good month. Hope everybody's having a good weekend. Getting this one out just a little bit later was one of those weeks where, as I thought about the Sunday perspective, you know, I was struggling to come up with a topic for a lot of the week. And then the IBM acquiring HashiCorp news broke.

And I'm not going to get into that too too much. I will in full disclosure, as I've mentioned many times, but sometimes first podcast or any podcast is somebody's first podcast. You know, my day job, I work for Red Hat. Red Hat is a subsidiary of IBM. IBM did or at least intended to acquire HashiCorp. So I'm not going to make any comments about that acquisition in any way, shape or form. Again, not my place to make a comment on it. But the internet decided they were going to have some comments about not only

IBM and HashiCorp, which is fine opinions, but everybody became a wanted to have a podcast wanted to have a blog post wanted to have a think piece about their expertise in open source and business models. And so as I listened to them, as I watched a lot of them, I sort of sat there and I went, boy, I don't know that we've learned anything in 10 years in 10 plus years of this sort of

thing of, you know, is open source a business model? What sort of business models can you build? If you're using open source software, what are the competitive dynamics and all those sorts of things as, as money is involved, because they are sort of like oil and water. So I thought what I would do this week, and the Sun perspective is, is sort of take some of the discussions that I've seen throughout the week from people who are well respected in the industry, people who have done things. But for some reason,

You know, as I look at their way of breaking down sort of the open source meets software, open source meets business, open source meets VC funding, it does feel like there are a lot of things that we keep reiterating on, that we keep regurgitating upon, and we keep coming back to this thing that people really kind of don't kind of get the idea of what happens when you try and mix open source software, VC funding, and trying to create a business model.

Brian Gracely (02:24.75)
So with that, I'm going to do that right after the break.

Brian Gracely (00:01.582)
Welcome back to the Cloudcast. I'm your host, Brian Grace Lee. And on today's Sunday perspective, we're going to talk about what we talked about at the top of the hour, which is really diving into this conversation that came up this week and seems to be an evergreen conversation all the time in our industry, or at least every time there is some sort of activity, some sort of action, some sort of something, some sort of announcement that has to do with

sort of the intersection of open source software and a company that bases their technology on open source.

and you know, kind of the business interaction that has then happened. So this week's version of it, which as we as I record this on April 28 2024, had to do with HashiCorp who we can have a few weeks ago, maybe a month or so ago decided to change their licensing from more of an open open open license to what's called a BSL license, which is more business for you know, it's more restrictive in terms of people can see the code but

People cannot necessarily build products or alternative offerings on that code. So we've seen this before. We've seen it with a number of companies, Elastic, MongoDB. So this wasn't necessarily a new concept for the industry. But again, every time it happens, there are all the accusations of you rug pulled on us, you lied to us, you don't know how to run a business, all those sort of things. So anyways, the conversation came back up again this week because IBM,

put out a intent to acquire HashiCorp. So HashiCorp was valued at around $4 .5 billion at the time it came out. The actual price was around $6 .5 billion, $6 .4 billion I believe was the actual price. And then what you get is, as we always get, is lots and lots of think pieces, lots and lots of opinions, podcasts about does a company,

know how to run a business where their business is based on open source software or at some point was based on open source software. And usually when these things happen, they happen and they happen all the time. I tend to sort of ignore them. This week I was listening just because there was a number of people who are very high profile people in the industry, people who have been around this space for a while, went on the

Brian Gracely (02:23.47)
went on the tour and did all the podcasts and so forth. And so I had some time over the weekend to listen to a few of these. And the one that was the most interesting to me was a gentleman named Adam Jacobs, who was the founder of Chef, is now the founder of a company called System Initiative. We've had him on the show before. He's been on Software Defined Talk a number of times. Smart guy, very smart guy, very thoughtful guy about the open source space. And really, you know, ever since, and I think even during Chef times, but especially since...

Chef was sold to private equity. He has been, you know, very vocal about just his thoughts on, you know, how do you how do you marry this intersection of I have a company that is based on open source software, in which at least some version of it is freely given away. You know, how do you build a business upon that? How do you price something? How do you deal with competition? How do you deal with the community? So when Adam goes out and talks about this stuff, you know, I tend to want to listen just because again,

It's a point of view from somebody who is not just pontificating is not just you know, kind of lobbying, lobbing softballs or you know, snowballs from the the upper deck. They are, you know,

they've lived it, they've they've got the scars to prove it, they've lived it and so forth. And so, you know, put a link in the show notes, the podcast that he was on is called the change log. I know there was a few other podcasts this week, I think the oxide and friends folks talked about this. But what was interesting to me was, you know, he kind of laid out this.

this interesting, not necessarily interesting, but he laid out, you know, how do you think about, how do you think about sort of business 101, right? And it had nothing to do with open source at the beginning. He's laid out, you know, here's how you think about business 101. You basically look at, you know, what is, what is the total addressable market or TAM or the thing that you're going to build. So for example, if you are in the automation space in which, you know, he was talking about, or if you're in the security space, or if you're in the networking space, you know, how big is that potential market? What are,

who are all the people and all the dollars that potentially could go towards your product at some point in time. And TAMs are usually somewhat overinflated. So for example, if you were talking about security, you would put in your TAM everything like firewalls, intrusion detection, scanning software, encryption software, all sorts of stuff. Even if you don't sell that today, the expectation is like, well, maybe someday my product or products will evolve to that. So you start off with TAM.

Brian Gracely (04:48.046)
And then, you know, he sort of talked about, you know, the number of people that potentially, you know, would buy your software, and then the number of people that potentially wouldn't buy your software. So for example, you know, you kind of got into, you know, if you sell sort of higher end software, you're probably talking more about sort of enterprises, you're not talking about small business. And then you, you know, you talk about, you know, the number of people that potentially would would use your software versus what would pay your software. And so, you know, he does a very nice job of sort of laying out how you would think about the market in terms of

you know, biggest potential opportunity, targeted opportunity for what you do, versus, you know, other people who may want something that looks like what you do, but maybe aren't willing to pay you or, you know, don't need as much as you're going to provide all those sort of things. So I did a nice job of laying all that stuff out. Very sort of business 101 MBA 101 types of things and what you would expect somebody who's both started a company once gone through some things with it, and then starting a new company. So you expect that they'd be able to do that.

And so that part was great. And then, and then he went through the normal thing that any, any founder does, which was, you know, sort of talking about his own company. And that was fine. He was talking about sort of the ambitions that he had. And one of the comments that he made, that was very interesting was he said, you know, you can look at me or you can look at Solomon Hikes, or you can look at, you know, any number of people who have been startup founders. And we all have sort of unlimited ambition, unlimited.

thoughts about what's the possibility of what our stuff can do. And again, this is very standard stuff you would expect for any founder and need something that you would expect because anybody who's going to take on starting a new company, uh, bringing on, you know, like going and saying, I, I think the world needs what I have. I think there is a problem out in the world that I can uniquely solve. Um, you know, you want someone to believe that, that the thing that they're doing is big enough to be worth their time and big enough to be.

worthy of the world saying, hey, we should take on something new. Because, you know, in most cases, most of the world's problems aside from I don't know, you know, inventing water out of thin air, and that's a terrible example. Anyways, most of the world's problems, there is a there is a solve for the problem today. Yes, no, there's not a cure for cancer. No, there are, you know, there are plenty of things. But, you know, for most stuff, at least in technology, there is a thing there. And so if you're starting a company, you, you know, in essence, you're saying, look, I am

Brian Gracely (07:13.23)
willing to spend 100 plus hours a week in a complete David versus Goliath type of situation in which you know your company is the small against the big, the big being, the incumbents of the world, the status quo, the inertia of the world. And so yes, you should absolutely have gigantic expectations of what's possible and unlimited ambitions, as he said. And the flip side of that is,

there's also an expectation that you are going to be compensated for your time, for your, for your, you know, outsized ambitions and so forth. And that's just the reason why, you know, typically most folks don't bootstrap their own companies while they believe in themselves. They also understand that, you know, starting something new, the odds of failure are very, very high, you know, 90 99%, let's just say maybe it's 96 % or 95%. Let's just call it 99 % chance you're going to fail.

And so, you know, you look at that and you say, okay, I would like to take, I don't necessarily want to take on that risk. Depending on where you are with your life, you may have family, you may have kids, you may have obligations, but you definitely, you know, you definitely have, you know, your own, uh, you know, your own bills and insurance and all those sorts of things. So anyways, so if you listen to the first sort of part of this podcast, you're thinking, okay, this is, this is nothing more than just an interview with a startup founder who,

it doesn't even need to be the technology industry, it can be any industry. And somebody who is saying, I think I think the world needs something better, I'm going to go about doing doing this. And at some point in time, you know, beyond sort of the initial, you know, kind of prototype that you've built, you would like to de risk yourself, you'd like to go find somebody to help you fund that. And in many cases, because you may or may not have a business model in place, which the technology world loves to do start things without a business model in place.

instead of taking on debt, i .e. going to the bank and having to, you know, have a dedicated schedule of when you're going to pay something back, you go to venture capitalists and you say, I would like to trade some equity of my company, some percentage of my company for

funding money, of which I don't have to pay you back. It's equity. You know, your equity could go to zero, my equity could go to zero. And so you decide to do this. And so all of that was normal stuff.

Brian Gracely (09:36.27)
And you listen to it and you go, that's cool. It's great to hear sort of again, founder ambition and all those sort of things. And then they kind of got into the software part of it. And what was interesting was, you know, and again, the thing I appreciate about Adam is, you know, Adam's all of his stuff has always been around open source and, you know, back to the chef days and chef was, you know, right in the middle of sort of the DevOps movement, right in the middle of.

of communities, they were as much a build community company as they were build a product company and all those sort of things. And, you know, all the all the stuff that went along with Chef, right? Cool. And he makes it very clear. He's like, you know, soft open source has the sort of two, two personas that are out there, maybe three or four personas with two personas, for sure. He said, there's the people that recognize that the thing that you're doing is building a business, a business in which you ultimately are trying to create something that

produces enough value that somebody's willing to pay you. And hopefully the thing that they pay you for is at a level that's more than it costs you to build it so that you can build a sustainable business. And he mentions in there, you know, the goal is ultimately not that I, not that he wants to build a product, but he wants to build a business that will be a long running entity, you know, a forever entity, I think is the word that he uses. And so again, all these are, you know, sound very, very normal. And then he sort of said, and then there's the part of open source that is sort of the hippie community.

right, the people who expect that because you are doing things in the open that you are using an open source license, that you will, uh, your only intention, your only purpose for doing this is to, uh, build open and free software that you will readily give away, that you will always leave open, that you will always comply to the license that you originally gave to and that you'll kind of comply to the, the ideas of software freedom. And he said, and those two things are really hard to,

you know, to kind of justify because the two are, are diametrically opposed and kind of pulling in opposite directions. And so all this was was great. And I'm sort of listening along and was going, Okay, cool. And then we sort of got into the so, you know, if you're building a company like that, what would you do? And what was sort of interesting was, he immediately said, Hey, this is the company I'm building. And right now we are in the process of, you know, trying to get it out the door.

Brian Gracely (11:56.174)
And he said, yep, it's open source and all that kind of stuff. But my purpose, my goal is to sell somebody software for money. And that was the point I went, ah, good. The rest of the stuff kind of doesn't matter. We're going to talk a lot about how to do open source. But at the end of the

day, he gets it. His purpose, because he has taken VC funding and because he has obligations to

Employees obligations to himself obligations to these investors his job is now to to make money from the software And I think at that point that's the point where everybody not everybody a whole lot of people in the industry Sort of lose their mind. They sort of forget the fundamentals They sort of don't understand kind of the basics of business But that that thing where he basically says my number one goal is to sell software for money

which he should as the owner of a company, is the thing that most people sort of forget is that no matter whether you are a five person company or a 5 ,000 person company or a 500 ,000 person company, at the point that you're a business and you've taken money from somebody else that you've decided this is no longer just a hobby, your number one goal and really kind of the purpose of what you're doing is to sell software for money. And what's really interesting, I think, is we forget...

a couple of things. Number one, you know, this is this is where the quote unquote, and again, I'm using Adam's words, not my own, but the sort of, you know, hippie side of open source is is in just direct conflict with that. Right. And what we hear and what's really interesting to me is the part where we start making judgments of of the people and the companies that are involved with open source about whether or not

they should continue to give freeness to the marketplace. Right? Because if you look at business from any basic standpoint, the giving away freeness should have a purpose. Right? Maybe it's, hey, buy one, get one free. Come in, get 20 % off for your first purchase. Right? We see these things all the time, and they're part of standard business. But for some reason with software, because we assume that software is this unlimited resource that costs nothing to

Brian Gracely (14:20.814)
to produce that it should forever be free. And what Adam kind of gets into then is this idea of, essentially what happens is once you start taking VC funding, or even before you take VC funding, the reason most companies over the last 10 years have adopted open source as their thing, and he uses HashiCorp as an example and he sort of talks about why.

Mitchell and Armand originally were doing things as open source because originally the original HashiCorp, you know, vagrant and so forth wasn't open source. It was just sort of there was a free version and there was, you know, there was a paid version. If you go back to like 2013, you can find one of the podcasts we did with with Mitchell talking about this. But he said, you know, at some point, there was so much technology that was floating out there that you kind of had to put it out there as open source. So you know, what he what he kind of highlights is

the purpose of open source for a lot of these companies is not because they want to build a community is not because they want all these contributions and I'll get into that in a second is because it it offsets, you know, a huge amount of your marketing costs, right? It allow it basically

is it is your free tier. It is your awareness campaigns. It is your thing. And then there's this sort of mistaken idea idea that like, well, if you build up a huge free community, you're bringing in leads. And, you know, this is this is where I think the first

sort of mistake of open source communities is, is that, you know, the people downloading your software, using your software, even tweeting about it or whatever, isn't leads, right? Leads is I have an intent to be interested in your commercial business, not I have an intent in your software. I have an intent in solving a problem for me. It's I have an intent about learning about how to commercially pay you for the software because I think there's value in the commercial part of it, right? So,

I think we mistake that piece of it is that we want to build communities and so forth. And especially in the context of a number of companies, and this isn't specific to HashiCorp, specific to Chef, specific to any of them, the community building piece of it, and this is where you sort of know this is where it's going, is when you have projects that are more or less dominated by a single company that don't take a lot of pull requests.

Brian Gracely (16:41.518)
that don't take a lot of contributions. I mean, they allow people to, you know, to build extensions to what they're doing, but they don't really let the core of the project kind of get changed. This is when you sort of know that like the community piece is really just sort of marketing. And then eventually what happens and as he talks about, um, you know, you run into the ultimate problem of if you build a project that's good enough and you build a really great project, and this is, this was an interesting part of the conversation, you know, in essence, it was like, you can't come out.

and build anything new unless it's great. And it's like, great, okay, so you're in the marketplace, you wanna build something new, you want it to be great, sort of differentiate itself, it'll get well known. And then it sort of highlights the ultimate problem that open source based companies have, which is if you build the product to be so great and so good by itself, why do people want to give you money? Why would they pay you for something that just works and just works great?

and is frequently updated and, you know, seems to be sort of active and so forth. Right. And so you get into the next problem, which is the better you build the product, the better you build the installer, you build the projects, you build them every week on behalf of the people you take on that cost. You take on all the engineers of writing documentation, all those sorts of things. Why would people want to give you money? And that's ultimately the problem that every single open source company has is that a, you want to build something that

that seems usable and helpful to people are great, if you will. But the greater you build the community version of it, the less likely they are to want to use the paid version of it. And then you run into the problem that so many companies and so many projects have, which is you can't convert from people using it for free to people paying you for that. Right. And we've seen more

and more companies coming to this realization. They probably should have come to the realization before they took multiple rounds of funding.

But, you know, we're seeing them essentially do things that take free or great one or the other, or just something that is very, very time consuming to people and make it no longer free. So examples, right? In some cases, we're seeing companies who change the license so that the free version is no longer available to people that want to use it as part of, you know, building block for what they do. Now, does that, for example, remove

Brian Gracely (19:09.358)
the ability for let's just, you know, let's just use the HashiCorp example as an example. You know, if for example, HashiCorp or MongoDB or somebody was concerned that an Amazon or cloud provider was going to just take the code and build upon it, that could be a concern. Does it prevent them from saying, hey, you can get this base software, which has a huge following, but you're going to pay me like a license or a royalty. Does that prevent that? No, not at all. They could absolutely do that. But again, what was valuable to the

to the other people was to get it for free, right? The next thing we're seeing groups or projects do is say, I'm no longer going to give you the builds. I'm no longer going to build you the final end project, and I'm not going to kind of build it for you in a way that has the security and stability of what we do. And we've seen this with a number of projects. We saw it with Docker, when Docker moved from sort of the Docker project to Moby.

And they basically were like, we're no longer going to build it for you. We're no longer going to put all the pieces together for you. We're no longer going to make it really easy for the community to get it. Could you still get it? Yeah, absolutely. You could still get it. It was just a lot harder. We've seen this with the CentOS project. And this is probably the most misunderstood one, where CentOS went from essentially mimicking exactly how RHEL, Red Hat Enterprise Linux, was released in terms of one build every however many months.

and, you know, built exactly like Red Hat Enterprise Linux to CentOS being, CentOS Streams now being, you know, the idea that, well, we do nightly, we do nightlies. We, you know, we, we create something every day. And if you want that and you want the source code from it, or if you want that, you can go about getting it. And, you know, the market seems to misunderstand this piece of it. They think that, you know, the source code is no longer available for, for those types of things. But, you know, again, that's there. We've seen Linkerd do this.

right? Linkerd basically said we're no longer going to do builds for the Linkerd project. So there's ways that, you know, you don't have to necessarily like change the license to, you know, take away something that is valuable. And again, it's the trade off between, am I just giving away all my value through open source through the project being so good and so great that nobody has any reason whatsoever to give you money? And, you know, what do people place value on? Sometimes it's,

Brian Gracely (21:36.878)
Stable stability of software. Sometimes it's the time it takes for them to do it sometimes it's the cost of them having to do things like Compile the software and know that it's all built the right way and all those sort of things But it is interesting to me that we're still kind of having the conversation that you know, these companies who publicly take money are quick to identify to the world that they've taken money and they want to let the world know that somebody thinks they're really important and they deserve

$50 million or $500 million or $200 million in VC funding that at that point in time, and they do it in multiple rounds, it's not like they did it once and hit it. We've seen companies take multiple rounds and multiple lots of rounds. At that point, they are a business software company. They are not an open source software company. And the open source piece of it is for marketing. And I think the more that we...

dilute ourselves that that's the way the things work, or that we're surprised when, you know, they get larger, their investors or the people that depend upon them say, I want you to continue to grow. And again, this goes back to the basic things that sort of Adam talked about, right? Everybody wants the company to be a long term entity, whether you are somebody who gets it for free, or somebody who pays for it.

You would like that entity, that company to be a long -term entity. And what's weird to me is we, we, we have this arbitrary number somewhere and I don't know what the number is, but there are times when people go, well, they're a big company. They make a lot of money. They should just look at this as like a rounding error, right? This is just whatever. And the problem is nobody defines what that number is. Is that number.

You make $50 million in revenue. You know, Adam Jacobs talked about, you know, chef got to about say, I think he said 70 or $75 million in revenue, but they weren't making enough to sustain themselves as a standalone company. And they weren't making enough to sustain themselves to go IPO to be, you know, to take on more public market funding. So they eventually got sold to private equity. So is, is 75 million enough for them to just.

Brian Gracely (24:00.654)
easily give away a bunch of engineering time, a bunch of compute resources to maintain the project and so forth. Or at what point should they be allowed to try and do the thing, which is be a forever entity and do that? Is that the number is the number $150 million in revenue is the number a billion dollars in revenue, right? I've heard the, the open software initiative say, well, you know, that company,

Makes multiple billions of dollars in revenue. So they should just be willing to give this thing away for free. And again, this is where we have this misperception in our industry of like What what constitutes what they should do for free because if we get back to basic kind of business principles Most businesses don't give things away for free that don't have some mechanism in them towards driving additional revenue towards helping the company maintain that sort of

you know, forever entity -ness to them. So anyways, I'm not going to ramble on this thing too much longer. You know, I'm just, I'm sort of surprised. I think the other thing that sort of shocked me was I saw a tweet from somebody who said, well, you know, if I was IBM, the first thing I would do is I would go after, you know, if the HashiCorp thing goes through, I would, I would immediately change the licensing back to the, you know, sort of the free and open licensing. And then I would figure out the competitive stuff with the cloud providers.

And I read that and I went, huh, that would, gosh, I bet they've never thought about doing that. And I'm sure they could just walk in the door to AWS or Google or Azure or Oracle cloud or whatever, and just say, Hey guys, let's work out the competitive thing. And they go, Oh, you mean the competitive thing where I can just use the free version of the software and monetize it because we're good at monetizing operating stuff.

And again, I say this jokingly, but like the sort of, it seems naive to just sort of be somebody that's looked at in the marketplace as, as understanding this marketplace. And then just to say things like, and then just work out the competitive stuff with those cloud providers as if there's a, there's a blueprint for that, that any of them have any interest in your thing being successful once they get it for free. Right.

Brian Gracely (26:25.87)
So anyways, I'll stop rambling now. I do feel like we just have this weird relationship as an industry with these companies in that we would love to see them be tremendously successful. We can't quite figure out how the business model works in order for them to be tremendously successful. And then when they go through the same things that every other open source based company goes through, which is, yes, we built something really interesting.

we monetized 5 % of the potential user base. And the other 90 % 95 % we couldn't monetize because they were able to get it for free and they didn't want to convert. And we go, gosh, why did they not figure out how to make them convert? It's sort of the Einstein definition of insanity, keep doing the same thing over and over again and expect to get different results. So anyways, it's been one of those weeks and just listening to people talk about their

they're bona fides around open source and then just sort of be like, yeah, ultimately you're coming back saying we should build a business. We should charge people for the business and open source for the fundamentally in the way that they run their business is a marketing vehicle. And it was, it was never intended to be much more than that because the thing you wanted to build was software. You wanted it to be a forever entity and you had unlimited ambitions and all those things are normal and they're good.

and they're fine, right? They're what every startup that's not in open source software strives for. We just, for some reason as a technology entity, seem to think that there's some way to balance the sort of oil and water of free software and paid software, and that somewhere there is the

right answer to get through that. And, you know, I don't think that equation exists anywhere. I think the companies that realize,

there is a business to be run, uh, eventually figure out how to be good at running, running the business. And those that don't figure out that there is a business to be run, um, till too late or till they've taken way, way, way too much VC funding in which they have no control over their business. Don't. And it's unfortunate that so many companies tend to fall into the latter category and don't learn from the things before. So anyways, long ramble, long rant, uh, Sunday perspective. Um,

Brian Gracely (28:51.662)
I'm sure this will come up again in three months or six months or nine months again when some company either changes their license or you know does something they get acquired they get snapped up by Pete private equity or whatever and this whole cycle will happen again but I put it out there who knows it is what it is anyways thank you all for listening thanks for the rant and thanks for letting me put up with the rant and the ramble and

I hope companies figure it out. I hope startups figure it out. I hope they don't unnecessarily take VC funding just because it's the cool thing to do. But anyways, it's an interesting business when you're mixing open source and business. So with that, I'll wrap it up. Thank you all for listening. Thanks for telling a friend. Good luck to all the open source companies out there. And we will talk to you next week.