

# The Digital Tipping

**Point:**

**Marketing for the fun  
of it**



# Themes

# Highly unlikely things **CAN** happen...



**FREE software could  
generate more  
revenue than  
PROPRIETARY  
software!!!**

# The biggest



# business

# error in

# history...

**Ignoring a  
technology  
that is “good  
enough” ...**



OOoCon 2004 - Berlin

# And charging



# a premium

# for a

# commodity!!

# My migration from Windows to Linux shows how Microsoft might be making the same Big Mistake.

- OOo is “good enough”.
- Software libre is good enough.
- Both are rapidly getting better!
  - *OOo 2.0 includes database*
  - *Linspire, SuSE play video*
- And Microsoft can't figure out how to use FLOSS to drive revenue, but Sun, HP, IBM, Novell, Linspire, Progeny and others can!





# FLOSS is a disruptive technology.

- People are sharing their passion for the “freedom” of software libre. The act of sharing that passion disrupts the market incumbent's business model.
- This disruption is creating **DISEQUILIBRIUM** in the Microsoft-centric business network.
- Cross-platform apps like OOo and Mozilla are drawing new players into the software libre-centric biz network on both the demand side and the supply side.



# FLOSS is a disruptive technology.

- More players creates greater **EQUILIBRIUM** in the software libre-centric business network.
- This growing **EQUILIBRIUM** creates incentives for more people to use software libre.
- Public awareness of the shift in equilibria creates the critical mass needed to reach the digital tipping point.

# Fighting equilibrium means being on the wrong side of Metcalfe's Law

- Metcalfe's law: The value of the network equals the square of the nodes on the network.
- Microsoft's business network is **MASSIVELY CONNECTED**, with hundreds millions of “nodes” (vendors, distributors, deployers).
- Microsoft's network is therefore highly stable and highly valuable.

**Disruption could put  
Microsoft on the  
wrong side of  
Metcalfe's Law.**

**Microsoft**

**faces a**

**Dilemma...**



# OOoCon 2004 - Berlin

- **Open the code for Win and Office and work with the community; or**
- **Keep the Win & Office code closed and risk losing this opportunity to develop the resources, processes and values needed to work with the community.**

**Will the king**

**be**

**dethroned?**



# Disruption is dramatic

- Open source **CAN** compete on the desktop and elsewhere;
- Open source **IS** competing on the desktop and elsewhere;
- What's **AT STAKE** in the contest for market share.





# Who is in the movie?

- Members of the community at large:
  - Individual users, like users at the Brazilian and Extremaduran Telecenters;
  - OOO list members and project leads;
  - Developers, like Brian Behlendorf, Miguel de Icaza, Nat Friedman, Richard Stallman;
  - Institutional users like the folks who run the Sao Paulo subway system, and high school administrators in Oregon;
- Business leaders:
  - *CEOs like Jack Messman of Novell and Francois Boncihlon of MandrakeSoft;*
- Scholars and journalists:
  - *Larry Lessig; Michael Raynor; Bhaskar Chakravorti; Maria Winslow of LW Mag.*

# Time for DTP credits!

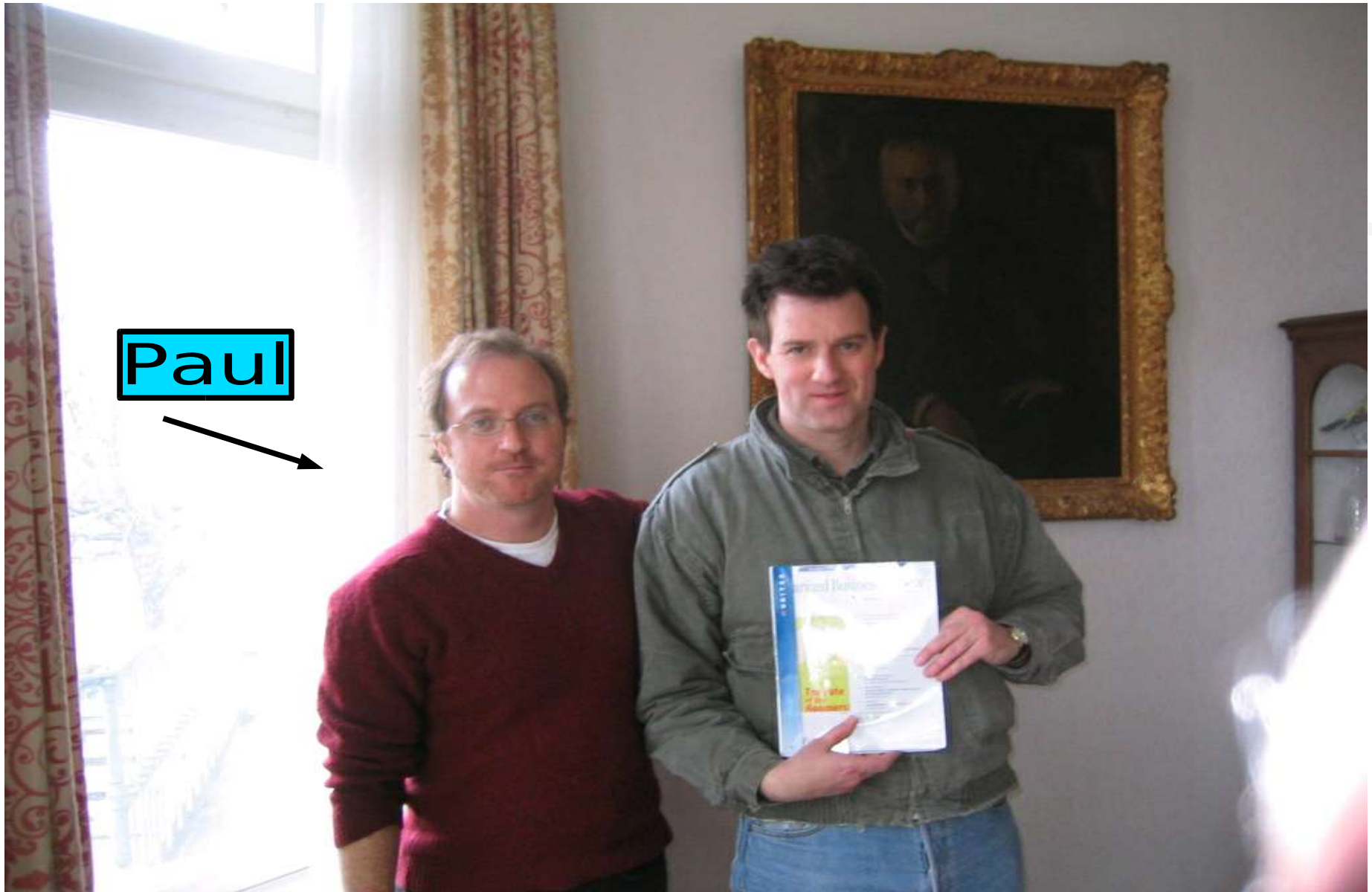




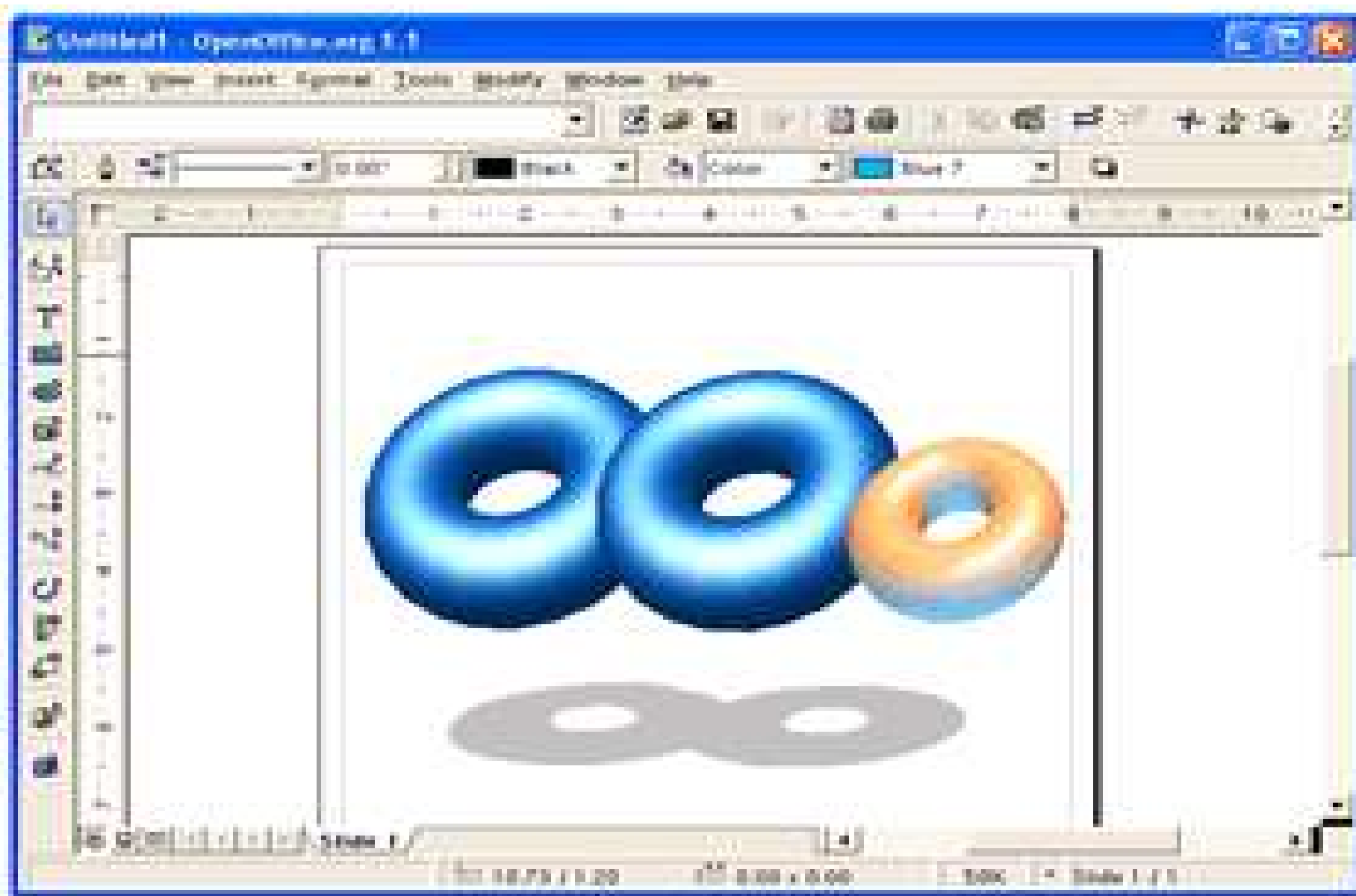
# Co-producer, Dorothee Weiler



# Director, Paul Donahue



# The whole software libre community





# Christian's tipping point

- Windows 98 was not “good enough”.
- *Win 98 kept on fighting with Netscape.*
- *I was afraid of viruses.*
- *I heard that WinXP was even more finicky than 98.*
- *I'm a “lower tier” customer: not willing to pay for the added “functionality” of Windows.*



# Christian's tipping point

- The community offered an alternative.
- *It was a Malcolm Gladwell moment.*
- *I met Holden Aust (maven) in the elevator.*



# Holden Aust

## “You really should try Linux.”







# Christian's tipping point

- *Holden is a classic Gladwell Maven – loves to share detailed knowldege of great ideas.*
- *He gained my trust over several months as we talked about stuff of mutual interest.*
- *He built a SuSE 7.3 box for me.*



# Christian's tipping point

- One person connected me with another.
  - *Holden introduced me to Rufus Laggren and Josh Berkus, who networked my Win and Lin boxes.*
  - *Josh (connector) then introduced me to Danese Cooper (connector and maven).*



# Danese Cooper

## “You really should read Lessig's book.”





# Christian's tipping point

- Christian's epiphany.
  - *Danese suggested that I read The Future of Ideas by Larry Lessig, and ZAM!*
  - ***The light went on!***
- You can't have the functionality YOU want unless we as a community have the **FREEDOM** to tweak the code.



# Moral of the story

- The community is the disruptive technology!
- The community created the code;
- The community maintains the code;
- The community markets the code  
(Holden, Josh, Rufus, Sun, IBM, Novell, HP, Linspire, Sub300.com)...



# Moral of the story

- *The community makes the code relevant by using it.*
  - *Each member's use of the code makes it more likely that the code will become a standard, and thus more widely used by potential new customers.*
  - *Metcalfe's Law: the value of the network (the shared code) increases as the square of the nodes on the network.*
  - *No such thing as free riders here; even a passive end user like me adds value just by using the code.*



# Moral of that story (Part 2)

- It was a textbook case of a low-end disruptive technology in action.
- *Software libre is modular – Holden, Rufus, and Josh could tweak it to build a box that was conformable to my basic simple end user needs.*
- *It was a low end disruption because my performance demands were overshot by Win XP and Office XP; I didn't need XP's bells and whistles.*
- *I was shopping on basic performance (functionality); FLOSS was reliable enough to do webbing and office functions; FLOSS is convenient enough to acquire and use; price was my key shopping criterion.*



# The disruptive buying hierarchy: aka, the disruptive wave

- THIS is what trips up the market leader: a **shift** in the **basis of competition** from:
  - Functionality, to:
  - Reliability, to:
  - Convenience of acquisition and use, to:
  - Price.





# The Law: don't innovate in the path of the tortoise or else...



# The Law Breaker's Cruel End



# Disruption is a competitive biz model

- Software libre has a **structural** competitive advantage:
- The incumbent, Microsoft, **can't** deploy the disruptive technology as the basis for a business model because:

# Disruption is a competitive biz model

- *OOo, Mozilla, GNU, Linux and most other FLOSS are commodities, with gross profit margins **too small** for Microsoft's **huge growth** needs;*
- *Market entrants like Sun, Novell, MandrakeSoft, IBM, Progeny, etc., are using the commodity to sell their **own value added** packages;*
- *Microsoft is trying to continue to sell commodities to customers whose performance demands are **overshot**.*



# Has this ever happened before?

- Lots of historical examples.
- 95% of Fortune 50 stalled during their tenure on that list.
  - *Other biz theorists blamed poor management;*
  - *Clay Christensen didn't buy that explanation;*
  - *Christensen found that these same managers were praised by their contemporaries for the very decisions which led to their failure.*
- ***In every case, failure was caused by the SAME BIG MISTAKE...***

**Ignoring a  
technology  
that is “good  
enough” ...**

**And charging**



**a premium**

**for a**

**commodity!!**



# Names, gimme some names..

- Sony disrupts RCA:
  - *Sony's transistor radios rejected by RCA because:*
    - All transistors' **signals** were **too weak**.
    - **Gross margins** on the radios **too small** for RCA's distribution channels, the appliance stores.
  - **Cramming!** RCA spent tons of money on R & D, but couldn't get it right; tried to **cram** transistors into big radios and TVs for their best customers; big flop.





# More names..

- Bell disrupts Western Union:
- Telephones called a “**toy**” by the President of market leader Western Union:
  - *Phones could only call **one mile away** due to weak signal;*
  - *Western Union's best customers were banks and railroads which used telecommunications to move large data feeds **cross country.***



# You know it's disruptive when customers say:

If it's free, it's either:

- Stolen, or

- It sucks!



**You know it's disruptive when  
CEOs say:**

Who's gonna **PAY** for  
free software?



# But isn't Microsoft Invincible?

- People said the same thing about:
  - Western Union;
  - RCA;
  - Harley (disrupted by “cheapo” Honda Supercub);
  - IBM (disrupted by Microsoft!);



# But isn't Microsoft Invincible?

- Microsoft showing signs of maturing:
  - *On 2004/7/7, financial journalist Melanie Hollands wrote that stocks are moved up by revenue growth, and Microsoft's growth peaked in Oct. or Nov. 2002. .*
  - *On 2004/7/20, MS announced the largest shareholder reward in history, typical of a mature blue chip.*
  - *On 2004/8/21, Steve Lohr, of eCommerce times wrote that MS is taking Office deeper*



# Microsoft's official 2004 10-k

- Microsoft acknowledges slower growth for its fiscal 2005:
- “The increase in Linux distributions reflects some **significant public announcements** of support and adoption of open source software in both the server and desktop markets in the last year. **To the extent open-source software products gain increasing market acceptance, sales of our products may decline, which could result in a reduction in our revenue**



# Why a movie?

My guerilla marketing just wasn't working:

- *Too many newbies, not enough time!*




# But seriously, why a movie?

- Same reason people hack code:
  - *I needed more lawyer apps for Linux;*
    - *More users = more hackers = more code*
  - *Giving is infectious:*
    - *My way of saying thanks to Holden, Josh, Rufus, Brian, Linus, Richard, Miguel, Nat, Eric Allman, etc.*
  - *As one expresses one's life, so it is:*
    - *Rabbits are the running species; humans are the talking species.*
- *For the fun of it!*




# Software livre not a panacea, but...

- ...A step in the right direction.
- For example:
  - *Decreased crime in zones around Telecenters in Sao Paulo.*
  - *Kids now reading who didn't care about reading before.*
  - *Schools in Oregon could get a great network and still save a teacher's job.*



**What would you  
do with your  
life if money  
didn't matter?**




**Freedom means  
being able to  
imagine the  
answer and **walk**  
toward it.**



**Software libre**  
**helps us imagine**  
**freedom.**



**Not free as in  
beer...**



**But FLOSS does make  
money a bit less  
important for some  
users who would  
otherwise be **locked**  
**out****



# Who really believes it will tip?

- Munich Mayor Christian Ude:
  - *“The question here is: will the dam break.”*
- Munich Councilwoman Christine Strobl:
  - *“We were not the only ones considering this change, it was really a wave...if open source is successful in Munich, it could have a domino effect”.*
- Brazilian Culture Minister Gilberto Gil:
  - *“FLOSS is spreading, and this is an irreversible trend”*
- EU Adviser Eddie Bleasdale:
  - *“The open source business network will challenge the propriety business network”.*



# Who cares if it tips?

- Munich Mayor Christian Ude:
  - *“There is a strategic reason to be independent of monopolistic influence of a service vendor.”*
- Brazilian Culture Minister Gilberto Gil:
  - *“Not only government but also civil society will benefit significantly from the use of open source.”*
- EU Adviser Eddie Bleasdale:
  - *“The public is watching what happens with the leaders in adopting open source, and will follow their example”.*

*(The above quotes are paraphrases from the clips we will play here shortly).*





# What is at stake?

- Munich Mayor Christian Ude:
  - *“We are friends of the free market, and we oppose monopolies.”*
- Munich Councilwoman Christine Strobl:
  - *“If we are able to save money, others will say, let's see if we can save some money, too”.*
- Brazilian Culture Minister Gilberto Gil:
  - *“The philosophy of open source is about horizontalizing, democratizing, including, progressing and diversifying in a scientific and technological sense....**Walking Toward Freedom**”*

*(The above quotes are paraphrases from the clips we will play here shortly).*



# Before the clips, a word from the director

- The following film clips are just that, film clips.
- These clips are not really even a trailer or a rough cut.
- The clips are just a hint of the ideas and people who will appear in the Digital Tipping Point documentary.
- We hope you enjoy it!

 **When are we gonna see these clips?**

**Now!!!**