Money for nothing

Stuart Read and Nick Dew examine how to make money out of giving things away

In the software world, business models seem to change faster than designer fashions. Fifteen years ago, if an entrepreneur presented the idea of making money from giving away the firm's product or service, people would have laughed. Ten years ago, at the height of the internet boom, people scrambled to invest in exactly that kind of business. Five years ago, in the wake of the dotcom crash, investors again wanted some connection between making something and getting paid for it. But today, even amidst the global financial crisis, Red Hat is giving away software. Is it 'back to the future', or has Matthew Szulik, Red Hat's chairman, figured out how to make a profit by not selling something?

DIFFERENTLY DIFFERENT

Unlike many of the boom bombs that counted on ad revenue to support a free service, Red Hat goes a step further. Szulik makes all his software and the underlying code freely available. A popular offering is Red Hat Enterprise Linux, an alternative to Microsoft Windows' operating system that can run on desktop PCs with a complete set of Office applications, or as the core of a server running database software from Oracle. In contrast to packaged software, Red Hat's 'open source' model promises freedom, choice and a more attractive price tag. To deliver on that promise, and the promise of profitability to shareholders, Szulik has developed at least three useful keys to the code.

Red Hat's Matthew Szulik gives in order to receive

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FREE THE CROWD

While anyone on the internet can download Red Hat software, there is a catch. The code is governed by the GNU Public License (GPL), which specifies that improvements must be made publicly available. So, in exchange for providing free code, Szulik's programming team in North Carolina is complemented by a thousands-strong community of developers around the world who enhance the software for free.

CHARGE FOR VALUE

Red Hat tallied $400m in revenues and $60m in profit for 2007. Clearly, everything is not free. Red Hat charges for customisation of its software, special changes, packaging and the consulting time that makes Linux and its other software meet individual client needs. These services, more than a CD with a generic software package, are what make the difference to clients, and provide something people are clearly happy to pay for.

TURN PROBLEMS UPSIDE DOWN

Red Hat was founded based on understanding a problem. Open source inverted the problem of monolithic software providers (such as Microsoft and Oracle) imposing proprietary standards on users and developers by turning development over to the community. But Red Hat has not stopped there. The firm has used an area where its technology offering was weak to create the basis for acquisition, and regularly adapts the services it offers and how it charges.

PAINTING AN ALTERNATIVE FUTURE

"Past and present Red Hat associates, along with members of the open source community and our customers and partners, picked up their brushes and dipped them into a paint palette of colour to create this artwork called Red Hat," wrote Szulik, in a characteristically open letter to the Red Hat community.

Entrepreneurs are artists, using what they and others have to transform problems into colourful and valuable offerings. Szulik's palette is already in use elsewhere. Proctor and Gamble's open innovation initiative has delivered new products without R&D cost. Instead of selling a generator, AXA charges for power by the hour, which is what their clients actually value. And Mobility recoloured the automobile industry by offering drivers an alternative to owning a car. Where is your canvas?

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