

HBR CASE STUDY AND COMMENTARY

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Should Marty's  
company embrace  
open-source  
software in its hit  
product?

Four commentators offer  
expert advice.

## Open Source: Salvation or Suicide?

by Scott Wilson and Ajit Kambil

Compliments of

**Deloitte.**

*KMS's electronic music game has become so hot that customers are hacking it and rivals are pouring into the market. Should the company shore up its defenses or let the games begin?*

HBR CASE STUDY

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# Open Source: Salvation or Suicide?

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Martina Dirweg suddenly felt almost physically sick. Her older brother, Evan, whom she loved dearly, could make her feel that way with a couple of well-placed words in a phone call. Meaning no harm, he could destabilize her plans for her company along with her sense of well-being. It was not fair of him.

He was coming to take her to lunch, as he often did, and then to the electronic-games trade show. Though he wasn't part of her company, he acted as her one-man kitchen cabinet. From her office on the top floor of KMS Corporation, maker of the astoundingly popular Amp Up electronic music game, she watched for his car. He had called from the freeway, and he'd be at KMS, in Van Nuys, very soon.

The view from her office was comforting, at least—the familiar bungalows on the distant ridge, the spindly, improbable-looking palms. While staring at that view in 2004, she had made the gut decision that put the company

on its present path—and in its present dilemma. The path was that of mass marketer; the dilemma was what to do about the raucous, uncontrollable open-source software movement that was starting to pose a real threat to KMS.

It had been a heady moment four years earlier. A group of programmers at the company, then known as Kalley Music Software, had demonstrated some learning tools they'd developed between other assignments. The devices were made from real electric-guitar necks and other parts, but instead of strings they had an assortment of goofy buttons and touch pads and dials. The superb embedded software produced great-sounding music out of even the most amateurish flailing, and users could jam from separate continents with only a computer and an internet connection. The programmers had already sketched out a couple of songwriting and karaoke-like video games.

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*HBR's cases, which are fictional, present common managerial dilemmas and offer concrete solutions from experts.*

A long silence had followed the presentation, while everyone pondered the options that lay before the company. Spin off the idea? Sell it to some mass-market company? Marty had gazed at the distant ridge. Then she said, “Let’s do it. Let’s do it ourselves.” Sometimes the applause still rang in her ears.

Amp Up was a big hit and then some. When the band Z3 appeared onstage with an Amp Up ax, as the device was officially called, sales took off. The company changed its name to KMS to avoid being stereotyped as a music-software company, and learned a lot about mass marketing in a hurry. There was even talk of spinning off the music-software business, its former core, into a separate firm. It had been quite a ride.

Now Marty’s brother was suggesting that the ride get even wilder.

“You ruined my day, you know,” she said as she got into the Mercedes beside Evan, still fit and handsome in his forties.

“It was nothing personal,” he said.

At the roadside diner where they liked to eat, she thanked him for offering to take her to the two-day trade show in Pomona, where KMS would be displaying its wares and offering glimpses of the next upgrade. Evan had parlayed a networking start-up into a small fortune and now occupied himself by investing in and tending to other people’s tech companies. She was always grateful and impressed that he cared nearly as much about her business as she did.

Then she challenged him to come out with it: What could be wrong with the company’s so-far highly successful strategy of jealously guarding its intellectual property? Why should she open the software in Amp Up, as he had so casually suggested on the phone? Why should she invite the open-source community into the company vault, so to speak, and allow it to play with the crown jewels?

“You sound like a queen now, not a CEO,” he said. “Better if I show you rather than tell you.”

So it wasn’t until they were under the great ribbed ceiling of the Fairplex that he began his explanation. Bypassing the extensive KMS display, he led her through the crowd to the end of an aisle. “I’d like you to meet a few people,” he said. She found herself being introduced to some decidedly geeky-looking young men who seemed awed—that was the only word for it—to meet her. Some of them

were clutching objects that looked a bit like Amp Up axes. The young men were the founders of a start-up, Open Chord.

She was annoyed at her brother. She knew all about this company. These guys, who had probably begun as obsessed Amp Up players, had copied the basic idea behind the game and written their own code—which, unlike KMS’s, was open source. Anyone who wanted to use it to write applications for new games and new sounds was welcome to do so. She despised such infringers. “Aren’t we suing you?” she asked one of them. They all nodded.

“There’s a similar start-up right over there,” Evan said, gesturing.

“Another one?” she asked.

“Both companies, as it happens, came to me for financing.”

She gasped. “You didn’t—”

“No,” he said. “I’m your loyal brother. I told them both they’d need to find another angel—either in my network or, preferably, in a different one. I couldn’t invest in a start-up that was challenging my baby sister’s company.”

“Lucky for you,” she said, making a fist.

“But if not for the ethical issue,” he added, “I would have put money into one or both in a heartbeat. They’re good businesses.”

“How are they good businesses?” Marty asked, exasperated. “This one’s being sued by us for infringement, and the other one is going to be sued as soon as I get back to the office. Plus what does it mean to build a business on open source? You can’t make money on open-source software.”

“Marty, these guys aren’t going away. The point is, it’s no longer just individuals hacking into your hardware and software or making game controllers of their own or writing code for themselves and their friends. It’s *companies* now, too. Companies with real money behind them. These people are passionate about the user community that *you created* four years ago by bringing Amp Up into the world. And they’re just as passionate about the idea that the user and developer communities should be based on open source, with developers being able to freely swap and write software to fashion applications as they see fit.”

He paused. “See? Look—” In response to a gesture from Evan, one of the geeky guys sheepishly stepped aside, revealing a banner he had been trying to obscure. Under the Open Chord logo it said, “Fight the Power!”

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“That’s you,” Evan said. “You’re the power they’re fighting.”

That was enough. Marty tried but failed to manufacture a smile for the geeks as she spun away and headed for home territory: the KMS display.

Evan was right behind her. “Your product turned millions of nonmusicians into musicians,” he said. “It caught everyone’s imagination. Now it’s even bigger than KMS. Everyone wants to be part of the concept, and a lot of people have the programming skills to do something about it.”

“I’ll sue them all,” she said.

“Open source is like a rising tide,” he said. “You either float with it or drown.”

Once again she had the sick feeling that only his words could give her.

### Enemy of the People

Everybody at the trade show, it seemed, was talking about the open-source start-ups challenging KMS—even Allan Schmirer. She trusted and admired her chief operating officer, but today, for some reason, she was irritated that he was even thinking about those infringers—and that he was sucking on an iced strawberry drink that seemed way too frivolous for an executive of his status.

Sensing her mood, Allan offered a reassuring take on the start-ups. “They don’t have a viable business,” he said. “They’ll be squeezed on one side by the free stuff that’s out there—and on the other side by us!”

“I wish I could believe you,” she said.

He seemed shocked. “I’ve never heard you talk like that before.”

“I’m just concerned that our customers are starting to see us as the enemy, as the big corporate power with the proprietary IP,” she said. “We can’t afford to alienate potential users.”

“It doesn’t matter, as long as we also keep dazzling them.”

“Yeah, but—” They looked at each other, knowing what “Yeah, but—” meant. Inventing and executing dazzling upgrades got harder every year.

Allan shrugged. “Then again, this could be moot after next Christmas. For all we know, demand will collapse, and we’ll be scratching around for something totally new to offer our fan base. That’s life in the mass market. It’s not like when we used to sell to music professionals.”

“A cheerful thought.”

“Not to mess with your head too much,” he said, “but the irony is we’d probably be extending Amp Up’s life by going the open-source route—maybe not with the true mass market but at least with the die-hard fanatics. They wouldn’t turn their backs on a product that they’d put their creativity into.” He got to the bottom of his pink drink, and the straw made that sound she hated. “Not that I’m suggesting it,” he added.

### “How Do I Keep From Drowning?”

There were angels everywhere when Marty got to her brother’s office in Brentwood Park the following week: angels in the lobby, angels in the elevator, angels in the hallway. This was the headquarters of the angel network to which he belonged and for which he served as technical adviser. She had come here because she couldn’t get the open-source idea out of her thoughts.

“So let’s say I accept that open source is a rising tide,” she said as she took the upholstered chair beside his desk. She picked up a filigreed handbell and tapped it, setting off an ethereal chime. Evan had lots of these things from his vagabonding days in Tibet. “How do I keep from drowning?”

Evan leaned back as the sound slowly faded. “KMS has to become the open-source company,” he said. “It has to embody the open-source ethic, at least in the perception of customers.”

She rolled her eyes. “So now there’s an open-source ethic? Soon it’s going to be a religion.”

“It practically is already,” he said.

“And I’m supposed to embrace open-source software, letting people have my IP for nothing and incorporating random developers’ code into my products? None of that code is tested, you know. Or guaranteed. Or supported.”

“Generally true,” he said.

“But the main thing is, I just don’t see how we can make money if everything is free. How do we control the product space around Amp Up—the add-ons and extras that we’re planning for next year and the year after? What about the basic idea of controlling resources for competitive advantage? Isn’t that what being in business is all about?”

“There are other ways to make money,” Evan said, “as any entrepreneur can tell you.

*“I’m just concerned that our customers are starting to see us as the enemy, as the big corporate power with the proprietary IP.”*











