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Virtual Piecework

Trolling the Web for Free Labor, Software Upstarts Are New Force

In an Era of Online Teams, Zimbra Chases Microsoft With Low-Cost Email

Toiling for T-Shirts and Hats

By ROBERT A. GUTH

In late 2003, at a coffee shop in Palo Alto, Calif., three friends weary of work at big Silicon Valley companies decided to create an email program. In a weekend they cobbled together a simple prototype. They combed the Web for free software, and in a few months they had assembled more than 40 blocks of free programming into a basic system.

They named it Zimbra, after a Talking Heads song, posted it online and invited strangers to offer suggestions. A Rochester, N.Y., college student picked through the code for bugs, working from a dorm room so stuffed with computer gear that the air conditioning runs in winter. A Denver-area techie helped beef up the program's antispam feature while watching episodes of "Lost" on TV. And a nuclear engineer translated the program into French from his chalet in the Alps. As payment, contributors got T-shirts and hats.

In February, the three men launched their product at a cut-rate price and started nibbling at the franchise of market leader Microsoft Corp. Like Microsoft's Exchange, Zimbra lets office workers send, receive, store and search the thousands of email messages that can pass through a business daily. Today about four million people use Zimbra, including an Alabama hospital, the Tombstone, Ariz., school district, and 12,000 branches of the big tax preparer H&R Block.



Satish Dharmaraj

Zimbra vs. Exchange

How the two business email systems compare:

Zimbra Collaboration Suite

- About 4 million users
- Developed by a handful of engineers and a host of volunteer contributors online
- \$28/user per year (cost can be lower depending on the order)

Microsoft's Exchange

- About 140 million users
- Developed by hundreds of Microsoft programmers over years
- \$39/user per year*

*For company with 100 users; for the first three years, then price falls to \$17/user per year

Zimbra sprouted from a revolution in the software industry that looms as a long-term threat to Microsoft and other giants. At its heart is a virtual army of software hobbyists who collaborate online to create free programs. Like bloggers and YouTube addicts, they hang out on the Web at all hours, largely for no pay.

Now, start-up companies are helping themselves to this software, piecing it together like Lego blocks into new commercial products. Often, they post the products' underlying code on the Web and tap more volunteers to help improve it. Then they sell the software online, saving the cost of a large sales force. Zimbra co-founder Satish Dharmaraj, 39 years old, leads Zimbra Inc.—the company behind the software—with just 55 people, from a tiny cubicle with a laptop.

Zimbra is a speck compared with Microsoft, which boasts 140 million users of Exchange. But there are a growing number of other specks. The Web is teeming with Microsoft alternatives, from the Firefox Web browser to sales-support software called SugarCRM. Even Google Inc. is in the game, buying the upstarts, including a spreadsheet and the tiny maker of free word-processing software called Writely.com.

Microsoft Chairman Bill Gates says he has seen Zimbra demonstrated and concedes that "they've done a good job," but says the product "doesn't even come close to the things that Exchange does." The trusted communications hub for thousands of the world's biggest businesses, Exchange lets

them combine email with conference calling and instant messaging. The newest version, available next month, has improved features for connecting to those services via cellphones and other mobile devices.

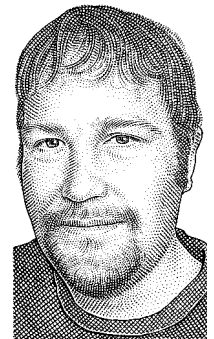
But Exchange, though full of features, is complicated and can cost more than Zimbra, depending on a complex price structure. Developing the newest version of Exchange took years of work by more than 400 Microsoft employees.

The rise of upstarts like Zimbra comes as Microsoft is scrambling to adapt to the broad changes wrought by the Internet. The company gained its lucrative position by dominating the market for software installed on personal computers. But increasingly some of the same basic tasks once handled by Microsoft's software can be done over the Web—and by phones, handheld computers, and other devices that don't all run Microsoft programs. That's forcing Microsoft to start experimenting with ways to sell software services over the Web, while maintaining its stronghold in computer software.

Microsoft is still showing respectable growth in both revenue and profit, but its Windows operating system and its Office software package, which in the 1990s had revenues soaring at or near 30% a year, will likely never repeat their past performance. Microsoft's share price—though rising since last summer—has effectively been flat for six years. In 2003 Microsoft started paying a dividend, a tool often used by slower growth companies to attract new investors.

Zimbra is the brainchild of three programmers led by Mr. Dharmaraj, a hyperkinetic computer scientist who once handcuffed himself to a Coke machine to stop his boss from swapping it for a Pepsi dispenser. He bonded with colleagues Ross Dargahi and Roland Schemers while working at Sun Microsystems Inc. Together they joined a software start-up in 1997 and quit together in 2003.

At their coffee-shop meetings in late 2003, the three decided there was room for a new business email program that could serve business customers more simply and cheaply than Exchange. They thought they could put it together in a hurry by rummaging through the free software on the Web.



Joshua Prisman

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DOW JONES

Loose communities of programmers had been collaborating online for decades. By the early 1990s, they were coalescing into a grass-roots movement known as "open source." In the most famous example, a software engineer named Linus Torvalds at the University of Helsinki in Finland wrote the core of the Linux operating system. He put it on the Web and allowed anyone to tinker with the coding. Word spread, and gradually computer aficionados around the world were dedicating their free time to making Linux better.

From the University of Illinois sprang free Web server software for running Web sites called Apache. In Sweden, researchers worked on open-source database software, called MySQL.

By the time the Zimbra founders got to work, all those programs had been tested and improved over many years. The three engineers were able to find more than 40 open-source programs, including Apache and MySQL, that they could combine to build the basics of an email system.

With the plumbing in place, Mr. Dharmaraj and his crew focused on getting it to work together. They added whimsical features called "Zimlets," which let users perform tasks within an email, such as search Amazon.com or pull up a Yahoo map by hovering the cursor over a street address.

By the spring of 2004, the trio had raised \$4 million in seed money. They spent it sparingly, housing their modest contingent of 10 employees in a rented Silicon Valley office that leaked when it rained. Eventually they raised a total of \$30.5 million in venture funding.

In August 2005, in what has become a rite of passage for open-source software, Zimbra posted a prototype of its software on the Web and invited suggestions. They bought sponsored links on Google that would point to Zimbra when people searched for key phrases, such as "open source email." And they set up online forums on the Zimbra for contributors to meet and exchange ideas.

Ben Allen, a 20-year-old computer-science student at the Rochester Institute of Technology, checked out the software in the first month, installing it in his dorm room on a server he bought on eBay for \$180. Over the next few months he picked through the code and uncovered some bugs, including one that could let a hacker steal a person's private information. When he later shared his findings with Zimbra technicians, they gratefully fixed the bug earlier this year.

In the mountain hamlet of Annecy, France, Carlos Vidal, a nuclear engineer and consultant to power companies and small businesses, found that emails with attachments were crashing his clients' email systems. In September he saw a mention of Zimbra on a Web site frequented by open-source fans. He downloaded the software and liked the way it handled attachments. He immediately started to translate the program into French.

Through the online forums, Mr. Vidal, 46,

teamed up with other Zimbra users to finish the French translation, which expanded the program's potential market. And Zimbra updated the coding to make it easier to translate the program into other languages. Soon other contributors translated it into 13 languages, including Chinese, Japanese, Swedish and German.

Around the same time, 24-year-old John Holder had just landed a new job as a computer administrator at the Tombstone Unified School District in Tombstone, Ariz. Hoping to set up the district with its first email system, he searched on Google for free email and was offered a link to Zimbra's site. He clicked on the link and within an hour had the software running at one of the four schools he oversees.

When he accidentally killed his school email accounts, he started exploring the system's file-backup system, and eventually posted on Zimbra's forum instructions for how to avoid erasing files. Like the other contributors, he got a gray T-shirt emblazoned with the red Zimbra logo.

"I'm not looking for money," says Mr. Holder, whose contributions became part of Zimbra's instruction materials. "The incentive is that five years down the road, I can say I helped those guys."

In a suburb of Denver, Joshua Prisman, a project manager at a data-analytics company, installed Zimbra on a home computer. When he saw a surge of unwanted email after switching to Zimbra, Mr. Prisman, 29, peeked into the computer code to see how Zimbra handled spam blocking.

Thinking he could improve upon it, Mr. Prisman sat at his computer for about eight hours on a Saturday in November 2005, trying to fortify Zimbra with a free anti-spam program called Dspam. Over the next four nights he finished up the work while watching "Lost" with his wife, a notebook PC perched on his knees, and then posted his findings on Zimbra's online forum. "It really was fairly simple," he says.

By December Zimbra's first batch of 750 T-shirts was dwindling, as more and more people offered suggestions for honing the email program. Messrs. Dharmaraj, Dargahi and Schemers, and their employees, were working on an official version of the software, using ideas they developed themselves as well as input from contributors.

The three bet that businesses would want to pay for an official version that had a full set of features, was free of major bugs and that Zimbra would support. In February 2006, Zimbra's Web site offered a link to buy the "Zimbra Collaboration Suite 3.0." The basic price of \$28 a year per user includes support and updates, but the cost can be lower, depending on the order. For Exchange, by comparison, a company with 100 users would pay \$39 a user each year for the first three years, after which the price falls to \$17 a year per user.

In April, Huntsville Hospital in Huntsville, Ala., put 8,000 employees on Zimbra. Interim HealthCare Inc., a home-health-care

provider in Sunrise, Fla., paid Zimbra \$15,000, or about \$12.50 per user, to set up 1,200 nurses with the official version.

Interim's chief information officer, Satish Movva, says the company will expand that to 2,500 nurses by next summer, a step toward the roughly 55,000 nurses across all of Interim's franchisees. "We got the early adopters right away," he says. "After that it takes a little while."

Among many of its earlier customers Zimbra found were companies that had already rejected Microsoft's Exchange for its cost and complexity and were open to a cheaper product. H&R Block, which uses Exchange at its Kansas City, Mo., headquarters, had been looking for an email system for its branches, which can come and go along with tax season. But Exchange was too expensive for that largely seasonal work force, and Web mail such as Google's Gmail lacked features, says H&R Block's chief information officer, Marc West.

H&R Block tested Zimbra's software in 24 U.S. cities and soon ordered the official version. By the middle of tax season, about 3,500 branches in H&R Block's branch offices were using the software. "Two or three years ago Zimbra wouldn't have made the CIO's desk," says Mr. West. But the growing abundance of email choices makes the software "almost disposable technology," he says.

H&R Block recently expanded Zimbra to 12,000 branches and is now considering using it at its headquarters, Mr. West says. Microsoft has stepped up efforts to persuade the company not to drop Exchange, says Mr. West, and H&R Block is weighing its options. A Microsoft spokesman says the company doesn't comment on individual customers.

Microsoft's pitch to companies such as H&R Block boils down to support and technology. On support, Microsoft executives highlight the benefit of thousands of independent software companies and resellers that Microsoft works with to tailor Exchange to a company's needs and fix problems. A single supplier like Zimbra can never compete with that army of partners, Microsoft executives say. "It's complicated building up a business around it," Microsoft's chief software architect, Ray Ozzie, says of Exchange.

Mr. Dharmaraj acknowledges that with Microsoft as a competitor, his company's nascent winning streak could end as fast as it started. Also, Google and Yahoo are now both tuning their Web email services for businesses.

An even greater fear is that another start-up could come along to beat it at its own game. The same open-source software that gave Zimbra its fast start is still coursing on the Web, ready for someone else to grab.

"The thing we worry the most about," says Mr. Dharmaraj, "is that somebody's going to copycat everything we've done in the last year."