

Understanding Dropbox: Consumerizing the Cloud

Dropbox is a file hosting service operated by American company Dropbox, Inc., that offers cloud storage, file synchronization, personal cloud and client software. Dropbox was founded in 2007, by MIT students “Drew Houston” and “Arash Ferdowsi”, as a startup company, with initial funding from seed accelerator Y Combinator. It is headquartered in San Francisco, California, United States.

The Business Model

Dropbox uses a “freemium” business model, where users are offered a free account with a set storage size, with paid subscriptions available that offer more capacity and additional features.

Dropbox Basic users are given 2 GB of free storage space. This can be expanded through referrals; users recommend the service to other people, and if those people start using the service, the user is awarded with additional 500 MB of storage space. Dropbox Basic users can earn up to 16 GB through the referral program.

The Dropbox Plus subscription (named Dropbox Pro prior to March 2017) gives users 1 TB of storage space, as well as additional features, including:

- Advanced sharing controls: When sharing a link to a file or folder, users can set passwords and expiration limits.
- Remote wipe: If a device is stolen or lost, users can remotely wipe the Dropbox folder from the device the next time it comes online.
- "Extended Version History": An available add-on, it makes Dropbox keep deleted and previous versions of files for one year, a significant extension of the default 30-day recovery time.

In November 2013, Dropbox announced changes to "Dropbox for Business" that would enable users to connect both their personal Dropbox and their business Dropbox to the same device, with each of the folders being "properly labeled for personal or work, and come with its own password, contacts, settings, and files".

Dropbox Security

Dropbox provides the control and visibility features that IT admins need. Behind the scenes is a secure, sophisticated infrastructure built to protect your important files while being transferred, stored, and processed. The information security management framework is designed to assess risks and build a culture of security at Dropbox. On information security, the company says “We’re always assessing risks and improving the security, confidentiality, integrity, and availability of our systems. We regularly review and update security policies; provide our employees with security training; perform application and network security testing (including penetration testing); conduct risk assessments; and monitor compliance with security policies”

Dropbox goes Public

Dropbox celebrated its IPO listing on 23rd March, 2018 on the NASDAQ exchange.

After pricing above the range at \$21 per share, raising \$756 million, Dropbox kicked off its first day soaring to \$31.60, and closing the day at \$28.48. This is up almost 36 percent.

It’s surely a sign of public investor enthusiasm for the cloud storage business, which had initially hoped to price its IPO between \$16 and \$18, then raised it from \$18 to \$20.

It also means that Dropbox closed well above the \$10 billion it was valued at its last private round. Its market cap is now above \$12 billion.

Dropbox brought in \$1.1 billion in revenue for the last year. This compares to \$845 million in revenue the year before and \$604 million for 2015.

Dropbox is not yet profitable; it lost nearly \$112 million last year. But it has significantly improved margins when compared to losses of \$210 million for 2016 and \$326 million for 2015. Dropbox is inching closer to profitability.

■ Net losses



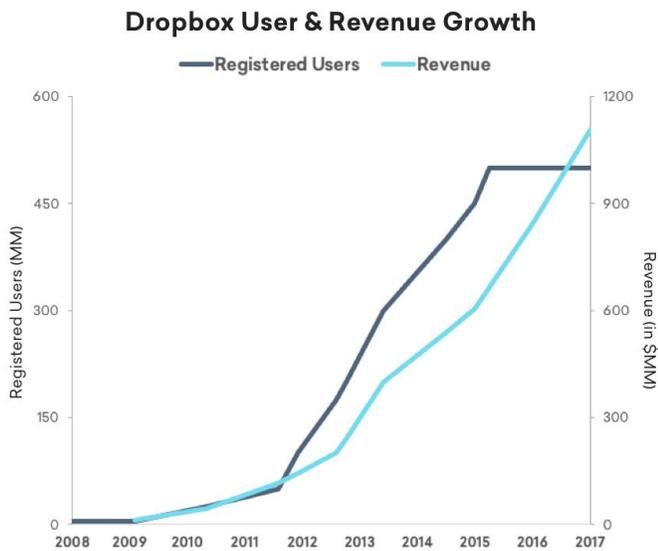
Source: Bloomberg

Its average revenue per paying user is \$111.91.

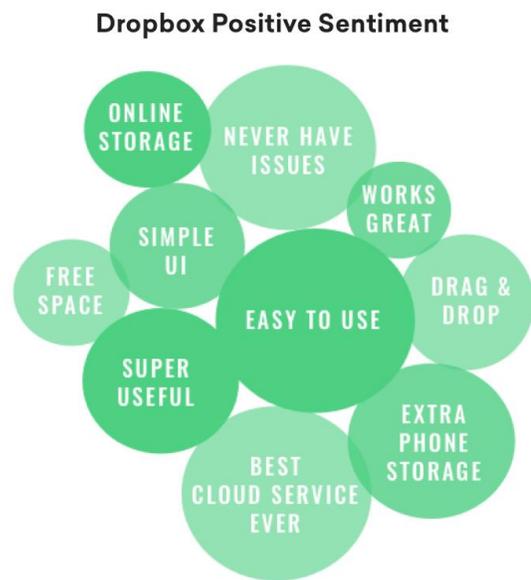
Dropbox's top three "**Winning Strategies**":

1. Identify market gaps and build consumer-centric product experiences. Dropbox's seamless, easy-to-use product experience was critical to educating and unlocking mass-market adoption of cloud storage technology.

Dropbox identified consumer pain points in file management and developed a simple, easy-to-use product that fueled its momentum in what has become a \$50 billion market. Its intuitive and reliable product design made it very simple for anyone to back up their files and access them anywhere, across a variety of desktop, laptop and mobile devices.



Source: Dropbox S-1 & media announcements



2. Drive growth through word-of-mouth and attractive referral-based strategies. Although the company experimented with search, affiliate and SEM marketing, which cost \$233-\$388 per customer, Dropbox realized that this was not sustainable against a \$99 annual service. Dropbox launched a referral marketing program that drove impressive word-of-mouth traction by offering additional free storage to users who invited their friends. This helped the company rapidly grow from 100,000 users to 4 million users in 15 months, with 35% of daily signups from referrals and 20% from viral features like shared folders.

Paypal's referral marketing tactics, offering its key product (currency) as an incentive, inspired Dropbox's referral strategy offering a two-sided incentive that awarded free storage to both the referrer and referees. As a storage company, this model effectively invested users in the product by not only introducing new users, but also facilitating a conversation that strengthened the brand's core value proposition, storage. This strategy also allowed the company to defer costs, only incurring cost if space was used. Further, the simple and effective user value proposition incentivized word-of-mouth referrals among dense, promising user communities such as universities. Targeting university students was especially effective because it tapped strongly-networked communities and seeded an audience about to enter the workforce.

3. Win over consumers to influence enterprise decision making. Dropbox's initial product attracted a large following of consumers who adopted it for personal use. Dropbox spread among individual consumers, who eventually became "Trojan horses" as they entered the workforce, gained critical mass, and converted into paid subscriptions. The company estimates that about half of users on the individual plan use it for work.

Dropbox's growth thrives in small business environments where IT decisions do not require sign-off from a single decision maker. This organic, bottom-up adoption drove Dropbox's growth as organizations increasingly allowed employees to choose their own tools at work, and work became more remote. Today, 90% of Dropbox's revenue is generated from its self-serve channels.

Risk Factors

The company faces various risks including competition and data security to be the highest prioritized. The company has adopted the "freemium" model strategy which might not be the best strategy for a company to make profits in the long run.

Dropbox faces cut throat competition from rivals Google Drive, iCloud, Amazon web services, OneDrive to name a few. The reach of Google and Apple is to the greater masses and with deep pockets it is easier for them to get customers on board. Google Drive provides 30GB free storage whereas Dropbox provides only 2GB free storage for its customers, which is one more reason for people to prefer Google Drive over Dropbox. The reach and ease of Google Drive for mass public is easier as compared to Dropbox. In the 21st Century, in the era of smart phones, the reliance on Google has increased and hence the ease to use Google Drive. "iCloud" of Apple is also a big threat to Dropbox in term of competition. Data suggest that 64% of Americans own atleast one Apple device with built in iCloud services. This brings the ease to use iCloud services as compared to Dropbox.

Data security is an important measure that Dropbox needs to take care of. It is not only the requirement of the customers but also a requirement by the government of almost all the countries. If the company fails to do so they have to face huge fines and penalties from government of the respective

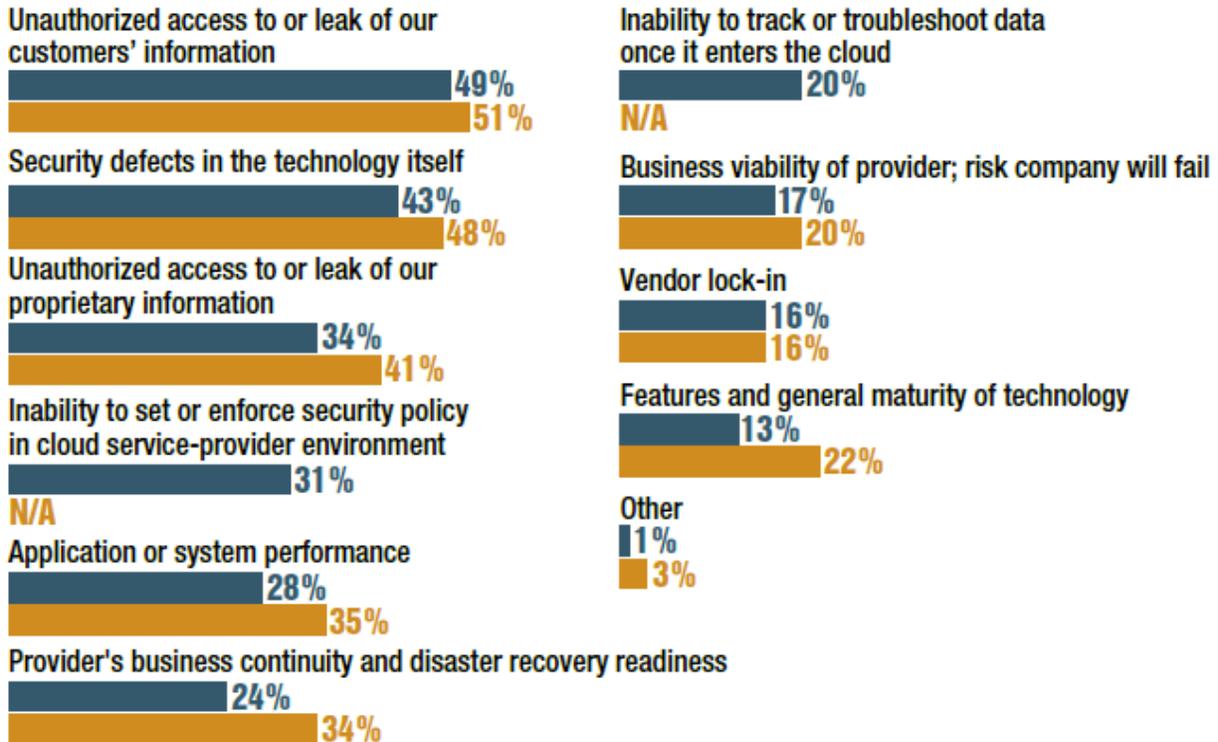
countries. With the adoption of General Data Protection Regulation (GDPR) in EU, the penalties and fines that can be imposed by the government manifold several times, so it becomes even a bigger concern for the organization to comply with data security. From an individual's or an organization's perspective, they need an assurance on Data Security before they upload any document, images, information etc. on the cloud. The data for every individual or organization is very sensitive and if it is leaked it could cause huge damage to them. For an organization, the loss of data from cloud will open them also against failure to comply with legal requirements and it will not only cause financial losses, in terms of fines & penalties, but also loss of reputation. For individuals, the data theft will open up their personal information including name, address, bank details, PAN/ Adhaar/ SSN details etc. Almost all the information in today's day and age exists in electronic form, so it is the necessity of the present and the future to have a robust Data Security plan.

The files stored on Dropbox should be accessible to one and only person who has stored it. If the individual is, due to some error, unable to access the file, the questions on security and integrity of data arises. This also results in loss of trust and confidence among the customers and sends a bad image of the company. With the far and fast reach of Social Media it is a very easy task to spread the message across to mass public. The paid users then have a question whether they should use Dropbox or not. There will be customer loss, which will further decrease the revenue and a loss making company cannot afford their revenue generating customers to part ways. This will not only reduce the revenue for the company but also increase the quantum of losses.

Cloud Computing Risks

When thinking about risks related to using cloud services, what are your top concerns?

■ 2015 ■ 2014



Questions:

1. How will Dropbox continue its path towards market leadership?
2. After the Facebook controversy is Dropbox safe? Justify.
3. Dropbox has a robust policy for data and information security. Are they 100% secure from Cyber Attacks? Justify.
4. In spite of being a loss making company, it arose 35% on the exchange at the time of listing. Justify.

Referrals:

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