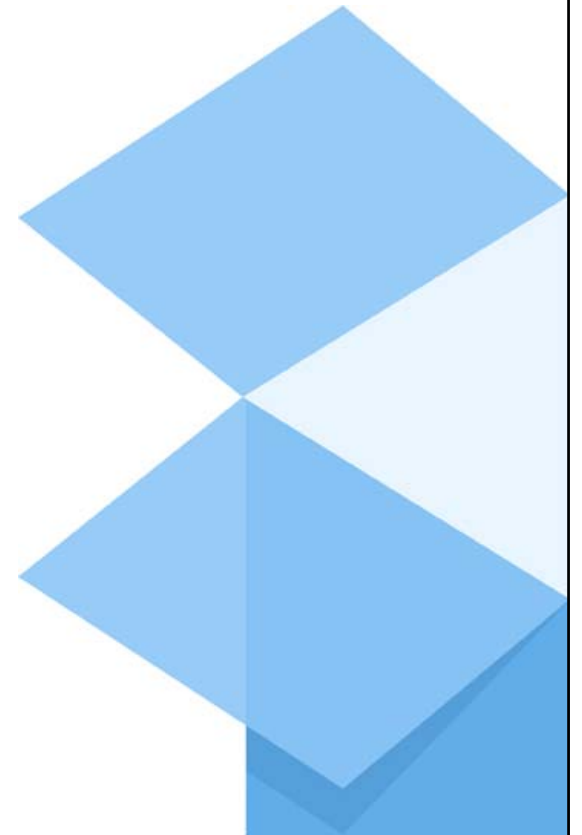


Dropbox:

It just works...

better



February 9, 2013

Illinois Strategy Case Competition

Your Consulting Team



Andrew Tye
Strategy



Javier Aguirre
Marketing



Raghuram Rao
Product
Development



David Smith
Finance



Agenda



Pressing Issues

shared folder



Context of the Decision

shared folder



Alternative Evaluation

shared folder



Recommendations

shared folder



Strategy Analysis

folder



Implementation Timeline

folder



Key Takeaways

shared folder

Opportunity At Hand

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Dropbox

Despite enjoying a reasonable track of success, the fast-paced & evolving nature of the industry is now pressing Dropbox to determine what the long-term strategy should be.

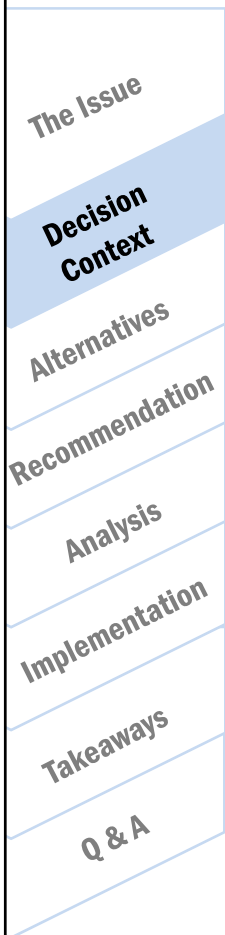
Key Questions & Challenges

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Key Questions & Challenges

- **What should the product offering be?**
(Single vs. Segmented)
- **How can Dropbox expand?**
(Partnership, Advertising, Organically, etc.)
- **How will we differentiate Dropbox from competitors?**
(Google, Microsoft, Carbonite, etc.)
- **How to create a business management team?**
(Product Managers, Business Units, etc.)

How Dropbox Got Here



Company Culture

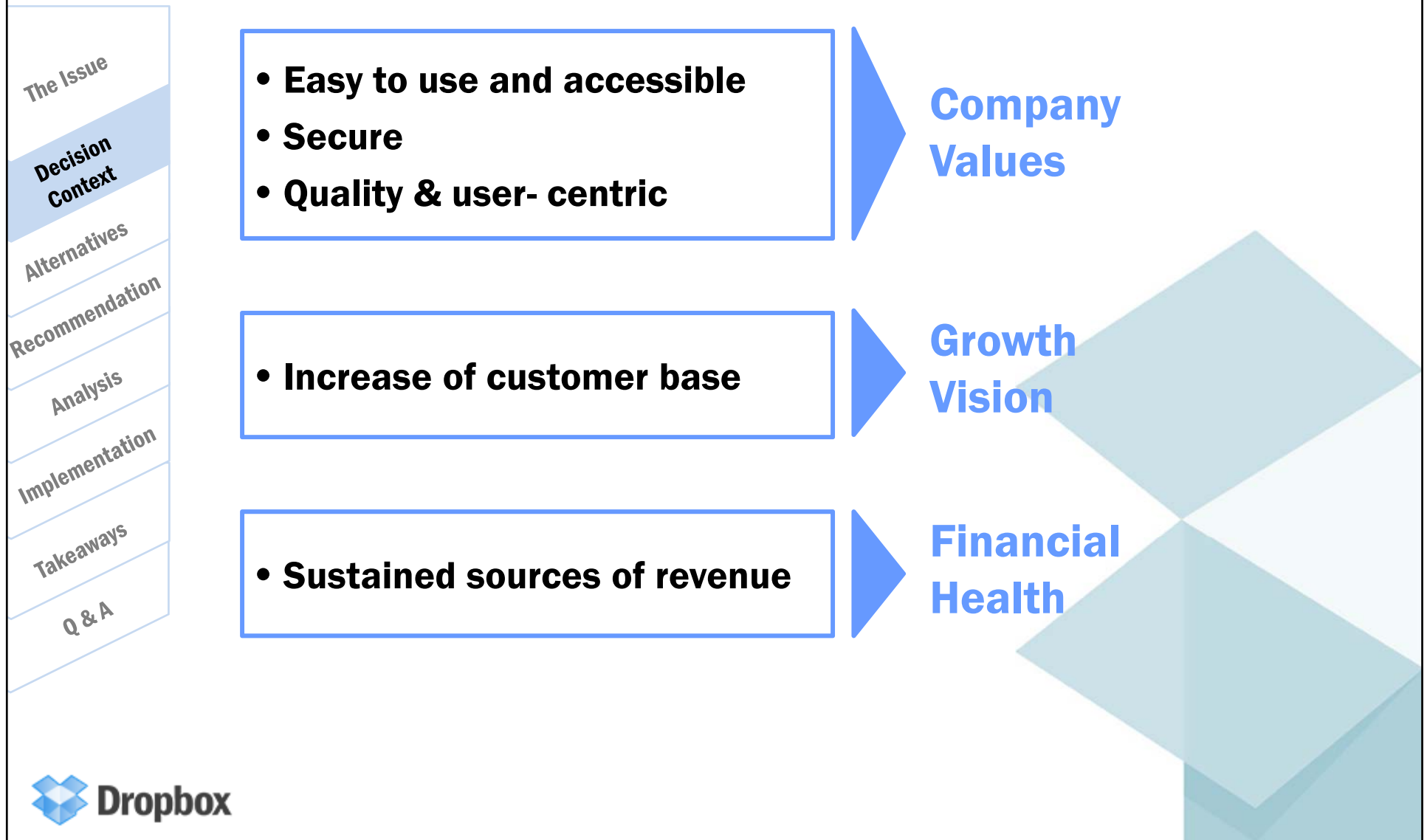
- Obsessed with quality and hard work
- Clear vision
- Conservative cost management
- User-centric (Ease of use and Accessibility)



Goals

- Give users what they want without compromising vision
- Provide seamless accessibility that works for all
- Accelerate growth in size and profitability

How To Measure Our Goals



Alternatives

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Strategy	Company Vision	Growth Vision	Financial Health
Segmented Products	+	+	+
Partnerships	+/-	+	-
New Pricing Model	+	+	+
Status Quo	-	-	+
One Product, New Features	-	+	+

Recommended Strategy

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

1 Product Segmentation

- Long-term Growth Strategy

2 Feature Enhancement

- Respond to Consumer Needs

3 Flexible Pricing

- Drives Organic Marketing

1. Product Segmentation

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Individuals Dropbox One



- Current system
- Basic features

Groups Dropbox Co-op

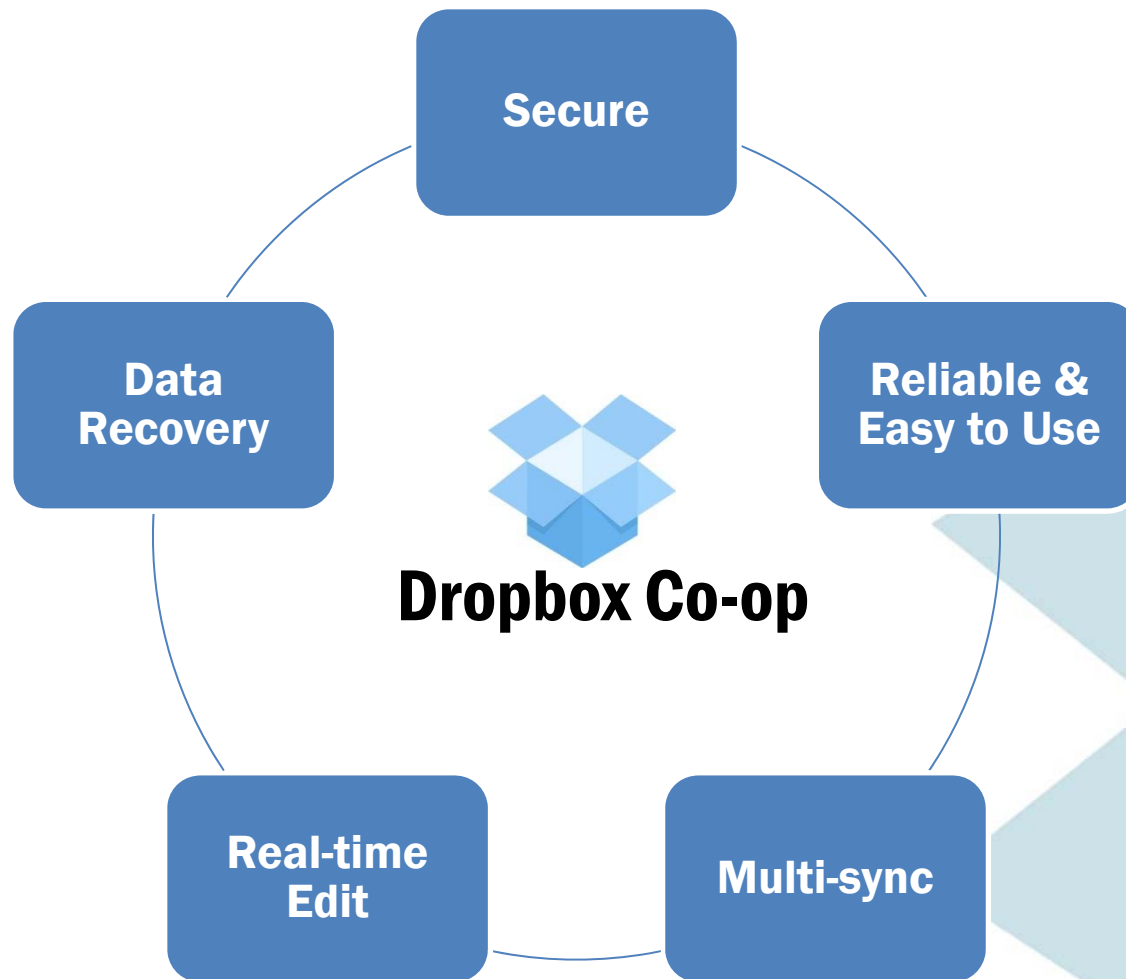


- Integrated system
- Added features

- Current Users Value Simplicity
- Provides Customized Solutions For Groups
- Allows for Coop Premium Pricing

2. Feature Enhancement

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A



3. Flexible Pricing – Dropbox One

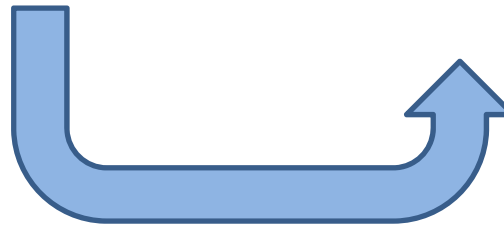
The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Current

2GB Free
50GB = \$9.99/Mo
100GB = 19.99/Mo

Proposed

2GB Free
Each Additional
5GB = \$.99/Mo



Smaller Increments = Enhanced Paying User Base

Converting Free Users

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Increasing Profit by Converting Users in Current Year 2010

% Paying Users	2%	5%	10%	15%
Total Revenue	\$10	\$11.4	\$13.8	\$16.2
Total Cost	\$6.5	\$6.8	\$7.2	\$7.7
Total Profit	\$3.5	\$4.6	\$6.6	\$8.5
% Increase from 2%	N/A	34%	90%	147%

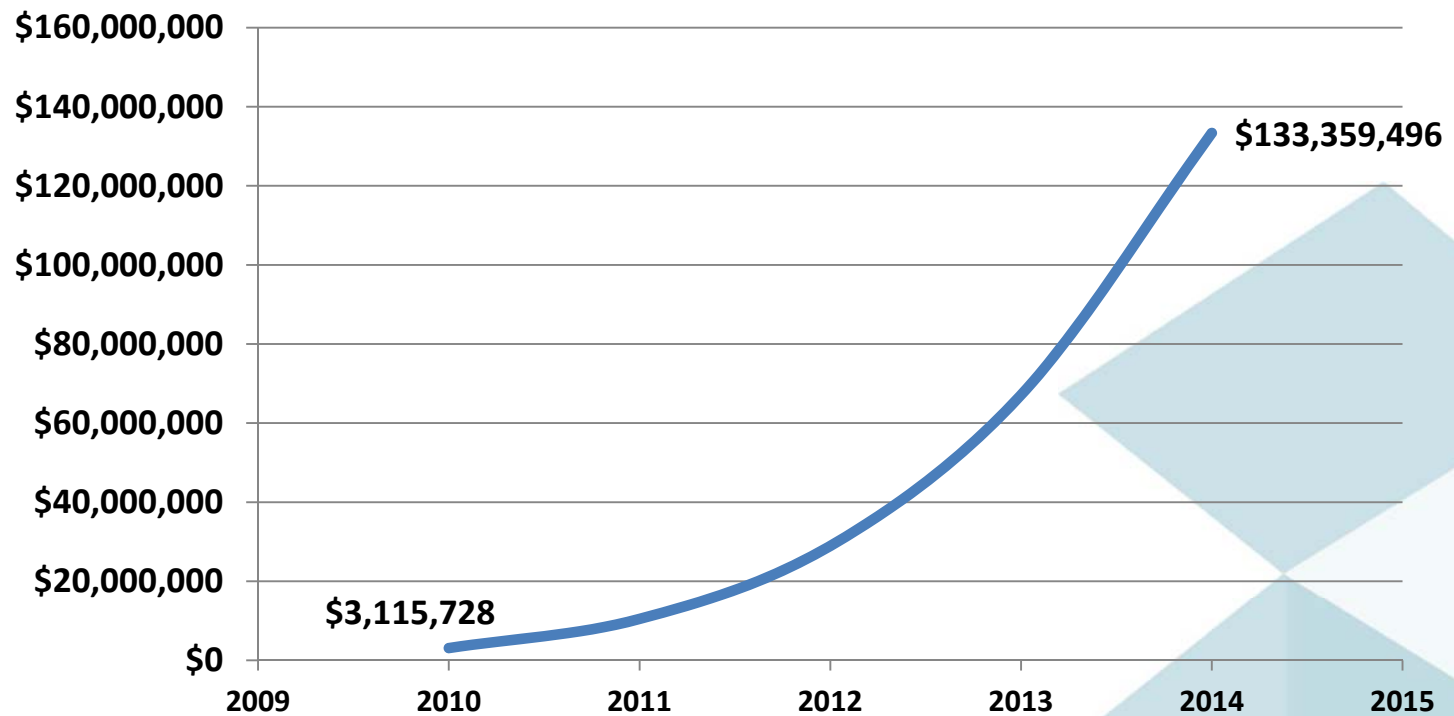
*Numbers are in \$millions

**Calculations estimated using analyst values and provided industry data

Small Change, Big Difference

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Increased Incremental Profit (10% Paid Users)



Small increase in paid users turns into great profit in future years

Timeline To Success

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Business Segmentation Due Diligence											
Dropbox Co-op Development											
Dropbox Co-op Promotion - “Buzz”											
Dropbox Co-op Launch											
Flexible Pricing Implementation											
Consumer Behavior Revisions											
Creation of a Management Team											

6 months

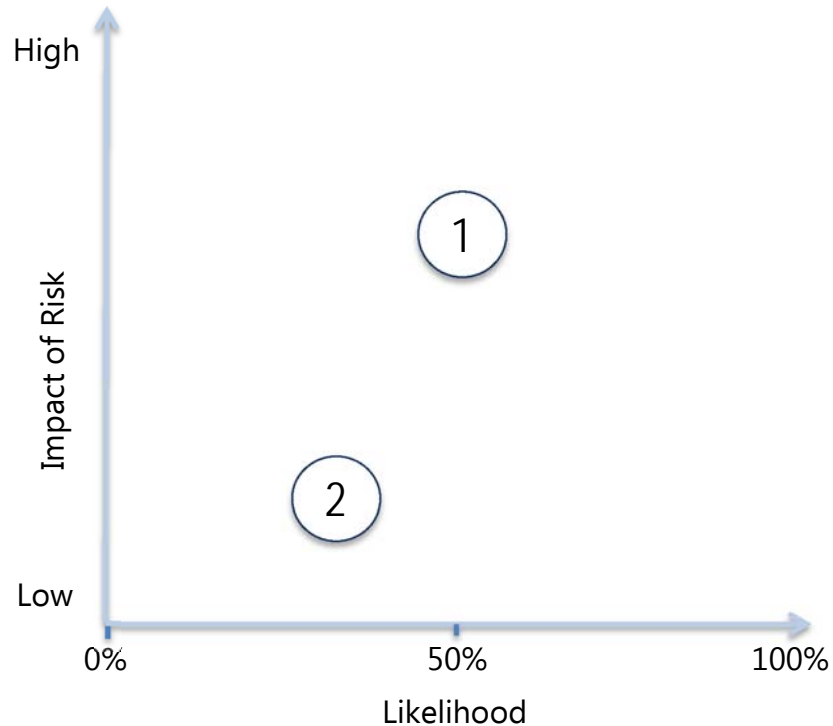
12 months

36 months

60 months

Potential Risks

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A



1

User Mistakes in Multi – Synch

2

Low Free-To-Paying User Conversion

Key Takeaways

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Business Segmentation

- ✓ Expansion by Learning
- ✓ Healthy Financial Growth

Enhanced Features (Coop Segment)

- ✓ Company Culture Fit
- ✓ Quality Products

Flexible Pricing

- ✓ Company Culture Fit
- ✓ Healthy Financial Growth

Thank You!

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Q & A

Financial Projections

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

	2010 (Current)			
% Users Paying	2%	5%	10%	15%
# of Payer Users	80000	200000	400000	600000
# of Free Users	3,920,000	3,800,000	3,600,000	3,400,000
Total Annual Revenue	\$10,000,000	\$11,425,600	\$13,801,600	\$16,177,600
Total Annual Cost	\$6,546,710	\$6,803,912	\$7,232,582	\$7,661,252
Total Profit	\$3,453,290	\$4,621,688	\$6,569,018	\$8,516,348
% Increase		33.83%	90.22%	146.62%

	Increased Profit				
	2010	2011	2012	2013	2014
Customer Growth	300%	225%	169%	127%	95%
# Users	4,000,000	13,000,000	34,937,500	79,155,273	154,290,943
Incremental Revenue	\$3,801,600	\$12,355,200	\$33,204,600	\$75,229,172	\$146,638,112
Incremental Cost	\$685,872	\$1,876,220	\$4,244,139	\$8,093,473	\$13,278,616
Incremental Profit	\$3,115,728	\$10,478,980	\$28,960,461	\$67,135,699	\$133,359,496

Company Costs

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

GB for Free Users	1,697,360.000
GB for Paying Users	2,000,000.00
Cost/GB (Free User)	0.11
Cost/GB (Paid User)	3.18
Cost/GB (Changed User)	0.28
\$ Annual Decrease in Cost	15.83%
GB/Free User	0.433
GB/Changed User	1.0825
GB/Paying User	25
Total Current Users	4,000,000
Cost for 5GB	\$0.99

Marketing Strategy

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A



Mobile Considerations

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

Mobile Applications are in place

API partnerships enhance mobile capability

- Inexpensive but increases leverage of mobile

Pre-installation on OEM not a wise move

- Large scale and very costly
- Already found that it is hard to create demand

Dropbox Co-op Pricing

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

50GB = \$9.99/Mo
100GB = \$19.98/Mo
.....
Incremental plans



- Unlimited # of PCs connected
- Priced based on incremental usage rather than number of people

Current Situation

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

- **It just works**
 - Providing customers what they can use
- **Competitive advantage**
 - Synchronization and public/private capabilities
- **Results through word-of-mouth advertising**
 - Relentless focus on ease and reliability fosters loyalty

Strengths to Build on

- **Marketing costs outweigh benefits**
- **Board is discussing strategy and how to accelerate growth**

Past Failure

Areas with Potential

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

**Users are not accessing old files
- can they be archived?**

**Paying users don't utilize
the space they pay for**

**Organic customer acquisition
is valuable**

**Space may not be valuable -
but is perception?**

**Businesses are not paying, but
probably would!**

Contextual Information

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

- Late market entrant in 2007
- Used prototype to show off best features and solicit users (took some risk)
- API already, native iPad
- Service grows rapidly
- So referral program is launched
- Don't want to trick customers



Contextual Information

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

- Freemium Business Model
- Left a lot of things undone to do a few things well
- No business people, no mainstream PR, fast & loose
- Used analytics successfully
- Modified strategy once before
- No VP of development
- Despite improvements from analytics, marketing is not profitable

Looking Ahead

The Issue
Decision Context
Alternatives
Recommendation
Analysis
Implementation
Takeaways
Q & A

- Multi Sync option for *Dropbox Individual*
- Offer additional features for *Dropbox Individual* if Votebox requests reach a certain threshold