Dropbox: It just works... better

February 9, 2013
Illinois Strategy Case Competition
Your Consulting Team

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Strategy

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Product Development

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Marketing

David Smith
Finance
<table>
<thead>
<tr>
<th>Agenda</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Pressing Issues</td>
<td>shared folder</td>
</tr>
<tr>
<td>Context of the Decision</td>
<td>shared folder</td>
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<tr>
<td>Alternative Evaluation</td>
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<tr>
<td>Recommendations</td>
<td>shared folder</td>
</tr>
<tr>
<td>Strategy Analysis</td>
<td>folder</td>
</tr>
<tr>
<td>Implementation Timeline</td>
<td>folder</td>
</tr>
<tr>
<td>Key Takeaways</td>
<td>shared folder</td>
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*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

• 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

- Easy to use and accessible
- Secure
- Quality & user-centric

Company Values

- Increase of customer base

Growth Vision

- Sustained sources of revenue

Financial Health
# Alternatives

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Company Vision</th>
<th>Growth Vision</th>
<th>Financial Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segmented Products</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Partnerships</td>
<td>+/-</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>New Pricing Model</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Status Quo</td>
<td>-</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>One Product, New Features</td>
<td>-</td>
<td>+</td>
<td>+</td>
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Recommended Strategy

1. **Product Segmentation**
   - Long-term Growth Strategy

2. **Feature Enhancement**
   - Respond to Consumer Needs

3. **Flexible Pricing**
   - Drives Organic Marketing
1. Product Segmentation

- **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

- Secure
- Reliable & Easy to Use
- Data Recovery
- Real-time Edit
- Multi-sync

Dropbox Co-op
3. Flexible Pricing – Dropbox One

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

### Increasing Profit by Converting Users in Current Year 2010

<table>
<thead>
<tr>
<th>% Paying Users</th>
<th>2%</th>
<th>5%</th>
<th>10%</th>
<th>15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$10</td>
<td>$11.4</td>
<td>$13.8</td>
<td>$16.2</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$6.5</td>
<td>$6.8</td>
<td>$7.2</td>
<td>$7.7</td>
</tr>
<tr>
<td>Total Profit</td>
<td>$3.5</td>
<td>$4.6</td>
<td>$6.6</td>
<td>$8.5</td>
</tr>
<tr>
<td>% Increase from 2%</td>
<td>N/A</td>
<td>34%</td>
<td>90%</td>
<td>147%</td>
</tr>
</tbody>
</table>

*Numbers are in $millions

**Calculations estimated using analyst values and provided industry data
Small increase in paid users turns into great profit in future years.
## Timeline To Success

<table>
<thead>
<tr>
<th>Step</th>
<th>6 months</th>
<th>12 months</th>
<th>24 months</th>
<th>36 months</th>
<th>60 months</th>
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</thead>
<tbody>
<tr>
<td>Business Segmentation Due Diligence</td>
<td></td>
<td></td>
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<tr>
<td>Dropbox Co-op Development</td>
<td></td>
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<td></td>
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<tr>
<td>Dropbox Co-op Promotion - “Buzz”</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Dropbox Co-op Launch</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible Pricing Implementation</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consumer Behavior Revisions</td>
<td></td>
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<tr>
<td>Creation of a Management Team</td>
<td></td>
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</table>
Potential Risks

1. User Mistakes in Multi – Synch
2. Low Free–To–Paying User Conversion
Key Takeaways

- **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!

Q & A
# Financial Projections

## 2010 (Current)

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

## Customer Growth

<table>
<thead>
<tr>
<th># Users</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000,000</td>
<td>13,000,000</td>
<td>34,937,500</td>
<td>79,155,273</td>
<td>154,290,943</td>
<td></td>
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</table>

## Incremental Revenue

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td>Incremental Revenue</td>
<td>$3,801,600</td>
<td>$12,355,200</td>
<td>$33,204,600</td>
<td>$75,229,172</td>
<td>$146,638,112</td>
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</table>

## Incremental Cost

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Cost</td>
<td>$685,872</td>
<td>$1,876,220</td>
<td>$4,244,139</td>
<td>$8,093,473</td>
<td>$13,278,616</td>
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</tbody>
</table>

## Incremental Profit

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Profit</td>
<td>$3,115,728</td>
<td>$10,478,980</td>
<td>$28,960,461</td>
<td>$67,135,699</td>
<td>$133,359,496</td>
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</table>
# Company Costs

<table>
<thead>
<tr>
<th>GB for Free Users</th>
<th>1,697,360,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB for Paying Users</td>
<td>2,000,000.00</td>
</tr>
<tr>
<td>Cost/GB (Free User)</td>
<td>0.11</td>
</tr>
<tr>
<td>Cost/GB (Payed User)</td>
<td>3.18</td>
</tr>
<tr>
<td>Cost/GB (Changed User)</td>
<td>0.28</td>
</tr>
<tr>
<td>$ Annual Decrease in Cost</td>
<td>15.83%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GB/Free User</th>
<th>0.433</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB/Changed User</td>
<td>1.0825</td>
</tr>
<tr>
<td>GB/Paying User</td>
<td>25</td>
</tr>
<tr>
<td>Total Current Users</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Cost for 5GB</td>
<td>$0.99</td>
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</table>
Marketing Strategy

- **Product**: (Dropbox One & Coop)
- **Price**: (Flexible & Premium)
- **Promotion**: (Niche Channel)
- **Place**: (Online - Everywhere)
Mobile Considerations

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

- 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

Strengths to Build on

• 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

Past Failure

• Marketing costs outweigh benefits
• Board is discussing strategy and how to accelerate growth
Areas with Potential

- 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!
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

- 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

- Multi Sync option for *Dropbox Individual*

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