**HW Week 7-Ind: Case: Dropbox**

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Summary:

The case of Dropbox tells the story of Drew Houston and how he had the inception of the concept of Dropbox. The case explains and tells us how the product was developed, how it was marketed and what led to the growth of the whole company from this product. We also get to see how Dropbox has sustained in today’s competitive market and what it’s rivals are doing to get ahead in the race.

**Dropbox Case Assignment Questions:**

1. *Should Dropbox launch a version targeted to SMBs? Justify your answer.*
2. After looking at the results and the rankings presented in Exhibit 7 of the case study, I can say that, Yes Dropbox should launch a version for SMBs. Dropbox did not rank in backupreview.com’s list of storage companies SMB segment. But according to the excerpt from Y combinator application, Dropbox has started earning money from small/medium businesses through subsets of Dropbox. I think once Dropbox launches its own version of application for SMB’s, it will be profitable for the company. Even though Carbonite having an SMB version, incurred losses because of heavy spending in marketing using its own servers to store user files, unlike Dropbox which used Amazon S3 for storage.
3. *Dropbox is a late mover in a crowded space. What opportunity did Houston see? Be specific.*
4. Before Houston had the idea of Dropbox, there were several competitors like Mozy, who provided online storage. But, Houston saw an opportunity among the arising competitors, that none of these rival services provided an option to transfer data across firewalls and balked with big files or large number of files. Earlier file storage systems worked on a simplistic model, where users stored all there files on the internet instead of there hard drive. But this approach led to several issues for users. Houston suggested that they instead store files locally and update the cloud copy using time and bandwidth saving optimizations.
5. *Estimate current (2010) profitability for Dropbox (evaluate fixed and variable costs & revenue per year). List your assumptions and calculations.*
6. In 2010, Dropbox had 4 million users who referred to 2.8 million users through invitation. Thus, total Dropbox users are 6.8 million. Of these, 2-3% users are paying customers, implying $10million to $15million annual revenue. The monthly spending for storage or bandwidth (or the Variable costs) are calculated to be $0.11 per free user and $3.18 per paying customer.

Total Customers = 6.8 mil

Let’s assume paying customers to be an average of 2.5% of total customers

Total Paying customer = 2.5/100\*6.8mil = 170,000

Total revenue (taking average) = $12.5 mil

Total Variable costs from free and paying customer is =

(0.11) \* 6,630,000 + (3.18) \* 170,000 = 729,300+540,600 = $1,269,900

Now according to the company’s website, the Dropbox team had 20-22 employees in April 2010 (taking assumption 21). Assuming the average salary to be $150,000 per employee:

Total Fixed Costs = 150,000\*21 = $3,150,000

The profitability can be calculated as:

Profitability = Total Revenue – Cost (Variable + Fixed)

=12,500,000 – (1,269,900+3,150,000)

= $8,080,100

The profits calculated approximately for 2010 are $8 million.

1. *When he applied to Y Combinator (see case Exhibit 3), what hypotheses did Houston hold about key elements of Dropbox’s strategy? Be specific. As of June 2010, which if them turned out to be wrong? Be specific.*
2. Houston had a few hypotheses in his application to Y combinator. One of the key elements of his strategies was a user friendly and accessible product. Dropbox being very easy to use, allowed users to work on the latest versions of their documents using automatic updates. Thus, confirming this hypothesis. Another hypotheses was having a good quality. He provided quality and safety by using a web interface and securely backing them up on Amazon S3 servers. The key strategies of Houston was keeping a single version for all users and the freemium approach. Both of these strategies were highly supported and implemented by Dropbox. I don’t think as of 2010, none of these strategies turned out wrong, as Houston had very clear and defined idea of the product, many hypotheses were adapted or corrected.
3. *Three things you learned from this case?*
4. I learned a lot of things from Drew Houston, a few of my take away from this case study are:

* Believing in your product. Even though there were rivals already present in the market, Houston dared to envision this product which was providing a solution but with a better implementation and better business model, which profited both the users and the company at the same time.
* Houston and Steve Jobs had one thing in common, they introduced you to a solution, nobody was aware they had a problem with. People earlier weren’t looking for online storage solutions before this. They weren’t aware of the problem of storing files in a central location, where they can access their data from any device. Users understood this problem they had, once Dropbox came into the market.
* Creating a MVP is the most essential step for your product to gain confidence and also gives an opportunity for the product manager/entrepreneur to learn about its user market. The MVP as simple as a landing page or a video, as done by Houston, proved to be a turning point for his company. It shows us that you don’t have to be ready with the code but providing your users something in their hands and getting a feedback at the earliest stages of product development is beneficial.