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**DROPBOX: GO-TO-MARKET SALES STRATEGY**

*Matthew Wong and Darren Meister wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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INTRODUCTION

Dropbox Inc. (Dropbox), the pioneering cloud-based file storage service, was at an important stage of its business life. Its titular product, Dropbox, was a “freemium” consumer product (i.e., it was free to use, but additional features were available with a paid subscription), boasting more than 300 million users.[[1]](#footnote-1) In April 2014, Dropbox launched an enterprise offering called Dropbox Business, targeting large corporate users. In early May 2016, Dropbox would launch its Dropbox Education service, targeting colleges and universities.

The cloud storage industry had advanced rapidly in the past several years since Dropbox began in 2008. Competition in this space was fierce, with similar service offerings from powerhouses such as Microsoft and Google, as well as competitor Box in the enterprise space. These services were part of the rapidly expanding software as a service (SaaS) business model. This model was common among large, well-established providers, such as Salesforce, SAP, and IBM, but was also increasingly popular with start-up technology companies.

In the San Francisco headquarters of Dropbox, Paul Jun, head of Strategic Finance at Dropbox, and Praveer Melwani, a member of the Strategic Finance team, were preparing for one of their quarterly meetings. Jun had an Honors Business Administration (HBA) degree from the Ivey Business School (Ivey) at Western University, and had worked in investment banking and private equity before joining Dropbox in 2013. Melwani also had an HBA from Ivey, and had also worked in investment banking before joining Dropbox in 2014. Both had been excited to join the rapidly growing Dropbox, but at the same time, needed to quickly become knowledgeable about the analytical tools necessary for this dynamic industry.

In late 2014, Dropbox Business was just ramping up, and Jun and Melwani were wrestling with an important question. Although they had asked this question before in relation to Dropbox’s freemium product, every quarter they still wondered: what was the best way for Dropbox to invest its limited resources? The company could choose between investing in a self-serve, inbound sales approach and an outbound sales approach but needed to decide the most effective use of that investment. The job of the Strategic Finance department was to identify the relevant facts, analyze the financial implications, and recommend the most effective option. Dropbox’s success and future growth were counting on the Strategic Finance team to get it right.

OVERVIEW OF THE CLOUD STORAGE MARKET

“Cloud” computing and cloud storage had recently become ubiquitous terms in consumer technology. Cloud computing primarily relied on distributed computer connectivity to a shared pool of resources, rather than the centralized mainframe access and control that had characterized the previous decades of computer use.

In 2007, Dropbox had pioneered the use of the cloud storage technology as a popular consumer-level service. Over the next several years, the cloud storage market would expand enormously in both business-to-consumer (B2C) and business-to-business (B2B) services. The analytics firm OPSWAT estimated in 2014 that approximately 40 per cent of all Windows devices had cloud back-up applications. Dropbox was the most popular, on 33.8 per cent of those devices, and Google Drive was in second place, at 25.1 per cent.[[2]](#footnote-2) Since several of the B2C cloud storage companies offered their services for free, it was difficult to estimate the overall value of this market. However, research firm IDC valued the global market for business file sharing alone at US$904 million,[[3]](#footnote-3) with Dropbox leading with a 24 per cent share of the market, and competitors Box and Microsoft not far behind at 21 per cent respectively.[[4]](#footnote-4) IDC also projected that the file-synchronization and -sharing market would steadily grow to be worth $2.3 billion by 2018.[[5]](#footnote-5) The dramatically increased competition in this space meant a vigorous push toward adding features from all companies, including from technology juggernauts Apple, Google, Microsoft, Amazon, and Tencent, which would generate hundreds of billions of dollars (by market capitalization) of resources in this space.[[6]](#footnote-6)

Background of Dropbox

Dropbox was founded in 2007 by Drew Houston and Arash Ferdowsi, who at the time were both computer science students at the Massachusetts Institute of Technology. Dropbox’s origins famously lie with a long-distance bus trip, where Houston had planned to catch up on some work. However, he had left the USB drive containing the files at home. Frustrated at this mistake, Houston began to program the code that would form the foundation for a cloud-based file syncing service.[[7]](#footnote-7) Houston paired up with Ferdowsi to apply to the Silicon Valley start-up accelerator Y Combinator, and were accepted into the summer 2007 batch. Dropbox officially launched in 2008 at the TechCrunch50 annual conference and quickly became popular for its simplicity and the free storage space it offered.

In the years since, Dropbox grew enormously. Within several years, its service boasted hundreds of millions of registered users, with users synchronizing more than a billion files every day.[[8]](#footnote-8) The company’s headcount also grew explosively. In January 2010, Dropbox had 18 employees; only six years later, it had approximately 1,200 employees, primarily housed in the corporate office in San Francisco. Much of the company growth was fuelled by a recent reported $350 million round of funding in 2014, led by investment fund BlackRock Inc., which valued the company at $10 billion.[[9]](#footnote-9) This funding complemented a round of funding in 2011 that reportedly raised $250 million.[[10]](#footnote-10) Since it was a private company, Dropbox’s revenue was not disclosed but was speculated to be between $300 million and $400 million in 2014.[[11]](#footnote-11) A significant contributor to revenue growth was the Dropbox Business service, which had nearly 200,000 paying business customers.[[12]](#footnote-12) The new Dropbox Education service, used in more than 4,000 educational institutions worldwide,[[13]](#footnote-13) similarly sought to expand its revenue potential.

BUSINESS MODELS

For a one-time fee, traditional software business models typically sold customers a limited-usage licence to a stand-alone software package (e.g., Microsoft Office or Photoshop). Every few years, customers would decide whether they wanted to pay another one-time fee to upgrade to the next software version (e.g., from Microsoft Office 2010 to Microsoft Office 2013). In contrast, Dropbox used what was known as a SaaS business model. Essentially, SaaS models were recurring revenue or subscription businesses whereby users paid the service provider at regular intervals (e.g., monthly or yearly). Customers always received the most recent software version and had ongoing access to the online services (see Exhibit 1). Businesses that used the SaaS model, such as Dropbox, Atlassian, and LinkedIn, were becoming increasingly successful, as their number of users grew into the millions. These companies offered freemium services in part to entice their large base of free users to become paid subscribers once they were convinced of the company’s value proposition.

In addition to SaaS, infrastructure-as-a-service (IaaS) and platform-as-a-service (PaaS) models were also becoming increasingly popular. With IaaS business models, a company set up infrastructure, typically computer hardware, and then provided access to that infrastructure for a recurring fee. The most common category was computer servers and data storage. Amazon Web Services was perhaps one of the most well-known examples, providing powerful network computing services to organizations small and large, such as NASA[[14]](#footnote-14) and Netflix.[[15]](#footnote-15) IaaS provided the advantage of specialized expertise and technology without the expense and difficulty of an organization creating a similar extensive infrastructure in-house. PaaS models, such as Google’s App Engine, allowed users to use Google’s platform (i.e., a common programming infrastructure) to host and scale web applications. Other PaaS providers included software giants Microsoft, Oracle, IBM, and SAP.

Dropbox’s Go-to-Market Strategies

Fundamentally, a go-to-market strategy referred to how a company got its products to customers. It took into account such factors as pricing, distribution, and required resources. Dropbox’s customers were generally segmented by product type and size. For example, Dropbox’s consumer product customers were individual users, whereas Dropbox Business’s customers were varying sizes of companies. A small-tier company would have fewer than 250 users, a mid-tier company would have 250–1,000 users, and the enterprise tier would have more than 1,000 users. Similarly, Dropbox Education had institutional customers that ranged in size by faculty, staff, and student population. Larger customers, while offering substantial business to Dropbox, were also significantly more complex and involved. Enterprise customers typically had many of their own workflows, with sophisticated procurement teams that Dropbox needed to interact with. Larger companies could also have more complicated security issues, and as a result, a great deal of time could be required to recoup Dropbox’s investment in these customers.

Generally speaking, Dropbox had two primary go-to-market sales strategies: self-serve/inbound sales and outbound sales. The self-serve/inbound sales strategy reflected the company’s original model of transitioning free customers to paying customers. Individual users, based on their own initiative and interest, used a self-service interface (e.g., website or phone) and signed up as a paying customer. This approach was efficient, incurred a relatively low cost of customer acquisition, and was simple for the customer. Significant effort was invested to make the upgrade flow and payment process as easy as possible, with the use of A/B testing.[[16]](#footnote-16)

Alternatively, an outbound sales model reflected a traditional sales staff and account management approach whereby real, human sales staff sourced leads, negotiated arrangements, and closed sales deals. High-quality sales staff were critical, as was motivating and compensating them for high performance. Similar to sales at many other organizations, Dropbox’s sales staff were incentivized through variable compensation (i.e., commission on sales), so they were highly motivated to sell to customers. Since Dropbox served multiple tiers of customers, the sales staff tended to self-select to the types of customers they were most effective at servicing. An outbound sales model allowed Dropbox to target these different businesses. Such customers could have complex needs and requirements that were best handled by experienced staff rather than a generic interface.

Strategic Finance at Dropbox

Because Dropbox was a powerful and complex technology company that was active in both financial investment and spending, finance was one of the most important departments at the company. According to the company’s website:

Our finance team builds the financial infrastructure to scale our growing company. We combine analytical and strategic thinking to develop a sound financial future for our global brand. We work closely with teams across the company, as well as with external partners.[[17]](#footnote-17)

The Strategic Finance team used data, analytical tools, and business insights to try to improve strategic and financial decision making at Dropbox. The team had a broad mandate, ranging from raising funds from investors to developing business plans for new products. The team’s recent projects included raising reported $350 million through a Series C funding round; completing a reported $500 million unsecured credit facility; developing and executing projects around business efficiency; creating business plans for new product launches, including Dropbox Enterprise; and creating focused user acquisition and distribution strategies to grow revenue and reduce costs.

One of the core responsibilities of the Strategic Finance department was understanding how Dropbox was making money (i.e., its key business drivers) and how best to invest Dropbox’s substantial but finite resources, which also meant understanding the financial impact of the company’s strategic decisions and using that information to shape future decisions. In other words, the Strategic Finance department was involved in translating and evaluating the quantitative impact of strategic decision making, all in service of the overall aim of continuously scaling the company.

Thus, fundamental aspects of Jun and Melwani’s work in Strategic Finance at Dropbox were a comprehensive understanding of both the SaaS model (see Exhibit 2) and the implications of inbound and outbound sales on revenue and growth. Both Jun and Melwani were experienced professionals who were up to the challenge of Dropbox’s rapid growth. For example, Dropbox grew from 300 to 1,200 employees in just three years. And yet the challenge was significant, as Jun, Melwani, and the rest of the Strategic Finance team managed numerous core performance metrics, distilled key takeaways, and communicated this information to executive management. Their work helped Dropbox to make decisions that would spend millions of dollars and impact hundreds of thousands of companies and hundreds of millions of users.

In the early days of Dropbox, the company did not have an outbound sales team. Its inbound sales model was working quite well as the company scaled up with individual users. In 2013, Dropbox had less than a dozen outbound sales staff in the whole organization. By 2014, Dropbox had rapidly expanded its service offerings to more individual customers, businesses, educational institutions, and beyond.

With the pressures of growth in a competitive market, it was obvious to the Strategic Finance team that the company would need a combination of self-serve/inbound sales, which would require more online advertising, and outbound sales, which would require more sales staff. The team had $10 million left to allocate this quarter.

The question was, what was right amount of each type of sales? What was the most effective use of Dropbox’s limited resources? What would be the incremental return of investment in each of those areas? Dropbox needed to carefully consider both its resource allocations and its strategic value. For the financial analysis, the company needed to understand lifetime customer value, average sale per customer, churn, and the cost of customer acquisition, along with the strategic implications for investing more in each area.

Jun, Melwani, and Dropbox’s Strategic Finance team would need to know how to make these determinations and anticipate outcomes. Dropbox’s future success—particularly in an increasingly crowded market—would depend on it.

CONCLUSION

Jun and Melwani sat in one Dropbox’s numerous conference rooms, and Melwani casted his laptop onto a large, flat-panel screen. He minimized the SQL queries he had been running and brought up several spreadsheets representing dozens of figures the team had been working on. The pair had worked through this information before, but every time it was a little bit different as Dropbox competed in a dynamic environment. “All right,” Jun said, “let’s have a look at how things have been shaping up this quarter and see what we’re going to do.”

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Exhibit 1: Dropbox Product/Service Offerings as of November 16, 2016 (In US$)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Product/Service** | **Cost per User**  **per Month** | **Cost per User**  **per Year** | **Storage Space** | **Notes** |
| **Dropbox Basic** | free | free | 2 gigabytes |  |
| **Dropbox Pro\*** | $9.99 | $99 | 1 terabyte | Yearly rate is discounted 17% |
| **Dropbox Business** | $15  (Monthly is not offered through outbound sales program) | $150 | As much as needed | Minimum 5 users  Yearly rate is discounted 17% |
| **Dropbox Enterprise** | n/a | Case by case | As much as needed |  |
| **Dropbox Education** | n/a | $49 | 15 gigabytes | Minimum 300 users |

\* Dropbox Pro was renamed “Dropbox Plus” on March 2, 2017.

Source: Company files.

Exhibit 2: Software as a Service Finance Definitions and Formulas

|  |  |
| --- | --- |
| **Term** | **Definition** |
| Annual Churn Rate (%) | Percentage of customers that do not renew their service |
| Average (Annual) Sale Price (ASP) ($) | Average price that customers pay per licence, including discounts (primarily for outbound customers) |
| Average Deal Size ($) | ASP × Average Number of Licences Sold per Customer |
| **Lifetime Value (LTV) ($)** | **LTV = (Average Deal Size** × **Gross Margin)** ÷ **Annual Churn Rate** |
| Cost per Sales Rep ($) | All-in cost per each sales representative (including supporting costs: management, sales opportunities, information technology, leads, and other related factors) |
| Quota ($) | Annual sales target per sales representative |
| Cost per Click | Cost for each online ad that a customer clicks on (e.g., Google AdWords). Online ads can also be sold on a “cost per impression” (CPM) basis (cost per click = CPM ÷ Click Rate Percentage) |
| Purchase Conversion Rate (%) | Customers that make a purchase ÷ Total customers that visit website (“traffic”) |
| **Cost to Acquire a Customer (CAC) ($)** | **Cost to acquire a customer**  **For outbound sales: Cost of Per Sales Rep ÷ (Sales Quota ÷ Average Deal Size)**  **For inbound (through advertising): Cost per Advertising ÷ Purchase Conversion Rate** |
| **LTV/CAC Ratio** | **An important measure of the relative return generated on investment in different sales channels** |

Source: Adapted from David Skok, “SaaS Metrics 2.0—Detailed Definitions,” For Entrepreneurs, February 20, 2015, accessed March 16, 2017, www.forentrepreneurs.com/saas-metrics-2-definitions-2/.

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15. “About Netflix,” Amazon Web Services, accessed July 21, 2016, https://aws.amazon.com/solutions/case-studies/netflix/. [↑](#footnote-ref-15)
16. A/B testing is a popular approach to testing user interfaces by presenting users with variations (e.g., an “A” interface and a “B” interface) and then collecting metrics on how the users responded to the variations to guide improvements. [↑](#footnote-ref-16)
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