

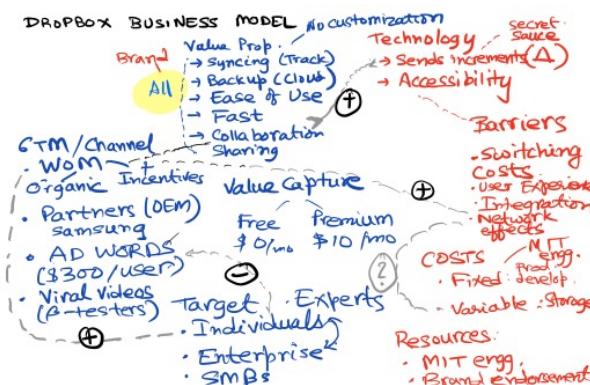


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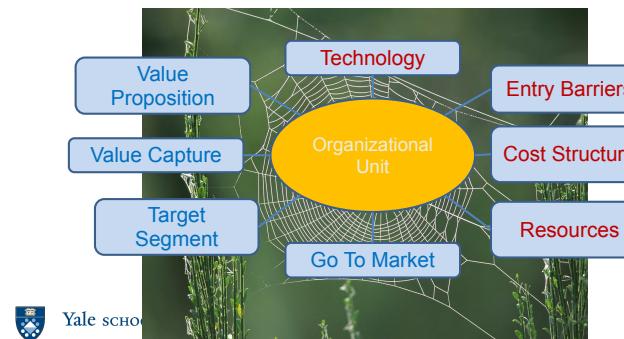
Digital Strategy MGT 857 Fall 2023

Session 2 (Dropbox: "It Just Works" + Freemium)

Vineet Kumar
Yale School of Management



Elements of Business Model



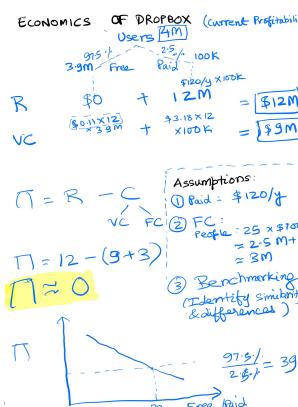
Economics of the Dropbox Model

- 1) Is Dropbox currently profitable?
- 2) Is the profitability sustainable?
- 3) What key assumptions need to hold in the future for a sustainable business model?



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Agenda for Dropbox Case

- Defining Dropbox business model
 - How do we identify if it's a good model? Connection to outcomes
 - Identify synergies
- Economics of the Dropbox Model
- Counterfactual Thinking ("What If?")
- Way forward for Dropbox



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"What If?" — Counterfactual Analysis

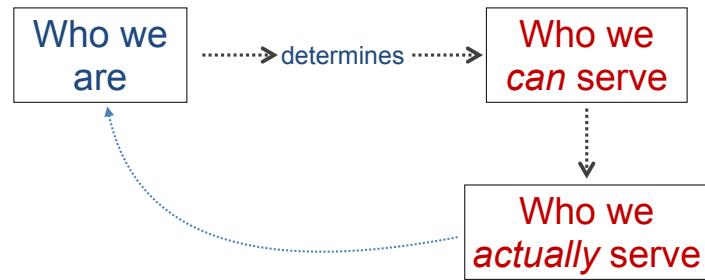


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Importance of Target Market



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Should Dropbox get rid of free users? *Should we get rid of free users?*

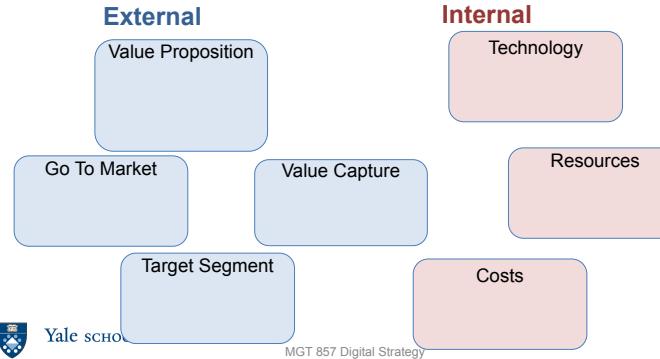


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Google's Business Model? Try this at home



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What would Google do?
(try this at home)

Value of Free Users (our research)

Free users bring value through 3 different mechanisms:

- **Upgrade** over time (maybe 1 year)
- **Refer** others (who may become premium)
 - Get 250 MB for each referral
- **Social (or Collaboration) Usage:** Having active projects together increases conversion of collaborators
- Which contributes more?
 - 40% of value of free customers from referrals
 - 25% from upgrades
 - 35% from social usage

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Counterfactuals “What If ?”

- Competition
 - What if Google had entered in a big way? Should Dropbox have changed anything?
 - Google's Business Model?
- Target
 - Dropbox Choose enterprises as target market?
 - Choose “advanced tech users” (experts) as target market?
- Timing
 - Dropbox entered in 2003 (Amazon S3 did not exist)?
- Value Creation / Capture
 - What if they had used Free Trial instead of Freemium?
- Consumer Response
 - What if conversion rates were 1%, not 2.5%?

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Updates on Dropbox

- In 2014, 300 million total users.
- In 2016, 500 million total users.
- In 2022, more than 700 million total users.
- Valuation?
- We saw that “free” consumers are not free to serve (significant marginal costs)
- IPO in 2018
- Market cap as of Sep 2022 ~ \$8 B



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Next Class

- Module 2
- Introduction to Disrupt and Complement
- Reading — Original HBR article on *Theory of Disruption*
- Examine the disruption process and complementing process



When should you use Freemium?



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Freemium Lessons

- Freemium is really helpful when you have few resources
 - Most used business model for digital natives
 - Gaining increasing use over advertising
- BUT, Freemium is a risky business model.
 - Rob Walling of HitTail likens Freemium to a Samurai sword: "*Unless you're a master at using it, you can cut your arm off*"
- Why do companies fail with Freemium?
- Going forward:
 - You have to have the right balance of product features.
 - Need to attract users initially, but need a **forward thinking plan** to convert users => customers



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