What Is Dropbox's Competitive Advantage?

Here's a review of how Dropbox got to be one of the leaders in the file-sharing market, despite going up against the biggest tech companies in the world.

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Author Bio

The file-sharing market is quite crowded, with tech heavyweights like **Apple** (NASDAQ:AAPL), **Alphabet** (NASDAQ:GOOG) (NASDAQ:GOOGL), and **Microsoft** (NASDAQ:MSFT) fighting against fast-growing small companies like **Dropbox** (NASDAQ:DBX) for a piece of a $50 billion file-sharing market. This isn't an easy market to compete in, especially when Apple's iCloud and Microsoft's OneDrive are integrated with those companies' respective operating systems.

Yet Dropbox has managed to double its revenue since 2015 to $1.2 billion. How has Dropbox been able to deliver such good results going up against the biggest tech companies in the world? Why would someone go out of their way to sign up with a third-party service like Dropbox when they can use an integrated service like iCloud or OneDrive?

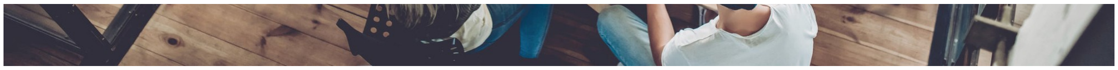

IMAGE SOURCE: GETTY IMAGES.

First-mover advantage

One thing going for Dropbox is that it was founded the same year the iPhone launched, in 2007, and by the time Apple launched its iPad in 2010, Dropbox was one of the top apps available for file syncing. By simply making itself available in the earlier days of smartphone adoption, Dropbox cemented its name as a trusted, go-to service for those who wanted to keep their documents handy while on the go and synced across all devices.

Today, Dropbox boasts more than 500 million registered users. It's added 100 million since the beginning of 2017. This puts Dropbox at No. 2 in market share with 32%, just behind Google Drive's 36%.

Over the last five years, Dropbox has been focusing more on the enterprise market by offering premium features through subscription plans, which is how Dropbox makes money. Through the second quarter, there were 11.9 million paying users, roughly double the number of subscribers in 2015.

User-friendly open platform

One of the things management has always recognized is that clients choose a file-sharing solution mostly on user friendliness. Dropbox has designed very clean apps that are easy to navigate. Its subscription services are compatible with many third-party business apps from companies such as **salesforce.com**, **Adobe Systems**, and many others.

This is a key selling point for many, as more than 75% of Dropbox's customers who subscribe to a premium business plan have linked their Dropbox account to at least one of these third-party services.

Interestingly enough, Dropbox also has a partnership with Microsoft, giving premium subscribers full integration with Office 365. Dropbox offers similar integration features for Google Drive users. The combination of user friendliness and an open-platform strategy has been a winning card for Dropbox so far.

Because of these partnerships, Dropbox has made its service ubiquitous for potential business employees who are looking for a file-sharing option to use with co-workers. In its S-1 registration filing, Dropbox states, "Our 500 million registered users are our best salespeople." Since millions of people are already familiar with Dropbox, there's a good chance a given business looking for the right file-sharing service for its employees may choose Dropbox Business over a

Competitive technology

Additionally, Dropbox has several features that make its offering very competitive, including Smart Sync and a slick team collaboration tool called Dropbox Paper.

Dropbox Paper features a minimalist interface of just a blank screen with advanced technology running behind the scenes, which allows multiple users to easily create new templates from scratch and drop files into the document, including music tracks and video files.

All changes are updated in an instant, which highlights Dropbox's sync speed as another advantage. Sync speed is what Dropbox is known for. The company has been recognized for delivering the fastest upload and download speeds among its peers. It does this by only syncing changes to files instead of updating the entire document like Google Drive.

Staying ahead of competitors will require big investments

Delivering new features and expanding its service offerings is crucial for Dropbox to keep growing its user base. In order to do that, the company has to invest heavily in marketing and product development. In the first half of 2018, Dropbox's research and development expense increased 178%, and sales and marketing expense expanded 79%. This caused the company's net loss to swell to $467 million compared to a loss of $59 million a year ago.

Losses on the bottom line are not something the big boys have to worry about. Microsoft and Apple spend more every year paying out dividends than Dropbox's current market capitalization of $11 billion. Still, there's something to be said for a company like Dropbox that is purely focused on doing one thing very well.

One indicator that Dropbox's investments are paying off is the company's increasing average revenue per user, which increased 4.9% year over year in the second quarter, reflecting a sales mix shift to higher-priced upgrades like the new Dropbox Business Advanced plan. This is a good sign that customers are happy with the service.

Dropbox clearly has advantages in technology, which has helped it grow to this point. But going forward, its success may require additional sacrifices to profitability in order to stay ahead of the competition.

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