

Startups Dropbox and Box reach for the cloud

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They are polar opposites, but two of Silicon Valley's hottest start-ups share similar names, market, adversaries and ambitions - perhaps with wishful eyes on going public next year.

Privately held Box and Dropbox are competing for a slice of personal cloud storage computing, a solution to the growth of Internet-connected mobile devices such as smartphones and tablets and the rise of storing files online so that consumers and businesses can retrieve data from anywhere they are on any device they choose.

"We want to create the next great enterprise-software company," said Aaron Levie, the voluble, energetic CEO of Box. "We're going after (Microsoft's) SharePoint."

Dropbox CEO Drew Houston is more laconic. His goal is to create an engineered product that is as "delightful" to consumers as anything from Apple and Facebook. "We see ourselves as building the Internet's file system," said the soft-spoken Houston.

Box has a gong and cow bell to celebrate big sales wins and new hires. At Dropbox, it's a firm handshake and a congenial smile, as engineers toil deep into the night to get just the right user experience.

It's no surprise that both companies will be at the South by Southwest Interactive conference in Austin next week, vying for attention and trying to create buzz at one of the biggest technology gatherings of the

year. They'll need to, considering both are competing with a who's who of tech giants in the multibillion-dollar market for personal cloud storage. Houston is scheduled to speak; Box is hosting an event with startups.

Dropbox and Box offer contrasting styles, and vastly different approaches as they attack opposite ends of the same market. Both have ruled out acquisitions despite overtures from heavy hitters Apple, Google and others.

Their challenges spotlight the high stakes of competing in the estimated \$1.4 billion personal cloud storage market in the U.S. [Forrester Research](#) projects the market will climb to \$5.8 billion by 2016.

Indeed, 90 percent of Corporate America expects to use the technology within three years, according to a new report from the Economist Intelligence Unit and IBM.

"There are so many players, it underscores the notion that the personal cloud is replacing the personal computer as the hub in our digital lives. It is a brave new world," said Michael Gartenberg, an analyst at Gartner.

"Both are forces to be reckoned with," said Bob Davis, the former CEO of Lycos and now a general partner at Highland Capital Partners.

"Dropbox has a lot of money invested in it. But when you talk about Apple, Google and Amazon as its competitors, that is a market full of 800-pound gorillas."

A battle royal is shaping up at the consumer end, where Dropbox has made an immediate impact with its so-called file-synchronization capability. Linger in the background is Google and its long-rumored storage service, called Drive. Google declined to comment on if or when Drive might launch. But analysts speculate that Drive would let people

store photos, documents and videos on Google's servers so that they could be accessible from any Web-connected device and easily shared with others. If you wanted to email a video shot from a smartphone, for instance, you could upload it to the Web through a Drive mobile app and email a link to the video rather than a bulky file.

Then there's Apple's iCloud and Amazon.com's various personal services - not to mention Microsoft's SkyDrive. iCloud, the hub of Apple's digital lifestyle strategy, boasts 100 million users since it became available in October. The service, built into any iOS device, is positioned as an ecosystem for iOS users for the best possible experience, according to Apple.

Amazon.com declined to comment on its cloud strategy.

In the eye of this competitive storm is Houston, who said he wants Dropbox to find its way onto every device you use - smartphone, camera, TV remote, even your car - and to become the way you collaborate on files, listen to music or share photos.

A graduate of the Massachusetts Institute of Technology, Houston oversees an engineering-centric operation that is less flashy than Box but makes up for that in the elegance of its product.

The company has fashioned a solution to a nagging problem: How can consumers gain access to documents, photos, music and videos, regardless of the device they are using and no matter where they are?

For millions, the answer has been to "Dropbox me." The 80-person company has more than 50 million users - and adds another every second. Some 1 billion files are saved on the service every three days.

"Dropbox is the Switzerland, an independent company to pull it all

together," said Bryan Schreier, a partner at Sequoia Capital and a Dropbox board member.

Meanwhile, several of Silicon Valley's top venture-capital firms have dropped more than \$250 million on Dropbox, vaulting its value to \$4 billion and giving Houston - at least on paper - a net worth of about \$600 million, according to published reports.

"What we have is a basic tool for anybody in the digital age," said Houston, 28, clad in his usual Dropbox hoodie and jeans. The company, which he says is profitable, gleans revenue through the thousands of customers every day who gobble up their free 2 gigabytes of storage on Dropbox and upgrade to 50 GB for \$10 a month or 100 GB for \$20 a month.

In February, Dropbox moved into an 85,000-square-foot spread with its own cafe and gym and views of the San Francisco Bay Area. It will have enough room to grow to a few hundred staffers in the coming year.

When Apple and Google came courting with sweetened buyout bids, Dropbox said no thanks. Houston and co-founder Arash Ferdowsi are determined to build the next Apple or Google, not sell to them.

"The number of potential customers is mind-blowing," Schreier said. "Ten years ago, everything was on your PC. Now, it's spread across your PC, tablet, smartphone, and it will only get worse in the future. (Dropbox) stitches it all back together."

The small design studio of Christchurch, New Zealand, resident Stephen McCarthy was buried in bricks after an earthquake last year. The rubble destroyed his desktop PC, but his laptop, which he had stashed away, contained the same information, thanks to Dropbox.

Things aren't much easier at the other end of the market, where Box must contend with a bevy of startups with names such as FileTrek, Egnyte and Syncplicity. And there's file-delivery service YouSendIt, which has 25 million free users and more than 550,000 paid subscribers.

Box's largest competitor, however, is Microsoft's SharePoint, which has been around for a decade and has 125 million paid users and 66,000 companies, including Ford Motor, Electronic Arts and United Airlines. The service gleaned \$1 billion in 2008 and has continued to grow by double digits. Microsoft does not break out annual revenue for that product.

"Email doesn't work all the time," said Scott Weiss, a general partner at venture firm Andreessen Horowitz, which has raised \$162 million from investors for Box. "Attachments are getting bigger, with video, photos and other stuff. Sometimes, we just sit there, waiting for email to be sent or received."

There really isn't enough space on a typical PC to store all of it, so vast quantities of data are stored in virtual clouds, including services such as SharePoint. Box aims to win the race with its easy-to-use service.

Box got its start in 2005, when Levie, who went to the University of Southern California, and co-founder Dylan Smith, from Duke University, collaborated from their respective dorm rooms. Their big break came when Mark Cuban plunked down \$350,000 as an angel investor. Box and Cuban parted ways over differences about the company's direction; Cuban did not return an email seeking comment.

Box was conceived for consumers, but the specter of competing with [Google](#) and Microsoft drove Levie & Co. to the enterprise. In 2007, "We produced a memo that said we had to change the entire company," Levie, 27, said. "It was my 'Jerry Maguire' moment, but not as dramatic,

I confess."

"We scaled up. The iPhone was a shot-in-the-arm accelerant for our business," Levie said. "The implications for consumers trying to get to data everywhere" - health care, legal, real estate, banking - "is tremendous."

Evidently, Plan B worked. There are more than 9 million Box users, with 500,000 joining each month. A typical Box customer, auto group AAA, plans to deploy the service to all 2,100 of its employees nationwide so they can share documents and collaborate, said Craig Butler, chief information officer at AAA. Some 82 percent of the Fortune 500 use Box.

Box upped the ante last month, with an Android product that makes it easy to share and collaborate on business content from Android phones and tablets. Box also offered 50 GB of free space for anyone who downloads the latest version of the app by March 23.

Though not yet profitable, [Box](#) is hiring staff at the same pace as it is gaining customers. The 400-person company added 15 employees one day on a recent visit and is well on its way to 600-plus by the end of this year. Like [Dropbox](#), it just moved into new digs - a sparkling new 97,000-square-foot facility, with a 15-foot-high spiral slide, in nearby Palo Alto, Calif.

"This is one of the best times to invest in enterprise software after a couple of boring years (in that market)," Weiss said.

For businesses, having shared data that are always up to date "is crucial," said Terri McClure, an analyst at Enterprise Strategy Group. She estimates that about a third of companies will adopt cloud storage solutions "for collaboration and access between devices."

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