MoS Episode Transcript – Drew Houston

> **DREW HOUSTON:** We had a number of early traditions in the beginning years of Dropbox. To blow off steam at night we've always had a tradition of having musical instruments – so guitars and drums – in the office. But then during the day we couldn't play the real instruments, so we would play "Rock Band."

REID HOFFMAN: That's Drew Houston, Dropbox co-founder and CEO. In case you're not familiar with "Rock Band", it's a video game that lets you play along to popular songs with virtual instruments.

> **HOUSTON:** We were pretty competitive – as we were with a lot of things. We routinely found ourselves playing a song, the four of us, and we'd be like number seven globally for that song.

HOFFMAN: With stats like that, Drew and his team were confident that they could out-rock anyone in Silicon Valley.

> **HOUSTON:** Then Mozy, the backup company, gave us a call out on YouTube. They recorded a video challenging us to a duel. We're like, "Oh man, they seem serious." They made this cinematic throw down video, unprompted.
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> We're like, "Do they know what they're getting into?" So we have this polite negotiation where I'm trying to feel them out, because I'm like, "Man, we might just stomp you guys."

HOFFMAN: The more they hashed out the rules for the coming battle royale, the more serious things became.

> **HOUSTON:** Every time I would ask them a clarifying question they'd up the ante. They'd be like, "Can we bring our own instruments?"
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> Eventually this all culminates in this showdown, which we were going to be live streaming on Justin.tv.

HOFFMAN: That's the Justin.tv which went on to become Twitch. Dropbox and their groupies rocked up to the Justin.tv offices. Then Mozy made their grand entrance.

> **HOUSTON:** They come in with this giant duffle bag. I'm like, "What the hell is in the duffle bag?" I'm like, "Is that your custom instrument?"
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> He's like, "No." He opened the duffle bag and starts pulling these giant pieces of foam out and assembling them like a jigsaw puzzle. He's like, "No, this is my drum set holder." We're like, "Oh my God. What are we getting into?"

HOFFMAN: The battle of the cloud storage bands was on.

> **HOUSTON:** It went down to the wire. We won two songs each but we were still tied. It came down to one last song, I think it was a Megadeth song on expert. It's like this impossibly difficult kind of thing. The last 10 seconds of it we finally jumped ahead by like 8,000 points.

HOFFMAN: On the surface, this is a small, funny story about a memorable game. But it's also an excellent metaphor to start this episode. Mozy seemed like overwhelming competitors but Drew and the Dropbox house band didn't flinch. They believed their superior knowledge of the game would let them emerge victorious. I believe you can take on Goliaths and win – but only if you know exactly what your advantage is.

[THEME MUSIC]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, partner at Greylock, and your host. And I believe you can take on Goliaths and win – but only if you know exactly what your advantage is.

If you're a scrappy startup who wants to slay giants, you have a better chance than you think. But only if you know where your true strength lies. Try to fight the giant on his own terms, he'll crush you where you stand.

The best way to get your fledgling company off to a flying start is to do something that no one else is doing. That's why I tell people that being contrarian and right is a truly winning combination.

By going against the grain and pursuing an opportunity that everyone else has ignored, you'll give yourself valuable time to refine your business model and win users. But what if the field you're in is already crowded? Or worse: has gained the attention of far larger and better resourced giants? Does that mean you should pack up and go home? Definitely not, especially if there is still no clearly dominant player in your particular field.

I wanted to talk to Drew Houston because he isn't afraid to step into a crowded field or take on giants. He always has a supremely clear concept of his advantage. When Drew founded Dropbox, there were already plenty of cloud storage companies vying for a place in the market. To make matters worse, tech giants like Google, Microsoft, and Apple were turning their attention to the space.

But Drew saw a need that still wasn't being met and he believed his singular pursuit of this need was the defining advantage of Dropbox. The 12 years since Dropbox launched have borne this out, seeing it grow to a valuation of over $10 billion dollars.

We’ll get to our own main event, Dropbox vs. the Software Giants, soon enough. But first let’s look at a formative skirmish that launched Drew into the startup world. In this corner: MIT student Drew Houston. In that corner: The well-established SAT prep industry.

We’ll let Drew set the stage: In the Valley of Elah, in the time of King Saul…

> **HOUSTON:** I started Accolate at the Westford Chili's in Westford, Mass., 2004.

HOFFMAN: OK. Not exactly the gladiator setting I was picturing. But let’s go on.

> **HOUSTON:** Accolade is a distinction of merit. So we figured if we're going to start an SAT prep company, we might as well use an SAT word.

HOFFMAN: Drew was 21, on leave from MIT, and working with his former high-school teacher, Andrew Krick.

> **HOUSTON:** We're like, "OK, we're going to call it the Accolade Group LLC," because that sounds more impressive than the two guys in a garage that we actually were.

HOFFMAN: Krick had his own SAT prep course. And Drew, a die-hard coder, had written himself adaptive learning software to study for his own SATs just a few years before.

> **HOUSTON:** I took the SAT, got a perfect score. The software really helped. I'm like, "Man, that was a lot of effort. Is there someway I can monetize this down the road?"

HOFFMAN: Together, they’d carve out a market by taking on Big Test Prep.

> **HOUSTON:** Since the beginning the way you studied for the SAT was you buy one of these giant 800-page books and you take the test yourself. It's this really cumbersome experience.
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> And then if you can afford it you go to these Princeton Review or Kaplan classes where you show up in some classroom at 8:00 in the morning on a Saturday and some person, maybe a year or two older than you, is reading out of a book explaining how to do sentence completions and things like that. It’s just this really tedious and painful experience with a lot of inefficiency.

HOFFMAN: It’s a classic David-and-Goliath situation. The well-funded giants of SAT Prep get challenged by a tiny, two-person startup with a great idea and some code Drew had written for himself. But if that’s all Drew had, this might have been a pretty short story. Accolade had an advantage over the competition.

HOUSTON: There was a market opportunity opening up. The SAT was changing in 2005 from 1600 points to 2400 points. And the opportunity I saw there was every book that had ever been written on the SAT is therefore going to be at least partially obsolete. There was a window of opportunity where it's an unexpectedly level playing field because everybody would have to scramble to develop new curriculum.

HOFFMAN: Not only was it a level playing field, it was a level playing field populated by slow, lumbering giants. Drew recognized that he had a clear advantage: He knew the format of the SAT inside out, and he was just a couple years older than the test-taking audience.

Accolade was also in a better position to adapt to the new SAT. Kaplan and Princeton Review were the undisputed Goliaths in the field. But revising thousands and thousands of textbooks? That takes serious time. Plugging the new test format into Drew's software? Considerably faster. Advantage: little guy.

And in a way, it worked. Accolade stayed profitable its entire short life, and Drew learned the basics of how to run a company. He also picked up a habit he's continued throughout his career. Drew knew that inexperience was his serious disadvantage. And he countered it by reading. I lost count of the books Drew referenced in the course of our conversation.

HOUSTON: *Competing Against Luck* by Clay Christensen and Karen Dillon.

The Effective Executive by Peter Drucker.

Ben Horowitz has a great book about, *The Hard Thing About Hard Things.*

Becoming Steve Jobs.

The *Hard Drive*, which is the story of Microsoft.

Founders At Work by Jessica Livingston is another favorite.

High Output Management is a book by Andy Grove. It's from 1983; it's probably my single favorite book on management.

HOFFMAN: Drew isn't just name-dropping titles. He can clearly state what insights he took away from each of these books, and how he has adapted them again and again as his companies – and his experience – have scaled. Drew developed his reading habit during his time at Accolade.

HOUSTON: I've always found it incredibly helpful to be systematic about training yourself, because no one's going to do it for you. I had everything down when it came to building the product – or at least the engineering and getting something basic out to market.

But then I realized that I did not know anything about sales or marketing or financing a company or managing people. And the list gets pretty long pretty quick – and not a lot of time to learn it.

HOFFMAN: It's a feeling every founder knows. Drew initially took a brute force approach to learning how to run a company, like a student trying to cram for their SATs the night before the exam.

HOUSTON: I'd go on Amazon, I'd type in "sales marketing strategy", all these things, and just buy the top one or two rated books, and just crank through them.

HOFFMAN: A reading strategy isn't the only thing that Drew's time with Accolade gave rise to. As he was developing Accolade, Drew kept needing to move files between computers. He initially relied on a USB drive, but he wanted something that was less likely to end up in the laundry basket. At the time, online storage was the new big thing.

HOUSTON: Well, this was back in 2006. So online storage was the start-up cliche back then the way that photo sharing or mobile apps were for a time, or crypto and Bitcoin were for a time. And TechCrunch would have these literal roundups of "Here's 20 new storage companies that'll help you back-up your computer", or share files, or different things.

HOFFMAN: There was a wealth of choice. But nothing that Drew could entrust with his files.

HOUSTON: I tried so many of them and was so disappointed by so many of them that I found this litmus test that was a little faster than downloading the app. I would go visit their user forums. And it was like walking into a battlefield infirmary.

People would be like, "Hey, you destroyed all my Excel spreadsheets" or "I lost my tax returns" or "I really wanted those wedding photos. I don't see them anymore. Can you help me go get them?" And just disaster after disaster in these forums.

HOFFMAN: User feedback is always valuable – and it doesn't need to be feedback from your users. Finding out what people dislike about your competitors can point you toward their weakness. And this will help you focus in on what sets you apart, the advantage that will let you take on a crowded field and win.

Drew's advantage was simple: He was frustrated. This frustration grew with every cloud storage app he downloaded then discarded. And it gave him a clear idea of what he wanted.

HOUSTON: I just wanted to stop carrying a thumb drive around.

HOFFMAN: That thumb drive held the source code to Accolade.

HOUSTON: I can't count the number of times I bent the connector, almost put it in the washing machine. Accolade was one misstep away from total disaster. I don't even know why no one has created a good solution to this, but no one has.

HOFFMAN: Just because your idea has been done by others, it doesn't mean it has been done well. A single idea can be implemented in countless ways. And there are millions of more bad ways than there are good ones. The challenge isn't to find the approach that appeals to the most people. Rather, you should make something that a small group of people will love. They will then become your evangelists. At the beginning, that small group is often made up of just one person: You.

HOUSTON: Part of it was not really thinking about a market or a company. I was just thinking, "God, I need to get to my stuff from multiple computers," as an end user." The more I got into the space, the more I realized that maybe this is something that people have overlooked.

HOFFMAN: Drew knew from his courses at MIT that building a good solution wasn't as easy as it looked.

HOUSTON: I had some insight into why this looked easy but it was actually hard to do, and kind of just jumped in. I thought I could outrun the smaller guys.

HOFFMAN: It may seem here like Drew is ignoring long-term scale plans. But in doing so, he was giving himself a gift: The gift of never needing to look over his shoulder. He knew exactly what he wanted from the product he was building. And he was free to focus on it. He also knew exactly what his advantage was.

First, he knew the product. He was himself a frustrated user, and he knew what he needed. By reading those forums full of complaints, he knew what other customers wanted too. Second, he knew his competition.

HOUSTON: I thought I could outrun the smaller guys.

HOFFMAN: Okay, he knew about the small fry. But there were some far bigger fish starting to take an interest.

HOUSTON: Microsoft or Google, there were a bunch of companies – even Yahoo – all these others either had offerings or were almost certainly going to launch them. Google was kind of the biggest existential threat.

HOFFMAN: In 2007, Drew and his co-founder, Arash Ferdowsi, won funding from famed seed accelerator Y Combinator. Even so, they still had to face skeptical investors.

> **HOUSTON:** Investors would tell me that, “Hey, this is a really competitive space. There's a lot of dead companies here. You're probably going to get crushed by the big guys.”

HOFFMAN: As a founder, you are the number one advocate for your product or service. When someone tells you you’re going to be crushed, you need to come back at them with exactly why they’re wrong. Especially if the person interrogating your idea is a potential investor. Drew’s response was not what you usually hear from an impassioned founder whose company’s prospects have just been thrown into doubt.

> **HOUSTON:** I was like, “Yup, I agree with all of that. This probably is a graveyard. We probably will get crushed by the big guys. That's okay. I'll at least not have to carry around a thumb drive anymore.”

HOFFMAN: Don’t be fooled by Drew’s glib response. He didn’t actually plan on getting crushed. Despite the odds, he was clear on his advantage. He was singularly obsessed with his product and he had very little to lose**.**

> **HOUSTON:** If we build something useful that has value, worst case scenario, we build something awesome, we solve this super interesting problem. Google comes out with GDrive. Other people will come knocking, we sell the company, build something else. That sounds pretty good to a 24-year-old living in an apartment with four dudes.

HOFFMAN: Drew knew that one of his advantages was his youth, his naivety, his fearlessness, the fact that he had very little to lose. And that even a modest success would be a big win. More experienced entrepreneurs would bring a different set of advantages. The point is to know what yours are.

He initially thought he was at a disadvantage when it came to acquiring users. So he did what many founders try when breaking into a field: He set out to partner with a Goliath.

> **HOUSTON:** We tried to partner with big companies, and we'd go to big PC manufacturers because I'm like, "Well, maybe Dropbox isn't something that you're going to go find, maybe it's something that just is pre-installed on your computer, who knows?" Because we didn't know if we'd continue to be able to acquire a large number of customers for free or we'd run out of early adopters.

HOFFMAN: But Drew soon realized this strategy came with a huge cost.

> **HOUSTON:** They would come in with this cavalcade of middle managers and they'd spin your wheels for a long time. But at the end of the day, these big companies aren't going to do you any favors.
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> And so the idea of a startup partnering with a big company, 99.9% percent of the time just ends up in a bunch of wasted effort – and it can kill the company. If you're really unfortunate, you actually get the deal, and then you get spun around by this massive machine.

HOFFMAN: The spin cycle of middle management takes energy that could go into generating ideas, innovation, and forward momentum. It's something that many large companies fall foul of.

Now if you're currently running a large company, the challenge of middle management is probably all too familiar. So I wanted to share an idea about how to avoid this momentum-sapping quandary as you grow. It comes from Mark Pincus, founder of the game company Zynga.

> **MARK PINCUS:** I learned that middle management doesn't work – or didn't work for me. And in the sense of you get to middle management for a lot of reasons. One is you feel like you have to to scale because you can't have 50 games reporting directly to one person. So you come up with ways to consolidate into groups and divisions and things.
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> You either take your best people off the line and turn them into rear admirals and someone who was an amazing game-maker now isn't making games, they're a bureaucrat and they're doing something that they've never been trained to do. They're trying to manage and hire and fill out budgets and plans and be accurate forecasters.

HOFFMAN: Rear admirals can be middle management. They are commanders far from the front lines. Their inputs and outputs are communicated through many layers, making them slow to respond.

> **PINCUS:** I realized that especially in a consumer product company and one that has multiple products – not a single product – it's crucial that you have field generals and not rear admirals.

HOFFMAN: Field generals are commanders who are face-to-face with the action and can make difficult split-second calls in real time.

> **PINCUS:** You need to empower people who are in the trenches. Your best people need to be in the trenches, your best people need to be close to your consumers and close to your engineers and designers and PMs.

And your top managers, the top people in the company have to be in the details. They have to know the details as much as the people in the trenches. They have to be connected to your customers.

And the greatest job in the company should be running your flagship franchise product, not being the general manager of 10 products.

HOFFMAN: Drew realized that being sucked into the gravitational pull of a large company would offset a key advantage that Dropbox had: its agility. Dropbox needed users, but they would need to find another way to get them.

After the break, we'll hear just how Drew and the Dropbox team gained the users and momentum they needed.

[AD BREAK]

HOFFMAN: Before the break, Drew and his team decided the tradeoff of working with large partners wasn't worth it. They needed users. But they also needed to maintain their agility. So they leaned into another method, one that none of their many competitors had mastered.

HOUSTON: There were a lot of companies that had credible products, but we were the one that cracked this viral playbook. This really efficient, scalable way of if you get a Dropbox user and they refer two people then that expands exponentially up to a certain point.

HOFFMAN: You refer someone, you get a reward. It wasn't a new idea. It's how we rapidly scaled PayPal. And it worked for DropBox too. But it has its drawbacks.

HOUSTON: Referral programs have been around for a long time, and the one I remembered was PayPal, where you get five bucks if you open a PayPal account. And then, you know, in high school, all my friends and I would try to figure out ways to refer peoples pets and stuff, to get that $5 referral fee.

HOFFMAN: There was a lot of that on PayPal.

HOUSTON: I wanted to do away with that. I'm like, alright, we'll just take the complication out of it. If you refer someone or you get referred, you get extra space.

HOFFMAN: There was no upper limit of how much extra space you could get by referring people.

HOUSTON: And so from virality terms, the simple math behind that is, really, it comes from the study of epidemics. If I cough and then how many people do I touch, how many people then also get a cough? And then how long does that take for that cycle to continue? We'd be like how many people can you refer, how many people who get an invitation will convert, and how do we get people referring as early as possible? How do you turn the crank as quickly as possible?

And that ended up making all the difference, because nine months after launch, we went from 100,000 users at launch; 200,000 users 10 days later; it hit a million seven months after that – and then the numbers just kept going up.

HOFFMAN: Referrals are one thing – but there was another important part to the equation. Retention.

HOUSTON: And so there are two big levers: one was this freespace referral program that we came up with; and the second was getting activation to work, and they were both important.

The key to virality, is actually retention, because you need to hang on to these people. There are a lot of examples of Viddys or modern things like “Pokemon Go”, where if you don't retain the users, you can get this massive exponential spike, but then a massive exponential plummeting. And so we looked at our activation rates.

HOFFMAN: What they saw wasn’t good. Sixty percent of all people who signed up to Dropbox via referral didn’t go on to use the service.

HOUSTON: And so this was stressing us out, because it was a big drag on the whole engine mathematically. And what we did was we went on Craigslist, we offered like $40 bucks to anyone who'd come in for a half hour – this was a poor man's usability test.

And then we're like, "All right. Sit down. This is an invitation to Dropbox in your email. Go from here to sharing a file with this email address." You know, how hard could it possibly be? And the answer is: impossible.

Zero of the five people succeeded, zero of the five even came close. Most couldn't even figure out how to download it. First, this was just stunning, because we're like, "Oh my god, this is the worst product ever created. This is the hardest thing. What kind of rocket scientist could figure this out?"

HOFFMAN: They found there wasn’t just one stumbling block that put people off using Dropbox. There were many.

HOUSTON: Even little things – someone would start the download, but the download would take too long, so they'd like start browsing something else. But then they would click back on the browser, obscure the download progress window, wouldn't figure out where it downloaded – and all this stuff.

HOFFMAN: Drew and his team leapt into triage mode.

HOUSTON: So we made a list of like 80 things in this Excel spreadsheet and just like sanded down all these rough edges in experience, and then watched our activation rate climb up from the 40s to the 60s. That really accelerated our growth.

HOFFMAN: It's a lesson that Drew has kept in mind over the years.

HOUSTON: We still fundamentally think about the business in those terms: How do we acquire customers, how do we activate them? How do we retain them, monetize them? And so on. I can't stress enough how important getting that right is for a product where you want to have scale.

HOFFMAN: With the viral playbook established, Dropbox started to scale rapidly. The Goliaths were starting to pay attention.

HOUSTON: It was wild. When you start a startup, and things start moving and you get some press, and you're doing something that's relevant to the big companies, then you get little taps on your shoulder, you get summoned. And so at various points we were summoned to Google, summoned to Apple.

HOFFMAN: There's one particular meeting with Apple that sticks out for Drew. Its when they got called to meet the ultimate Goliath, Steve Jobs.

HOUSTON: We got the invitation to see Steve, and I was not expecting that. And so I remember we get in our Zipcar, and I'm like typing in like One Infinite Loop. And I'm like, "Great, it's already in my iPhone."

HOFFMAN: Shocker.

HOUSTON: And so we get down there, and I remember going to the sign-in thing, and being like, "What do we say?

"OK, we're here to see Steve." Like, "OK, have a seat."

And we're like, "Oh god, maybe he hasn't seen the product."

So Arash and I had this elaborate demo ritual, and so we're furiously trying to configure – but this, of course, occurs to us two minutes before I meet him – set up our computers to do all the incantations to make the demo thing work. But we get up there, and we have a seat, and then Steve comes in and has a seat, and he sort of leans back.

And there's this massive pause, and he's like, "Where to begin? You guys have a great product." And I'm like under the table, and I'm like, "All right, bucket list. Steve thinks our product is great."

And then in so many words, he's like, "And you should really join us, because we are like a startup with infinite resources"– and, you know, goes through his pitch.

Before this I was a little bit terrified. I talked among my friends who had had their Steve encounters, and they fell squarely into two categories: you get like "chill Steve," or… I'll just call him "mean Steve." And you never know which one you're going to get.

And so he's finished his pitch of why we should join Apple. And I'm like, "Oh boy, here we go."

I'm like, "Steve, we really admire everything you've done, and if there's any way we could find to work together, I totally would love to. But we're really enjoying building this company, and we want to keep going. I'm sure you understand." And I didn't know if he was going to start throwing stuff or there would be an explosion or lightning bolts or whatever.

And then what happened was, he just started trolling us a little bit. He's like, "You know, OK. You guys are a feature, not a product, and you're not going to be able to get distribution. And you have to pick partners, and that's going to be really risky. And oh God, we got our own thing, and I guess we're going to have to build that and kill you," and da da da da.

So my two goals were, leave a good impression, and don't piss him off. So I'm like, "All right, agree to disagree."

HOFFMAN: While most founders would take a threat of extinction from Steve Jobs as a showstopping obstacle, Drew took it as a vote of confidence. Unfortunately, few leaders of large companies are visionaries. Some are happy to ignore smaller companies encroaching on their field until it's too late. Shellye Archambeau, former CEO of MetricStream, saw this firsthand when she joined Blockbuster to head up its online operations. At the time, it was a giant of movie rental.

SHELLYE ARCHAMBEAU: So here I am at Blockbuster and my job is build Blockbuster.com. They had started to build a website, et cetera. But we had to get a website launched. We had to figure out what were our services gonna be. It was really building a business – and building a whole team.

So as I'm learning the industry, I'm going to conferences, and I meet Reed Hastings. Reed, with a couple of others, has started Netflix. And at that point, it's pretty fledgling.

HOFFMAN: Even though it was early days in the Netflix story, Shellye could see the huge potential. Unfortunately, her boss could not.

ARCHAMBEAU: We got to know each other, and Reed said, "Listen." We talked about it. Reed came out to Blockbuster and pitched, "Let's take Blockbuster.com the brand, let's take Netflix the technology, put 'em together, and spit it out. And have Blockbuster.com, Inc."

And I'll never forget, my boss, the CEO at the time, of Blockbuster, he just sat back and said, "Ah, if that ever becomes anything, we'll just buy it." Because Blockbuster was a big business at that time. And I'm sitting there thinking, "What? Are you crazy?"

And that's when I knew that this was just not the place for me to stay. They just didn't have the vision. And history's written. Blockbuster is long out of business and Netflix is one of the top brands in the world.

HOFFMAN: Blockbuster said “no thanks” to Netflix for the wrong reasons. But Drew said no to Steve Jobs and his passive-aggressive offer for the right ones. But that didn’t mean he was complacent about the ever-looming threat of being wiped out by any one of the tech giants, be it Apple, Amazon, Microsoft, or Google.

HOUSTON: From inception, we always lived in the shadow of what became Google Drive, the mysterious platypus project. And it's actually more painful to compete against a hypothetical product than it is a real product, because when it's the boogeyman and it doesn't exist yet, it could be anything. And all you hear are rumors about how awesome this thing is going to be. So we would be terrified. Every year there would be a new rumor that this was going to be the year that GDrive launches.

HOFFMAN: Many people would let this stifle them. Indeed, it’s probably why many great ideas never get off the ground: that fear that someone will inevitably do it faster and better than you. But Drew is philosophical about the threat of being crushed.

HOUSTON: As you get drafted into the NFL, and as you make it in the playoffs, every game your reward is a much harder opponent and a much more unlikely victory condition. So you just have to get used to that and know that that's actually success.

If you don't have competition, your product might not really matter. I think what I learned that was maybe not as obvious in the beginning, is the press will write about competition like it's a shotgun to the face, but it's more like a boa constrictor.

HOFFMAN: If you're sharing a room with a boa constrictor, you keep an eye on it. As long as you can see where it is, you can keep out of its way. But if you get distracted, or doze off, you might suddenly find yourself in its suffocating grip.

> **HOUSTON:** The hard part is that the competitors will just keep improving, keep coming. It's like the waves of stormtroopers will never stop, right? And actually, over time, they really can. It's easy to have a first reaction like, "Oh, they launched a product, look at all these bugs" – you can get dismissive or complacent. But over time, these advantages, it's like, "Oh yeah, it's baked into the platform" or whatever – those can compound over time against you.

HOFFMAN: If you are complacent, even if your competitors are creating sub-standard product, they can overwhelm you. You need to maintain your agility. But you also need to understand where they are coming from. What if one of the big players – Drew refers to them here as "incumbents" – targets your niche?

> **HOUSTON:** Well, the first thing is you have to think about what is the incumbent playbook? And it's not complicated. The basic response for the incumbent is basically to copy your product, distribute it with their platform, and destroy the economics – so give it away for free. If you know that, then it's easier to respond.

HOFFMAN: These Goliaths have obvious advantages, but they also have a potentially crippling set of weaknesses.

> **HOUSTON:** So the advantages are pretty clear, but the weaknesses include, for a company like Google that's doing 100 different things, there's a very long bread line to get the next good engineer, right? And these other projects, you know, project number 35 – which is probably about where GDrive was on the list – it's going to take a long time for that team to get fed with really amazing people.

HOFFMAN: As a smaller, more focused company, Dropbox could make sure its hires were exactly right for the task at hand.

> **HOUSTON:** The 11 players you put on the field versus your counterpart at the big company, actually, you can have a massive talent advantage. Not because Google doesn't have a good engineer – they have a great engineer, they probably have got better engineers than you. But the leader of that project is a mid-level PM who is just visiting, and this is like the next rung in their ladder.
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> As the founder, you're just so much more committed, and your team is so much more committed. And so you do end up with a focus and speed and commitment advantage.

HOFFMAN: But for this tightly-focused team to work, you also need a tightly-focused playbook.

> **HOUSTON:** Your playbook should read very differently than your competitor's. Our playbook is very different from Microsoft or Google: Who's our customer? What jobs are we doing for them? How do we design our products? We grow virally. We try to attract users through a great user experience.
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> If your playbook is the same as your competitor's, you’re in trouble, because they’re just going to play your playbook with a lot more resources.

HOFFMAN: And it needs to be specific.

> **HOUSTON:** If we're like, "We're just going to be faster, better," that rarely works. So what does it mean to have a different playbook? How is our strategy different from the incumbents? Or from a Microsoft or Google?
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> Well, conventional software is often sold top-down. So you talk to CIO, they compare a bunch of different products, they make a purchasing decision, they buy your thing, they deploy it to their employees.
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> Dropbox is bottom-up. The employees find out about Dropbox, they start using it organically. Eventually usage reaches a certain point where it reaches the top. But it's like, Dropbox is already deployed and then it's purchased, as opposed to purchase then deployed. That's a 180 degree difference from the conventional way of doing things.

HOFFMAN: Your advantage will change over time as your product grows and your skills increase. This is why you need to constantly reassess what your advantages are, and then make sure you are always playing to them.

This is how Drew led Dropbox to survive the onslaught of multiple Goliaths. To the point where it is now one itself, with revenues of $1.4 billion and over 2,300 employees. Dropbox expanded into phone backups, photo sharing, and collaborating on documents. So how did Drew avoid the pitfalls of being a sprawling giant? He didn’t.

> **HOUSTON:** If you're not growing, and certainly in tech, you're usually dying. At the same time, if you expand into all these unrelated areas, you can find yourself fighting a battle on many fronts and winning none of them.
>
> But the challenge we had was on the storage front, we're basically competing with the iPhone to back up your iPhone. What could possibly go wrong? And in the photo landscape, we were competing against Facebook, and Google, and Apple, and all of these extremely well-resourced companies. And then on a collaboration front, we were fighting against Microsoft and Google on their home turf.

HOFFMAN: It’s the classic problem of working out how to expand without spreading your talents too thinly and losing focus across your organization. It’s a danger that even Drew was not immune to. Dropbox was becoming just like the lumbering Goliaths that Drew had scorned in the early days of the company. And he had lost his clear vision of Dropbox’s advantage.

> **HOUSTON:** It was clear that not all this stuff was working. The photo stuff we were launching was promising but not on a trajectory to reach the exponential path that needed to be sustainable.
>
> Then things like Google Photos came out, which not only incorporated a lot of those ideas, it was also totally good cloud-based photo gallery, but also brought in some of the machine learning elements. But most importantly just napalmed the business model. So they just were like, “Everybody can have free unlimited HD video for life. We know we're going to light billions of dollars on fire doing this. We'll figure it out later.”
>
> That's a tough chess game when the other guy has like two rows of queens, and you're supposed to figure it out. And the answer is if you find yourself in a game like that, you shouldn't play.

HOFFMAN: Drew knew he needed to reassess where Dropbox was going. But times had moved on. They couldn’t simply revert to just being a cloud storage company.

> **HOUSTON:** One of our directors came to me, and he was like, "Hey, I understand that we're doing collaboration, but how is what we're doing anything better than a 10% better GSuite?"
>
> And that sent me into an existential tailspin a little bit, because I'm like, someone should do that, but I don't know if that's what I want to do. And then that led me through this kind of multi-year process of figuring out, okay, strategy is also not just something you put on a piece of paper. It has to really fit with the purpose of the company and your purpose as a human being. And I'm like, I don't want to build a conventional enterprise software company.

HOFFMAN: Cutting those products might be best for the business. But what about what's best for him? He has to find a way to stay inspired by the mission of his own company. Because the founder's inspiration is always one of the company's strategic advantages. Fortunately, Drew had an inspirational encounter.

> **HOUSTON:** I interviewed someone from SpaceX, and I was like, “Oh my God, you guys are actually working on the Mars landing. What's that like? How do you guys work together?”

And he's like, “What do you mean?”

I'm like, “You know, how do you guys collaborate? What tools do you use? What's it going to take to put someone on Mars?”

And in short, his response was “a lot of email and a lot of files.” And then I thought about that, and I'm like, man...

HOFFMAN: Drew realized that this was a problem Dropbox could fix.

HOUSTON: If you think about it, like, every important human endeavor relies on people being able to work well together and the sort of clock speed of our species is a function of how good are the tools that we're using. And certainly, email and files are way better than what came before them, but if that's the end of the line, then we're really going to limit our potential.

And if I want to help cure cancer or land on Mars, address climate change – we're gonna need better tools.

HOFFMAN: Curing cancer. Colonizing space. Reversing the damage we’ve done to the Earth. These are all challenges of Goliath proportions. They won’t be overcome by lucky shots. Rather, the key to achieving goals – huge and modest – is to know when not to quit. Especially when the odds are against us.

And as you head into your own entrepreneurial underdog story, I’ll remind you of the Biblical story that inspired this episode. David – an unarmed shepherd – faces off against Goliath, the heavily favored, heavily armored behemoth. David could never compete in hand-to-hand combat. But he has great aim. He hurls a stone and lands it in the giant’s unprotected eyes.

And let that be the lesson: David can slay Goliath if David knows what his advantage is. As you face off against your own armored behemoths, what ideas do you have in your pocket that can hit your competition between the eyes?

I’m Reid Hoffman. Thank you for listening.