



Stanford eCorner

Out Innovate Bigger Competitors

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Box.net CEO and Co-Founder Aaron Levie explains how his company decided on competing in the enterprise software-as-a-service market. After a competitive analysis, Box realized their product offering was more innovative than many legacy solutions currently being used by large organizations. Levie also articulates the value of using a business model where the sales team is working with customers already in love with your product.



Transcript

We thought to ourselves we could either stay consumer. We could build the product for all of our friends, all of our family. We could be the best way that you can share photos. But then we looked at it. We thought, but what is our opportunity to really innovate in that area? Who are we going to be competing with? We looked at Google and Microsoft, people that we're going to just dramatically bring down the cost of storage for consumers. We looked at what Facebook was doing in photos. We really felt that was a really great way that people are going to communicate. Can we really compete or be innovative in that area? We looked at the music space, as I mentioned, but really thought iTunes, and now we have Spotify, but we had sort of better products in the market that would let you share and consume music. And then, we looked at the enterprise. And as I mentioned earlier on the Microsoft slide, the solutions that people had in their businesses weren't as innovative as we are.

We really thought that we could do it better than everybody else. And so, enterprises already have budget. They already spend collectively billions and trillions of dollars a year on this type of technology of managing their data, of helping their businesses communicate, of enabling collaboration of all of their sort of IT strategies. So, they have the money, right? Compared to us as consumers, we sort of care about every last dollar that we spend on anything. And so, we needed to go after a market that could essentially pay for this service. That's a thing called the business model. We thought that was important. We could out-innovate the competition. What's really interesting is traditional enterprise software usually gets built and deployed in three-year release cycles. So, that's why you have products called Outlook 2007 and Outlook 2010 and SharePoint 2007 and SharePoint 2010.

Every three years that product gets updated. That means the second that it's in the customers environment, it's already out-of-date. That means somewhere in some lab somewhere at Microsoft, they're working on an all-new version. That means you're always behind them. And so, we knew we could out-innovate these older incumbent who are building technology in the old way. We could be more like a consumer company, deploy the software faster. And this should be a dimension where we could innovate and we could have a lot of competitive advantage. And our customers already wanted this. If we surveyed our customers at the time, they would say, "We want easier ways to collaborate with our colleagues. We want easier ways to manage all the users in our business." And so, it was a very sort of natural evolution of the business model.

But to do it really completely, we had to decide to go all in. We had to put our focus in one area because we really had to be as innovative as we could and build the best product possible. So, we chose enterprise. It was sort of a series of events that happened. We had an investor who was on the board of another SaaS, or software-as-a-service company that was selling to enterprises. So, we already had this sort of business model ideas of how we could do this. We had a consultant that was going and selling the product to other people and seeing if they would buy it. We listened to the customers and sort of thought about

what we could do. And so, we decided to go enterprise and it worked. Almost overnight, companies pay us ten to a hundred times more for our product that we were beginning to upgrade and sell as more of an enterprise solution and where we were continuing to build up market features for.

So, instead of the story being about how can you share and manage your data with a couple of colleagues or a couple of friends, it was all about how can a business implement a broader solution that they can use to share information across the organization. And they really found value in this because they were traditionally spending way too much money with legacy solutions that weren't solving their problems, that weren't updating for how people wanted to work today. And we had a new kind of sales model, which made us extremely competitive. And this I think is an update we're starting to see across the industry, across other sort of freemium businesses. We have a sales model where people actually call us. So, we have a free version of the product that lots of businesses and lots of users use. But then, people actually call us when they want to upgrade for more security, more technology. And so, we have a sales team that essentially is talking to people that are already really excited about the product. So, it's an inversion on the business model where traditionally you go and call and email and market to a lot of businesses who aren't using your solution, who don't know about your product, who aren't qualified or who aren't educated about what you're doing. And we've done the exact opposite.

By the time we're talking to somebody on the phone, by the time we're selling to somebody, they're already using the product. It's already solving their problem. They already know it's the right solution for them.