



15.965 Technology & Strategy

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Lexar Media

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Key questions

- What made Lexar Media successful?
- How does this relate to the new demand opportunities that it is considering?
- Should Lexar Media pursue USB flash drives?
- Should Lexar Media pursue MP3 music players?

Lexar Media: what happened next

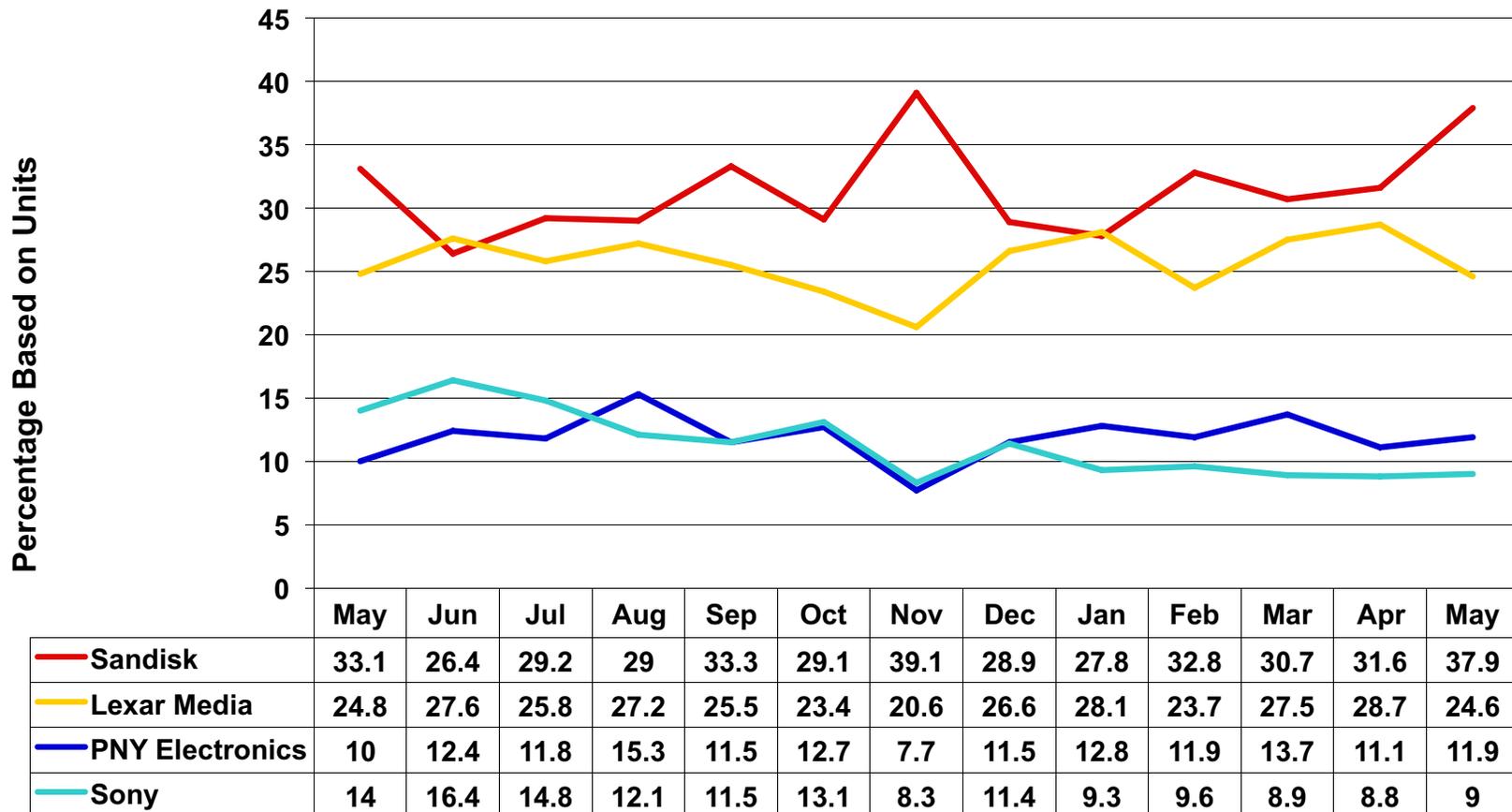
- It does not develop high-speed MMC card, nor its own ‘digital film’ format
- In 2001 Lexar spins off Printroom.com and discontinues Shoot ‘n Share, SayCheeze.com
- In 2002 – Lexar removes “digital film” from its packaging
- In July 2002 Lexar ships its first USB Flash Drive
- In 4Q 2003 Lexar ships its first MP3 Player
- By 2004, Lexar had achieved distribution at over 56,000 storefronts
- In March 2005, Lexar won a trade secret suit against Toshiba, which was ordered to pay Lexar \$465 million (Toshiba challenged the verdict)
- In July, 2006 Micron acquired Lexar for about \$850 million (\$9.50/share)
- In September 2006 Toshiba agreed to pay \$288M to settle its IP dispute with Micron (Lexar)

Flash card market

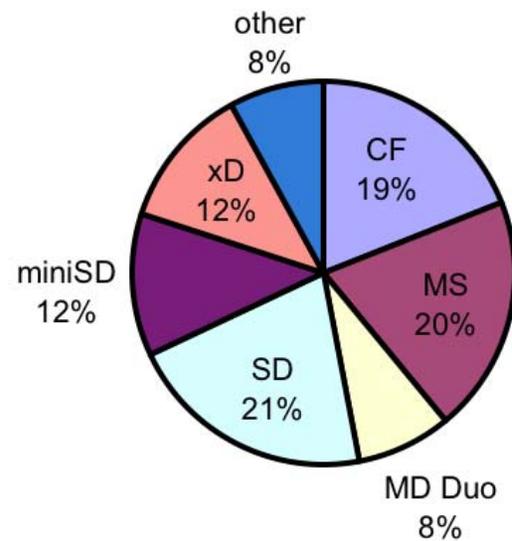
- By the end of 2003, vertically-integrated SanDisk had negated much of Lexar's speed advantage through innovations in the card's flash component.
- In 2004, Lexar announced an exclusive agreement with Kodak to manufacture and sell Kodak-branded digital film
- In 2004, Lexar announced its Active Memory System aimed at improving professional photographer workflow
- Industry prices decreased faster than anticipated in '01
 - Average ASP/MB in 2Q 04 = \$0.20
 - The average ASP/MB decreased 62% from 4Q 2003 to 4Q 2004



US retail market share in flash cards & USB Flash drives, '03- '04



Flash memory card format share, 2003

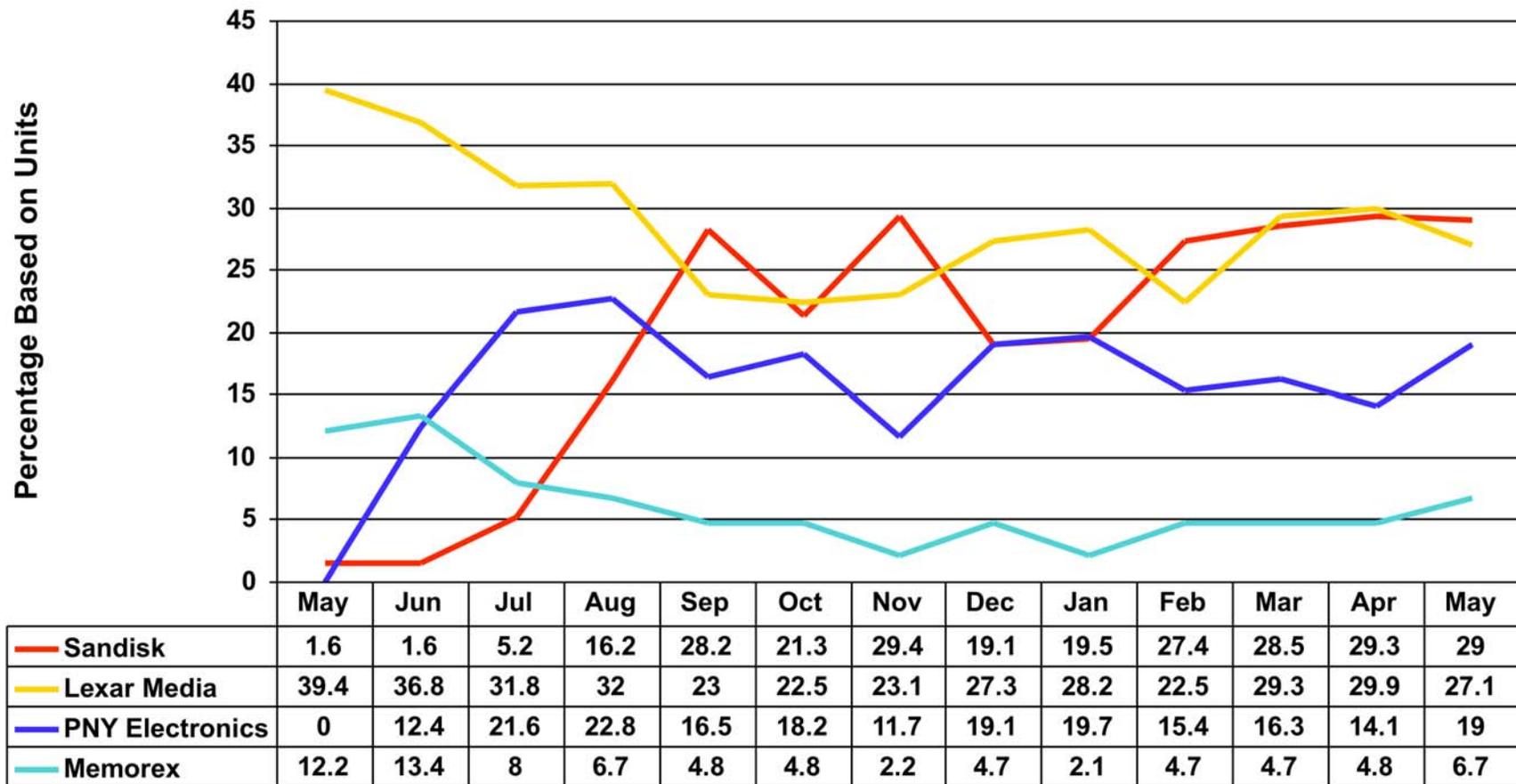


Source: IDC, CSFB, 2004

The USB flash drive market

- The USB Flash drive market has taken off and reached about \$600M in 2003
- Lexar announced an entire line of flash drives, attempting to lead the market with value-added features. Touchguard, announced in December 2004, is a secure device that requires a fingerprint swipe to access protected data, such as passwords stored on the drive.
- In January 2005 SanDisk and M-Systems announced U3, a standard for the development of applications on a flash drive and are encouraging third parties to develop applications.

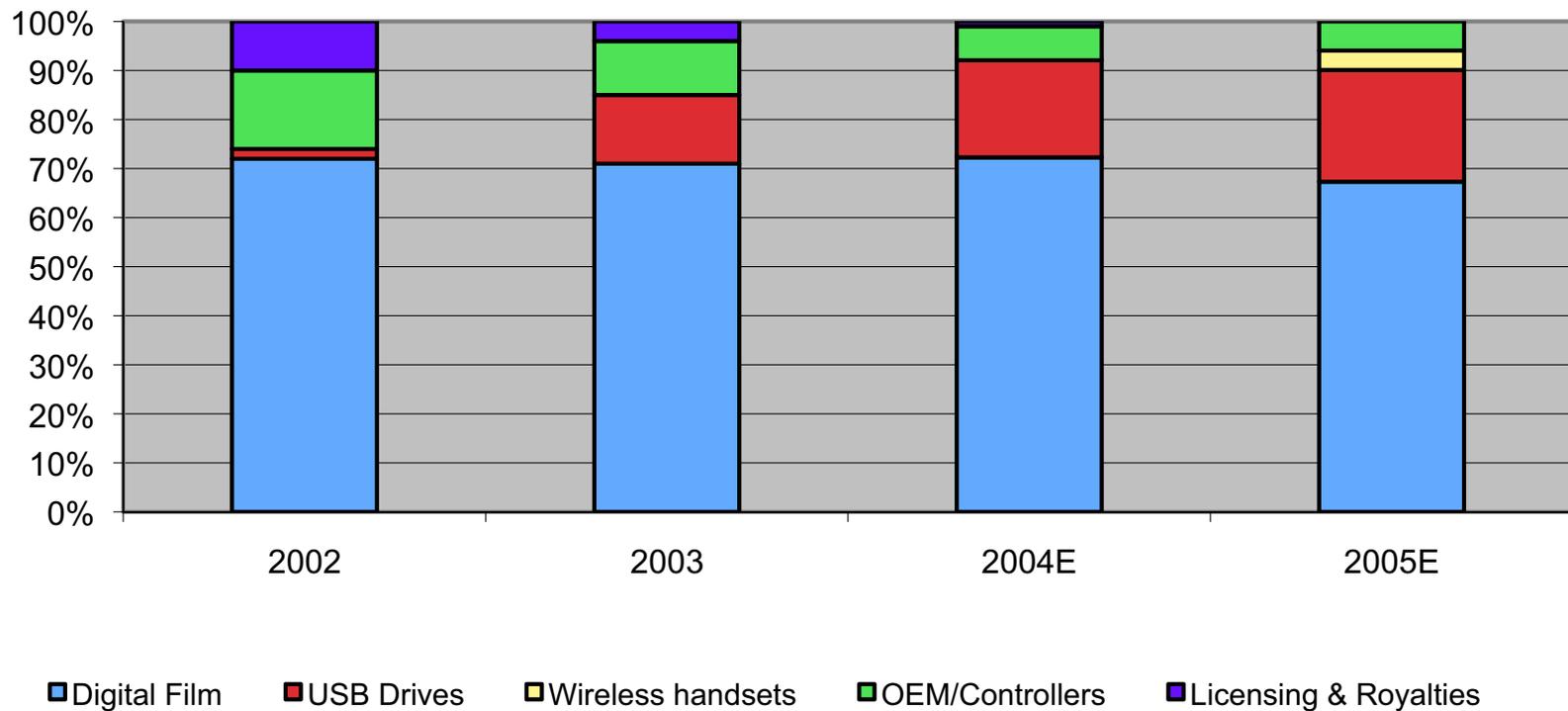
USB flash drive market share, '03 - '04



MP3 player market

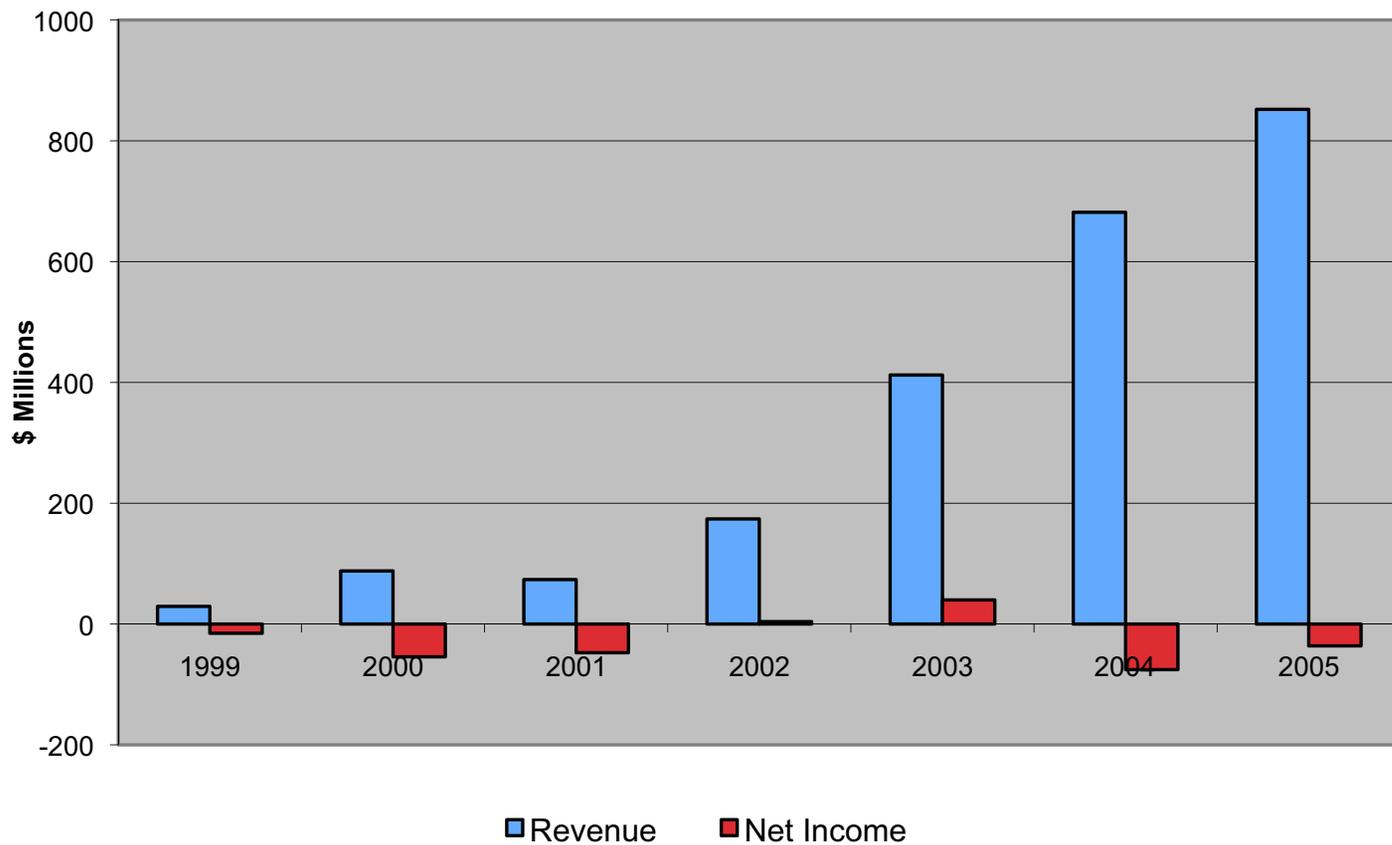
- Lexar continued to experiment with its MP3 product line and announced a new set of MP3 players in 2004.
- The market is then been flooded with new entrants including SanDisk, Sony, Rio, Creative, iRiver, Samsung and others
- Apple announces a flash-based product to complement the iPod, the iPod nano, intensifying competition

LexarMedia Product Mix, 2002 – 2005E



Source: SG Cowan & Co. Oct. 15, 2004

Lexar Media revenue and net income, '99 – '05



Insights from Lexar Media

- Initially a strong link from its technological competence to relevant attributes of system performance for customers willing to pay
 - ‘click to click’ speed
 - proprietary technology in a bottleneck
- Rather than licensing, entry into ‘digital film’ builds a public company of significant size
 - value capture through complement
- Lexar is focused, offering a differentiated product, but basis for differentiation in USB flash drives not clear
- Competition has very different scope

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15.965 Technology Strategy for System Design and Management
Spring 2009

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