Lexar Media
Michael A M Davies
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

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<th>PNY Electronics</th>
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**Graph:**
- X-axis: Months (May to May)
- Y-axis: Percentage Based on Units

**Legend:**
- Sandisk
- Lexar Media
- PNY Electronics
- Sony

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

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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
15.965 Technology Strategy for System Design and Management
Spring 2009

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