

Magnetics Myopia: Why Is Magnetic Media Alive & Thriving?

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Why this topic?

- Magnetic media (tape) now in its 70th year
- Users don't like it
- Digital & electronic solutions available
- Key new trend is industry fragmentation, not consolidation

Industry background

- Tape media of all types is a \$7.8 billion market
- Disk-based media is a \$7.05 billion market (both consumer driven)
 - CD-R & RW declining rapidly
 - Magneto Optical flat
 - DVD slow to get started
- 1998 will be a watershed year

Why Is Anacomp An Expert?

- 30 years of magnetic media experience for computer industry
- 25%+ share in large categories
- Key brands include Graham, Dyan, Memorex and StorageMaster
- Manufacturing on 2 continents
- 15,000 customers worldwide
- \$450 million NASDAQ company

What does Anacomp sell?

- Magnetic Media
 - tape, optical, equipment & services
- COM
- COFI
- Electronic Delivery
- Technology Consulting & Services
- Applications Solutions

What about industry fragmentation.....

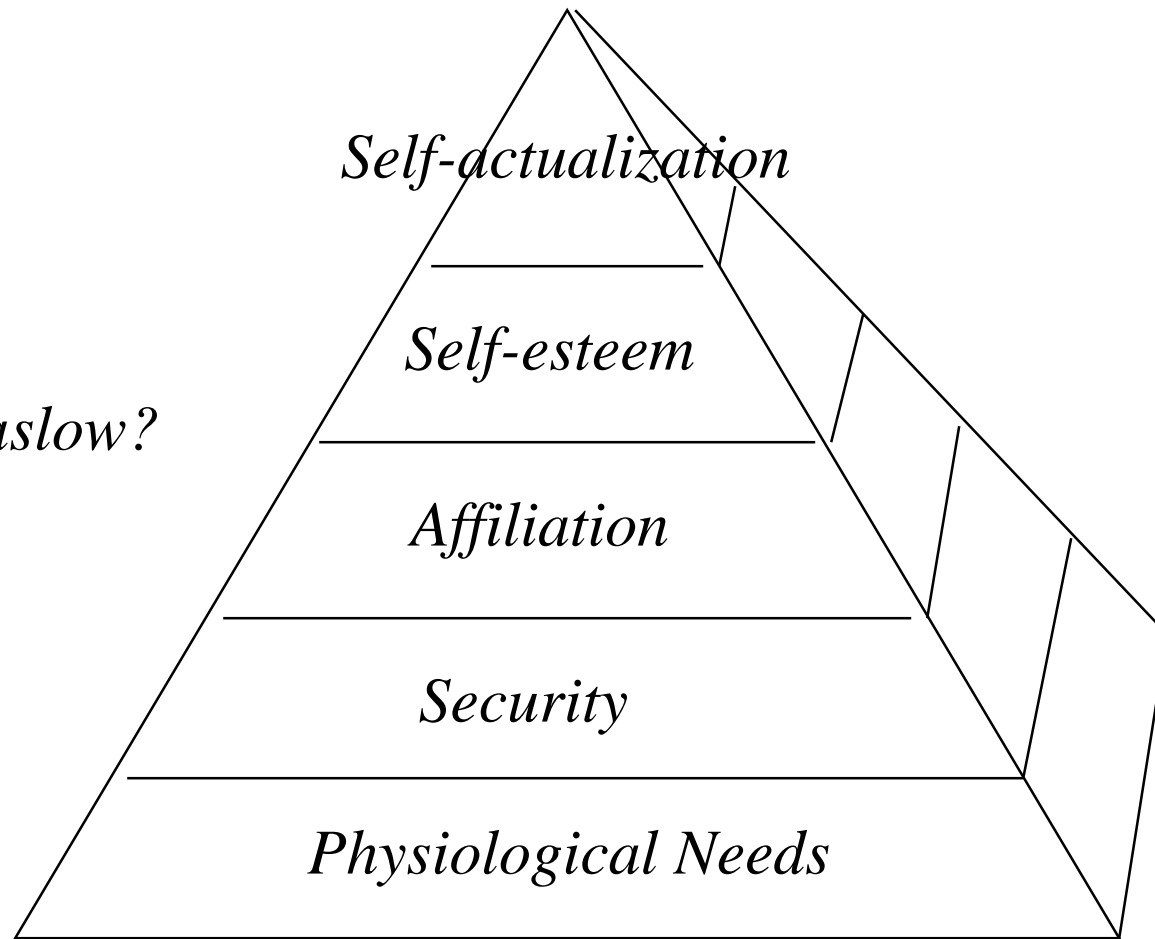
- High capacity server data growing by more than +50% a year
- The trend is toward multiple makers pushing multiple formats
- Industry profits & Wall Street are driving the trend
 - encourages new entrants
 - encourages more capacity

What about industry fragmentation.....

- Room-to-play margins and too many players drive rapid price erosion, creating shorter cycles for each technology
-which will spawn more technologies and more fragmentation until players' are forced to not play

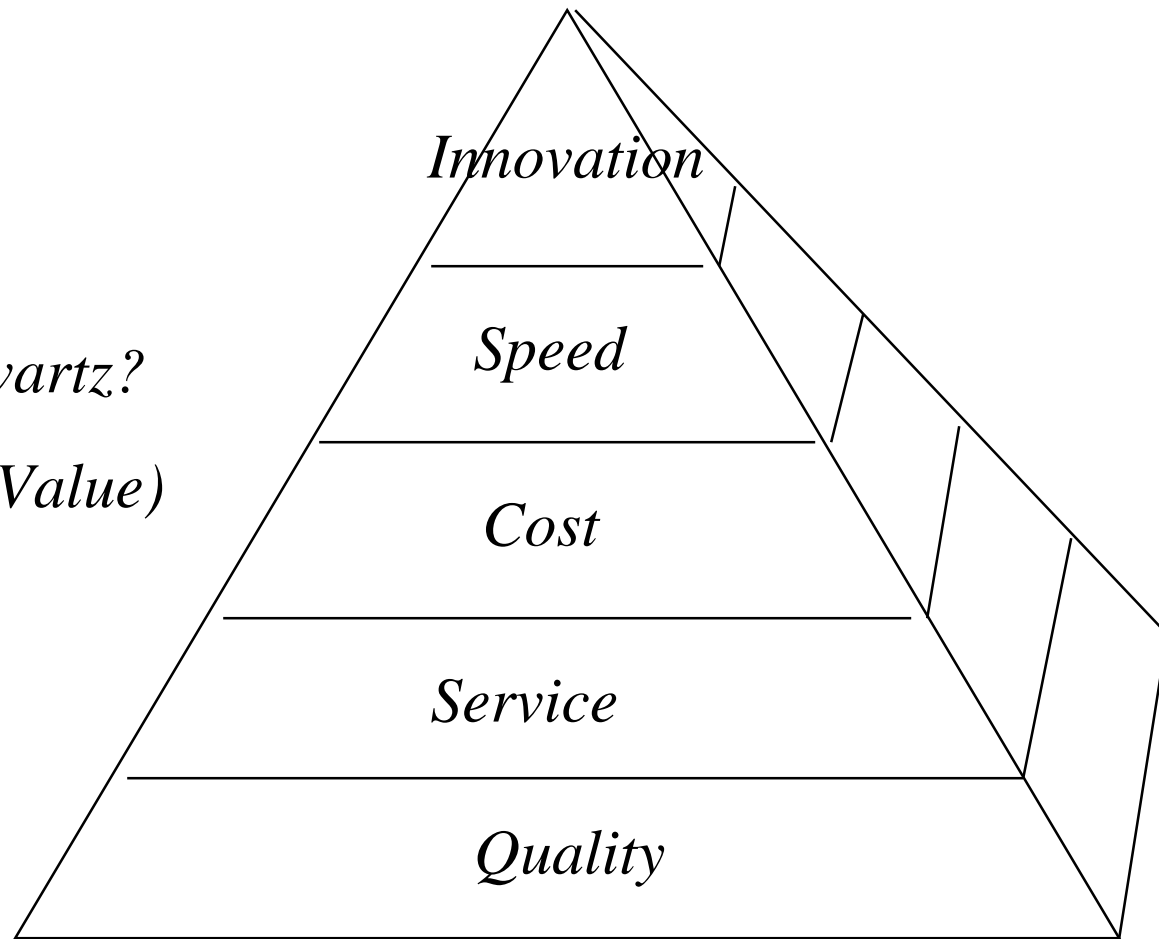
The result?

Remember Maslow?

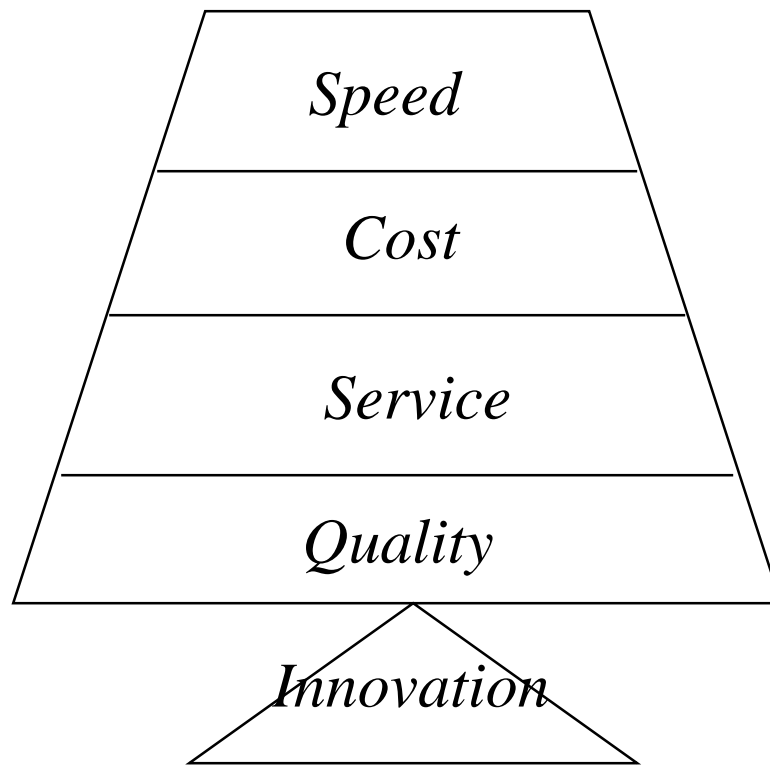


The result?

*Remember Swartz?
(Hierarchy of Value)*



The result is a wobbly value picture all along the sales & distribution chain....especially at the customer level.....



What are the implications?

- The industry itself has become a barrier to new product acceptance
- Which prolongs existing technologies such as tape
- Forces customers into life cycle management (long term vs. short term)

What are the implications?

- A fallout or market implosion in the short term (1-3 years)
- Benefits legacy products first (especially tape)
- Benefits newer but established products second

What are the implications?

- Largest players may be the most susceptible to margin erosion and financial community requirements
- Current industry business model will not support long term viability of some new products....which ones?

And, finally, which one is the next 9-track?

- 9-track introduced in 1957
- Should have been replaced by cartridge products with higher capacity & better performance at lower costs per megabyte....long time ago
- 1999 market value predicted higher than LTO, Eagle and 3570 combined!