Sony Corporation

Case Synopsis

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Introduction

Sony Group is a Japan-based corporate group, headquartered in Tokyo and primarily focused on the Electronics, Game, Entertainment, and Financial Services sectors (Sony Corporation, n.d.). Sony created many miracles in its Electronics business. Sony was one of the most popular brands in the world in 2006, even though Sony's market value decreased by 14% (Stewart-Allen, 2006).

History

In 1946, Sony was founded by Masaru Ibuka and Akio Morita. Sony created Japan's first tape recorder, called the Type-G, in 1946 (Sony Corporation, n.d.). In the early 1950s, Sony first applied its transistor technology into the commercial field and made portable TR-63 radios that allowed it to penetrate the U.S. market successfully (Sony Corporation, n.d.; Hongo, 2012). Sony contributed to the improvement of "made in Japan" perceptions (Lohr, 1983). After that, Sony started its diversified strategy by expanding into other businesses including life insurance and entertainment (Lohr, 1983). However, it failed and then focused on electronics again, trying to increase cooperation within business units (Fackler, 2006). Despite its success, the company has been facing significant challenges in recent history.

Mission & Goals

According to Sony's official mission statement, it is "committed to developing a wide range of innovative products and multimedia services that challenge the way consumers access and enjoy digital entertainment" (Sony, n.d.).

Sony is planning to make efforts in ensuring synergy between businesses within the organization, strengthening its electronics business, and maintaining market leadership in high profit areas (Sony, n.d.).

Current Situation

<u>The Business Units</u>

As of 1 April 2012, Sony is organized into the following business units: Imaging Products & Solutions (IP&S), Game, Mobile Products & Communications (MP&C), Home Entertainment & Sound (HE&S), Devices, Pictures, Music, Financial Services and "All Other", which includes the network and medical businesses.

However, in attempts to cut down the costs and improve its financial situation, Sony is eliminating two divisions at its main electronics unit, while keeping a close eye on its money-losing television unit. The Japanese company will shut down two groups. First, the consumer products and services group, which handled consumer-level electronics. Second, the professional device and solutions group, which handled business oriented products and components. Sony spokeswoman Satsuki Shinnaka said all changes will be effective April 1st 2012 and are aimed at fast-moving management decisions. On the same date, the company welcomed its new president and CEO Kazuo Hirai. Hiari is largely credited with making Sony's PlayStation game business profitable and is looking to do the same with the company's Bravia television unit, which is expected to post its fourth straight annual loss (Graziano, 2012).

<u>The market share</u>

Being one of the leading manufacturers of electronic products for the consumer and professional markets, Sony was ranked 87th on the 2012 list of Fortune Global 500. Also, Sony is placed among the Worldwide Top 20 Semiconductor Sales Leaders and third-largest television manufacturer in the world, after Samsung Electronics and LG Electronics (TSA, 2013).

In the global smartphone market, Sony takes a third place behind Samsung and Apple, which account for more than a half of all smartphone shipments. According to the latest numbers from research firm IDC, they placed Sony in fourth place with a 4.5% share of the market. The company was able to outperform ZTE by 0.2 percentage points and wasn't far off Huawei's 4.9% market share. Sony will also have to face off against HTC, which hopes to win back consumers with its new HTC One smartphone (Graziano, 2013).

Speaking of digital music market, Sony had been the industry pioneer in transformational innovation. However, Sony could have owned a significant market share if it didn't get side tracked by its own previous successes in portable music devices, and if it conducted proper evaluation of the market situation when the new era of portable music was emerging in the late 1990s. Sony's failure in the digital music industry caused Sony to lose considerable market share to Apple (Graziano, 2012).

<u>Financial Situation</u>

Sony's latest financials for the fourth quarter have been released. The corporation as a whole made $22,000 million in sales, with an operating income of $534 million and a substantial net loss of $124 million.

Sony continues to lump the PS3 and PS2 together, and the PS Vita and PSP together, thus it is challenging to see how the individual consoles are selling. However, Sony has revised the number of PSP/Vitas they plan to sell for the next financial year down to just 7 million, reducing their initial estimation by a full half. The report says, "The slow penetration of the PlayStation Vita portable entertainment platform [and the shrinking market for compact cameras] is recognized as a particularly important issue for this company (Bloomberg, 2012)." To offset the negative financial results, Sony plans to expand sales and operating income through new attractive software lines and through game software on mobile devices, including smartphones and tablets. Together the PS2 and PS3 sold 6.8 million units in the last quarter, and the PS Vita (and PSP) combined shifted 2.7 million units. Most other aspects of the business improved profits – it's clear there's a lot of research and development for the PS4 in there, and a relatively weak situation in the games area for the last quarter (Graziano, 2013).

Current Strategy

Sony's strategies of focusing on products and technology successfully helped them to create an amazing brand name. However, Sony's legend seems to be failing apart recently because of the lack of focus on customer's experience. Hence, Sony's CEO Kaz Hirai stated that "Sony will change", and announced "One Sony", which is a rapid decision-making approach that draws on the strengths of the entire Sony Group (Sony Corporation: 2012 Annual Report). Hirai revealed the plan of revitalizing the electronics business and the plan includes five key initiatives:

Strengthening Core Businesses

Digital imaging, gaming, and mobile are the three main areas of Sony's electronics business. By growing these three areas, Sony plans to concentrate investment and technology development resources in these three areas. Sony expects to use 70% of its total sales in the areas (Sony Corporation: 2012 Annual Report).

Turning Around the Television Business

Sony has put a lot of efforts to improve its television business already, and it aims to make the business profitable again by cost reductions in the fiscal year of 2013. As well, Sony is trying to improve the image and audio quality of its "BRAVA" range of LCD televisions (Sony Corporation: 2012 Annual Report).

Expanding Business in Emerging Markets

Song has already built up a strong foundation in emerging markets, so they will continue to take advantage of its solid global operations and brand strength to grow the sales in the expanding emerging markets (Sony Corporation: 2012 Annual Report).

Creating New Businesses and Accelerating Innovation

Based on Sony's mid-to-long term strategies, Sony will keep promoting fast innovation, as well as developing differentiated technologies that are able to enrich product value. Medical business is one of Sony's key new businesses, such as medical-use printers, monitors and recorders (Sony Corporation: 2012 Annual Report).

Realigning the Business Portfolio and Optimizing Resources

Song is reconstructing its profitable structure by accelerating its business selection and focus, and concentrating its investments in core and new businesses, which are digital imaging, game, mobile, and media business. Other than that, Sony will develop the optimal strategy for its other existing businesses, such as consideration of alliances and business transfers, to optimize the company's business portfolio (Sony Corporation: 2012 Annual Report).

External Environment

Sony competes in several industries and faces intense competition across various sectors. Sony's primary market segments consist of Electronics, Gaming, Pictures, Financial Services, and Joint Ventures. Sony's main competitors in these five segments include Apple, Samsung, Microsoft, Canon, and LG Electronics (Wiki-Invest, 2012).

The threat of new entrants is relatively low in the industries in which Sony competes. Sony is protected from new entrants because of product differentiation, capital requirements, and economies of scale, technology, knowledge, and government policy. New entrants cannot achieve economies of scale without years of experience in the industry. High capital requirements exist because Sony's products are high-end, expensive luxury goods. In addition, firms entering into Sony's industries need a complex set of technological skills. Finally, legislation and patent laws create barriers for firms entering any industry in which Sony competes (Griffin Consulting Group, 2012).

Sony targets high-end consumers with their premium priced products. While Sony differentiates itself with high quality and innovative products, consumers are relatively price sensitive. The price elasticity of demand is high because there are many close substitutes for Sony's products. Consequently, Sony does not command the same brand loyalty as one of their largest competitors, Apple (Griffin Consulting Group, 2012).

The power of suppliers is relatively low. Sony manufacturers its products in many places throughout the world, creating a global supply chain in which suppliers are not concentrated, As a result, Sony can dictate favorable prices for its products; and suppliers are forced to lower prices or switch buyers (Sony Corporation, 2012).

Buyers in these industries have significant power. Buyers can easily and readily obtain information such as product reviews. Because of the prevalence of product information, buyers can switch brands without incurring high switching or transaction costs. In general, products in these industries are relatively undifferentiated, so consumers are relatively price sensitive (JP Morgan Analytics, 2012).

Internal Analysis

Sony has established a mature supply chain management system. Sony selects suppliers who comply with the laws, maintain good financials, innovate, protect the environment, offer competitive prices, and control component prices. In addition, Sony emphasizes the frequent and seamless exchange of information with suppliers through e-commerce utilizing a standardized procurement process (Sony Corporation, 2011).

The firm has established a broad sales network, which registers in approximately 200 countries and territories. Sony provides good after sales service and maintains customer information centers in their primary markets. Sony has a strong brand name and their products are widely regarded to have high quality and good design. Sony has numerous Japanese and foreign patents. Furthermore, Sony has the right to use many other patents through licensing deals with other firms (Sony Annual Report, 2012).

Sony has strong, proprietary knowledge of television manufacturing and production as well as camera lens technology. These abilities are Sony's primary core competencies that allow it to compete. Moreover, Sony has formed strategic alliances with other firms, including Olympus and Samsung, to leverage its competitive advantages.

Strategic Challenges

Unrelated Diversification

Sony has multiple businesses including a life insurance company, financial company, and series of entertainment companies. During the expansion process, Sony got lost in this diversification strategy, forgot to focus on core competencies, and failed to channel its resources around one or two dominant businesses. This sort of unrelated diversification not only drains the resources to a great extent but also diverts the brand focus from the core of the brand.

Innovation Dearth

Apple is perceived as the greatest innovative corporation since it created iPod, iTunes, iPod and iPhone step by step and never stopped inventing. Sony did not follow up with any outstanding and innovative product line to sustain the initial success of the Walkman, which made it the undisputed leader in portable music players.

Lack of Brand Evolution

Sony failed to follow up the changes of customers' preference and habits, and expected the customers to support the brand as before. In fact, many customers that were loyal to Sony have turned to Apple, Samsung and other rivals.

Lack of Strategy

Sony has experienced a fluctuating development process due to the lack of long-term direction that could make it more profitable. It was distracted by various businesses and was struggling to maintain its unprofitable businesses.

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