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| fantastic four solution | STRATEGIC ANALYSIS ON SONY CORPORATION |

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VISION, MISSION & GOALS

# **Sony Corporation**

### Vision Statement

To become a broadband entertainment company

To create exciting new digital entertainment experience

Sony is striving to achieve a zero environmental footprint throughout the entire product life cycle.

### Mission Statement

To experience the joy of advancing and applying technology for the benefit of the public

To approach the customers through advanced technological products in the various fields to fulfill their needs

### Goal

Sony aims to revitalize and grow the electronics business to generate new value, while further growing the Entertainment and Financial Services businesses that have been contributing stable profit.

CURRENT STRATEGY & SITUATION

# 1. Levels & types of strategy

## a) Corporate scope strategy

Sony company emphasis on providing the customers with best technologies and marketing its products efficiently. Sony ‘s key strategies for 2014 are Reinforce the Electronics Business, Reinforce profitability in the Entertainment and Financial Services businesses and reinforce Sony’s financial foundations

## b) Product-customer positioning strategy

Sony is an electronic company who sell products and services globally. Sony's main products are Audio and Video Electronics. Sony's various products targeted towards different market segments. The range of its products includes; televisions, computers, DVD players, memory devices, video game systems, digital cameras and lithium batteries.

In the market, Sony positions itself as a path of non-invincible quality and assurance for the upper middle and upper social strata. It gives people the scent of a luxury electronic brand, while providing un-beatable quality products as compared to its competitors. In the mind of the consumers, Sony holds a strong position as premium brand providing all. Sony reinforces and extends its market position by taking a great leap in revolutionary new technologies providing high speed and precision.

Sony is already a leader in film, television, music, computer entertainment and online businesses. Sony’s new BRAVIA XBR9 series televisions demonstrate this leadership.

## c) Competitive stance strategy

Sony's incredible growth in the electronic field is due to their innovative and high-tech products.

Sony Corporation prides itself on its history, "imagination and innovation" in the industry. Sony has been committed to the advancement of technology and methods that they can use creatively to improve people's lives. With an enthusiasm for creating new markets, Sony is an early founder and leader in the sector we now call “consumer electronics”.

From the camera to TVs market, Sony has a history of gaining a competitive advantage by using of innovation. Sony has been used for years in order to survive and grow. Sony has used this advantage for many years in order to survive and grow.

# 2. The Situation

Over the past few years, Sony's financial performance has been declining. The revenue fell nearly 21 percent last five years. Sony reported a loss from 2009-2012. This is primarily due to the decline of revenue, but also due to the significant decline in their profits. In their new annual report, the results for 2013 they reported profits yen 43034 million. The increase is mainly caused by the consolidation of Sony Ericsson AB. This result is affected by the positive impact of non-recurring income, so there is no representative for ongoing development.

After a comprehensive renewal of the management team of the restructuring organization, Sony has launched a new ambitious strategy plan. With their new strategic plan, Sony is attempting to improve the focus on core strategic business units and restructure its extensive business units. Almost 70% of their R&D budget will be allocated in three new focus areas (Digital Imaging, Game and Mobile). Sony will increase the focus on innovation, strengthen its network in the product platform and improve the integration in all these three areas.

In addition, Sony also launched a new turn-around plan in the TV business.

As the last part of the strategic plan, Sony will strengthen its dominant position on emerging market.

EXTERNAL ANALYSIS

# 1. Define the industry

The electronics industry, especially meaning consumer electronics emerged in the 20th century and has now become a global industry worth billions of dollars.

Consumer electronics is that which is intended for everyday use, most often in entertainment, communications and office productivity. Radio broadcasting in the early 20th century brought the first major consumer product, the broadcast receiver. Later products include personal computers, telephones, MP3 players, audio equipment, televisions, calculators, GPS automotive electronics, digital cameras and players and recorders using video media such as DVDs, VCRs or camcorders. Increasingly these products have become based on digital technologies, and have largely merged with the computer industry in what is increasingly referred to as the consumerization of information technology.

The CEA (Consumer Electronics Association) estimated the value of 2007 consumer electronics sales at US$150 billion.

The industry now employs large numbers of electronics engineers and electronics technicians to design, develop, test, manufacture, install, and repair electrical and electronic equipment such as communication equipment, medical monitoring devices, navigational equipment, and computers.

Sony Corporation, commonly referred to as Sony, is a Japanese multinational conglomerate corporation headquartered in Kōnan Minato, Tokyo, Japan. Its diversified business is primarily focused on the electronics, game, entertainment and financial services sectors. The company is one of the leading manufacturers of electronic products for the consumer and professional markets. Sony is ranked 87th on the 2012 list of Fortune Global 500.

Sony Corporation is the electronics business unit and the parent company of the Sony Group, which is engaged in business through its four operating segments - Electronics (including video games, network services and medical business), Motion pictures, Music and Financial Services. These make Sony one of the most comprehensive entertainment companies in the world. Sony's principal business operations include Sony Corporation (Sony Electronics in the U.S.), Sony Pictures Entertainment, Sony Computer Entertainment, Sony Music Entertainment, Sony Mobile Communications (formerly Sony Ericsson), and Sony Financial. Sony is among the Worldwide Top 20 Semiconductor Sales Leaders and third-largest television manufacturer in the world, after Samsung Electronics and LG Electronics.

Product Customer Matrix

|  |  |  |  |
| --- | --- | --- | --- |
| Product | Customer | | |
| Private | Company | Government |
| TVs | XXXX | X | XXX |
| Computer | XX | X | X |
| DVD Players | XXX | XXX | XXX |
| Memory Devices | XXXX | XXXX | XXXX |
| Video Game System | XXXX | X | X |
| Digital Cameras | XXXXX | XXXXX | XXXXX |
| Lithium Batteries | XXXXX | XXXXX | XXXXX |
| Smartphone | XXX | X | X |
| Sound | XX | XX | XX |
| Music & Picture | XXXX | X | X |

# 2. Industry supply chain (Flow of Goods)

Materials

manufactures

Parts

manufactures

Parts/Materials suppliers

Materials

Parts

Retail

**Sony**

***Production:***

Device products

Semiconductors

Batteries and others.

***Manufacture of products:***

TVs, audio, PCs and others

OEM

(Primary suppliers

Products

# 3. Industry overview

Sony experienced a turnaround in fiscal year 2012 however in fiscal year 2013 Sony's performance is has fluctuated. The FY2013 Consolidated Financial Results shows that Sony still in the red with an annual net loss of $1.246 billion. However the sales of mobile phones and game products have increased significantly. Sony has long been plagued by losses. The results shows that in fiscal year 2013 Sony's operating profit fell 89.4% and sales grew by 14.3%. The results also forecast that the next fiscal year net loss will reach 50 billion Yen (about $489 million USD). This is expected to be substantially less than the fiscal year 2013. Because the TV and PC businesses are losing money, Sony will sell their PC business and intends to spin-off their television business as an independent subsidiary. Despite the overall deficit some of Sony's products are still profitable. In the revenue report mobile phone and game products have achieved profitability. This is mainly due to the sales of the popular Xperia and PS4 lines.

# 4. Porter's augmented forces model of industry competitiveness

## a) Threat of Substitute Products (LOW)

The threat of substitutes is moderately low because there are few substitutes from other industries; and most of them are seemed to be obsolete. Consider that Sony has built a good reputation and strong customer loyalty, it effectively position the company’s products against product substitute to some extent.

## b) Bargaining Power of Buyers (HIGH)

The power of buyer is high because almost no switching cost for customers to switch from one brand to another. The access to the internet also allows customers to have all the information on prices of selling by the different companies. On-line shopping has also increased the bargaining power of buyers.

## c) Bargaining Power of Suppliers (LOW)

The suppliers do not have an upper hand because large number of suppliers and customers. Moreover, Sony operates in big global supply chain management and its suppliers are not concentrated. Comparatively, they are also much small in size and thus normally have weak bargaining power. Sony usually engages indirect negotiation with its suppliers in order to secure reliable supply at lower prices.

## d) Threat of New Entrants (LOW)

Threat of new entrants is low because the entry into the industry requires high capital, economies of scale, product differentiation as well as technology and innovation.

## e) Intensity of Rivalry (HIGH)

Industry rivalry is high because relatively intense competition and high exit cost. The high intensity of rivalry is also largely due to the numerous and balanced competitors in the markets, short product life cycle as well as high R&D, fixed and storage costs.

**Key Success Factors**

There are four success factors that helped Sony’s ascent to global supremacy in the consumer electronics sector and they are:

### Visionary Leadership

Sony is a classic example to prove the strategic importance of a visionary leader in carrying a brand to dizzying heights.

### Zealous to Innovation

Innovation defined the brand character of Sony. Sony grew to global prominence because of its ability to constantly create products before other companies could conceptualize them. Sony also possesses the ability to sense the hidden consumer demand and create an entire product category through its innovative products.

### Pioneer Advantage

Given the innovative edge, Sony appears as the pioneer in almost every industry that it was operating in.

### Human Capital

Sony's greatest asset is its human capital, particularly its R & D department engineers. Their constant innovation is extremely important for a consumer electronic company.

# 5. Competitor analysis

Sony starts facing increased competition not only from a stable set of rivals such as Philips, Toshiba, Sharp, LG and Samsung, but also new adversaries as follows:

|  |  |
| --- | --- |
| **Business Category** | **Company** |
| Computer makers | HP, IBM, Dell and Apple |
| Network equipment makers | Cisco and 3Com |
| Software makers | Microsoft and Sun Microsystems |
| Game makers | Nintendo |
| Photographic equipment makers | Kodak and Fuji |
| Mobile phone maker | Motorola and Samsung |

The complex, multi-level competition is a bitter reality of the world of digital convergence, where boundaries between traditional industry segments have disappeared although new opportunities open up. Competition between the companies can be very intense, because most of the companies have ambitious broadband vision and have staked their futures on them. Fortunately, most of the competitors do not possess completely the same tangible and intangible resources as that of Sony.

Among Sony’s major competitors, Apple and Microsoft demonstrated stronger financial results over past five years. Apple’ profitability growth is barely affected by the recent economic crisis. Asian companies, on the other hand, were significantly affected by the economic crisis. Samsung, Canon and LG show declining revenues and profits. However, they recover at different speeds. Samsung's profitability rebounded quickly after the crisis and its net income reached a peak level in fiscal 2010. LG and Canon, however, showed a slow recovery.

Due to the competition landscape intensifies; Sony will suffer a loss in market share and profit. There are no indications that the competitive landscape will weaken in the near future, as a new, innovative products demand is still high. With the market not yet saturated due to the continuous development of product line, Sony needs to focus on technological innovation and product differentiation to stand out from its competitors.

Another setback for Sony is their lack of consumer brand loyalty compared to other competitors, such as Apple.

# 6. Macro-environment changes (PEST)

## Political

Global political environment have been stable since WWII, especially after cold war. Every country is trying hard to buildup economic.

Japan considered being one of closest allies and partners of United States. As a Japanese company, Sony is able to acquire cutting edge technology and cooperation to develop new technology with companies at United States.

1995, Japan become a member of WTO, with many other trade agreement, Sony takes the chance and setup its business at almost every corner of the world.

For avoid violate local policy and legal, Sony build its own supply chain standard.

In some countries, their government did not have effective measures against copyright caused movie and music companies to lose billions of dollars a year, which include Sony.

## Economics

Made in japan was an icon that represents strong economy of Japan, but after a serial of finance crisis and rise of BRICs, Sony has to reconsider the business strategy. It forces Sony shutdown low technical-add factories in Japan and shift to low labor cost countries. Increase investment and publicity on new market, and explorer what they needs.

Monitoring and analysis foreign exchange rate may help reduce the loss of company’s operating. Assessment and prediction markets also can help company make a right decision.

## Social

After people met their basic needs, mental demand will appear. Sony is trying to build a quality of life as peoples need. Electronic products eliminate boundaries of culture and region. Everyone enjoy their conveniences and features. Music and movie fulfil mental require of people.

## Technological

Technology is changing fast in digital age; none of companies stays on top at every direction. With transparency of information, people know the different between products, technology become of a sale point, no of companies want full behind. Competition between electronics companies has never been so fierce, only the best one could survive in the marketplace.

Sony have abundant of technology accumulation and patent, it also keep assimilates new technology by acquire 3rd party company, R&D, and cooperation with other companies. In many filed, Sony have most advanced technology, it not only make profit for Sony, it also will improve the image of the brand.

# 7. Stakeholder Analysis – IMPORTANT

Through an established set of public relation protocols, Sony uses a broad of communication activates to create and maintain favorable relationship with the various stakeholders, including employees, shareholders, suppliers, media, educators, potential investors, financial institutions, government agencies and society in general. Stakeholders, who need any information about the benefits of Sony, could easily retrieve this information from the company's website.

Sony satisfies its customers by offering innovative products without compromising quality and reliability. This helps to attract new customers and retain existing ones. To ensure that all specific needs are met, Sony set up sales and marketing offices in every place that the company has businesses in.

Sony’s great success with the PlayStation also speaks well of Sony’s ability to meet its business partners and customers expectations.

In addition, Sony has established a good relationship with various government agencies and officials, as well as society.

INTERNAL ANALYSIS

# 1*.* Current strategy

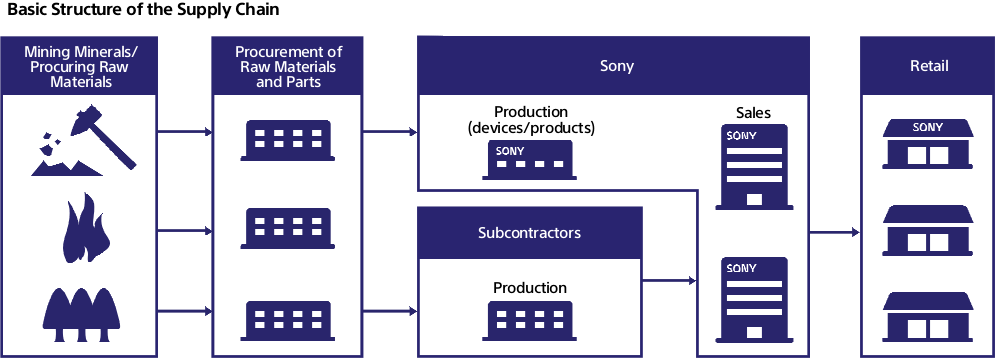
1. **Reinforce the Electronics Business**

* **Accelerate execution of updated strategies in the three core businesses (Mobile, Imaging and Gaming)**
* **Return the TV business to profitability**
* **Accelerate the execution of growth strategies in emerging markets that leverage the overall strength of the Sony Group**
* **Reinforce new businesses (such as Medical and Security) to deliver sustained growth**
* **Further realign Sony’s business portfolio**

1. **Further strengthen profitability in the Entertainment and Financial Services businesses**
2. **Continue to reinforce Sony’s financial foundations**

# 2. Activities

**SONY supply chain**



Sony is adopting supplier selection criteria to improve its supply chain vetting process.

These criteria include the Green Partner Standards (in which each supplier must pass the Green Partner audit) and Sony’s own Supplier Code of Conduct (which is based on the EICC Code of Conduct). In addition Sony has implemented supplier questionnaires and has established a catalog of approved green office supplies. This clearly articulates to suppliers what Sony expects in terms of operational sustainability and supports what is known as the business scorecard.

The business scorecard works as an incentive by providing a clear evaluation model and supplier code of conduct to inform the suppliers that if they do not meet these expectations, they could lose Sony’s business.

Through adopting a serious approach to sustainable supply chain management, Sony strengthened the resiliency of its supply chain, avoided costs incurred from business disruption and generated business value in the process.

Sony has a dedicated supply chain solution company that handles the logistics networks that connect manufacturing/sales based in Japan and overseas. They also establish a consistent system in order to produce an efficient supply chain for the Sony Group.

Here are the four main businesses under management of Sony Supply Chain Solutions, Inc.:

Sony Supply Chain Solutions, Inc. exerts all their expertise of procurement, logistics and repairs to help improve the business performance of Sony and to achieve unsurpassed efficiency of operations.

**VALUE CHAIN IN DESCRIPTIVE DETAIL FROM SONY**

## a) Support Activities

### **Firm Infrastructure**

With several years’ loss for net income, Sony needs to optimize their resources and realigning their business portfolio. The management plan restructures Sony into a smaller, more focused company.

In order to increase efficiency and reinforce Sony’s business infrastructure, Sony implemented structural reforms including optimizing resources and streamlining marketing organization in developed markets, consolidating certain manufacturing operations in japan and expediting measures to reduce headquarters headcount.

### Financial Management

Through sales of low profit business and assets, focusing on core business and creating high profit business, Sony is trying hard to make profit and turn around their sales and business operations.

### Technology Development

From acquiring patent and assets from other companies, Sony is able to create high profit products and take over markets in a short time. Cooperating with other companies, sharing technologies and research is also a good way of technology development.

High-end technology is one of most important assets of Sony, like the CMOS imaging sensors Even Nikon and Apple are using Sony’s technology imaging technology. Another of Sony’s important assets is their ability to innovate. Unleashing the creativity of their employees may help Sony make revolutionary products like before.

### Procurement

Sony has adopted a supplier code of conduct, based on industry best practices as highlighted in the EICC code of conduct. All Sony suppliers must comply with the code of conduct.

Sony also supports the corporate social responsibility initiatives of its suppliers through a system of assessment and monitoring to verify compliance with the Sony Supplier Code of Conduct. Sony’s efforts include risk assessments, follow-up meetings with suppliers to discuss assessment results and third-party audits.

Sony has established the Green Partner Environmental Quality Approval Program, which it uses to certify suppliers that comply with Sony’s standard for management of chemical substances as “Green Partners.” Each supplier must pass the Green Partner audit.

## b) Primary Activities

### Inbound logistics and distribution

Sony engages in a series of complex in-bound logistics activities.

Sony usually controls the entire flow of goods by design including the materials chosen. It is more flexible for Sony to make schedules, choose standards and deal with wholesalers or retailers.

As the company expands, Sony also engages 3rd parties such as Hon Hai Precision Industry Co. to manufacture some of its product components (PlayStation 4) so that the company will continue to engage in its core competencies and research & development.

### Operations

There are lots of sub companies and partners supporting Sony’s operations.

For example, Sony has a dedicated supply chain solutions company that help Sony Group operate more efficiently.

Sony’s businesses span across multiple continents. For possession of local markets and talents, Sony built manufacturing facilities, R&D labs and sales offices all over the world.

### Outbound distribution & Logistics

A manufacturer wanting to distribute its goods directly to customers must not only have the production capability, but also the ability to market and efficiently distribute goods.

Using dedicated software like SAP or WIZE at a distribution center will help Sony acquire information on the storage and movement of the final product as well as the related flows from the end of the production line to the end user. This includes location, quality, date, employees and more.

Responsible and initiative employees combine with modern technology is the key to improve the quality of outbound distribution & logistics.

### Marketing Sales and distribution

Sony is involved in many sport, music and charity events to build up a positive image.

Commercial advertising is important and traditional way to motivate people into purchasing Sony’s products. To build brand name image by placement Sony’s image into movies or TV shows is common.

Sony Store (Sony’s first party retail locations) are a good way to introduce new products and enhance the brand image. But with the high cost of maintenance, impact from local retail and online retail, Sony has to carefully choose when to close or open a Sony Store. In an effort to further streamline costs and continue focus on existing partner relations, Sony announced the closure of 20 U.S. Sony Stores.

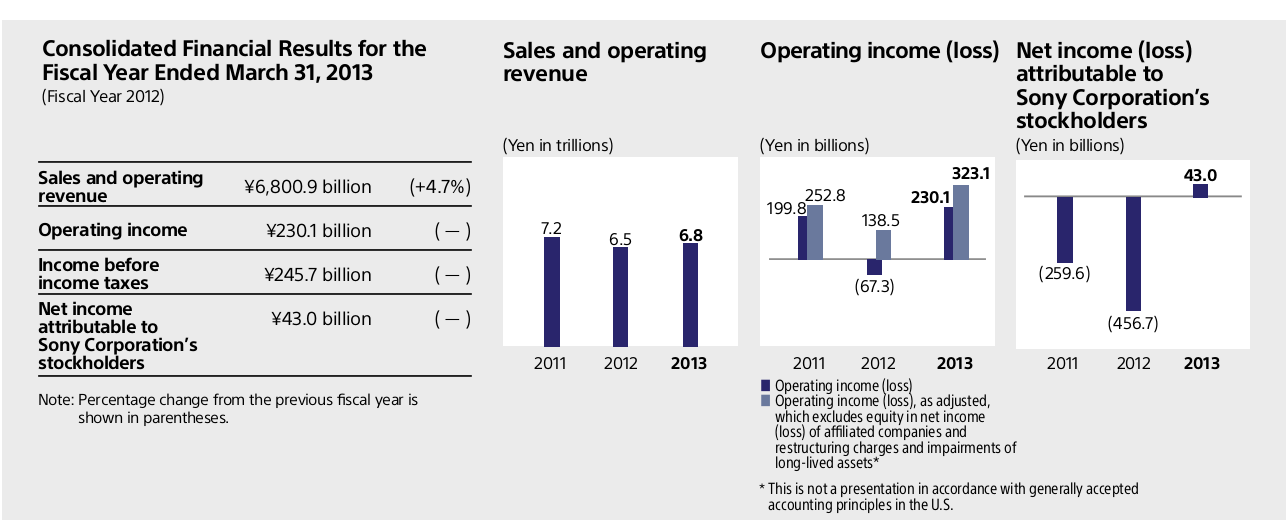
### After Sales Service

Sony has built their traditional customer service network over decades and it is now a mature system. In the digital age there is more than one way to do after sales services. End users can setup online chat or email to address issues. Users can also interact with Facebook and Twitter. Social media allows Sony to understand what their customers need/want.

# 3. Resources & Capabilities

## What are the current resources for the organization?

### Financial Resources



From the annual report for fiscal year 2012, Sony’s sales and operating revenue reached $72.3 billion US dollar (4.7% above the previous year). The increase of operating revenue was due to consolidation of formerly Sony Ericsson Mobile Communications AB as a wholly-owned subsidiary, a favorable foreign exchange rate and financial services revenue growth. Another positive impact of operating revenue was the sale of the chemical products business and U.S. headquarters building in New York City.

The most sales revenue of Sony come from digital imaging, games, picture and financial services. Televisions and Sounds lost about 897 million US dollars. Compared to the operating income loss of last fiscal year, there are 2.5 billion in profits. However some of the operating income comes from the sale of office building. At end of fiscal year of 2012, SONY turned a profit for the first time in 5 years. It achieved a net income of 458 million US dollars. This is good news for SONY, but with powerful competitors like Apple and Samsung, with narrowing market and products profit Sony’s financials still face a big challenge in the near future.

SONY predicts they will achieve $507 million USD net income for the fiscal year of 2013. Base on PlayStation 4 release and huge smart phone demand. Besides, SONY plans to publish “High value-added products” to make the television business return to profitability.

### Physical

After many years of expansion and financial crisis, SONY has to reconstruct the company’s infrastructure and product lines. Sony aimed at creating new businesses while strengthening core businesses.

On June 5, 2006 SONY entered the high profits digital imaging market by announcing their first ever DSLR camera. Sony had previously acquired Konica-Minolta's photography business in early 2006. Between 2006 and 2008 Sony was the fastest growing company on the DSLR market, reaching 13% market share in 2008 to become the third largest DSLR Company in the world, behind only Canon and Nikon. Under this circumstances, Sony decisions on investment to expand their CMOS image senor manufacturing capacity.

On October 27th, 2011 Sony announced that it would acquire Ericsson's stake in Sony Ericsson for €1.05 billion ($1.47 billion), making the mobile handset business a wholly owned subsidiary of Sony. Sony Mobile was the fourth largest smartphone manufacturer by market share in the fourth quarter of 2012 with 9.8 million units shipped.

As one of core businesses, Sony continues invested substantially in the game business, PlayStation 4 and PlayStation VITA will take direct challenges from Microsoft’s XBOX ONE, Nintendo’s 3DS and Apple’s iPhone.

In 2012, Sony acquired Gaikai Inc., a U.S-based developer that provides interactive cloud-based gaming services. This acquisition will help Sony build a secure and stable way enhance the service and function of the PlayStation network.

In 2012, Sony also established Sony Olympus Medical Solution Inc. (a joint venture with Olympus Corporation) that plans to deliver new innovative medical products such as surgical endoscopes and a new medical imaging systems solutions business.

Sony continues shut down their factories in order to reduce labor cost. They are shifting most of their mid to low level manufacturing and assembly factories overseas or outsourcing to 3rd party manufacturers.

As one of the biggest electronics companies, Sony certainly has large and unique physical resources. But not all of them could create value, Sony needs to optimize its physical resources for its core businesses and create high profits businesses.

### Human Resources

SONY recognizes its employees are one of the most crucial aspects of its corporate foundation.

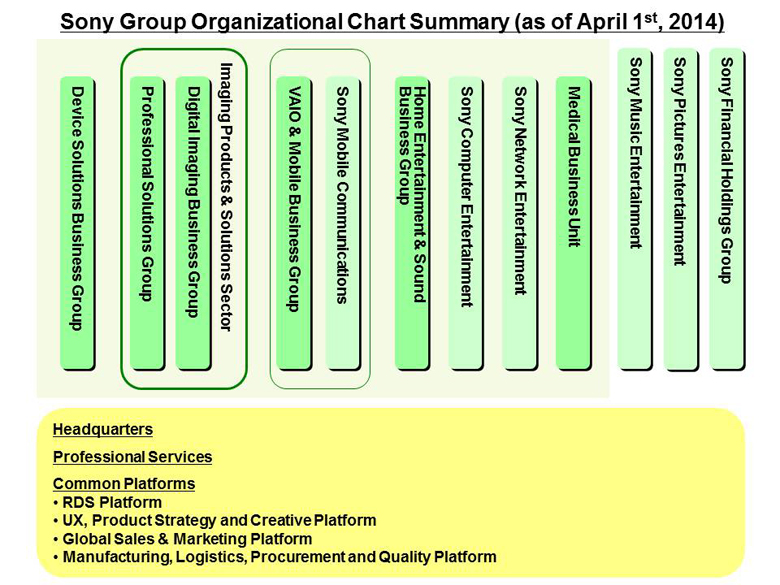
During Sony’s early stages, their managers developed a healthy relationship with their employees, creating a family-like feeling within the corporation. This is a feeling that employees and manager share the same goals. They created conditions where people could come together in a spirit of teamwork, and exercise their technological capacity. Sony need continue and reinforce the tradition of this principle.

Since then Sony has become one of the biggest international companies. Respect and appreciation for diversity is another of its principal strengths. Guided by the concepts of diversity and inclusion Sony is recruiting, hiring, training and promoting employees from various backgrounds. Mixing cultures and work environment suit the trend of globalization helping Sony to quickly adapt and occupy local market in different countries.

Sony enhances individual abilities and develops specialized skills that are tailored to local needs by offering on-the-job learning, as well as a variety of programs. Sony strives to create positive working environments and opportunities that enable individuals with diverse backgrounds to fulfill their potential by learning from one another, believing these to be essential to a rewarding corporate climate. Through education of employees and communication between employees, Sony is able to maximize the chances of talents discovery and adapt faster to changes in the market.

How to unleash employee’s inborn creativity, how to create a satisfactory work place where employees are happy and proud about their work is something Sony’s HR need to focus on.

### Organizational



In order to drive revitalization and growth of the electronics businesses and deliver compelling user experiences as “One Sony”, Sony established a new management structure. These changes are intended to drive revitalization and growth across Sony's core electronics businesses, and deliver compelling user experiences through convergence of the unique assets in place throughout the Sony Group.

Sony divides their business into two main groups: electronics group and entertainment & financial services group. Sony also setup UX (user experience), product strategy and create platform as common platforms, to achieve high degree of integration between hardware and software, push compatibility between different product, and enhance entertainment content and service.

Sony plans to reinforce the traditional electronics business by focusing on Sony’s three core electronics businesses - mobile, imaging and gaming. Sony merges consumer business and professional business together. By integrating product development with the same technology and project implementation in the same market, Sony could utilize their resource as best as possible. This will help Sony save lots of time and money. Sony is also able to take advantage of this structure, improving the competitiveness of their products.

Entertainment and financial services businesses already contribute stable profit. Sony needs improve profitability of them. From the change of organizational structure, we catch sight of Sony’s strategy to integrate core business, to enhance business on services and applications and reducing unnecessary products lines.

### Technological Resources

“Sony is a technology company with an intimate understanding of the creative possibilities of content. Sony is a content company with an intuitive grasp of technology. No other company has both.” -Sir Howard Stringer, Chairman, CEO and President

Sony has historically been notable for creating its own in-house standards for new recording and storage technologies instead of adopting those of other manufacturers and standards bodies. Sony (either alone or with partners) has introduced several of the most popular recording formats, including the floppy disk, Compact Disc, and Blu-ray Disc.

After the year 2000, when Samsung and Apple were taking advantage of the digital technology Sony still insisted on using their own formats, like the MiniDisc player. Sony lost the first battle of digital war, although Sony’s technology is second to none, but Sony cannot follow the beaten track anymore, it need broken conservative and complacent.

With the success of Blu-ray, Sony understands that cooperation with other companies will reduce marketing risk and development cost. After the huge cost to develop the cell microprocessor on PlayStation 3, Sony understands that embracing open formats and high compatibility is not only about saving resources and expanding markets, it’s also a trend of the digital age. When Sony officially announced the PlayStation 4, people found the technology in the PlayStation 4 is relatively similar to the hardware found in personal computers. Sony is also more advanced in producing consumer electronics products than its competitors. For instance, the PlayStation 4 offers a substantial jump in performance with slim size compared to the Xbox One.

In the digital age the technological gap between Sony and their competitors is small. The advantage of Sony is good at balancing technology and design, and making better quality products with same resources compare to their competitors.

### Innovation

“The key factor in industry is creativity. I said there are three creativities: creativity in technology, in product planning, and in marketing. To have any one of these without the others is self-defeating in business.”- Akio Morita

Innovation was the key to making Sony different compared to other companies. It’s the foundation stone of Sony’s values. It allowed Sony to dominate the electronics market and change people's lives for decades.

Through innovation Sony had produced many revolutionary products that include the first magnetic tape and tape recorder in 1950; the transistor radio in 1955; the world’s first all-transistor TV set in 1960; the world’s first colour videocassette recorder in 1971; the Walkman personal stereo in 1979; the Compact Disc (CD) in 1982; the first 8mm Camcorder in 1985; the Minidisk (MD) player in 1992; the PlayStation game system in 1995; Digital Mavica camera in 1997; Digital Versatile Disc (DVD) player in 1998; and the robot dog Aibo as well as Network Walkman digital music player in 1999 (Sony.com/en/corporate). These innovations have created new markets of their own.

In 2012 Sony unveiled the DSC-RX1. This is notable for being the world's first fixed-lens, full-frame digital compact camera and as of its announcement, it is the world's smallest full-frame digital camera. Sony DSC-RX100 has also been named as the 'European Advanced Compact Camera for 2012–2013' by the European Imaging and Sound Association (EISA). It has also been named one of the Best Inventions of 2012 by Time Magazine.

With decades of technology accumulation and its own tradition, Sony has capability to keep innovate and surprise customers with innovate. This helps Sony enhance the sales and brand image.

### Reputation

“Sony could make 80,000 bricks and people would buy them.”- Bill Gates

A good reputation is more valuable than money. Sony was a synonym for superior quality and expensive.

There are millions of people using Sony’s products every day. Cutting edge technology, elaborate design, advanced engineer deeply influence people, create Sony’s brand loyalty.

In 2012, Reputation Institute (a global private consulting firm based in New York) recently ranked 100 businesses that have successfully established strong international names for themselves. The firm invited about 47,000 consumers across 15 markets to participate in a study of those 100 most reputable companies, all multinational businesses with a global presence. Sony earned a 79.31 global score and the number 2 ranking. BMW ranked first. Sony has its strongest reputation for its high quality products, but also ranks in the top 10 on all the other measured dimensions. The weakest spot for Sony is the perceptions on citizenship, where its score fell below 70 on the global level.

In the digital age, people have more choices than before. Sony is also facing strong challenge from Samsung, Apple or other new rising brands, but the “Sony” brand is still one of the world’s most recognisable and trusted brands.

**Which of these resources has been activated; that is, is a deeper capability?**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Benchmark resources & capabilities relative to the industry competitors | | | | | | | |
|  |  | **SONY** | | **Apple** | | **Samsung** | |
| RESOURCES& Capability | Importance  Weight | Relative Strength | Score | Relative Strength | Score | Relative  Strength | Score |
| R1.Finance | 0.05 | *6* | *0.3* | *10* | *0.5* | *8* | *0.4* |
| R2. Physical | 0.05 | *9* | *0.45* | *7* | *0.35* | *9* | *0.45* |
| R3. HR | 0.1 | *6* | *0.6* | *8* | *0.8* | *7* | *0.7* |
| R4. Organizational | 0.1 | *8* | *0.8* | *8* | *0.8* | *8* | *0.8* |
| R5. Technological | 0.1 | *9* | *0.9* | *9* | *0.9* | *7* | *0.7* |
| R7. Innovation | 0.2 | *8* | *1.6* | *10* | *2* | *8* | *1.6* |
| R8. Reputation | 0.1 | *9* | *0.9* | *9* | *0.9* | *7* | *0.7* |
| C1. Purchasing | 0.05 | *7* | *0.35* | *9* | *0.45* | *8* | *0.4* |
| C2.Engineerng | 0.1 | *9* | *0.9* | *9* | *0.9* | *8* | *0.8* |
| C3. Marketing &sales | 0.1 | *9* | *0.9* | *10* | *1* | *9* | *0.9* |
| C4. Govt. Rel. | 0.05 | *8* | *0.4* | *7* | *0.35* | *9* | *0.45* |
| Sum of importance weights | 1.0 |  |  |  |  |  |  |
| **Weighted overall strength rating** |  |  | *8.1* |  | *8.95* |  | *7.9* |
| *Strength and score scale range from 1 to 10 (1=very low, 10=Very high)* | | | | | | | |

# 4. The Underlying Business Model or “Value Proposition”

Sony did not have a specific or clear value proposition in that Sony tries to create an impression to the public that Sony is the best in every direction.

On the other hand, when we talk a specific Sony product, we usually can find the value proposition of it. For example, at end of 2006 when the PlayStation 3 was released, Sony claimed the PlayStation 3 was the cheapest Blu-Ray player in the market. We also could find different value propositions for the same product. In a subsequent promotion of the PlayStation 3, Sony offered free online game play. This became one of the most important value propositions of the PlayStation 3.

PERFORMANCE & GAP ANALYSIS

# 1. Current financial performance

**PAST, CURRENT AND PRO-FORMA INCOME AND CASH FLOW STATEMENTS**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2012 | 2013 | 2014 Expected |
| Revenues | Y6,493,212,000,000 | Y6,800,851,000,000 | Y7,200,000,000,000 |
| Variable costs[7](#_bookmark6) | Y1,234,567,000,000 | Y1,500,000,000,000 | Y1,750,000,000,000 |
| Fixed costs[8](#_bookmark7) | Y1,234,567,000,000 | Y1,500,000,000,000 | Y1,750,000,000,000 |
| Net Operating Revenue | Y6,493,212,000,000 | Y6,800,851,000,000 | Y7,200,000,000,000 |
| Depreciation | Y319,594,000,000 | Y330,554,000,000 | Y350,000,000,000 |
| Earnings before interest and tax | (Y83,136,000,000) | Y245,681,000,000 | Y400,000,000,000 |
| Taxes | Y315,239,000,000 | Y141,505,000,000 | Y200,000,000,000 |
| Interest | Y15,101,000,000 | Y21,987,000,000 | Y22,000,000,000 |
| Net Income | (Y398,425,000,000) | Y104,176,000,000 | Y150,000,000,000 |
| Working Capital | (Y775,019,000,000) | (Y668,556,000,000) | (Y650,000,000,000) |
| Capital Expenditure | Y295,139,000,000 | Y188,627,000,000 | Y225,000,000,000 |

# 2. Stakeholder satisfaction analysis

Since crashing in 2008 Sony’s stock price has been essentially flat. Since crashing in 2008 Sony’s stock price has been essentially flat. The struggling electronics division has left potential investors worried about the company’s future. The stock has not recovered from the 2008 recession.

# 3. Industry reputation and standards

In North America Sony has traditionally held a reputation for building high quality electronic devices. However they have mostly failed to bring that image forward in recent years.

Sony has long held a reputation for delivering high end innovative televisions to the mass market consumer. The strong sales for this division have been slowly eroded by consumers viewing their current television as “good enough”. 3D televisions have not done much to excite consumers. Continued growth for the television market will require innovative features in order to convince consumers that upgrades are worthwhile.

Sony’s mobile division is often viewed as merely delivering me-too Android devices. Sony does not currently offer sufficient differentiation to compete effectively with Samsung and other manufacturers. The user interface currently used to differentiate Sony phones from generic Android phones is clunky and battery draining. There is potential for stronger integration with Sony’s entertainment division to provide that differentiation.

Sony’s gaming division has been performing reasonably well and has a reputation for high quality devices and games. The recent launch of the PlayStation 4 has been met with praise from reviewers and consumers. However they are behind on cloud computing which could become an important factor in the future of console and portable gaming.

The music and pictures divisions have a strong reputation for delivering award winning music and movies. However the entertainment division has been struggling financially because of the rise in internet piracy and lower income streaming options.

SOLUTION ANALYSIS

**Sony has several potential options available to them. None of them are exclusive.**

# 1. Use movies to drives sales of televisions

Because Sony Pictures has a significant catalog of old and new movie content there is an ability to drive the technology of the movie industry forward. If Sony were to start selling movies to consumers in a 4k format the rest of the movie industry would follow suit. This could be an enormous benefit to the sales of Sony televisions if Sony is able to provide 4k televisions at a reasonable price. One of the biggest factors holding back 4k televisions right now is a lack of content, Sony is in a position to solve that and to take advantage.

This strategy will require significant investments into movie filming, production and editing as well as television manufacturing facilities. It is also time sensitive. If a competitor is able to deliver a line of mass market 4k televisions before Sony the potential advantage might be lost.

It’s also important to note that Sony is unique in this position. There is no other company that creates both television content and the televisions to view it.

# 2. Use music to drive sales of phones

Currently Sony sells a music streaming service for $9.99/month on a variety of devices including Sony and other Android phones. The service is $4.99/month if it is only accessed from a PC or PlayStation. The pricing of this service is comparable to other streaming music services but the catalog is not. Sony’s service (naturally) only includes music that Sony owns the rights to.

Going forward, Sony should drop the subscription charge for the service when used with a Sony product. Free unlimited music streaming can provide Sony phones with the differentiating factor they need.

# 3. Develop cross platform applications

The Sony ecosystem currently lacks cross platform applications. Games which are available on the phone are not always available on PlayStation or on Vita. Even if the games are available on multiple platforms, saved data often does not transfer between different instances of the game. This can create a frustrating experience where the consumer has to purchase a title multiple times and restart every time they buy a new device. In some cases this can lead to a consumer delaying the purchase of a new device.

Going forward Sony needs to develop cloud storage APIs and services for third party developers to leverage when building applications and games. The services should be available across Vita, PlayStation and Android to maximize flexibility

**IMPACT MATRIX**

Because none of the options are exclusive, they are compared relative to the current situation and not to each other.

|  |  |  |  |
| --- | --- | --- | --- |
| Criteria \ Options | Build 4k Tech | Improve streaming | Cross platform |
| Cost to build | XX | X | XXX |
| Negative impact on other businesses | X | XX | XX |
| Market growth potential | XXX | X | XXX |
|  |  |  |  |
| SUMMARY | VALUE: High | VALUE: Low | VALUE: Medium |

The first option has a non-trivial cost of building the manufacturing and production capability. There will be a slight impact to the manufacturers while existing factories are retrofitted. However the potential advantage of being first to market and supplying the content for 4K televisions is huge.

The second option (free streaming of Sony music on Sony devices) has a very low cost of building the service since it already exists. The potential negative impact on Sony’s music division would be significant however, since this would directly decrease the division’s primary source of revenue. Since most purchasers of electronic devices do not make their purchasing decisions based on perks like this, the potential market growth is small.

The third option of building cross platform applications carries a significant development cost of building and upgrading those applications. Third party developers will also need technical support for working with the new APIs. However the seamlessly integrated functionality would allow for large growths in market share.

RECOMMENDATIONS

Our recommendations are to use 4k content to drive TV sales. Since it is just an evolutionary improvement to existing technology there are no major supply chain or value chain changes. Minor adjustments will be required to the manufacturing facilities in order to build the new line of televisions. Improved decoding and signaling technologies will need to be built for the televisions.

It is expected that this strategy will have a positive impact on revenue for Sony’s television business. This should add value for shareholders through an increased stock price.

This strategy is fairly low risk. Even if another manufacturer produces a low cost 4k television before Sony, Sony is still in a good position to sell the content for those televisions. Should that occur, a contingency plan could be to bundle content with the new televisions.

IMPLEMENTATION PLAN & REVIEW

Implementing the new strategy should be fairly simple. There are no major culture changes, so no staff behaviour to change. Film makers and content creators are usually excited to work with new technology, especially technology that has a lot of hype behind it. Manufacturing employees will be doing basically the same tasks they are now.

A new policy will be created that all new video content will be recorded in 4K where possible. The entertainment division will also begin retouching older content in order to start selling 4k content within a year. Film editors will need to be allocated to accommodate this. New cameras and possibly upgrades to production and editing facilities will be required.

Manufacturing facilities for televisions will have to be reconfigured to support the new line of televisions. This will require the appropriate physical, human and financial resources for reconfiguring an existing line. Staff will have to be trained on manufacturing the new televisions.

The most significant investment will likely be in designing the technology in the new line of televisions. New decoding technology will have to be built in order to accommodate the higher resolution.

The new televisions will also need marketing resources in order to inform the public of the new line and its benefits. There will have to be some financial and human resources allocated to this.

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