**Executive Summary:**

To improve Sony’s competitive ability, this report will analyse the external and internal factors affecting Sony’s abilities as well as offering recommendations for Sony to utilise in becoming that innovative leader they once were.

Methods used to analyse external factors were PESTEL, Porter’s Five Forces and general analysis of competition and markets. Internal factors were measured via VRIO and SWOT analysis. These will determine the action Sony must undertake.

Sony’s has diversified into new industries. These industries are; Sony Mobile, G&NS (Games and network services), HE&S (music, pictures, home entertainment and sound), IP&S (Imaging product and solutions), semiconductors, financial services and all others.

Sony’s main issue that prevents it from being the leader in all is competition. New innovative solutions are required to further Sony’s successes.

**External Analysis:**

External to Sony, there are numerous factors that will influence Sony’s capability to innovate and how successful Sony will be in Australia.

**Macro-Environment (PESTLE) Analysis**:

**Political-**

The Australian Government is increasing its support of data security and online business as well as ensuring stability within the various technology markets. Cook et al. (2013) has proven this, stating the Australian Government seeks more open and secure use of its data. Thus, Sony has opportunities to gain competitive advantage.

**Economic-**

From Australia’s economic perspective, developing and developed markets have a high rate of growth and increasing stability. Australia’s good economic performance as concluded by Alan (2020) indicate Australia’s end of lockdown will spur economic growth, resulting in an increase in disposable income. Thus, consumers will spend more, which is an opportunity for Sony.

**Social-**

From a social perspective, Sony has multiple opportunities. The increased acceptance and adoption of gaming as well as leisure activities ensures Sony’s many gaming and camera products can be successfully marketed in Australia. Wealth distribution has improved and as such more people can afford Sony’s products.

**Technological-**

Mobile and digital technologies are being increasingly adopted in Australia. Australian businesses focus heavily on innovation and as such has a high rate of research and development activity. The newly formed Australian Business Continuity, partnering with many tech businesses such as Microsoft, aids those businesses with tools on networking services. Therefore, Sony has many opportunities technologically.

**Environmental/Ecological-**

The Australian populace has increased demand for sustainability. As Sony is aiming to improve the environmentally friendly aspects of their products, the demand for eco-friendly products and the number of recycling plants has increased in Australia. This ensures Sony will have support re-designing its products to be more sustainable.

**Legal-**

Australia’s legal obligations for business are similar to many other nations. These obligations exist in the form of improved patent protection, increasing product regulation and e-waste regulations. These double as opportunities and as threats to Sony.

Therefore, Australia’s current climate for the technology industry and specifically Sony, is very welcoming as an innovative technology giant.

**Porter’s 5 Forces Analysis:**

**Competitive Rivalry-** Rivalry within Australia’s technology industry is incredibly strong. Firms within Australia are very aggressive concerning innovation. Combined with a fair number of firms competing in the same markets, consequently means switching costs are low. For example, in the television market, consumers can easily switch between brands such as Sony, Sharp, Samsung, LG etc. Thus, Sony faces strong rivalry in certain markets, requiring strong innovations to be successful.

**Bargaining power of Consumers-** Due to the strong rivalry within the same markets as Sony, consumer power is also quite strong. Low switching costs affect this area profoundly as the sheer number of products and information on them being easily accessible, ensures consumers can simply switch. However, a moderate threshold of goods purchased by consumers in the same markets ensures that the industry is not as heavily affected. Despite this, consumer power over Sony is quite high.

**Bargaining power of Suppliers-** Suppliers of Sony do not have as much power as consumers. Many of Sony’s suppliers are all of a relatively similar size and switching would have little difference in quality or quantity for Sony. This would have a limited impact on Sony’s material needs. Suppliers for Sony do not have ownership over much of the supply and distribution chain ensuring that Sony or 3rd party distributors control the transportation aspect. These factors ensure suppliers have power, but not enough to gain leverage over Sony.

**Threat of Substitutes-** The threat of substitutes is of moderate consideration. Once again, low switching costs will provide a strong force for customers to switch to substitutes. However, depending on the market, the number of viable substitutes may not exist. For example, in the gaming market, Sony’s PlayStation console, Microsoft’s Xbox and Nintendo are the only major platforms, thus not many viable substitutes exist. Therefore, it’s a weak force. Despite this, the differences between these consoles are enough to make it a threat.

**Threat of New Entrants-** New entrants to the markets Sony competes in, is a weak threat. The strongest factor for new entrants being the low switching costs. However, in such fiercely competitive industries, brand development and business costs remain enormously high for new entrants. This discourages new entrants to these markets and as such the threat remains very low.

Therefore, according to Porter’s Five Forces analysis, Sony can be successful in winning back market share. The threats are not as widespread as the opportunities that exist and Sony can easily take advantage of said opportunities to gain multiple competitive advantages.

**Customer Analysis-**

**Value Proposition Canvas-**

The customers of Sony vary in age. The range of products Sony offers caters to all ages. Sony has catered its products to fit the many jobs its consumers require fulfilling.

**Competitor Matrix-**

Sony has many competitors in the many industries it competes in. The largest and most aggressive brands within those industries is Microsoft and Samsung. Sony has an intense rivalry with Samsung in the consumer electronics market and a rivalry with Microsoft in the gaming console market with its Xbox.

**Microsoft Analysis-**

Microsoft’s Xbox offers many generations of the console, but generally stops support for it after a new console release, like Sony. Xbox is competing with the exact same target market, all age gaming but focused on the young to adult market (16-30). Microsoft are expanding in an attempt to take the market share from Sony by using a more subscription-based model for a low price on top of the network and hardware fees to offer more to consumers. Microsoft have acquired various other game creator studios to release more exclusive games for the Xbox console to influence market share to switch to Xbox instead of Sony’s PlayStation. This strategy appears to be working with Microsoft’s annual report stating Xbox growth increased by 19% and revenue by 10%. Therefore, Microsoft has a strong position and is seeking to gain a competitive advantage over Sony and its PlayStation.

**Samsung Analysis-**

Samsung is a conglomerate that enjoys majority ownership over many consumer electronics businesses. Samsung is currently competing with Sony on Television sales, imaging and sensors such as semiconductors. Samsung also produces air conditioners, refrigerators and more. Samsung has expanded their reach to consumers via wholesaling, removing retailers and saving costs in the process as well as gaining 20.2% of this particular market share (Feller 2020). Samsung is aiming to be valued within the top 5 brands globally and achieve the 400 billion sales revenue mark. The aim is to further diversify first and innovate in current sales areas second. This prioritisation can allow Sony to recover market share in consumer electronics.

**Market analysis-**

**Video Game Industry in Australia-**

The video game industry in Australia has typically been quite strong and has maintained a consistent growth rate for many years as Australia is one of the highest spenders on video games in the world. Since the beginning of Covid-19 however, video game revenue increased substantially to hit $3.4 billion from $3.2 billion in 2019. As of 2015, according to the Australian government, 98% of children under 18 had a device to play games on and 68% of the entire population play interactive games, the average age being 33 years old. 78% of the 68% were 18 years or older, 71% between 18-64, 23% were aged 50 and over, and 7& were 65 and over. 47% were female and average time spent on games was 88 minutes. The Covid-19 pandemic has forced numerous consumers to purchase digital copies of games and in-game purchases (microtransactions) on their respective consoles. It has also increased sales of the PlayStation 5 and Xbox One X, which is Sony and Microsoft’s next generation consoles. Therefore, the video game industry is currently large and will continue to grow.

**Consumer Electronics Industry in Australia-**

The Australian consumer electronics industry has grown between 2020 to 2021 due to the Covid-19 pandemic. As of 2021, the industry is worth approximately $2.9 billion, a growth of 12.2% and a growth of 15.2% since 2016. Consumers are spending more on communications and handheld devices such as computers, cameras, mobile phones, televisions etc. As a result, e-commerce for consumer electronics increased by 12.2%. Feller (2020) research highlights Apple with a large 67.2% and Samsung with 20.2% of all mobile phone and tablet sales in the wholesaling market. Due to Covid-19 cases reducing, a return to physical purchases of consumer electronics and a reduction in e-commerce on consumer electronics may occur.

**Internal analysis:**

**VRIO Analysis- (Valuable, Rarity, Inimitable, Organised)**

**Sony-**

Sony utilises many products and services in many different categories and industries to create profit and capture market share.

| ***Resource*** | ***Valuable*** | ***Rare*** | ***Inimitable*** | ***Organised*** | ***Competitive Advantage*** |
| --- | --- | --- | --- | --- | --- |
| ***Products*** | Yes | Yes (PS5) / No | No (PS5) / Yes | Yes | Competitive / Partial Advantage |
| ***Customer Service*** | Yes | No | Yes | Yes | Temporary Advantage |
| ***Product Quality*** | Yes | Yes | No | Yes | Competitive Advantage |
| ***Strong Brand Equity/Image*** | Yes | Yes | No | Yes | Partial Advantage |
| ***Pricing Rank*** | Yes | No | No | Yes | Temporary Advantage |
| ***Innovative Facilities*** | Yes | Yes | No | Yes | Sustainable Advantage |
| ***Innovative/Industry Experience*** | Yes | Yes | No | Yes | Sustainable Advantage |

*Figure 2: VRIO Analysis*

**SWOT Analysis-**

Sony has many strengths and weaknesses within their organisation. However, Sony must revise a strategy to combat the many looming threats and take advantage of the numerous opportunities available to them.

| **Strengths** | **Weaknesses** |
| --- | --- |
| · **Strong Brand**  · **Diversification**  · **Current popular products**  · **Large market share (PlayStation)**  · **Innovation process**  · **Current facilities**  · **Product Quality** | · **Mobile devices faltered**  · **Device/network vulnerability**  · **Product imitability**  · **Limited competitive advantages** |
| **Opportunities** | **Threats** |
| · **New product development**  · **More diversification**  · **Fast, strong innovations**  · **Investment Fund Partnerships**  · **Open-Source innovation** | · **Cyber attacks**  · **Competition**  · **Software Piracy**  · **Wholesalers** |

**Synthesis-**

The Sony Corporation has a brand following worldwide, but have been unable to gain a significant portion of many Australian markets. Sony’s targeting of consumers is correct, but are simply not captivating. Aside from the PlayStation 5, Sony’s products have fallen by the wayside to other competitors such as Samsung. Whilst their products are of high quality, so are the competitors’ products. Therefore, Sony must not only innovate their products, but a complete innovation overhaul is necessary to reclaim market share and be a top innovator. This is possible through either a business model innovation or a revamp of the innovation process at Sony.

**Recommendation 1- Partnerships**

The Sony Innovation Fund is an appropriate start for what could potentially be the next ‘big thing’. Innovation is maintaining Sony’s position in the consumer electronic markets. However, it must be accelerated to ensure Sony does not lose valuable market share. Sony’s investment in other businesses such as in Kitman Labs (PR Newswire 2020) has potential to be disruptive within many markets. Kitman Labs are a business specialising in AI, sports science and human performance. Whilst an investment can make a difference in Kitman Lab’s innovations, Sony partnering with Kitman can ensure innovation is achieved faster, which was an issue illustrated by Mao, Wang (2012) that Sony’s innovations were achieved too slowly. If Sony wishes to be the innovation leader it once was, it can partner with various businesses to hasten innovation and ensure it is high quality.

**Recommendation 2- Ultimate Innovation**

As mentioned above, Sony has diversified into nine core categories. Sony’s operating income consists of these categories. To ensure Sony takes the most market share of each category, new innovations are required. As an alternative, Sony can focus exclusively on total innovation management for a short period of time to rapidly innovate on existing and new products to acquire a large share of each market. Consequently, Sony will have a lead on other leading innovators such as Microsoft and Apple. Sony has proven it can innovate well in crisis, for example the open-source innovation Sony Mobile used on the Sony Xperia in FY 2011 as per Munir (et al. 2017) and Mols, Wnuk (2017). Koo, Wati (2010) researched various businesses' new environmental solutions, including Sony mobile. Those environmental innovations such as semiconductors with a high efficiency and cooling system revived Sony’s sales. Sony’s capacity for total innovation management can reinvigorate the corporation.

**Conclusion**

The above recommendations give Sony two options of business model and process innovation to improve the businesses performance. These recommendations can aid Sony against its competition, which is Sony’s priority issue in the consumer electronic markets and in the gaming market.

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