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WHY SONY FAILED IN THE SMARTPHONE MARKET[1]

Sony Group Corporation, commonly referred to as Sony is a multinational conglomerate based in Japan. A major technology company. Sony is one of the world's biggest manufacturers of professional and consumer electronics, the largest video game console and video game publishment company, and once a prominent player in the smartphone market. The name Sony first appeared in 1955 on their TR-55 transistor radio, three years prior to the company changing its name from *Tōkyō Tsūshin Kōgyō* (Tokyo Telecommunications Engineering Corporation) to Sony, a mix of the Latin word "sonus" and "sonny" a slang term used in the 1950s America to refer to a young boy.

Sony ventured into several domains during the 20th century, producing transistor radios, video recording, visual displays, audio recording, optical storage, disk storage, audio encoding, flash memory and communication. Mostly known for its electronic products, Sony has an extremely varied past due to a wide variety of product lines in different areas across private insurance, chemicals, cosmetics and food in addition to its core electronics and entertainment businesses. Although it has since unwound many businesses, Sony still maintains a diversified business portfolio.

Sony had a meager market share of less than 1% in the mobile phone industry in 2000. Sony and the Swedish telecom provider Ericsson formed Sony Ericsson Mobile Communications as a joint venture in 2001. The company experienced shaky initial sales and lost money in 2001 and 2002. Sony Ericsson did, however, turn a profit in 2003. The company set itself apart with mobile devices equipped with cameras and other multimedia functions. These at the time were unusual.

In the mobile market, Sony has had a tumultuous journey, experiencing both highs and lows (see Exhibit 1). In the early 2000s, the company's mobile division was considered one of the most profitable and successful in the industry. However, over the years, Sony has struggled to maintain its position. Despite releasing several devices, they have been unable to gain significant market share and its mobile division has struggled financially. Today, Sony's mobiles have all but vanished from the smartphone industry.

In Q1 of 2020 Sony shipped a meager 400,000 Xperia smartphones worldwide, a decrease of 63.7% compared to the same period the year prior. Looking at the fiscal data from 2007 onwards, Sony's overall revenue too dropped significantly after peaking at $88.71 billion in 2007, sharply declining to $78.88 billion in 2008 and eventually bottoming out at $68.47 billion in 2014 (see Exhibit 2).

Key Contributors

Major Contributors

<u>Lack of strategic focus:</u>

In recent years, Sony's mobile division has suffered, in part due to a lack of strategic focus. The company's ability to effectively compete in the market has been hampered by its inability to define a clear path for its mobile offerings. It has been noted that Sony's mobile division lacks a clear target market, making it difficult for the business to develop goods that appeal to customers. Additionally, Sony has had trouble developing a distinct brand identity for its mobile goods, making it challenging for the business to set itself apart from rivals.

While Sony has attempted to compete across a variety of market categories, including high-end, mid-range, and budget, this strategy has not been successful as the business has been unable to establish a significant presence in any of these categories. Additionally, Sony has had trouble keeping up with the mobile market's quick pace of innovation. Their hesitancy to incorporate new technologies like huge displays and facial recognition into its mobile devices as rivals like Apple and Samsung have done has further reduced its appeal to customers.

<u>Limited R&D investment:</u>

Limited investment in research and development (R&D) has been one of the factors contributing to Sony's fall in the mobile market. Sony has not invested enough in R&D for its mobile products, which has hindered its ability to introduce new and innovative features. In the mobile market, innovation and new features are crucial for a company to remain competitive. Competitors like Apple and Samsung invested heavily in R&D to develop new technologies and features such as facial recognition, fingerprint scanners, larger screens, and better software integrations. Sony, however, has not and as a result, has struggled to introduce new and innovative features that would make its mobile products more attractive to consumers.

In addition to this, limited R&D investment has also hindered Sony's ability to create products that are in line with changing consumer preferences. As the mobile market evolves, consumers are looking for new features and technologies that Sony has not been able to offer, which has made its products less attractive to consumers. Furthermore, this has also hampered its ability to stay competitive in terms of pricing, as the company has not been able to introduce new products that can be sold at lower prices.

Minor Contributors

<u>The Economic Crisis of 2008</u>

The stock market and housing crash in 2008 caused a significant hit to the economy. People across the board had much less disposable income than before, in such an economic landscape when people lost their savings and are strictly spending on necessities, buying new phones becomes a luxury only a select few could afford.

Poor Availability

Sony phones also don’t have excellent availability. When ordering a Sony phone online, they are often out of stock and backordered, so it might take several months to arrive at your doorstep. When you can’t get a phone for that long, a newer model may get released. Because of this, consumers are less likely to leave reviews. Also, weak relationships with service providers in the US ultimately lead to less availability. These carriers don’t carry Sony phones in their stores. In this way, poor availability leads to lower demand.

Internal Factors

Organizational structure:

Sony's complex and bureaucratic organizational structure can also be cited as one of the factors that ultimately led to its declining market share. Their large size and multiple divisions made it difficult to make quick decisions and respond to market changes in time. Their centralized decision-making process and lack of autonomy across divisions made it difficult for each division to respond quickly to market changes. This hindered the division's ability to introduce new products and features in a timely manner, which made it less competitive compared to other mobile manufacturers.

Additionally, lack of open communication and collaboration across different divisions made it difficult for each division to leverage the resources and expertise from other parts of the company. This made it harder for the division to innovate and create new products that would resonate with consumers. Furthermore, Sony's bureaucratic organizational structure has also made it difficult for them to attract and retain talented employees in its mobile division. Slow decision-making processes and lack of autonomy made it less attractive for employees who were looking for opportunities to innovate and make a real impact in the mobile market, and Sony suffered the consequences.

Lack of Innovation and Design Updates

Sony didn’t keep up with smartphone innovation. Each newer model wasn’t that different from the previous one, leaving consumers little incentive to level up. Also, Sony was slow to adapt to current smartphone trends. On the other hand, its competitors, LG, Samsung, and Apple, came up with new designs. So, while Sony wasn’t innovative, they also didn’t follow trends. Other companies forged ahead while Sony got left behind in the dust.

Lack of marketing:

Sony struggled to effectively promote its mobile products, which made it difficult to attract and retain customers. Lack of effective marketing, little innovation and not being different enough failed to establish a clear brand identity for its mobile products.

In addition to this, Sony's marketing strategy too has been criticized for being too generic, which made it difficult to reach its target market. Not creating marketing campaigns that would resonate with its target market made it difficult for the company to attract and retain customers.

Product development issues:

Product development issues have been a significant factor contributing to Sony's fall in the mobile market. Sony struggled with delays in product launches, faced criticism for quality control issues, received negative coverage for buggy and slow software all of which negatively impacted its reputation and sales.

High Price Tag

People spend a significant amount of money on iPhones and other Apple devices. With its premium-priced Android phones, Sony tried to be Apple of the android industry. However, android users generally have less disposable income. Over 75% of respondents to a survey about the Xperia 1 III phone stated the price was too high. Additionally, customers were able to purchase iPhones at discounted prices given its partnerships with service providers or find an Android phone of the same quality for cheaper. In general, there simply wasn't enough incentive to shell out for a Sony phone as there were less expensive options with equivalent characteristics.

Poor Launching/Reception

Sony's smartphone launch events too left a lot to be desired. How a phone's sales do in the first week or so of being released indicates how it will do overall. When a phone comes out, there needs to be hype around the product to spur sales. Competitors announce events and build up scarcity tactics before releasing a new phone, and Sony lacked in this department.

Launching announcements and events usually cause a rush to purchase the phone the week it's released and even get waitlisted, people are excited about the new phone, spreading the word and creating even more demand. So, due to its lackluster launches, Sony's phones released but died out rather quickly.

Not Enough Funding

Rather than invest more in sales, marketing and product development, Sony cut costs to increase profits. This was an ill-thought short-term, survivalist strategy. By cutting costs, Sony didn't invest as much into new innovation and marketing, which ultimately hurt the company's smartphone sales.

Confusing Device Names

Although trivial, device name matters. Catchy names help create a buzz around a new product, when devices have an easy name, people remember it and talk about it. Then, as new phones come out, manufacturers can continue the lineup and build upon the previous generation of the product. For example, iPhones are easy to remember because they incorporate the brand name and use numbers. With Sony's devices, the names weren't consistent. Sometimes, they used a number but later randomly switched to a letter. Additionally, some higher-numbered products like Xperia 10 are less advanced than Xperia 1, confusing customers.

External Factors

Limited distribution:

Another significant factor contributing to Sony's downfall was limited distribution channels. Due to this, they struggled to reach a wide customer base. Sony focused on the high-end market, which made it difficult for them to gain traction in developing markets. Additionally, Sony's products were generally more expensive than their competitors, which made it difficult for them to reach customers in markets where most people can't afford high-end smartphones.

Difficulty in retaining talent:

Difficulty in retaining talented employees in the mobile division also presented a significant challenge to Sony. Their struggle to attract talented employees in the mobile division hindered its ability to innovate and create new products that would resonate with consumers. This is in part due to their bureaucratic organizational structure and culture, as well as their reluctance to offer competitive compensation and benefits packages.

Competition

The arrival of the Apple iPhone was a major blow to many established mobile phone manufacturers, with Sony being no exception. The iPhone, released in 2007, sent shock waves through the mobile manufacturing industry and the fall-out of the economic crisis hit Sony especially hard. The timing couldn't have been worse for Sony as it not only had a new competitor who released a product at the bleeding edge of technology, but sales in other categories were also not doing well, prompting the company to take drastic measures.

Sony phones have many great features that appeal to niche markets. Its camera settings are customizable, and it offers a high-definition viewing experience. While these phones appeal to photographers, even the camera is comparable to other cell phone brands. Overall, Sony smartphones don't appeal to the public. They don't have simple things that many consumers want, like night mode. Their interface is okay but still lags Apple's in usability.

We can see the effects when looking at the fiscal years from 2007 up to 2019. Sony couldn't recover from its peak revenue in 2007 where it generated a total revenue of $88.71 billion, sharply decreasing to $78.88 billion in 2008 and eventually falling to $68.47 billion in 2014. A decrease in revenue of almost 23% in a span of seven years. Sony has recovered to a revenue of $76.92 billion in 2019, but it's still far away from its 12-year peak in 2007. To stabilize its cash position, the company announced in December 2008 that it would cut 8,000 jobs and decrease investments in semiconductors and outsource the manufacturing of image sensors for mobile phones. In 2012, Sony announced it would shut down a factory in Japan, cutting another 2,000 jobs, which would save the company $385 million.

Shifting Market Demands

Sony was also unable to really understand their consumers. Looking at their product offerings, it is evident that they failed to anticipate and adapt to the rapidly changing customer expectations. There has always been a disconnect between products Sony released and products that consumers were buying. With little to no updated options, high prices, and buggy software, customers chose to go with other brands than Sony's, exacerbating their woes.

Additionally, Sony has strong hardware. However, users nowadays are more focused on software and want something customizable. For example, with Apple's app, it's easy to find one you love, download it onto your phone, and customize it to your liking. Overall, Sony may have a strong phone but lacks this flexibility in user experience that the public wants and loves.

Weak Relationships with U.S. Service Providers

Sony is a Japanese company, and while they have seen some success in the Japanese market, they haven't fared as well with North American customers. One reason being their lack of good relationships with and a few odd clauses in their deal with U.S. carriers. Also, Sony was prohibited from using its fingerprint scanning features on U.S. devices. Although the reasons aren't entirely clear, it likely led to reduced sales. In the US, mobile plans are often tied to cell phone purchases. You can get discounts on mobile phones linked to the carrier when you purchase a cell phone plan. While Apple and other major carriers had strong connections with carriers, Sony did not.

What's working?

Despite faring poorly in the smartphone market, Sony's other businesses seem to be having better luck in the market. Sony's Gaming and Network services has been steadily growing over the past decade and brought in $24.4 billion in 2021, a significant portion of their $84.5 billion revenue for the year (see Exhibit 3).

The Sony PlayStation consistently ranks as one of the most successful gaming console brands with 5 of their products ranking among the top ten highest selling consoles and sales from their gaming consoles bring in a significant portion of Sony's annual revenue. Among its gaming consoles, the Sony PlayStation 2 has sold 157.8 million units in its lifetime, crowning it the title of the most popular video game console ever. Sony's music business seems to be doing well too, having a market share of roughly 24 percent in 2021 (see Exhibit 4). Their ventures in movie industry have fared well, with Sony accounting for 23% of box office revenue in 2020-2021 in the United States and Canada, up 22.2% from the year prior (see Exhibit 5).

It is evident that diversifying its business and taking a step back from the mobile electronics industry can be beneficial to Sony and give them some time to re-evaluate their place in the mobile industry. With investments and success in a variety of industries to support the conglomerate, there is plenty of opportunity to go back to the drawing board and rethink their mobile lineup to attempt a comeback in this space.

A SWOT analysis helps paint a better picture of Sony's current standing.

Strengths

Strong Brand Image
Sony has made a mark for itself as one of the leading companies in the consumer tech space. This can help provide them with a leg-up in any new industry or new products they come up with and command attention from the public.

After-Sales Service
Sony has impressive after-sales service, and their service ethic is considered as one of their strengths.

A Diversified Business
Sony has done a good job in diversifying their business across many industries and around the world, their electronics are well known across the globe, but they also have stakes in financial services and own the well knows Sony Pictures Studios, which help reduce market risks and improves company stability.

Weaknesses

Mobile Devices
It goes without saying, Sony has not had much success in their mobile devices division.

Poor Promotion
Sony's marketing and promotion could use a boost across the company, they do not engage in promotional activities with the same rigor or frequency as their competitors.

High Cost of Production
High Cost of manufacturing, particularly in the TV business, strips them of wiggle room to price their products competitively, and gives their competitors who can manufacture or those who have less overhead to price their products for cheaper, giving them an advantage.

Opportunities

Innovative New Products
Sony Corporation is a giant of industry, with significant assets at its disposal. Investing heavily in R&D and innovating is critical and can help significantly improve their position and give them a competitive advantage.

The Mobile Devices Industry
This segment, in particular, is both a weakness and an opportunity for Sony. With the right leadership, patience, and talent, they can once again venture into the smartphone market, correct their mistakes and capture a chunk of the multibillion-dollar smartphone market.

Threats

Strong Competition
Sony is constantly competing with other world-famous brands like Samsung, LG, Microsoft and Apple. Keeping up with innovation and effective marketing is going to be a challenge for them going forward.

Prices
Sony is not known for their affordable products. This prices them out for a big chunk of customers.

Solutions

Investment in R&D:

Sony's decline in the mobile industry could have been prevented by making significant investments in research and development (R&D). R&D enables businesses to develop fresh, cutting-edge goods that may draw clients and set them apart from rivals.

The lack of innovation in Sony's products is one of the primary causes of its slide in the mobile industry. Sony can create new features and technologies that can distinguish their products from competitors by investing in research and development. For instance, spending money creating new camera technology that can compete with that of other manufacturers. Customers seeking a high-quality photography experience on their mobile devices may be drawn by this.

R&D may assist Sony in reducing costs and improving its production procedures in addition to creating new products. Due to increased pricing competition, the business may be able to draw in budget-conscious customers. Additionally, R&D investments can also help increase software capabilities.

Sony has a good reputation in the gaming sector, and by funding R&D, it can create new gaming features and applications that will attract users. Sony may also spend money on research to create cutting-edge features like 5G connection, greater battery life, and other attributes that are becoming more and more crucial in the mobile industry.

R&D may also help Sony remain abreast of customer tastes and market changes, which brings us to our final point. Sony can make sure that it remains competitive in the mobile industry and continues to draw customers by continuously studying and creating new goods and services.

Investing in R&D can, therefore, be a critical remedy for Sony's decline and present a path for its future in the mobile industry. It may assist the business in creating novel and cutting-edge items, enhancing production techniques, cutting expenses, and keeping up with market trends. By putting money into R&D, Sony can draw in new clients and set itself apart from rivals, ultimately reviving its presence in the smartphone market.

Strategic Partnerships

Strategic alliances may be a potent remedy for Sony's. Broadening its market, enhancing distribution, and getting access to new resources and technology by forging partnerships with other businesses.

The restricted distribution and reach of Sony in the mobile industry is one of its biggest problems. For instance, Sony may enhance its distribution network and raise the awareness of its products by partnering with mobile carriers. This might aid the business in gaining more clients and increasing its market share.

Cooperating with other tech businesses to obtain access to new resources and technology in addition to distribution arrangements can also prove beneficial. For instance, Sony may collaborate with an artificial intelligence startup to provide new features and functionalities for its mobile products. This might assist the business in developing novel goods and luring clients that need cutting-edge features.

Co-branding and cross-selling Sony's products are two additional ways that strategic alliances may help the company. To create a range of mobile devices that are tailored for music listening, for instance, Sony may work to incorporate it's Walkman technology to their mobile devices. This may aid the business in luring clients interested in sound experiences of the highest caliber.

Partnerships can also assist Sony in expanding into new markets or focusing on new customer categories. A relationship between Sony and a corporation that specializes in corporate solutions or one that specializes in security, for instance, may be used to create mobile devices that are tailored for business professionals and industries where data privacy is of the utmost importance. This might aid the business in expanding into new areas and attracting business or government clients.

In conclusion, strategic alliances can be a potent remedy for Sony. This may help them increase market penetration, enhance distribution, get access to new resources and technology, co-brand and cross-sell products, and access new markets by forging partnerships with other businesses. Sony can strengthen its market position and draw in new clients by forging strategic alliances, which might help them re-enter the sector.

Price Changes and Emphasizing software:

Sony may benefit from price reductions to more effectively compete with other brands and draw budget-conscious customers. To reach a larger audience, Sony can potentially think about releasing inexpensive products at a lower price point to capture the significant portion of market that has historically been priced out of Sony's lineup.

Sony's decline in the mobile industry could've potentially been prevented by putting a strong emphasis on software. With a solid reputation in the gaming sector, they can draw clients who are searching for a premium gaming experience on their mobile devices by highlighting its software capabilities. Because many customers want high-quality cameras in their smartphones, Sony can also concentrate on its camera software. Developing new apps, features and capabilities that can make its devices stand out from competitors is also a strategic way to penetrate the market and draw consumer attention.

Additionally, by focusing on software, Sony can set its goods apart from rivals and draw in clients seeking distinctive and cutting-edge features. They can develop a distinctive and compelling value proposition for its mobile goods by concentrating on software and making it a key component of its branding and marketing initiatives, ultimately giving them a fighting chance of revival in the mobile market.

In conclusion, Sony's decline in the mobile market can be remedied through price reductions and a focus on software. Drawing in new users and setting itself apart from rivals by lowering costs to be more competitive and highlighting its software strengths, which can put them on the path to eventually spark a rebound in the mobile industry.

No change:

As always, staying the course and concentrating on the current procedure will be a solid option as well. As is well known, Sony produces excellent goods and dominates several different electronic markets, including those for the PlayStation, cameras, sound systems, movie studios, etc. They are succeeding in those markets, and they can continue to invest in and concentrate on their diverse portfolio and expanding in sectors where there is less competition. They can just accept the mistakes they have made and step out of the smartphone market entirely, freeing up staff and resources to focus on sectors where they already have a stronghold.

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Exhibit 1 - Net sales made by Sony Ericsson Mobile Communications from 2002 to 2011 (in million euros)

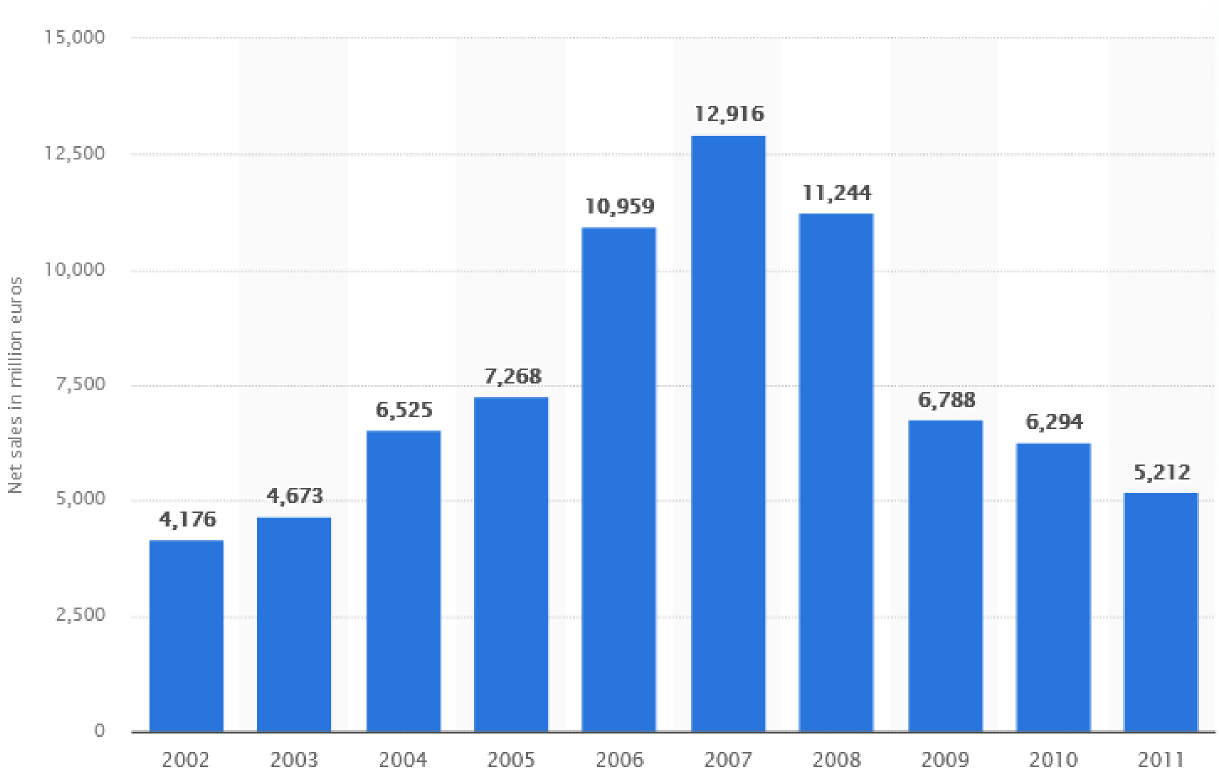

Exhibit 1 - Net sales made by Sony Ericsson Mobile Communications from 2002 to 2011 (in million euros)

Exhibit 2 - Sony's total revenue from fiscal year 2007 to 2021 (in billion Japanese yen / billion U.S. dollars)

Fiscal years	Billion Japanese yen	Billion U.S. dollars*
2007	8,871	88.71
2008	7,729	78.88
2009	7,209	77.57
2010	7,177	86.52
2011	6,493	79.19
2012	6,796	72.35
2013	7,767	75.41
2014	8,216	68.47
2015	8,106	71.73
2016	7,603	67.89
2017	8,544	77.04
2018	8,665.7	78.14
2019	8,259.9	75.99
2020	8,999.4	84.82
2021	9,921.51	88.35

Exhibit 2 - Sony's total revenue from fiscal year 2007 to 2021 (in billion Japanese yen / billion U.S. dollars)

Exhibit 3 - Sony's revenue worldwide by segment - fiscal years 2012 to 2021

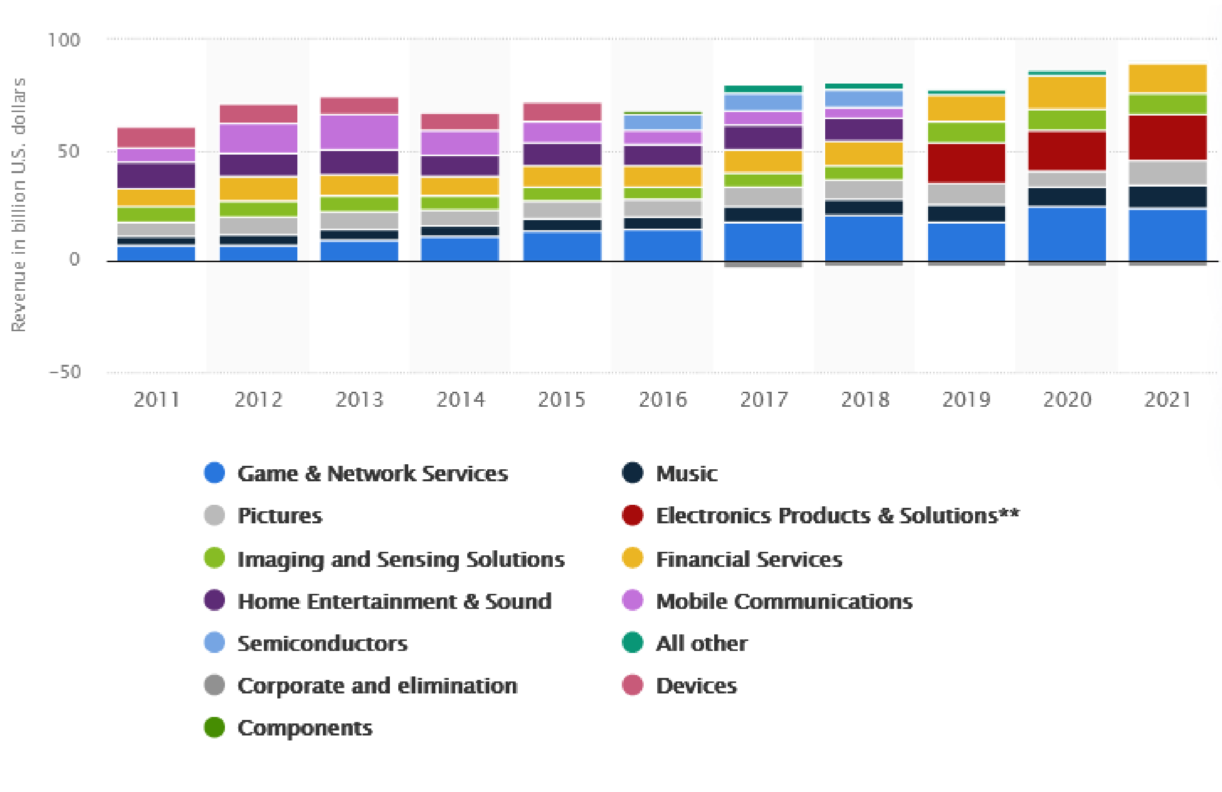

Exhibit 1 - Sony's revenue worldwide by segment fiscal years 2012 to 2021

Exhibit 4 - Revenue market share of the largest music publishers worldwide from 2007 to 2021.

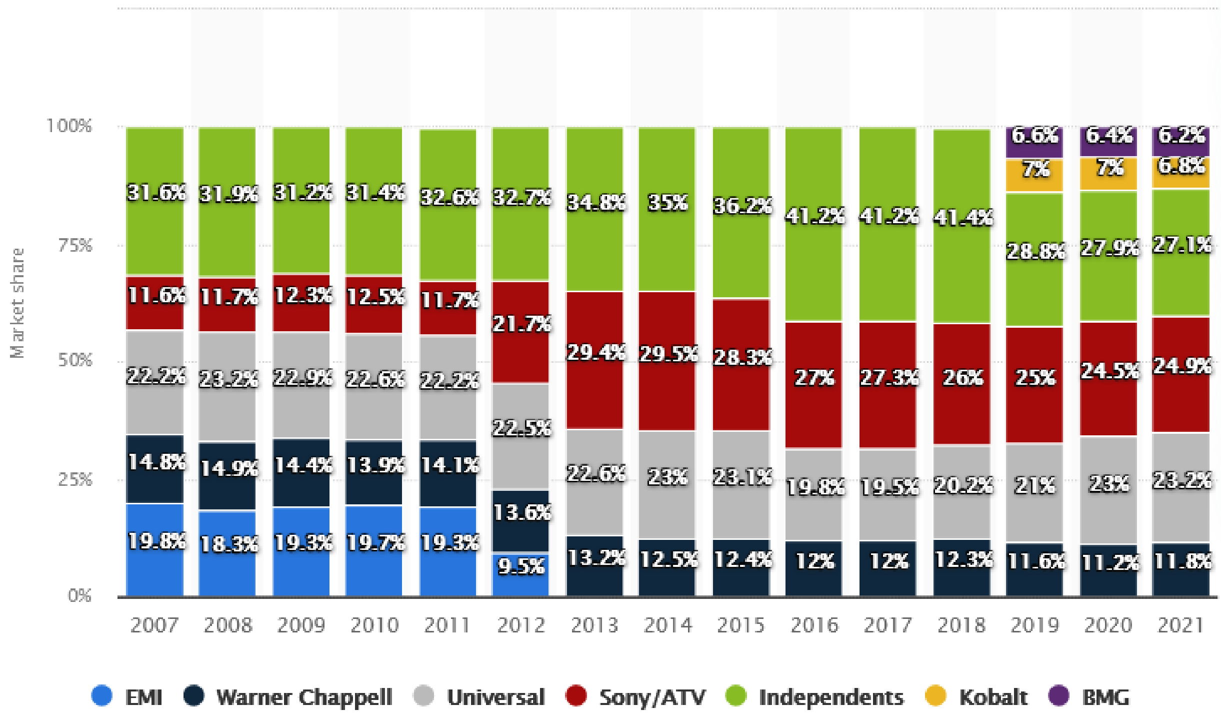

Exhibit 4 - Revenue market share of the largest music publishers worldwide from 2007 to 2021.

Exhibit 5 - Box office market share of Sony in US and Canada 2000 - 2021

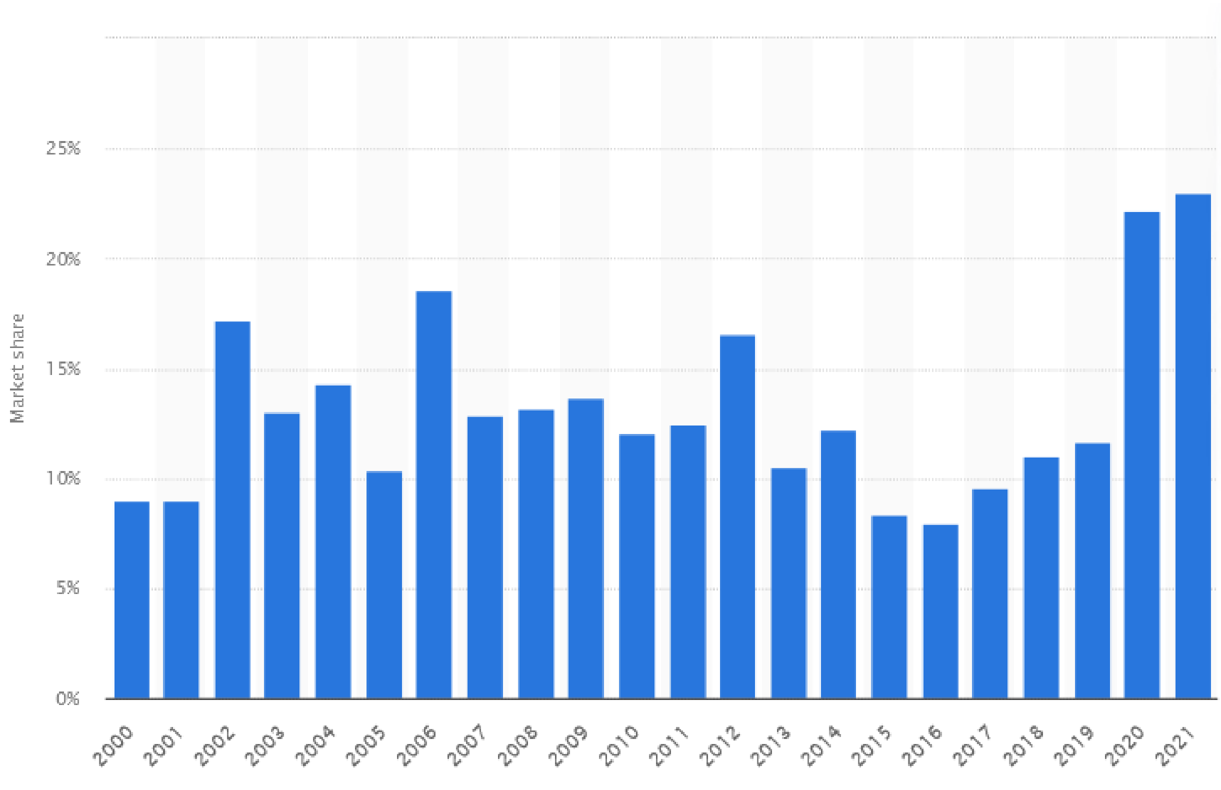

Exhibit 5 - Box office market share of Sony in US and Canada 2000 - 2021