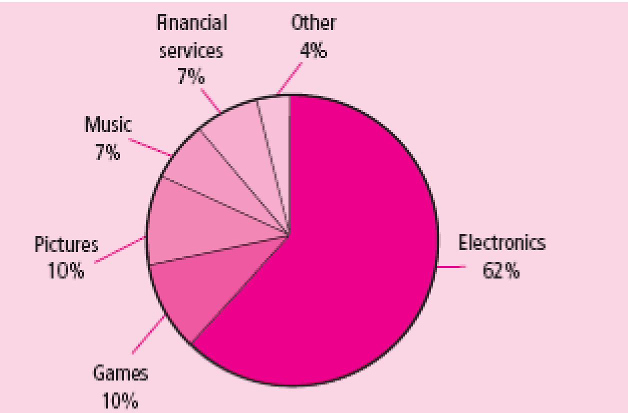
Sony aims to keep a step ahead

Case taken from The International Business Environment, second edition (Palgrave, 2006), by Janet Morrison

Sony is famous for creating the Walkman and the Playstation, but how does the company, which has become an electronics giant, see itself in the future? Through expansion in the 1980s, it acquired CBS Records, which was to become Sony Music, and Columbia Pictures. Both acquisitions were in the field of content provision, but the company's focus continued to be on consumer electronics. Consumer electronics, however, is rapidly changing, mainly due to the spread of networks. Senior executives feel that, whereas electronics manufacturing remains their core business (see figure), the challenge will be to adapt to the networked world, where wireless devices become more versatile and there will be a convergence between different platforms.



Breakdown of Sony's businesses by share of sales

Source: Nakamoto, 2004.

Sony executives now think that integrating an array of devices, rather than producing stand-alone products, is the way forward. Thus, TVs, PCs, camcorders and mobile phones will be access points to the internet. This may seem like a radical departure for the company, but it is perhaps well placed to gain innovative leads on its rivals as it straddles the electronics, software and media sectors. Its president says: 'I think Sony's mission is to make our own products obsolete. Otherwise, somebody else will do it' (Burt, 10 February 2003).

One of the factors that have influenced Sony in its new direction has been the competitive environment in its core business, consumer electronics. Competition has come from lower priced manufacturers in South Korea and China. Thanks to digital technology, companies can outsource semiconductors cheaply, enabling them to build consumer electronics products relatively quickly, rapidly eating into the market share of the early leaders. This commoditization has left Sony needing to reposition itself in the new era. The president of Sony's Network Solutions Company says: 'With DVDs, we invested a huge amount in development and competitors walked off with the profits' (Burt, 10 February 2003).

There are organizational changes implied by the more integrated strategy. The different arms of the business, which had become separate divisions, will need to be more integrated. In particular, audiovisual and IT operations will need to work more closely with the hardware and software businesses. The games business is being integrated with its consumer electronics, giving it a more central role. Games account for about 35 per cent of Sony's operating profits. Interestingly, in an organizational departure, regional management structures are being introduced, to develop shared services across the group. Meanwhile, in the interactive research laboratory in Tokyo, new and far-fetched ideas for touch screens are being created. One of the inventors says: 'We like to look five to 10 years ahead an ask ourselves the big "what if?" question, without constraining ourselves with the current state of technology. That will allow us to stay ahead of the current trends and push Sony's vision into the future' (Fitzpatrick, 25 June 2003).

Sources: Nakamoto, M., 'Sony promotes games innovator Kutaragi', Financial Times, 1 April 2003; Nakamoto, M. and Burt, T., 'Sony's mission is to make our own products obsolete', Financial Times, 10 February 2003; Fitzpatrick, M., 'Sony's flexible approach pays dividends in lab', Financial Times, 25 June 2003; Nakamoto, M., 'Sony struggles to get back in the race', Financial Times, 28 October 2004.

Case questions

What are Sony's innovative strengths?

How can it continue to turn these to competitive advantage?

@ Sony's website is http://www.sony.com . Its global headquarters is http://www.sony.net