Report on sonys case study

Major Question: Outline & evaluate Sony's strategic position at the end of the case study, including its management change. What strategic changes (if any) would you now recommend to Sony's management?

Minor Question: Analyse Sony's resources, Capabilities & Competencies as depicted in the case, & explain why it has grown successfully in the competitive consumer electronics industry. As an atypical Japanese Corporation, Comment in the role played by Sony's corporate Culture?

Introduction.

This report is based on Sony Corporation. The report below is structured focusing on the issues provided as question for the Case study in the seminar group. There is a brief History & Culture followed by the SWOT Analysis & Financial Analysis, followed by the management change at Sony. Finally there are a few recommendation followed up with conclusion & references. This case study was Robin John, from London South Bank University.

2. Acknowledgement

We as a team would like to thank Robin John & Dr. Leslie Gadman for their support and providing excellent knowledge about the topic, the case study and presentation feedback which has enabled us to deliver this report in acceptable form.

3. HISTORY & CULTURE.

The Sony Corporation is now a $ 124 billion (2009) Company with approximately 180, 500 employees (2008). Sony was formed in 1946 by Masaru Ibuka &

Akio Morita. It was initially know as Tokyo Tsushin Kogyo; in English language Tokyo Telecommunications Engineering Company. The name “ Sony” was chosen as a strategy which would help them to Globalise as the Co-Founder Morita had the vision to see early that there was a world rather than pure Japanese market for their Innovations. The first Sony-branded product, the TR-55 transistor radio, appeared in 1955 but the company name didn’t change to Sony until January 1958.

The current Sony Corporation has a unique culture which is firmly rooted in its history especially in relationship to its two founders, Ibuka and Morita. They both were geniuses above their business talents. Both gave insights and visions in what the company should make and how it should be made. Ibuka, especially, gave constant advice and suggestions to the engineers involved in projects from the earlier on transistor radios to Walkmans. This created the umbrella strategy in which Sony operates under, where the top management gives the general direction in which the lower engineers actively learns, develops and improves on the vision/idea. Therefore, although there is a planned direction, the actual product development through launching is emergent with great flexibility.

Although the research and development section of Sony differs greatly from other companies with its great flexibility, Sony, in its essence is still a traditional Japanese company in many ways. There is life-time employment, with strong norms and values which in turn create strategies through their actions. Status is given (the crystal award) instead of bonuses (not significant amount) for superior achievement. There is also the strong seniority system such as the mentor and apprentice relationship that is typical of a Japanese firm. All this can be classified as the cultural school in which strategy formation is of collective behaviour. Collective vision and stress on human resource, which is typical of many Japanese, can be clearly seen in the mission statement “ Management Policies”.

Sony Corp has retained good things of Japanese Culture & hasn’t been reluctant to adopt culture which is not atypical Japanese in nature, which has resulted in building these huge electronic giant & sustain it for more than five decades, & looks for a future which is very bright.

4. SONY’S CAPABILITIES, COMPETENCIES & RESOURCES

Sony Corporation is considered one of the world’s most successful companies, operating in the “ electronics, games, music, films and financial services” industry (Hanson et al, 2001). Sony is known for creating “ products that stimulate the senses and refresh the spirit” (Sony, 2007). Effectively managing a combination of its resources, capabilities and core competencies, has allowed Sony to create a strong sustainable competitive advantage.

Assessment of Sony Corporation’s Resources and Capabilities

Sony Corporation is committed on its efforts to continuously develop original technology that generates a high appeal to the general public due to its quality and cost effectiveness. Over the years, Sony Corporation has been able to build a substantial base meant to boost the company’s designing and manufacturing capabilities. This enables the company to bring to markets truly original and more importantly mobile devices that are reasonably priced. The research and development team of Sony Corporation also plays a crucial role in the achievement of this feat. The company also believes that making a positive impact in the society through their quality products is the very essence of being a manufacturer.

Sony Corporation’s Competitive Advantage

Economies of Scale and Scope in manufacturing and research and development arising from its numerous facilities situated in Japan, the United States and other countries worldwide.

Unique Quality Technology owing to heavy emphasis on research

Sony Corporation’s commitment to research & development activities has always been one of its top strategies to remain competitive in the market.

Differentiated Products

Through the production and marketing of differentiated products originating from their research and development activities, Sony Corporation is able to create its own firm-specific advantages. The continuous pursuit of research and development processes enables Sony Corporation to produce a steady stream of originally differentiated products which makes it difficult for competitors to find substitutes. Because of this differentiated approach, Sony Corporation is able to market their products worldwide, which enables them in turn to maximize the returns on research and development expenditures. Sony Corporation’s competitive advantages could be sustained provided the company would continue to focus on its core competencies. However, the company also has to be aware of the latest technological.

Sony Corporation’s Resources: Resources refer to “ factors that a company owns controls and uses for the purpose of creating value” (Hill et al, 2007). Sony’s numerous tangible and intangible resources help to determine its distinctive competency, thus leading to maintaining a competitive advantage.

When identifying Sony’s resources, both its tangible and intangible assets are included. “ Tangible resources include assets that are financial in nature, or have physical properties” (Hill et al, 2007). In 2007, Sony recorded a sales and operating cash flow of $70, 303 million, an increase of 10. 5 percent from 2006 (Sony United, 2007), as part of its financial resources. Land, buildings, machinery, and equipment are also part of Sony’s tangible resources, and are worth approximately $14 million (Sony United, 2007).

“ Intangible resources include those non-physical assets that the company uses to produce goods or provide services, or expects to generate future productive benefits” (Hill et al, 2007). The Sony brand is considered “ one of the world’s most recognisable and trusted brands” and was “ ranked 21st in the Business Week/Interbred list of the World’s 100 Most Valuable Brands with an estimated value of US$14 billion” (Singh et al, 2005). The Sony brand is associated with “ superior quality, innovation and style” (Sony United, 2007), in the minds of its customers.

5. Sony’s SWOT Analysis.

Opportunities

Development of new technology

Growing trend & customer base (Focus on BRIC Nations)

Target consistent profitability in core hardware businesses (TV, game and digital imaging)

Diversify in game producing for its hardware.

Listen to Voice of Customer.

Easy – to – use products.

Threats

New substitute products emerging

Price competition.

Economic pressure.

Losing the dominance in key product categories.(TV, P. S, D. I)

Due to poor financial performance could have less money for R&D.

Strength

Strong sales & marketing capabilities

Business location or product exclusivity

High quality product

Excellent customer service

Cost advantage (Discount)

Good distribution network

Weakness

Weak financial performance (Low Profitability – Low ROCE)

Lacking a customer viewpoint

Products with many feature but difficult to use.

Lack of hit products

Development of similar products

Patent problem in the whole Industry.

Particular

1997

Millions of Yen

2009

Millions of Yen

Total Electronically Business

3, 930, 292 (69. 4%)

5, 032, 920 (65. 1%)

Music

570, 119 (10. 1%)

50, 541 (0. 6%)

Picture

438, 551(7. 7%)

717, 513 (9. 3%)

Insurance

227, 920(4%)

523, 307 (6. 8%)

Games

408, 335(7. 2%)

984, 855 (12. 7%)

Others

87, 917(1. 6%)

471, 398 (5. 5%)

Total Revenue

5, 658, 253

7, 729, 993 (+136. 62%)

6. Comparing Sales Revenue by Business

Area for 1997 & 2009.

FINANCIAL PERFORMANCE.

Particular

2008

2009

Sales

8, 871, 414

7, 729, 993 (-12. 87%)

R & D Expenses

520, 568

497, 297 (-4. 47%)

Employees

180, 500

171, 300 (-5. 1%)

Profit Margin

4. 2%

-1. 3%

R& D to Sales

5. 9%

6. 4%

Current Ratio

1. 25 time

0. 95 time

Gearing Ratio

21. 04%

22. 27%

Return on Equity

16. 4%

-5. 9%

Roce

6. 65%

-2. 13%

6. 2 FINANCIAL ANALYSIS.

Sony’s financial condition is good but needs to be better for a matured Company like Sony which is in existence since 1946 more than 6 decades. It is acceptable but should be a top priority for the Management to make it better. Below mentioned are few observations:

Majority of its earning in electronic Industry.

Earning from music has reduced considerably could be because of piracy issues or Late M. J's bad public city.

The best diversified product is gaming, so should look to diversify more in this area. (Game MFG.)

Major problem with SONY is its low profitability.

Gearing ratio is 22. 27% which is good as has a scope for future borrowing if required.

R&D has just reduced by 4%

ROCE & Return for share holders are major concern for SONY.

7. Style of leadership and management

The leadership style of Akio Morita the co-founder of Sony Corporation included the ability to imagine, design, implement and develop new products, marketing, brand management strategies and human resources skill as well. Akio Morita resigned from the post of the Chairman, during which he positioned Sony as the world's most successful consumer electronics company. Sony was ranked 37 on the Fortune 500 global list. Under Morita's leadership, Sony developed many new products and technologies. One of the other key success factors of Sony was Morita's people skills and his trust in his employees. Sony continued its tradition of offering innovative products after Morita's death in 1999. Sony has been a modern Japanese company as they have promoted young Idei to President of Sony when he was 57 years small according to Japanese standard. It was under his leadership that they have recovered from the 1995 crisis & have posted the highest ever profit. Idei also launched Transformation 60 which was not of a much success. The main purposes of Transformation 60 were:

Reduce cost by 300 Billion Yen.

Decrease workforce by 20000.

Achieve profit margin of 10% march 06.

By the early 21st century, Sony was facing several problems due to the slowdown in the global economy, but then they recovered well under the leadership of Sir Howard Stringer who was made the CEO & Chairman of the Sony Corporation. A Non Japanese to senior management position was not a typical Japanese culture but has given them the desired result.

So as a whole Sony Corporation has always been under a good senior management for all the years.

8. RECOMMENDATION

Building of Strategy: Sony as a much international company with major branches in Europe and the United States and stocks listed in 23 stock exchanges, the Japanese cultural school strategy is not sufficient. Becoming a mature company, the strategy should also change to more profit orientated. There should also be greater emphasis on market share, especially in Japan where Sony's market is shrinking. Strategy should be aimed at greater control and communication between manager and workers, especially the engineers in the R&D Department.

Diversification: One direction which is possible is concentrating more on electronic know how in non-consumer business. Currently, the buyer has much more choosing power and competition is fierce. The competitors are also able to copy the product in a much shorter time. To create larger profit margins, Sony should concentrate on the business sector and industries, supplying high technology equipment and parts. This would make full use of the R&D Department. Although the Sony name is often related to expensive, high-profit end of the market, the organization should also expand its product range by offering lower priced, simpler featured products that would compete head on with others. With the lower priced line, Sony can also increase its market shares in both overseas and Japanese markets.

Alliance and Cooperation: Sony should try to become a leader instead of a maverick. The difference is great, the leader, besides a great innovator, should also be a great coordinator. Internally, the different R&D groups should cooperate more. The product line should also be made more compatible with one another, i. e. no more secret projects. Products should be made with higher added value and longer life rather than making frequent model changes. This is also a shift from a manufacturer-orientated mentality to a consumer-orientated mentality, which is a way to save natural resources. The brand-line compatibility also builds brand loyalty for consumers.

Cost Cutting: Cost cutting is important because R&D plays an integral part in the success of Sony and cannot be cut drastically although it gobbles up 10% of sales. Therefore, the only way to improve profit margins is to cut cost. Sony is not fully making use of other lower cost areas in the world, especially

Asian countries such as Malaysia, Thailand and the Philippines etc. By setting up factories in these countries, Sony can take advantage of their cheap labour and also get a head start in their budding consumer markets.

Products should be refined instead of reinvented so that there would be less set up cost and greater automation could be achieved. This could also be seen as a long term strategy.

Integration of production, design and marketing: In many ways, designing and developing of a product is separate from the production and marketing. R&D should listen more to what the consumer needs and then innovate instead of always creating new product for markets. With great freedom, the designing team should also take on greater responsibility in making the product fit to the current production pattern and marketing aims. They should also be made more responsible to the profit and loss of the particular product. Empowering these three separate groups creates conflict, but it also brings these separate efficient groups together achieving synergy.

Implementation: Internally, strategy should be reviewed beginning with renewing the corporate goals. It should integrate together both the Japanese work ethic and its western counterparts. This is possible, because Sony is a multinational corporation with employees and customers in many different countries. This involves writing the importance of profits and its responsibility to shareholders in the statement. Integration of the company, the designing, production and marketing should be encouraged, with increased communication between each group and the management acting as liaison and guidance. The management should be providing the organization with specific goals and strategies for the short and long term. These changes are intended to balance business Vs engineering. Setting up alliances with fellow electronic manufacturers / competitor is crucial to mutual benefit so should be pursued as soon as possible.

9. Conclusion.

The reputed brand name is one the Sony's strength, but on the other hand, many competitors start to see Sony as their target and main competitor, which will inflict various threats against Sony. Sony also needs to concentrates on improving itself. They collect " Voice of Customer (VOC)", which directly reflect the responses, expectations or suggestions from end-users. It could be observed that Sony is positively dealing with its competitors, through learning from failure and looking for room to further improve. Such strategy helps minimize the probabilities that their customers would turn to other competitors. It aims at retaining its present customers and keeping their Number 1 market position.

Sony made full efforts to support the environment from 1989. Sony is using blue ocean strategy on the business. Toward this end, Sony has sponsored many package redesign projects and committed to considering the environment, not only to create environmentally-friendly design but also to reduce material use. Due to this heartfelt customer service, high-quality, reliable products that Sony's customers can use with confidence. At the end of this case study Sony is not in a very strong strategic position but it is also not in a very bad strategic position. The position of Sony is in between.

The conclusion is that change is needed in Sony. However, even with strategically and structure change, the Sony spirit of “ Technovation”(technological Innovation) should remain intact because that is what made Sony grow and would make it stay strong.