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Q. 1 Why did the contraction of the US and Japanese economies and the rise in the value of the Yen hurt Sony's exports from Japan?

In the early years of operation, Sony had the luxury of operating in a currency that was not only weak against the dollar, but also highly controlled by the government. Japanese foreign exchange policies favored companies and industries that the government wanted to succeed, especially in export markets. The strong Yen was due primarily to a strong Japanese economy, large trade surpluses and the largest-foreign exchange reserves in the world. Japan also had low unemployment, low interest rates and low inflation. Gradually, crack started to show up in the Japanese economy. A combination of a drop in the stock market, a rise in inflation and a real estate bubble hurt the Japanese economy and confidence in the Yen. The Governor of the Bank of Japan raised interest rates in 1989, but the resulting furor forced him to stop raising rates. Since, the interest rates in the US were higher, investors pulled money out of Japan and put into U. S. dollars to take advantage of higher returns. This drop in the demand for Yen and rise in demand for dollars pushed up the value of the dollar against the Yen.

In 2010, Sony generated 29.1 percent of its sales in Japan. One major effect of the strong Yen and the global slowdown was the sharp drop in exports from Japan. In January 2009, exports dropped 49 percent compared with January 2008. As exporters found their sales falling, they cut orders from their suppliers and there was a ripple effect in the Japanese economy affecting production and employment.

Q. 2 In what other ways has the strong Yen affected Sony's bottom line?

What would be the effect of a weak Yen?

The strong yen was also hurting Sony's financial statements. As Sony translates U. S. dollar or euro financial statements into yen, net assets and earnings will be worth less in yen, dragging down Sony's consolidated results. From a cash-flow point of view, Sony's operations abroad are remitting dividends back to Japan, but they are worth less yen than as the dollar and euro weaken against the Yen.

The possible ill-effects of a weak Yen could be that the imports coming into Japan for manufacturing purposes would get costlier. The same would apply for things manufactured outside of Japan, thereby prices would rise, increasing the costs and decreasing the margins.

Q. 3 Given the instability in the currency markets, why do you think it is important for Sony to manufacture more products in the United States and Europe and to also buy more from suppliers in other countries in Asia.

During the decades of the currency swings, Sony kept moving along as one of the premier companies in the world in consumer electronics, games, music and movies. The wide array of product innovations earned Sony a premium in the market. However, competition began to step in. Korean companies like Samsung and LG, began to produce cheaper products that rose in quality as each year went by. The competitors of Sony like Samsung, began setting up their plants offshore especially in China to improve their cost advantage more. The size of the U. S. economy and political stability, even in the face of a presidential election in 2008, tend to make the US an attractive place for investment.

When the market was falling the euro also fell down and vice versa. Thus, the dollar went up and down depending upon the news. When the crisis was

news the dollar was strong. When the news favored a recovery of the U. S. economy, money flowed into equity markets both in the US and abroad seeking for higher returns and causing the dollar to drop in value. When the crisis hit, the money quickly left the emerging markets and returned to Japan, a practice called carry trade. As the volatility in the currency markets went up the investors unwind their trades, which gave strength to the Yen. Therefore, if the Yen rises again against the Korean Won and other Asian currencies, Sony risks losing market share to other Asian companies because it will not be price competitive. Another factor that affected Sony's results is the Earthquake and Tsunami of 2011. It pushed Sony into deeper economical crisis as most of its plants and manufacturing units were severely damaged in northeastern Japan. To overcome such obstacles and continue to make profits Sony was forced to manufacture more products in the United States and Europe and to buy more from suppliers in other countries in Asia.

Q. 4 What are the major forces that affected the Japanese Yen prior to the global economic crisis in the fourth quarter of 2008? What has had the greatest impact on the Yen and where do you forecast the future value of the Yen?

The strong yen was primarily due to the strong Japanese economy, large trade surpluses, and the largest foreign-exchange reserves in the world. In addition Japan had low unemployment, low interest rates and low inflation. Since the interest rates in the United States were higher, investors pulled money out of Japan and put into U. S. dollars to take advantage of the higher returns. This drop in the demand for Yen and the rise in demand for dollars pushed up the value of dollar against the Yen, and then Yen closed out 1989

at 143.45, whereas it was 125.85 only a year earlier.

Subsequently, the United States and Japan tried to get the central banks of Germany, United Kingdom and other countries to intervene in the markets and sell their currencies for Yen in order to strengthen the Yen.

A second 'Endaka' hit in 1995 when the Yen rose to 80.63 per dollar. As they did with the first Endaka, the Japanese companies looked for ways to cut costs and remain competitive. Meanwhile, the Japanese economy was in a recession, so the Bank of Japan dropped interest rates to stimulate demand and the Yen fell against the dollar, favoring exporters once again.

The future value of yen according to me is expected to rise due to the ever strengthening Japanese economy, exceptional performance of the Japanese companies worldwide, Japan's high amounts of foreign-reserves. The weakening world economy facing a state of economic crisis and recession would help the Yen in its rise.