

Sony strategy analysis

Business



SONY Strategy Case Analysis Executive Summary Sony is currently faced with the problem of low operating margin and stagnant market share in the videogame console industry.

PlayStation3 of Sony is competing with Xbox360 of Microsoft and Wii of Nintendo. Despite the high technology, Wii outsells PlayStation in the market. This shows that the traditional strategy of Sony based on hardware should be reviewed according to the new trend. Considering gradually increasing market size and harsh competition, Sony should invest more on creating new customers and software.

Analysis

After experiencing the five or six cycles defined by advancement of underlying technology, there are currently three main competitors in the videogame industry: Sony, Microsoft, and Nintendo. The PlayStation of Sony and the Xbox360 of Microsoft can be characterized by high technology and interoperability with other electronic products. Meanwhile, the Wii of Nintendo emphasizes innovative and user-friendly capabilities such as wireless motion-sensing controllers. Therefore, the Wii could appeal to more widespread customers such as senior people including traditional gamers.

Based on enthusiastic reactions to Wii, the leading market share of PlayStation in the prior generation is replaced by the Wii of Nintendo. As of 2008, the Wii substantially outsells the two rivals.

According to Five Forces Analysis, Sony has been faced with the following characteristics in the game industry. Suppliers: The bargaining power is relatively high since videogame console makers outsource the

manufacturing of console. Also, they need the support of game developers. In this respect, the one of the main reasons why the PlayStation and PlayStation 2 could succeed as a new entrant would be the supplier-friendly strategy of Sony.

Sony took the policy to license any PlayStation software as far as it does not clash with hardware.

Also, Sony provided third-party developers with various development tools and soft libraries. Buyers: Compared with past customers who could enjoy the limited game console suppliers, current customers could enjoy the various types of game platforms. Also, based on the high technologies, the games for every age or demographic are coming out to the market.

Therefore, game console makers should ensure as many customers as possible to enjoy the economy of scale in the increasing market size.

This gamer-friendly environment results in the high bargaining power of customers. Regarding customer-based viewpoint, Sony failed to captivate the people from all levels.

Even though PlayStation software is targeted at a more mature audience, PlayStation of Sony has been usually used by the traditional gamers of young age. Threat of new entrants: In the game industry, the possibility of new entrants to succeed is very slim because new platform based on high technologies requires high cost and risk.

Therefore, small or medium sized companies are very difficult to finance R&D and marketing. Also, it is very difficult for new entrants to find game developers. Three giant companies (Sony, Microsoft, Nintendo)
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overwhelmingly dominate the market of videogame console and there exists a big entrance barrier.

It is the reality that a small company cannot help being pushed out by three major companies. Since Sony got into the game industry, the biggest threat of new entrants would be the appearance of new contender, Microsoft, in 2001.

Threat of substitute products: There exists the high possibility of substitutes from other industries. Personal computers or mobile handheld devices could be the potential substitute of videogame consoles. The reality is that many people are enjoying games using other devices such as I-Phone or I-Pad over time.

In addition, consumers don't have to bear the additional cost when they change from game consoles to other substitutes. Considering the high diffusion rate of personal computers or mobile devices, potential substitute products could be high threat to selling game consoles.

Positioning among current competitors: Definitely, Sony is the major entity in the game console market. However, the market situation is not so bright as the past over time. As a new entrant in 2001, Sony could get a huge success through giant money, high technology, stylish design and support of game developers. However, Sony is now suffering from negative operating profit and turned over the status of top maker to the Wii of Nintendo.

So, Sony needs to set up new strategies in the videogame industry.

Recommendation

First of all, Sony should broaden customer scope from traditional gamers to the general public. Game industry is still growing although the attractiveness is waning over time. Sony is trying to position the PlayStation as the ultimate hub for digital living room. However, the people are still not familiar with PlayStation and consider it just game machine.

Therefore, Sony needs to enforce the marketing for family-friendly game console maker. The one of the main reasons for Wii's success is that Nintendo targeted the niche market that other competitors have ignored.

Nintendo focused on the general public with the easy and simple game consoles instead of expensive and complicated ones. Wii contributed to letting the public general realize the fun of game. Now, Sony needs to leverage the opponent's assets as a Judo Strategy as Sega did in the past.

If the family-friendly image is added to the high technology of Sony, the PlayStation could appeal much more to the general public. Lastly, Sony needs to more invest on its software. Sony has been focused on the product itself based on high technology and attractive design.

As Nintendo makes high margin based on the customer-friendly software forgoing high price of console, Sony needs to broaden available games for PlayStation. A wide range of Adult users could bring new Blue Ocean of profits. Utilizing the advantages of PlayStation, the high technology and interoperability with other electronic devices, Sony could set up the new digital hub replacing TV and Computer at home.

To do this, above all, Sony should establish the affluent in-house software associated with developers as Apple make additional profits through various apps.