

Frequent restructuring at sony corporation marketing essay



Introduction:

Sony Corporation is a multinational conglomerate based in Japan. The organisation's core business is in Electronics and Entertainments. It has grown from barely 20 employees with about ¥190, 000 as its capital in 1946 to today with about 150, 000 employees worldwide and worth about \$15 billion dollars on the share market as of May 2012.

Sony has always put innovation as its main business focus. Due to its innovative business model Sony was able to bring us the very innovative products such as Walkman, Playstation, CD player and Camcorders and others. In the way all these products made Sony become a premium brand in the world, it can command the premium prices for its products. But later on Sony became so big, within there are many different divisions.

The goal of Sony was to improve the financial performance and competitiveness of the company. Therefore, from the year 1994, Sony had gone into a series of reorganisation action. Between 1994 and 2004, Sony's business operations were restructured five times within ten years. However, the most of them failed to achieve the desired results. Hence, in 2005, Sony appointed Howard Stringer, former head of Sony America to become first non-Japanese CEO of Sony group. Sony has gone into Phase II of the new round of restructuring, the aiming implement structural reforms covering electronics, entertainment and other major sectors, with the primary objective of improving its profit structure significantly.

Adverse implications of frequent restructuring at Sony Corporation:

In 1994, it had posted first loss in the company's history. Precisely because of this, Sony Corporation had started several corporation reorganization projects tried to put company back to the right track. However, due to these restructurings have not going far enough, did not break all the internal walls between divisions and changes were too many in a short period of time, the cost involved were huge so all these attempts had not been very successful. The revenue and profit continued to fall.

In October 2003, Idei, the CEO of Sony, announced another reorganization plan called "Transformation 60", which was a three-year restructuring plan. The plan focused on reducing costs by downsizing and consolidating manufacturing, distribution, customer service facilities and streamline procurement. Through this restructuring plan, Sony aimed to reach cost savings of ¥300 billion at fiscal 2006. The key strategy was to create convergence between separate products. For example, in the electronics group, converging television and games; in entertainment converging movies, music and games, etc. Sony Corporation was reorganized into eight business entities – four network companies, which are Micro Systems Network Company, IT and Mobile Solutions Network Company, Broadband Network Company and Home Network Company; and three business groups, which are Game Business Group, Entertainment Business Group and Personal Solutions Business Group.

However, in 2004, Sony's electronics business faced losses for two consecutive years. The main reason was due to the significant decline in

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sales of conventional televisions and portable audio products, and the situation is especially significant in Japan, where the demand for Vaio personal computers and cathode-ray-tube televisions fell prominently. At same time, the games division also did not fare well with sales of PlayStation 2 consoles falling rapidly.

By the time, Sony announced its October-December 2004 results; it was evident that the company was far from reaching the goals envisaged in its Transformation 60 plan. According to Sony's financial reports in 2004, the revenues were 7.5 per cent lower than the revenues during the corresponding quarter in 2003 and the operating income had eroded by 13 per cent. Sony's profit margins for fiscal 2004-2005 were at 1.6 per cent, far lower than the 10 per cent that Sony planned to achieve by 2006. The restructuring plan of "Transformation 60" was not successful in 2004.

For the company's problems, combined with competitions and lack of vision, Sony's revenue and net profit has been in decline. Analysts blamed the "silo culture", which prevented Sony from communicating and cooperating with each other.

Sony's restructuring efforts in 2005 were successful:

In 2005, Sony appointed Howard Stringer, former head of Sony America to become first non-Japanese CEO of Sony group. In September 2005 he started his first of several corporations restructuring. He identified getting rid of Sony's old "silo" culture, attaining profitability for all the business, making products in line with industry standard technologies, improving the

competencies in software and services, and divesting the company of its non-strategic assets as the main challenges for Sony.

Stringer reorganized Sony into five business groups they are the electronics business group, the games business group, the entertainment business group, the personal solutions business group, and the Sony financial holdings group. The reorganisation plan focused on revitalising the electronics business of the company, aiming on improving profits by reducing business categories and product models. At same time, business processes only focused on resources of the company's high growth business by removing redundancies and overlaps.

Stringer's restructuring has been successful, he was able to break some the internal walls and discontinued non-core business like the Qualia line of luxury electronics, a cosmetics firm, a mail order shopping company and a chain of restaurants. It lower the operating cost and put focus back to Sony's main business electronics, also revitalising Sony's TV division with new products.

For the fiscal year 2005-2006, Sony reported net profits of ¥123 billion with the sales of flat panel televisions improved significantly as well as the sales of PCs and video cameras. The analysts viewed the efforts that the Stringer's reorganisation had succeeded in putting the company back on the right track.

The main reasons for Sony showing healthy profits during 2007 and 2008:

According to Stringer's annual report by March 31, 2008 "...we achieved nearly ever goal that we had set for ourselves three years ago. We successfully re-engineered our company by dramatically reducing operating costs, streamlining our operations, and reducing headcount and the number of our product categories – all of which contributed to a significant improvement in operating results. As a result, on an annual basis and compared to three years prior, sales and operating revenue rose 23% to nearly ¥9 trillion, and both operating income and net income more than doubled to ¥375 billion and ¥369 billion,..." The results of report, notably, it represented the culmination of reorganization initiative in 2005. Sony was showed healthy profits during 2007-2008. The restructuring was successfully achieved across many of products.

The primary reasons of restructuring success due to the new strategies were announced on 20 September 2005 which met the market requirements.

Firstly, the new strategy concentrated mainly on three sectors – electronics, games and entertainment. The electronics business of Sony was to be revitalised through structural reforms, which focusing on high-growth businesses, such as HD products, mobile products and semiconductor/key component devices, and network-enabled products and appliances. For example, Sony Group successfully make Blu-ray Disc the de facto standard for high definition recording and playback. To March 2008, more than 15 million Blu-ray Disc players, recorders and Blu-ray Disc-enabled

PLAYSTATION 3 systems have been sold. According to Sony 2008 report, in <https://assignbuster.com/frequent-restructuring-at-sony-corporation-marketing-essay/>

the Electronics Segment, the operating income rose from approximately zero of three years ago to more than ¥350 billion at the end of March 2008; Sony LCD television business has moved from having a limited presence three years ago to being one of the market leaders today on the strength of the BRAVIA brand. Sony was the first to market with the next generation television-the organic light- emitting diode or OLED. The benefits from the home entertainment released a number of successful titles and the continued vitality of the television business, the Pictures segment recorded more than ¥50 billion of operating income in fiscal year 2007.

Secondly, the new strategy of restructuring plan also considered reducing costs by downsizing and consolidating the manufacturing, distribution, customer service facilities, and streamlining procurement. Sony aimed at optimizing manufacturing infrastructure and initiating disposal of assets in 15 business categories. To reduce fixed costs by combining the operating divisions and shifting component sourcing to low cost markets like China. At same time, about 7000 employees were laid off in Japan and 13, 000 at other locations across the world. Sony achieved reducing the annual fixed costs by ¥330 billion by the fiscal year 2006-2007.

For the fiscal year ending March 2007, Sony's sales and operating revenue increased by 10. 5 per cent to ¥8. 29 trillion. In June 2007, Sony reported its sales had increased by 13% as compared to the first quarter of the previous year to ¥1, 976. 5 billion. The operating income grew by over 250% to ¥99. 3 billion during the same period and the operating income of the electronics division increase by 77%.

Analysts were of the view that Stringer's efforts had succeeded in putting the company back in the right track. To enhance its product development capability and improve profitability in the electronics segment, some more changes had to be made in its organisational structure.

On March 2007, the new restructuring plan was established by Sony – “ B2B Solutions Business Group”. That reorganisation plan is another reason which helps Sony showing the health profit during 2007 and 2008. Announcement was “ The B2B Solutions Business Group will unite and streamline Sony's existing Broadcasting/Professional equipment businesses, B to B solution services, and FeliCa business. At the same time, by utilizing Sony's broad-based research and development achievements in its B2B Solution Business, Sony hopes to develop new business that can drive sales and profit growth in the B to B business field.” At the same time, two new groups – the TV Business Group and the Video Business Group, were also established.

The new restructuring plan started to show encouraging efforts. Sony's sales and operating revenue were increased by 10. 5% to ¥8. 29 trillion. The upward trend continued over the next year with revenues up to ¥8. 87 trillion and profits up to ¥369 billion by the fiscal year ending March 2008.

The numbers revealed Sony was showing healthy profits during 2007 and 2008.

Analyse the latest restructuring plan proposed by Stringer in February 2009 and its efficacy:

In early 2009, Sony found itself facing in a financial crisis again. On 1st April 2009, Stringer assumed responsibility as the President of Sony, in addition to <https://assignbuster.com/frequent-restructuring-at-sony-corporation-marketing-essay/>

his existing positions of CEO and Chairman, Chubachi resigned from his post as President of Sony and CEO of the electronics components unit and became the Vice-Chairman of the company, this time restructuring which infused into the top management of Sony with young blood. After the reshuffle, Stringer directly managed the electronics division. New major reorganisation plan was announced by the new management of Sony.

Under the reorganisation, effective on 1st April 2009, the reorganisation concentrated on the electronics and game businesses of Sony, aiming to improve their profitability and strengthen competitiveness. Therefore, Electronics and Game businesses were merged and reconfigured as two new groups: the Consumer Products & Device Group and the Networked Products & Services Group. The first Group represents Sony traditional and vital hardware; the second will provide new network differentiation which combined to Sony hardware, to speed up the production of networked products and services.

To support these two new business groups in terms of software development and manufacturing, procurement and logistics operations, the two cross company platforms have been created. One was the Common Software which was to develop and implement integrated technology and software solutions; the group was also required to provide coordinated software development services. The other platform was and Technology Team which to provide the Manufacturing, Logistics, Procurement team responsible for ensuring efficient supply chain solutions for the business groups.

The reorganisation also involved a new organisation structure for Sony that closure of eight of its 57 manufacturing sites by approximately 10%, a reduction of the workforce by 16, 000, and furthering the shift to manufacturing in low-cost areas and with OEM/ODM partners. Through that plan, Sony expected to reduce costs by ¥300 billion.

However, the global economic crisis in 2009 gave Sony a difficult period; the intensified price competition and the continued appreciation of the yen also harshly affected the Sony's businesses operating environment. Operating in such circumstances, Sony broke new ground by unifying procurement activities across its businesses, strengthening operations, reducing costs and developing products, services and content.

According to Sony annual report of 2010, in the Consumer Products & Device Group, the recorded an operating loss of ¥46. 5 billion, an improvement of ¥68. 6 billion year-on-year. The operating loss narrowed due to an improvement in the cost of sales ratio and a reduction in selling, general and administrative expenses; the result was partially offset by a decline in gross profit due to lower sales, unfavourable foreign currency exchange rates and an increase in restructuring charges.

The contribution to the improvement in operating results, we can see, the sales of Sony LCD television for the fiscal year totalled 15. 6 million units, exceeding Sony's initial forecast for the period by 600, 000 units owing to and expanded line-up of models including those with LED backlights. The highlight of Sony was the 3D technology has been developed, which brought Sony products to life in the digital age. The launch of new models featuring a

wealth of exclusive technologies supported Sony's continued leadership of the video camera market in fiscal year 2009. Total sales were 5.3 million units, and achieved 42% of the global market share. Home video marked a momentous advance in Sony's Blu-ray Disc recorder and player business. Sales of Blu-ray Disc player in the period amounted to 3.3 million units, a year-on-year increase of 1.1 million units; sales of Blu-ray Disc recorders totalled 700,000 units, up 200,000 from fiscal year 2008.

According to Sony annual report of 2009, in the Networked Products & Services Group, the operating loss improved ¥4.4 billion year-on-year, to ¥83.1 billion. The operating loss narrowed despite a deterioration of operating income in the game business under a result of unfavourable foreign currency exchange rates, due to an improvement in the profitability of Walkman digital music players and other products. Sales of Walkman digital music player were approximately 8 million units, an increase of 14% from the previous fiscal year. The unit sales of VAIO PCs in the fiscal year also rose 17%, to approximately 6.8 Million units.

As the expectation of restructuring, the aim is to provide new network differentiation which combined to Sony hardware, and speed up the production of networked products and services.

Analysts were of the view that it would help different divisions in Sony like the PC, mobiles and entertainment division, and also other division like television, digital imaging, home audio, and video to work in tandem. This would address the issue of the prevailing silo culture in the organisation.

According to Jonathan Nelson, Head of private equity firm Providence Equity, “ the challenge of changing the culture of an iconic Japanese company is even more difficult than dealing with the current challenges of the consumer electronics industry. He’s doing as well as anyone can under the circumstances.” The reorganisation resulted in sustained profitability and a cohesive corporate culture; it also expected to result in nimbleness in the organisation and in making it ready to face the new age rivals.

Sustain Growth and Success in the Future:

The core aim of SONY is to improve the financial performance and competitiveness of the company. Sony could utilise its strengths to gain advantage over their competitors, and be a market leadership in the future.

Firstly, Sony enhances supply chain management, to maintain a steady stream of raw materials coming in for production because of their long-term good standing with their raw materials supplier. Their highly coordinated logistics system handled by outsourced firms also form part of their core competencies, leading to excellent inventory management and always on schedule production activities.

Secondly, Sony improves its ability at the moving assembly line. Being the pioneer of such mass production system, they were able to get ahead of the competitors manufacturing processes-wise and were also able to save on costs and time.

Thirdly, Sony should focus on its product development technology. Set up single product-information-management program through standardising and incorporating them. If sustainable development is to achieve its potential, it <https://assignbuster.com/frequent-restructuring-at-sony-corporation-marketing-essay/>

must be integrated into the planning and measurement systems of business enterprises. And for that to happen, the concept must be articulated in terms that are familiar to business leaders. Many observers believe that more stakeholders will insist that companies to take environmental and social costs as seriously as they take purely financial costs.

In order to sustain its growth and success in the future, Sony should timely adjustment its strategy and improves the operational standards to adapt the changes in the market such as stiff competition, globalisation, technological innovations, etc.

Conclusion:

Restructuring is creating more opportunities for Sony. Effective innovation would deliver growth opportunities and new user experiences to customers in order to further enhance Sony and its brand. Accordingly, improve the financial performance and competitiveness of the company