

The effect and recession of sony



Introduction

In this assignment the performance of the Sony Corporation during the last three years has been analyzed and how did they perform in recession and also the comparison with its competitor Panasonic. Assignment also throws light on what would be the Sony's performance when there would have been no recession. The ratios has been calculated for the Sony corporation after analyzing the annual reports of the company. The assignments also focuses on the corporate governance of the company.

Company profile

Sony Company was founded in 1946 Tokyo. It was started by two men, Engineer Masaru Ibuka and physicist Akio Morita those who invested the equivalent of Yen 190, 000 to start a company. They started the company with just 20 employees. Today, Sony is one of the leading manufacturers of audio, video, information technology and communication products. Sony Company believes that the power of technology can realise new ideas and stimulates the senses, allowing them to generate entirely new experiences.

Sony with its music, picture, game and other online business, the world's largest and leading digital entertainment brands the company has uniquely positioned.

The mission of Sony is to come with latest and new technologies, content and services together in extraordinary ways that enable customer to reshape their global perception and enhance their lives. Sony also has committed to develop innovative products globally and multimedia services that challenge the way customer access and enjoy digital entertainment. The cooperation

between the businesses within the organisation, Sony is constantly determining to create an exciting new worlds of entertainment can be experienced on a variety of products.

Sony's vision is to create exciting new digital entertainment experience to the customers by bringing together cutting edge products with latest generation content and services.

Sony is currently employing 180500 people worldwide. Whereas Sony Europe controls manufacturing, Research & Development, design, sales and marketing of consumer and business products in Europe. The key focus of the Sony is to strengthen all important electronic business and maintaining the leadership in the high profile areas such as televisions, digital imaging, home video equipment and portable audio.

With its specialization and brand value in the Music, Picture games and online business Sony has uniquely settled itself the world leading digital entertainments, which offers a tremendous portfolio of amazing multimedia content. Sony in Europe is part of Sony Corporation together with the corporate headquarters located in Berlin at the Sony centre.

The mission of Sony is to develop the wide range of the innovative products and services for multimedia that can challenge the way customer access and enjoy the digital entertainment. Sony all the time motivated to make the exciting new worlds of entertainment which can be seen by or also experienced on the numbers of products and all this is possible by making a surety between businesses inside the company

Q1. An analysis and evaluation of the data available in the Sony's Annual Report

Sony's Corporate Governance

Sony has adopted the “ Company with Committees” system has been mentioned in the Japanese Companies Act and its associated regulations. The Japanese law doesn't have need of Sony to contain a middle-of-the-road of “ sovereign” on each of three constitutional committee.

Sony's Charter of the Board of Directors have need of its board to consist of between 10 to 20 directors. As on 19 June, 2009, 12 from 15 members of Sony's Board of Directors capable as “ outside” directors.

In Japanese law An “ outside” director, as defined as, is comparable to a “ non-management director” under the rules and regulation of NYSE for the reason that an “ outside” director is not connected to the implementation of business operations of the business. Neither Japanese law nor Sony's Charter of the Board of Directors necessitate non-management directors to meet up on a regular basis not including management and nothing is wanted outside directors to congregate single-handedly in an administrative meeting at least one time in a year.

Company's performance in last three years

The net income of the Sony in 2008 \$ 4069 billion and which was got declined in 2009 and they beard a loss around 1063 billion dollar here we can see the affect of the global economic crisis which affected the net earning of the Sony corporation. And later Sony has recovered itself during 2009-2010 though still it was in loss 461 billion dollar but it recovered 602

million dollar. The recession has ruined the earning of Sony Corporation. July 30 2008 Sony showed its operating loss about 271 million dollar in the quarter of April and June, in comparison to the last year quarter's profit 772 million dollar and revenue went down from 19 % to 17 % billion. Where as operating income is Sony earned a 4125 billion dollar in 2008 and went down because of recession in 2009 and had loss up to 2177 billion dollar but in 2009-2010 Sony Corporation made the profit up to 701 billion dollar, which was quite good recovery for them.

The motion picture group of Sony Picture Entertainment had recorded 2.7 billion dollar as receipts in 2008 at the worldwide box office and also made the 3rd biggest record for the studio. The movie Hancock had made more than 600 million dollar on the blockbuster in 2008. The number of the biggest title was released or are criticized for the calendar year 2009 which include the angels and demons.

The proportionate share of the Sony is in the fundamental the net assets of the investees are over the investments carrying value of \$135.31 million on 31 march 2008 to its affiliated company. These differences are primarily connected to the difference in the value of the net assets which is contributed by the Sony a BAG at the time of formation of SONY BMG. Therefore this variation has been significantly discarded just after the acquisition of the Sony and the Bertelsmam AG's interest of 50 % in the SONY BMG for the fiscal year which ends on 31 marches 2009. The company affiliated to it was accounted for under the method of equity together with the value of \$ 75.32 million and 83.88 million dollar end of the financial year 31 march 2008 and 31 march 2009 was stated on the current market at <https://assignbuster.com/the-effect-and-recession-of-sony/>

the approximate value of around 682 million dollar and 323 million dollar in that order. There were 63 and the 85 affiliated companies accounted for the method of equity at the end of financial year 31 march 2008 and 2009.

The investment of the Sony in the joint ventures, Sony Ericson has shown an important influence which can be seen and also recognized in the financial statements of the company according to the method of equity. Where as Sony Ericson's income before taxes share is just showed in items ' Share in earnings of joint venture" which is already included in the operating income and the taxes are included in the income taxes for the year.

The assets of the Sony in 2008 was 138, 261 dollar because of the global recession company had to sell some of its assets to recover the debts which resulted the reduction in the assets in 2009 which came down to 129, 067 dollar.

After analyzing the financial statement of the Sony corporation we have seen that the operating margin of the Sony is less as compared to the Panasonic's operating profit in 2008 Sony secured the 4. 28 % of its operating profit and which is got reduced in 2009 because of economic crises which effected the global economy and as well Sony and it dropped its operating profit margin to and on the other hand Panasonic had suffered a lot in recession but Panasonic was much better than the Sony where as in 2009 Sony had its Operating profit - 2. 66 % and Panasonic was in much good condition than Sony around 0. 94 %. In 2010 both the company has improved a lot and recovered there loss from the previous year i. e. Sony recorded 0. 87 % as its

operating profit margin and the Panasonic was in the better condition and had a more operating profit margin than the Sony in the same year 2. 57 %.

If we talk about the Net Profit margin in 2008 both the companies were in the good position but the global economic crisis had spoiled the profit margins of the companies in 2008 Sony had its net profit margin 4 . 22 % and Panasonic was up to 3 . 11% and which was gone down in 2009 because of recession and Sony recorded it – 1. 30 % and where as Panasonic had a great loss in 2009 which reached to – 4 . 88 % and both the companies were in negative and if we compare it to the 2008 Net profit margin they were still in loss in 2010, Sony recorded its best compared to previous year – 0 . 57 % and Panasonic has also made good effort come back in completion and improved it margin from last year as – 1 . 39 %.

LIQUIDITY RATIO

Quick Ratio: this can be calculated by dividing the cash plus short term marketable investment plus receivables by the current liabilities.

There was no as such large difference in the quick ratio in 2008 Sony earned 0 . 65 % where as Panasonic was at 0 . 94 %. If we move to the next year i. e. 2009 we will see that there was less reduction in the earnings even at the time of global economic crisis though 0 . 52 % was for Sony in 2009 and 0. 96 % was for Panasonic which was increased 0. 02% compared to its last year 2008. In 2010 Sony and Panasonic improved there earnings and came to 0 . 66 % and 0 . 85 % respectively.

Current Ratio: current ration can be calculated by dividing the current assets by current liabilities.

SONY PANASONIC

Current ratio of Sony in 2008 was 1.25 % which went down up to .30 % in 2009 because recession during that period of time Sony recorded 0.95 % which got increased in 2010 and came up to 1.02 % where as Panasonic is it had a 1.48 % in 2008, and the best thing was during the global economic crisis where Sony was facing the problem and suffering the loss at the same time Panasonic had increased its earnings as current ratio in 2009 1.60 % compared to the previous year 2008 it was 1.48 % and which went down in 2010 to 1.35 %. This shows that Sony performed good during the period of 2009 and recorded an improved earning in 2010 up to .30 % and at the same time Panasonic had loss of .30 % in 2010.

Cash Ratio: cash ratio is calculated by dividing the cash + short term marketable investments by the current liabilities.

The cash ratio for the year 2008 Panasonic was more than the Sony's earnings where Sony had 0.38 % and Panasonic was at 0.52 %. And during the 2009 Sony went down to its 0.30 % and where as Panasonic exceeded to .06 % from last year i. e. 0.58 % that was more than the Sony in 2009 year. If we talk about the performance in 2010 of the companies Sony had performed better than the Panasonic and as well as compared to the performance of its last year where as Sony recorded its best in last three years about 0.44 % in 2010 and on the other hand Panasonic has not even covered its loss of last year and it was also less compared to Sony Corp. Panasonic recorded its cash ratio in 2010 was 0.43 % which was least among the last three years earnings.

Debt to Equity: it is a solvency ratio which is calculated by dividing the total debt by the total shareholder's equity.

Debt to equity of Sony when compared to Panasonic in 2008 Sony was in better condition and its debt to equity was . 29 % where as Panasonic was . 09 % the difference was . 20 %. Due to global recession the debt to equity has been increased to 0 . 35 % of Sony and for Panasonic it was 0 . 23 % it was for the year 2009. In 2010 it increased more where Sony was increased till 0 . 37 % which was more than the previous year and Panasonic had 0 . 36 % in 2010. Here we can see that the debt to equity was increasing year by year for both the companies.

Sony in recession

What is Recession?

What does recession means exactly, it has a negative result on the industrial production, negative impact on employments, effects the real income, and also the wholesale and retails sector get affected. Technically the recession is all about that have been happened when there was loss in two consecutive quarters and had negative economic growth by the country's GDP Gross Domestic Product. The control of the supply of the money in the economy gives the primarily attribute to the economic recession. The delicate balance among the money supply, inflation and the interest rate is done by the Federal Reserve agency and when the this balance is leaned it force the economy to correct itself. Sometimes these agencies dump the large amounts of money supply in the economy to face such kind of situation, which results keeps the low interest rates at the

inflation. ' Inflation is rise in prices'. If there is rise in inflation that means the products and the services cost will increase.

Usually the economic crisis could be covered before its happening. If we see the GDP growth of the country but that shall be attached with the signs like unemployment price of house declines, loss in stock market, and also the less business expansion. When we see that the economic recession in economy is for a long period than it goes over the recession at the stage of depression. If there is any drawbacks of recession there is also benefit, in the period of recession the main benefit is that can help in curing the inflation. The fiscal policy is a basic capacity to kindle the economy as much as possible with the help of those things by putting low taxes scheme, by ignoring the account deficit and spending on programs.

The recession has destructed the earning of Sony Corporation. July 30 2008 Sony showed its operating loss about 271 million dollar in the quarter of April and June, in comparison to the last year quarter's profit 772 million dollar and revenue went down from 19 % to 17 % billion. It wasn't that much bad as Sony has expected. The Chief Financial Officer stated that company has predicted the inflexible price competition in coming months and also run through with predicted operating loss 1. 16 billion dollar over March 2010 fiscal year. From last few months the recession had allocated a hindrance to the Chairman and CEO's hard works restructuring the profitability of company. The CFO has accused the financial crisis and the yen's strengthening against the euro and the dollar. The reason of the less competitive products and worn revenues value which was earned in overseas market. The more attention is now towards the Sony's ability to

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stop the losses on the video-game and on TV business. 357 million dollar has been charged by Sony in restructuring in one quarter. The CFO has reported that Sony's target is to make the TV and gaming profitable in coming next year.

Competition in Recession: Sony has been ranked at second internationally in the LCD after the Samsung but the analyst expected that it will lose share in market from 14 % in 2008 and 12 % in 2009. Sony has sold its simple Walkman around 1/6 worldwide comparable to (Credit Suisse) reports that Apple sold its iPods. And Sony also revolutionary coming with its eBook Reader and it is now traces Amazon's kindle and the play station- 3 sales supports lag behind to the Nintendo's 7974. T Wii. The difference between the competitors and the Sony is their earnings. Samsung and apple has showed the strong profit comparable to the Sony. The operating profit of the Samsung is rushed 5 % and the 12 % of its revenue was recorded, where Apple has recorded the it's more than 20 % profits and also rise of 12 % in the revenue. The changes that will starts in April 2009 placed both cost cutters and the software person in the key senior posts.

Strategies of Sony in Recession

Aim toward the better software and hardware link. Sony is trying to sell its off factories and saving 3. 1 billion dollars from that and restoring the supply chain and also the centralization of workings procurement for the collection electronics products. The CFO declares that Sony will continue to cut down the supplier's numbers that doesn't mean that company is just cutting it has also invested the 715 million pounds till April 2011 for strengthening the business of TV and also 1/3 of the joint venture with the Sharp to make TV

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panels of LCD. The improvement of link between the electronics and the digital content is the biggest challenge Sony is facing. At the end of May 2009 Sony has offered the free software download that will result that the Sony content management system to compete Apple's iTunes.

Q3. ‘ What if’ analysis of the possible financial performance that might have existed had the downturn not occurred?

What If There Was No Recession

If there was no recession Sony would have made a good profit margin during the year. We have seen that Sony Corporation has made a good profit and better earning in 2007-2008 but at the time of the recession and it was also capable to earn more profit in 2008 – 2009. In recession profit of the Sony Corporation has been affected a lot which scattered the Sony. But after the recession in 2009-2010 company as improved its earning and its return on investment and the return on sales. In recession Sony Corporation had decided to sell one of its off factory to restore the supply chain and also for saving some money. There would not be any cutting of jobs and the supplier but the recession had forced all the companies to do so. If there was no recession the company would have made the better relation between the electronics and the digital content, and which would have solved the biggest challenge of the Sony Corporation. Because of recession the company had beard a great losses as compared to its competitor like apple, Samsung, Panasonic etc. Sony has predicted the 2. 2 billion dollar operating profit during the period of the recession but this global economic crisis has ruined all the dreams of the companies.

Q. 4 CONCLUSION AND RECOMMENDATION:

After analyzing the whole financial statement I have seen that Sony Corporation has suffered a lot in the recession, profitability has gone down and the debt equity had been increased during the recession. And I have also analyzed that Sony has performed well during the recession as well as after the recession to recover all its losses and debts.

If we talk about the operating profit margin the Sony has suffered a lot in 2009 but it recovered it self in 2010 and had earned good profit but if we compare it with Panasonic, Panasonic was in better condition than the Sony. Sony has tasted the taste of negative earning where as Panasonic was remained positive with less loss.

In the case of net profit margin Sony has performed well compared to Panasonic. In 2010 Sony had -0.57 % as net profit margin and at the same time Panasonic recorded -1.39 % and in recession Panasonic had a great loss compared to the Sony.

Where as liquidity ratio is Panasonic was in better condition as in three years compared to Sony. Global economic recession affected the Sony more than the Panasonic. Where the cash ratio of Sony was less .08 % and Panasonic was .06 % up from last year. This shows the affect of economic crisis on both companies and also the result of that.

Sony Corporation should strengthen its TV business to improve its earning and also develop its business in the competitive market. They should improve the relation or link among the digital content and the electronics that may help Sony to eradicate its challenge that they are facing. And even

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they should go for the best software and the hardware link for its progress. Sony Corporation should centralize its working procurement for the electronics components collection. And also less cutting in the employment so the production will not be effected and also less cutting in the numbers of suppliers.