

The value chain analysis: sony



According to Porter (1985, cited in Gershon and Kanayama, 2002: 115), strategic planning is a set of managerial decisions and actions that determine the long-term performance of an organisation. Lasserre (2003: 33) agrees with this suggesting further that a company business strategy is a set of fundamental choices which define its value proposition to the market, how it intends to build and sustain a competitive business system and how it organises itself. This means in order for Sony to regain its global competitive advantage it has to develop effective business strategy, which will provide the organisation with clear direction, tactics, improved communication and as a result better organisational growth and performance (Yavitz and Newman, 1982: 10). However, in order to develop and implement right strategic decision Thompson and Martin (2005: 138-141) suggest that organisation have to pay attention to internal and external analysis. Conversely, they suggest that whilst analytical frameworks can provide valuable insight into many issues, by themselves they cannot provide the answers. Consequently, they provide a base for evaluating the effectiveness of current and proposed strategies.

Internal Factors/Analysis

In order to develop the right strategy the organisation has to take into account several internal factors that may affect business environment. (Thompson and Martin, 2005: 145-155) For example, analysis of strengths and weaknesses focuses on internal factors that may give Sony certain advantages in meeting the needs of its target markets, such as ability to (re)act to environmental influences quicker than competitors. (SWOT, PESTEL, Porter's 5. Appendix 1)

Culture

For example, understanding core competencies and culture will enable Sony to boast its organisational performance and thus increase its market share. Hofstede (1991: 50) agrees with this suggesting that strong culture enables employees to see the goal alignment and thus motivates them to higher levels of performance, as shared values make people feel good about the organisation and commit their capability and potential sincerely for the company, as a result, creating competitive advantage for the organisation. Deal and Kennedy (2000: 3-20) agree with it, suggesting that the more highly successful companies are those that exhibit a strong organisational culture. They also identify several component parts to a solid organisational culture, including values, heroes, and rites and rituals. For example, values are the intrinsic beliefs that members hold for an organisation. It can be said that Sony displays many features of a traditional Japanese company, for example there is a sense of family and/or missionary passion that is decidedly Japanese in approach. Most of Sony's top officials are also Japanese and together they share in the company's collective mission. Sony also carefully grooms its future leaders over many years of service. However, writers like Bennis (1986, Cited in Armstrong, 2006) oppose that the single most important determinant of corporate culture is the behaviour of the chief executive officer, as the CEO is the person most responsible for shaping the beliefs, motivations and expectations for the organization as a whole. The importance of the CEO is particularly evident when it comes to the formation of business strategy, for example, CEO Nobuyuki Idei has embraced the principle that digital communications must be at the centre of Sony's competitive business strategy (" Digital Dream Kid", 1996). Disregarding of <https://assignbuster.com/the-value-chain-analysis-sony/>

contrasting views, the above suggests that it is crucial for Sony to maintain and take pride in its organisational culture, as it will provide Sony with competitive advantage through attracting, motivating and retaining the best talent, promoting organisational values and believes, as well as promoting the spirit of innovation (SWOT, Appendix 1), as it will help the company to grow and develop, and thus achieve further organisational development.

Resource Based View

In order for Sony to achieve competitive advantage and organisational development, it may be suggested the organisation applies the Resource Based View (RBV) to strategy, which deals with the competitive environment facing the organisation taking an “inside-out” approach (Johnson et al, 2005: 114). Henry (2008: 129-150) agrees with this suggesting that RBV emphasises the internal capabilities of the organisation in formulating strategy to achieve a sustainable competitive advantage in its markets and industries, suggesting further that in some cases organisational capabilities may allow it to create new markets, such as Apple’s iPod and Toyota’s hybrid cars. This means that by analysis internal capabilities Sony can determine the strategic choices it can make in competing in external environment. Thus, for example, analysis (SWOT, PESTEL and Porter’s 5, Appendix 1) suggests that Sony’s strengths lies with its brand’s strong name and reputation for innovation and excellence, thus it may be suggested that by reducing portfolio of electronic goods and focusing attention on fewer products and new technologies, for example in TV market, organisation may once again become market leader. However, Henry (2008: 150) critiques that RBV shows very little on the vital issues of how resources can develop

and change, or become redundant over time. Priem and Butler (2001, cited in Henry, 2008: 150) agree with it, proposing that RBV lacks detail and therefore is difficult to implement. Porter suggests that although RBV may offer a good insight into current resource situation, other analytical tools have to be used to ensure a correct picture of internal environment, such as, for example, Value Chain Analysis.

Value Chain Analysis

Porter (1985, cited in Thompson and Martin, 2005: 251) argues that in search for competitive advantage a firm must be considered as part of a wider system – suppliers, firm, distributors, consumers – a supply chain, which is a process by which cost savings and service differentiation can be achieved. As part of the process of evaluating the strategic competences of the organisation a resource audit can provide substantial insights into the competitive possibilities open to the organisation. The model against which to do this is Porter's value chain (Appendix 2). Thus, value chain analysis may provide Sony with a framework for evaluating relative significance of various activities undertaken by an organisation, from the perspectives of cost and value added (Robson, 1994: 41). By applying the results of SWOT and Porter's 5 Forces Analysis to Value Chain of Sony it can be suggested that the organisation focuses on high-quality/high cost exclusive products, offering its customers excellent “ follow-up” Service afterwards. This suggests that Inbound Logistics and the retail Operations must be tightly managed to keep the cost of production and delivery down, and thus offer a higher profit margin. SWOT and Porter's 5 also suggest that Technology Development and Engineering would have to be reorganised in order to be

able to keep up with progress of the industry, and thus competitors. In order to achieve this, it could be suggested that Sony should reduce the portfolio of extensive product range and focus attention on best-selling and most promising products. Robson (1994: 45-48) suggests latter can be achieved by applying the Boston Matrix to product portfolio, as well as undertake the analysis of Core Competences offered by Prahalad and Hamel (1990, cited in Robson, 1994: 46-48) (Appendix 3). Similar to Inbound Logistics, it could also be suggested that Sony's Outbound Logistics, such as warehousing and distribution, would have to be re-organised in order to achieve most cost effective outcome. SWOT, PESTEL and Porter's 5 also suggest that Sony possess brilliant opportunity for Marketing and Sales, as the organisation owns Sony Entertainment and thus, is able to use media productions as an extensive " free" advertising for its product range. For example, using Sony laptops and other " gadgets" in new 007 blockbuster, to re-introduce the organisation to world-wide audience, as well as indirectly advertise its products.

The analysis of Support Activities, based on the outcome of SWOT, PESTLE and Porter's 5 also suggests several recommendations. For example, being global organisation, Sony suffers from a duplication of workforce (Human Resource Management). Thus, to reduce replication it could be suggested Sony performs major reductions in global workforce (Ferrari, 2012), which could potentially lead to easier flow of communication, and thus, quicker strategic and general day-to-day responses, and as a result, help return company to profitability. For Technology Development and Engineering analysis suggests that it may be worth drastically reducing product portfolio

(particularly portfolio of TV models). This could potentially drastically improve Research and Development, allowing it to keep up with technological progress, and giving it time to work on new technologies.

Baring in mind the above analysis, Henry (2011: 112) suggests that organisation's value chain activities represent the cornerstone of competitive advantage. And recommends that its value chain should not be seen as a series of independent activities, but as a system of interdependent activities, where each value chain activity is related to the others by way of linkages in the value chain. For example, Toyota's just-in-time production reduces inventory and material handling. Therefore Sony's competitive advantage can derive not only from the activities themselves, but also from linkages between its different activities, internal, as well as external. (Henry, 2011: 112)

External Factors

Stakeholders and Corporate Social Responsibility

Foot and Hook (2008: 23) suggest that there is a wider group of stakeholders that may affect business strategy. For example, apart from the shareholders, workforce, suppliers and customers, organisation may also be affected by local communities, government, and pressure groups. As Johnson et al (2005: 585) suggest it is impossible to meet the demands of all the stakeholders, as they invariably conflict. This suggests that Sony must prioritise stakeholder demands and thus, balancing out competing requirements create a strategy that will satisfy main stakeholder groups, will be in line with the Corporate Social Responsibility (CSR) of organisation, and

in its turn relate to the culture in which the organisation is operating. Thus for example, as it is the core corporate responsibility of Sony Group to the society to pursue its corporate value enhancement through innovation and sound business practice, the organisation conducts CSR activities with a focus on sustainability in two areas – trying to ensure sustainability of its business operations, as well as striving to contribute to the realisation of a sustainable society. For example, Sony has established effective systems for corporate governance and compliance to ensure sound business practices, such as, eco-friendly product cycle – from the materials Sony sources, recycles and reuses in manufacture, to the development of smaller packaging that takes less space for more energy-efficient transportation. Sony also believes in the importance of fostering diverse and lively workplaces and employees with a high level of social awareness, which in effect contributes to employee loyalty and thus, reduces staff turnover, which in its turn contributes to competitive advantage of organisation. (Sony, 2012)

Conclusions

Business strategy is a set of vital choices which define its value proposition to the market, how it intends to build and sustain a competitive business system and how it organises itself. In order to gain competitive advantage organisations may use internal and external analytical tools that will help build a good picture of environment of given organisation. These tools, such as SWOT, PESTEL, Porter's 5, RBV and Value Chain suggest that Sony remain a reputable brand, and providing a new strategy and allowing restructuring

of the business, may help it regain its competitive advantage in global market.

Sony also fully recognises that its business activities affect both society and the environment in direct and indirect ways, thus takes steps to minimise that impact to the best of its ability.

Recommendations

In order to regain its competitive advantage, it can be proposed that Sony undertakes a drastic restructuring of its business model. For example, it can be suggested that the company will benefit from either minimising the amount of factories across the globe and removing factories from areas affected by hurricanes and floods in order to minimise production costs. Conversely, as more value-added component sourcing, production and logistics may be outsourced to contract manufacturers and trading partners.

Portfolio of goods (especially electronic goods, and TV market) have to be reduced, allowing R&D to focus on “ bringing excellence” to Sony’s customers, keeping up with technological advancement and boosting competitiveness of products. The television business may also enhance integration with Sony’s mobile products and network services, as it aims to offer unique user experiences, drive hardware differentiation and enhance the attractiveness of Sony’s television line-up.

Now owning 100% of Sony Ericsson, with own tablets, VAIO PC’s and TV’s, Sony can increase product appeal by offering its customers special

programmes only available to share between those Sony products (to gain market-share of Apple's iPhone, iPod and Apple Mac).

A previous culture of inflexibility in product demand forecasting needs to be replaced with product demand sensing and response capabilities linked to constantly changing consumer needs and market trends.

Through developing these new strategies, accelerating selection and focus, Sony can invest in core and new businesses which could help to transform organisation into a more profitable structure with competitive advantage against its competitors.

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SWOT Analysis

Strengths

Over the years Sony has built a strong, reputable and well-known brand. This is highlighted by the fact that the company was labelled in a 2011 survey as Asia's most valued brand (Fatakia, 2012)

Sony's culture is aimed at nurturing talents, where organisation helps its employees to foster working practices that help to “ regularly replenish energy and build physical, emotional and mental resilience.” Sony culture emphasizes “ a spirit of freedom and open-mindedness,” and a fighting spirit to innovate as well as takes a ‘ Worksmart’ approach to help employees achieve an acceptable work/life balance (Sony, 2012)

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The company has established a broad sales network, registered in approximately 200 countries and territories (Tang et al, 2012)

One of Sony's greatest strengths is their ability to produce innovative, quality products, or as Sony's web page states " Sony innovations' have become part of mainstream culture" (Sony, 2012)

The company is synonymous with technological excellence and has a rich heritage of technological expertise. Besides creating the VCR, Trinitron, and Walkman, the company facilitated in development of the magnetic recording tape, the compact disc, and the Blu-Ray disc, used today as a medium for high-definition video playback. Its latest innovation, a Crystal LED television, was well received at the Consumer Electronics Show in Las Vegas (Fatakia, 2012)

Out of all its products, Sony's success with the PlayStation is most notable – it has been successful since launch, and still sees tremendous consumer demand – as by 2000, it was accounting for a third of Sony's operating profits (Glendinning, 2012)

Sony has a number of Japanese and foreign patents, and is licensed to use a number of patents owned by other organisations. Sony considers their overall license position beneficial to their operations (Tang et al, 2012)

The release of PlayStation 2 triggered a high rise of shares (\$300 per share, an all-time high)

Sony has a strong position in the entertainment industry with Sony Music and Sony Pictures, which has been beneficial to the company by off-setting losses in its electronics/consumer-products division

Sony also provides financial services, such as life and auto insurance and banking, that accumulate

Weaknesses

The high cost of media production, especially in its television business, as well as loss of market share to “cheaper” manufacturers, such as LG and Samsung, has affected the company’s pricing strategy. In addition, instead of forecasted loss of \$2.7 billion during the fiscal year that ended 31 March, the organisation is now expecting to suffer a loss of \$6.3 billion due to cumulative losses of consolidated deferred tax returns and additional tax expense for the transfer of profits between Japan and selected Sony’s overseas subsidiaries (Sony, 2012)

While diversifying into too many business segments, Sony has shifted its focus from its core competency – making great consumer-electronic products. This has resulted in a distortion in Sony’s brand. Apple, which is also in the consumer electronics space, has managed to focus on just a few products, build competency, and make them incredibly successful (Fatakia, 2012) Furthermore, the product lines have few connections between themselves, and therefore do not generate many network externalities or cost advantages (Tang et al, 2012)

The current financial performance of organisation is weak, showing high liquidity risks, decreasing sales, slowly recovering profitability, low operating

efficiency, underperforming stocks, and low investor confidence (Tang et al, 2012)

The current management team has been relatively conservative, with departments working in silo, which led to little, if no flow of communication. While restructuring has frequently been implemented, it was usually done on a small scale. Strategically significant mergers and acquisitions were seldom conducted (Tang et al, 2012)

As Sony expanded into more segments and geographic locations, they became more sensitive to exchange rates and interest rates that are exogenous factors out of Sony's control (Tang et al, 2012)

Japanese laws and the country's lingering culture of lifetime employment limit the ability of Japanese firms to close plants and shed jobs, thus resulting in incapability of the organisation to quickly adapt to fast-changing market environment, thus resulting in further financial losses

Opportunities

The company has the opportunity to enter the healthcare-imaging sector, as in September Sony agreed to invest 50 billion yen in Olympus, the world's biggest maker of endoscopes. Under agreement, Sony will by 11.46% stake and become the largest shareholder in two steps. The two companies are planning to set up a joint venture by December 31 to develop, make and sell new endoscopes and other medical devices (Yasu, 2012)

Sony Google TV, and particularly Nexus Q has a potential of regaining its TV market as, in comparison to Apple TV, Roku and similar products, Q is the

only product that combines streaming internet content to a TV with a built-in 25 watt-per-channel sound amplifier that can run two sets of speakers. And its the only streaming TV product that allows itself to be controlled by more than one device simultaneously. And one thing Google has been making a point of saying about the Nexus Q, that Apple cannot say about any of its products, is that it is “ Designed and Manufactured in the USA”, thus making it more attractive to those customers who are concerned with the ethics behind product manufacture (Kosner, 2012)

As the organisation wanted to integrate its phone division with its mobile games machine and tablet computer units, the purchase of full control of mobile phone maker Sony Ericsson may give Sony the opportunity to act independently and innovate its smart phone and tablet market. The transaction that also includes patent, which is an important component of success in the smartphone arena, as it can give organisation the right to block sales of the competitors and vice-versa. With already established network of marketing, distribution and retail channels, it may help push through the products much quicker (Singh/BBC News, 2011)

The company can take advantage of its movie and music business along with its experience in the gaming space to deliver value-added content to support and integrate its product line. It has talked about doing this with a four-screen strategy, which looks like a good concept (Fatakia, 2012)

Kazuo Hirai, appointed CEO of Sony in February 2012, might bring changes to the company. His expertise in computer entertainment and PlayStation might bring more focus to the firm’s product lines (Tang et al, 2012)

Threats

As many of Sony's manufacturing plants are located in Japan, area that is prone to tsunamis and earthquakes, the company faces a constant threat of damage to the facilities and machinery and thus, disruptions in production line, which may lead to further losses of operating profit

Organisation faces strong price competition from competitors such as Samsung, LG and even Tesco's own electrical goods line Technika, who are gaining attraction from customers with lower-cost products such as televisions and mobile devices (Fatakia, 2012)

Introduction of Apple TV, " interactive television" increased falling demand on Sony products as consumers switch to Apple (Kosner, 2012)

Foreign exchange rate fluctuations can affect financial results because a large portion of Sony's sales and assets (more than 75%) are denominated in currencies other than the Yen (Tang et al, 2012)

Threats from hacking attacks. Hacking attack on the company's PlayStation network resulted in leakage of confidential customer data, such as credit-card information

As the global recession continues, consumers are no longer spending much money on electronic products, as they now have smartphones to satisfy most of their needs (Kosner, 2012)

Sony's business restructuring and transformation efforts are costly and may not attain their objectives (Tang et al, 2012)

PESTEL Analysis

Political

Businesses can be affected by many aspects of government policy. In particular, all businesses must comply with the law. They must also consider the impact of any forthcoming legislation on their operations. Subsequently, this may require taking action before the legislation comes into effect. (The Times 100)

One issue that affects manufacturers and retailers of electronic goods is the disposal of these products. Thus, recycling is high on the public agenda. There are government initiatives to promote more recycling, which are often backed by legislation. (The Times 100)

As the global recession had a negative effect on the economy of many countries, governments had to adopt a “ nationalist approach” in an effort to stabilise their domestic economy and become more self-sufficient, by for example, raising trade barriers, such as taxes, tariffs and quotas. (Business Europe, 2009) This means Sony, alongside other multinational organisations was affected by decrease in exports and/or heavier import/export costs which may have reduced its global profits.

The Government also has the power to change minimum wage, tax, VATs and other expenditures. This means even higher expenditures that, as the report shows, may be critical for the “ bottom line” of the organisation. (Sony, 2012)

Economic

The global recession has been a threat to Sony since 2009, as Consumer Electronics for Bloomberg Business Week reported on July 30, Sony posted a \$271 million operating loss for the April-June quarter, down from a \$772 million profit in the same quarter a year ago, revenues dropped 19%, to \$16.8 billion with the forecasts for an operating loss of \$1.16 billion in the fiscal year through March 2010. (Consumer Electronics, 2009)

Additionally, the strength of the yen against the dollar and the euro has reduced Sony's exports making products less competitive and as a result reduced organisational revenue, especially in overseas markets (Sony Annual Report, 2009; Hall, 1992)

Social

One of the most important social trends of new generation is the development and increase in use of internet activities, such as online shopping, social networks and media on-demand. The Net Generation also demands its products to perform fast (Tapscott, 2009: 15), and be of high-quality and multi-functional (Sony Annual Report, 2009). As the new generation likes to be creative and be able to personalise its products, the technology have to offer high quality art applications that will allow them to do so.

As video games are gaining an enormous place in society – most kids are exposed to video games in some sort of capacity growing up, Sony have to ensure that their technology does not lose competitive advantage to their opponents, such as Wii (Nintendo) and/or Xbox (Microsoft).

Technological

The electronics industry is very well known for the fast development of the cutting edge products that facilitate our everyday life and business.

Introduction of the internet, smartphones, as well as recent development of TV's that are connected to the internet shows a direction for “ smart”, multi-functional devices. This means, in order for Sony to keep up with its main competitors, such as Apple, the organisation has to adopt the same strategies and be able to offer its customers high quality multifunctional products.

Environmental

Electronic devices that improve our quality of life are at the same time posing a great threat and contribute immensely towards global warming (East, 2007). Almost 50 million tons of electronic products are disposed of each year, and the figure continues to grow as the lifespan of new devices continues to fall (The Video Game Industry).

As a leader in the consumer el