

An analysis of the sony corporation



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Current Activities

Today, the Sony Corporation is a multinational conglomerate headquartered in Toyko, Japan. The company is one of the world's largest media conglomerates and is one of the leading manufacturers of electronics, video, communication, video games consoles and IT products for the consumer and profession markets. However, Sony is better known for its high quality consumer electronics, which account for 61% of total revenues. In 2008, the company had revenues exceeding ¥7. 730. 00 Trillion or \$78. 88. (Rugman, 2009)

Products

Modern day Sony is known for its innovative products such as; the Triniton colour television; Bravia High Definition television; Playstation video console; VAIO laptop; Music mobile phones; Walkman and Discman personal stereos.

(See Appendix B. – For a list of Sony's product)

Modern Strategy

Culture Industry and Media Synergy

Sony is recognised as a total entertainment company. This means it is no longer simply a manufacturer of technological hardware but is an integral part of a ' culture industry'. Sony likes to adopt a ' media synergy'.

This term was employed to refer to a strategy, adopted by many hardware and software producing companies of attempting to synchronize and actively forge connections between directly related technologies and areas of entertainment. (du Gay, 1997)

Products

For its audio-visual products Sony's strategy boils down to producing audio, visual and electronic gadgets and controlling the content that goes through them. For example, Sony's successful Playstation 2 games console allows the company to provide the hardware necessary for the firm to capture the games market. (Rugman, 2009)

The strategy reflects Sony's 'media synergy' which came partly from an acknowledgment that Sony's Walkman¹ was useless without the cassette that was inserted to it, which was in turn useless without the musical recording artists and the company's Betamax videocassette² - recorder was useless without video-cassettes of films and music. (du Gay, 1997)

Moreover, the outright ownership of CBS (music), MGM (movies) and Sony BMG (Music) allows the company access the film and movie industry and music artists. These are forms of entertainment which are viewed and listened to via Sony's products.

Market

To support the company's commitment to succeeding globally and understanding how business is performed elsewhere, the company seeks to fit into host country communities. Therefore Sony seeks to:

Hire locally

Strike a balance between the home culture and local culture

Participate in the local community.

In addition, Sony prefers to list the company on the local stock exchange; appoint well respected local executives to the Board of Directors; and create a local product distribution system. (du Gay, 1997)

Internationalisation History

Sony's entry into foreign markets appears to have followed the typical internationalization process. (See Figure 1. 1) The company initially obtained a license from a US company, Bell Lab, in order to recreate the transistor technology in its radio. These products were produced with success and first introduced to the local Japanese market. The products were then exported to markets of similar consuming habits. Export of these goods occurred via a distributors and then some time later through the company's own subsidiaries. Factories were then established in different markets, where products could be produced closer to the export market and at a cost discount. The final stage of the FDI process occurred when Sony embarked upon opening its own R&D and marketing facilities, enabling lasting market presence and understanding of foreign markets.

The growth of Sony as a company and its technologies occurred within a process of interaction between the US and Japan. As the company grew, Sony executives gained knowledge from constant visits to the US, acquired the rights to produce transistors from the US and found that North America provided a major market for its audio-visual products. The adoption of the name Sony and the standardization of products such as the Walkman were adopted with the aim of being a ' global' brand (du Gay, 1997)

Sony first embarked upon FDI via a wholly owned subsidiary in the US in 1960. However, over the last 60 years it has engaged in Joint Ventures (JVs), Mergers and Acquisitions (M&A) and Strategic Alliances. (E. G. Sony-Ericsson, Sony-Microsoft and Sony-Sharpe)

Throughout the 1980s two important developments indicate how Sony began actively extending its presence as a global corporation. First, the company aimed to operate in all markets across the world, to reach as many potential consumers as possible. Second, the company aimed to reorganize processes of production in such a way so that they would not be limited to the constraints of the nation state. In such a case, a particular concern was how the effectiveness and international competitiveness of Japanese companies were constrained by the value of the Japanese YEN. This meant that goods produced in Japan were more expensive when exported and in competition with those in other parts of the world. (du Gay, 1997)

To pursue these aims, Sony adopted a strategy of globalisation that involved moving their manufacturing and marketing operations to different locations around the world and setting up ‘local’ operations in different locations around the world. (du Gay, 1997)

One of Sony’s motives for moving its manufacturing operations was a straight-forward attempt to follow its competitors and reduce labour costs. For example, the first Walkman’s were manufactured and assembled in Japan so that the company’s management could be close to operations and make any necessary modifications, once up and running and not requiring so

many modifications, additional assembly factories were established in Malaysia and Taiwan. (du Gay, 1997)

The gradual move came to move operations so that they could respond directly to local conditions. For example, Teletext was developed onsite in the UK and Triniton TV was developed locally in France. (du Gay, 1997)

An additional practical consideration was that by establishing and presenting themselves as a local company, Sony could use various national and pan regional rules and regulations to gain the most appropriate and cost effective environment to manufacture and produce its products. The company could exploit cheap labour in Malaysia, take advantage of grants there were available to attract new electronic industries in the UK. (du Gay, 1997)

In the 1980s – 1990s, Sony began to rapidly expand into Europe. (See Appendix A- history timeline). Sony was vigorous in its international expansion. The company chose to expand into similar markets, such as US and Europe. These markets had large populations, high incomes per capita and a consumer culture. Therefore, the other two TRIAD regions were good markets to promote and sell Sony products.

The company's strategy is to be present in its market of distribution and therefore it established a number of factories to develop and distribute its products. The objective is to understand the local market and consumer demands. Sony has a strategy of introducing its products first to its local market (Japan), testing consumer preferences and then introduces these products to its international markets.

The adoption of the name Sony (in 1957) was also an attempt to communicate the brand and its products to the market. Sony was able to do this over a significant period of time. Sony learnt significantly from technological, productivity and efficiency improvements this was a stimulant for its international trade and the international product life cycle. (Vernon, 1966)

Today, Sony has developed a strategy to not only create technology but to control the content that goes into them. Therefore Sony has embarked upon a number of M&As. First with a 50/50 JV with CBS, which Sony eventually bought outright and also a venture with Columbia Tristar Pictures, MGM, BMI and a number of media companies. Sony has also embarked upon JVs with software companies such as Microsoft. The company's strategy is to be present across all levels of the entertainment industry.

CASE STUDIES

SONY WALKMAN

Walkman is a trademark of Sony Corporation, used originally to market its range of portable audio players. In July, 1979, the original Sony Walkman portable music player the TPS - L2 was introduced. Sony promoted the concept of 'enjoying music, anywhere, anytime' using industry advertisements featuring celebrities with the product. The first Walkman was marketed under the Walkman brand in Japan, but in other markets it was originally sold under various names including 'Soundabout' (USA), 'Stowaway' (UK) and 'Freestyle' in Australia. Walkman players become very popular in Japan and foreign tourists visiting Japan who bought them as

souvenirs, this prompted Sony to standardise the name to 'Walkman' worldwide (Uggla and Verick, 2008)

SONY-ERICSSON

Sony Ericsson was established as a 50/50 Joint Venture in 2001 by Sony and Ericsson (a mobile communications infrastructure and systems business based in Sweden) Sony Ericsson functions as a separate entity – designing, producing and marketing cellular phones and accessories. It had revenues of 13 billion euros in 2007, from the sale of 100 million units which is a global market share of 9%. (Uggla and Verick, 2008)

Sony Ericsson had recognised a segment for dedicated music phones various MP-3 enabled handsets were on the market but there was little differentiation among them. Sony Ericsson decided to investigate and launch a 'music phone'. The company decided to incorporate Walkman into the music phone branding. Sony established that Walkman branding encouraged around 67% of people to buy the phone by adding 'credibility' to the music player. (Uggla and Verick, 2008)

Internationalisation Theories

The following trade theories are applicable to Sony's process when entering new markets:

Dunning's Eclectic Paradigm of Internationalisation

Sony was able to successfully expand abroad due to its firm specific and intellectual competitive advantages. Furthermore, the company had successfully established itself in its home market and generating sufficient expertise to export its high-tech consumer electronics abroad.

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FSA – Sony possesses FSAs through the development of intellectual capital. In addition, the Sony brand names (e. g. Walkman, Playstation, Triniton, Bravia) carry significant worldwide consumer value

Due to superior FSAs over both domestic and international rivals Sony was able to engage in FDI. Amongst other things Sony's first FSA was its transistor technology. Through this, Sony was able to differentiate itself from its rivals. It was able to provide high tech, desirable products.

Sony's FSA also came from its personnel. The company's co-owners (a Physicist and an Engineer), managers and other employees were of high quality, possessed a high degree of technical know-how and desire to improve the company's industry position.

Internalisation – Sony possesses know-how and competitive advantage through the development of its products first at home and then applying this knowledge to foreign markets such as the USA and Europe. As previously mentioned Sony was able to acquire foreign technology. The technology licence provided access to the transistor and allowed Sony to gain foreign technological know-how.

According to Dunning's Eclectic paradigm Sony's strategy allowed the firm to acquire an intangible asset (transistor technology) apply this technology to its products, and then create a firm specific advantage. The intangible asset provided Sony with an exclusive piece of know-how that was specific to the firm.

CSA – Sony embarked upon FDI through the sale of its products not only in its home market but also in the US, Europe and eventually the rest of the world. For example, once the transistor had been applied to its radio, Sony sold this item in markets with similar tastes and income per capita. For example, after introducing the TR-55 radio to Japan in 1955, Sony then exported and sold its radios in the US and next Europe in 1957.

This could not have occurred without the existence of consumer demand. Sony also took advantage of favourable industry subsidies and national legislation, which encouraged the presence of high tech industries for example, the opening of Bridgend Factory in Wales.

According to the eclectic paradigm, all three of the conditions necessary for FDI were present when Sony started its internationalisation process. Sony sought to increase its internalisation advantages and reduce transaction costs, through the purchase and development of new technology and reduce transaction costs through the establishment of its own subsidiary and factory. Sony's actions increased its firm-specific advantages, through know-how and innovation. The company internalised and possessed an advantage over its rivals by retaining the technological know-how, rather than licence it to its competitors. Sony reduced the risk and threats from competitors by retaining its knowledge.

Distribution

Sony's Initial decision to export its products via a distributor illustrates that company saw value in having a presence within the US market, but the company lacked significant knowledge of the market to justify distributing

the products itself. Moreover, it was profitable to export products to the US as there was an abundance of wealth, the US consumer culture, and retail distribution networks. However, trade barriers, import taxes and unfavourable distribution contracts eventually led Sony to establish a subsidiary within the US market.

Overseas Production – Malaysia

Furthermore, Sony eventually located part of its production process to Malaysia. This occurred once the company was satisfied with its local and international products. This also occurred in order to offset the rising costs in the home market, Japan. Sony was able to engage in FDI to Malaysia as the company had generating sufficient amounts of FSAs and ISAs.

Uppsala Internationalisation Process Model

Part of Sony's business strategy is known as localisation, which is the commitment to gaining market knowledge, cultural understanding and business expertise. Sony has initially licensed its transistor know-how from the US, it was decided that the company should also introduce its products to this market. The Uppsala model can therefore be applied to Sony's internationalisation process.

When Sony first entered the US and Europe markets, the company knew little about local consumer demand. The attractions were solely the educated populations, high incomes per capita, government trade measures and distribution networks. In addition, Sony believed that consumers in these markets were similar to those in Japan.

When Sony Executive visited the US and Europe, they collected data collection and studied local consumer demand, at this point it was decided to export products to these locations. Sony then committed itself to further to the US and then Europe, through the establishment of its foreign subsidiaries, Sony America and Sony Corporation S. A. in 1960. The establishment of these subsidiaries resulted in further FDI, through distribution systems, marketing campaigns and listing on the local Stock Exchange.

Sony was able to overcome some of its foreign company disadvantage as it's held a constant presence within the local markets. The company committed itself to understanding how consumers behave and their reactions to new products. Sony was eventually able to engage in FDI as it gained significant knowhow, from exporting, distributing and establishing its own subsidiary, reducing transaction costs. Sony also used its current operating model and consumer tastes to establish itself in markets which it believed to be similar its own.

For example, when Sony introduced its VAIO laptop to the US, the price and high technical specifications unlike Japan, were not popular with US consumers. Sony eventually modified its laptops to US consumer tastes. This led to a reduction in price and operating features which US consumers preferred.

Joint Ventures (JVs) and Partnerships

Sony's JVs, partnerships, mergers and acquisitions can be understood through the application of the Uppsala business model

The JV with Ericsson allows the company to gain a first mover advantage from standard setting in the mobile telecommunication industry. Also, the JV allows instant access to the European consumer markets. The company seeks to gain an understanding of these distinct markets but does not have the time and know how. The JV establishes instant knowledge, with reduced acquisition times, creating instant presence and expertise within these markets.

Hymerian Theory – Monopolistic Advantage Theory

Sony's issuance of ADRs in the early 1960s can be understood through the Hymer's theory of Monopolistic Advantage, Market Power approach and Product and Factor market imperfections.

Sony was able to exploit market imperfections as it could overcome threats from local firms due its ownership advantages (superior technological know-how, economies of scale at home) and other internalised advantages (managerial experience, product developments, existing supply chains, cost advantages). This allowed Sony to obtain favourable political ties, market connections and social positioning; despite the fact Sony was a foreign firm. It was therefore advantageous for local Americans to take an equity position within such a rapidly emerging company.

Moreover, Sony was operating in an oligopolistic market, according to Hymer's theory of Monopolistic Advantage; FDI takes place in such markets or industries rather than markets or industries operating under near perfect competition. Markets imperfections, allowed Sony to obtain global competitive advantage. Company's which offer investors consistently high

rates of return, due to good products and consumer confidence is attractive to investors. Further investment into Sony, allows it to maintain its position of technological superiority.

In addition, Sony's technological expertise meant that its products were attractive not only in Japan but throughout the rest of the world. But, Sony initially lacked knowledge in marketing and distribution and so initially used a distributor partner to export its products. This eventually changed when Sony acquired its own distribution system.

For example, when Sony first introduced the Walkman in 1979, it did so in its home market first and followed this by introducing it under different brand names, 'Soundabout' (USA); 'Stowaway' (UK); and 'Freestyle' in Australia (Ugla and Verick, 200) The company eventually standardised the Walkman name in the early 1980s. The adoption of the name was to communicate the brand and its products to the market. Sony was able to do this over time and learnt from technology and efficiency improvement which its applied it each of its markets.

Product and Factor Market Imperfections

Sony embarked upon FDI as it understood it was able to overcome threats from local firms.

Sony's strategy is to understand its consumer's locally. The company therefore engages in R&D and production in most of its subsidiary locations or within close proximity. This is so that it understands consumer tastes and local demand. This strategy can be explained using Caves, Product and factor imperfection.

Sony is a market leader and so has superior technological experience and finance to establish local R&D and production facilities to understand and satisfy consumer sensibilities. This provided an advantage as the company could combine its know-how, to create products that rival indigenous firms.

Internalisation Theory

This applies to Sony as the company chose to enter the US under its own brand name as opposed to developing the technology and then selling it on to another company. It retained the knowledge, applied it to its new markets and gained an understanding of consumers in these locations. The company also established subsidiaries as opposed to export via distributors.

Market Power Approach

This theory applies to Sony through the number of mergers and acquisition the company has engaged in over the last 30 years.

Sony has embarked upon a number of mergers and acquisitions throughout its history. The company's strategy is to own not only the content of its technology but also the means by which this technology is used. This has encouraged Sony to acquire music, film, and gaming companies, in order to better understand its consumers but also dictate the market. For example, the company has increased its power by being dominant within consumer electronics both nationally and internationally.

In 2001, the 50 /50 Joint venture with Ericsson (a mobile communicate infrastructure and systems business based in Sweden) created a separate entity whereby Sony designs, produces and markets cellular phones and accessories. In 2007, the company had revenues of €13 billion, from the sale

of 100 million units which is a global market share of 9%. (Uggla and Verick, 2007)

The partnership between these two firms establishes the argument that international production is conducted between industrialized countries and their companies. Moreover, this partnership was established so that both companies could gain a competitive advantage over domestic and international rivals. The ability of both companies to exploit the know-how of the partner and move into new industries can be understood through the market power approach. Sony is now active in the global mobile telecommunications industry. This has allowed it to internalise it's know how further, and provided instant market presence within a new industry and new international markets.

Word Count – 3, 419

Figure 1. 1 – Internationalisation Process

Figure 1. 1 - Entry into foreign markets: the internationalisation process

(Source: Rugman, 2009)

SWOT Analysis

STRENGTHS

WEAKNESSES

Sony is a large corporation, it is able to concentrate and dedicate manpower to product quality, R&D, marketing, distribution, etc.

The company has very few time and financial constraints.

Brand names and company know how

Internal management

Key products – e. g., Sony Playstation

Sony designs, manufactures and sells its own products.

Sony's return on investment has been low because of the large amount of capital dedicated to its factories. Sony's Return on Equity is typically around 5%, this could be higher.

Large workforce

OPPORTUNITIES

THREATS

Focus on BRIC and emerging economies

Continue seeking diverse JVs with industry leading companies e. g., Sony Ericsson

Continue to develop and improve key consumer electronics, TV, computers, MP3 and wireless technology

New growth areas – Mobile phone internet technology

Outsourced manufacturing to increase Return on Equity

Large Organisation – Must remain streamline

Economic slowdown

Interest rate differentials

Flat sales, falling profit margins

Late comer to key electronic sectors, such as flat-screen TVs and digital videodisc recorders.

Appendices

Appendix A. – Timeline

In 1952 Totsuko (Sony) launched a successful tape-recorder business

In 1955 Totsuko adopted the name Sony, it was believed that the name had not only universal appeal but also easy to pronounce. The company also launched its first Transistor Radio the TR-55 in this same year.

In 1955, Sony enters into an agreement with Delmonico International to distribute its products within the US. In December, 1958 Sony launched its pocket sized radio the TR-63 to the US market.

In January 1958, Sony is listed on the Tokyo Stock Exchange. In 1959, Sony decides to distribute its own products. (To protect its brand name)

The group established Sony America and Sony Overseas S. A. established near Zurich, Switzerland, in 1960. The group launched the world's first direct-view portable TV, the TV8-301. (Datamonitor, 2008)

In 1961, the group was the first Japanese company to offer shares in the US, in the form of American Depository Receipts (ADRs) on the OTC market of the New York Stock Exchange. In the following year, the group launched the world's smallest and lightest transistor TV, TV5-303. (Datamonitor, 2008)

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In 1968, Sony (UK) Ltd. was established in the UK (later recognised as Sony UK Ltd., in 1993). The CBS/ SONY Records Inc. a 50 – 50 JV with CBS Inc of the US was also established this year.

In 1970, Sony's shares were listed on the New York Stock Exchange. In 1971, Sony launched 3/4 -inch u-matic colour video cassette recorder.

(Datamonitor, 2008)

A factory was established in San Diego, California, in 1972, followed by a factory in Bridgend, Wales in 1974, which served both the UK and Europe. The Betamax VCR, the SL-6300, the world's first home -use video system was introduced in 1975. (Datamonitor, 2008)

In 1979, Sony Prudential Life insurance Co. Ltd, the 50-50 joint venture with Prudential Insurance Co. Of America, was established. (Datamonitor, 2008)

In 1979, Sony launched the Walkman, the 3. 5 inch micro floppy disk drive in 1981; the world's first CD player in 1982; the first consumer camcorder in 1983; 8mm video in 1988 and the first digital VTR in 1985. (Datamonitor, 2008)

In 1988, the group bought CBS Record to form Sony Music Entertainment, and in 1989, the company purchased Columbia pictures, forming Sony Pictures Entertainment Inc., in 1991. (Datamonitor, 2008) In 1990, Sony acquires 12 business including CBS records INC and Columbia Tristar Pictures.

In 1993, Sony Computer Entertainment Inc, was established, during the same time Sony launched the VAIO a home-se PC series. (Datamonitor, 2008)

In 2001, the group established Sony Bank in Japan and Sony Ericsson Mobile Communications. (Datamonitor, 2008)

In 2001, Sony Ericsson Mobile Communications established

In 2002, Sony absorbs Aiwa (a form Japanese audio & visual manufacturer) via merger

In 2003, Sony launched the world's first next generation high capacity optical Blu-ray Disc recorder BDZ-S77. (Datamonitor, 2008)

In 2004, Sony established a music distribution company, Sony BMG Music Entertainment. (Datamonitor, 2008)

In 2005, Sony completed the acquisition of Metro-Goldwyn-Mayer (MGM), one of the world's largest privately held, independent motion picture, television and home video companies. (Datamonitor, 2008)

In 2009, the Sony decided to form a joint venture (JV) with Sharp Corporation. The JV which will be established in March 2010, will engage in the manufacturing and sales of liquid crystal panel and liquid crystal module. (Datamonitor, 2008)

Appendix B. – Sony’s Main Brands

Name

Type of product

Bravia

Visual

Cybershot

Phone

Discman

Audio

Playstation (2&3)

Games Console

Trinton

Visual

Walkman

Audio

Source: Datamonitor – Sony Corporation

Appendix C. – Sony’s Main Competitors

Source: Datamonitor – Sony Corporation

Appendix D. – Sony’s Business Activities

Sony operates through five segments; 1. Electronic, 2. Games, 3. Finance, 4. Pictures and 5. Others

Source: Datamonitor – Sony Corporation

Source: Datamonitor – Sony Corporation

Source: Datamonitor – Sony Corporation

Source: Datamonitor – Sony Corporation

Source: Datamonitor – Sony Corporation

Appendix E. – Sony Products

Source: Datamonitor – Sony Corporation