Sony Essay, Research Paper

Sony’s current financial difficulties are tied into its corporate culture, which were stated over 30 years ago. With such a large multinational corporation, greater planning and more use of strategies should be pursued. Sony could start with the implementation of a new mission statement, with profit and benefits of the company tied more closely to everyday operations. Internally, the four forces, the management, the designers, the production and the marketing should achieve better communication and cooperation. Alliance and cooperation between competitors should also be actively sort after in order to create standards in new fields. Sony should aim at being the leader instead of being the maverick. As for cost cutting, Sony should seriously consider setting up operations in other Asian countries in order to take advantage of the cheap labor and the budding markets. Finally, diversification, instead of pursuing the fast changing and easily imitated consumer goods market, Sony should use its technological know-how for high-end business and office equipment. With SWOT analysis and Porter’s competitive forces model, we can view that the market is much more competitive with less profit margins and lead-time for product innovation. The conclusion is that change is needed in Sony. However, even with strategicial and structure change, the Sony spirit of innovation should remain intact because that is what made Sony grow and would make it stay strong.

Introduction

The first thing that comes to peoples minds of the company and products of Sony is its

High-technology-filled-with-gadgets electronic goods and innovation. It was also this innovation that make Sony the greatest company that started in post-war Japan. Sony has

used its innovation in building markets out of thin air, created a multibillion, multinational electronic empire with products such as the transistor radio, the Trinitron, the Walk-in and the VTR. That changed everyday household lives forever. However, this consumer targeted quest for excellence and constant innovation instead of targeting mainly at profit also has a lot to do with current crisis Sony is facing – sales and profits are down or are slowing down, capital investment cost and R&D are climbing, competitors are moving in with copycats, the battle between VHS and Beta and the search for a smash hit product such as the Trinitron or the Walk-in. This volatility and emphasis (or gambling) on new products instead of concentrating on profit and loss statements have always been a part of Sony since its beginning days. For each successful product (i.e. transistor radio and Trinitron), R&D cost often ran so high that they pushed the firm to the verge of bankruptcy. This can also be seen through the eyes of the investor in which although sales have increased tremendously throughout the past twenty years, the stock price has remained relatively low. History and Culture The current Sony Corporation has a unique culture, which is firmly rooted in her history especially in relationship to her two founders, Masaru Ibuka and Akio Morita. Ibuka and Morita were both dedicated electrical engineers and geniuses above their business talents. Both gave insights and visions in what the company should make and how it should be made. Ibuka, especially, gave constant advice and suggestions to the engineers involved in projects from the earlier on transistor radios to Walkmans. This created the umbrella strategy in which Sony operates under where the top management, especially Ibuka, Morita and now

Norio Ohga gave the general direction in which the lower engineers actively learned, developed and improved on the vision/idea. Therefore, although there is a planned direction, the actual product development through launching is emergent with great flexibility. Although the research and development section of Sony differs greatly from other companies with its great flexibility, Sony, in its essence is still a traditional Japanese company in many ways. There is lifetime employment, with strong norms and values, which in turn create strategies through their actions. Status is given (the crystal award) instead of bonuses (not significant amount) for superior achievement. There is also the strong seniority system such as the mentor and apprentice relationship that is typical of a Japanese firm. All this can be classified as the cultural school in which strategy formation is of collective behaviour. Collective vision and stress on human resource, which is typical of many Japanese, can be clearly seen in the mission statement “Management Policies”. Weaknesses and Threats Referring to Exhibit 1, sales has slowed down considerably since the beginning of the 80s. In the domestic market, sales actually decreased by 7.22%. The overseas market expanded both in real terms and relative to total sales, but slowed down to around 10% a year. This can be seen as the vacuum period between one hit product, the Walkman, and its succession. As mentioned by Ibuka, business is conducted in a ten year cycle. However, in the eighties, the product might still take a few years to develop, but the time reaping the results and profits might be much less. As seen in the VTR example, both the VHS and Beta were developed by Sony. However, in a short time, Matsushita could come up with a competitive product based on Sony’s technology. Therefore, it is fair to say that other electronic firms would

be able to copy Sony’s technology in a much shorter time while offering more competitive prices. The margin for technology advancement is therefore diminishing.

Associated with innovation is the capital expenditure cost and return on investment ratio. As seen from Exhibit 1, capital expenditure has risen dramatically, especially in

1981, due to the automation of plants. However, the return on investment has decreased. Spending around 10% of sales on capital investment is by all company standards an

extremely high figure. The question is that does this high rate of investment represent corresponding growth in profitability? As mentioned above, the diminishing returns

from product innovation is apparent. However, the internal dimension also poses as much of a problem. With its great freedom, research and development are divided into small

teams which are free to pursue their interest with little reference to “how it will fit into a market, what the product can do, how well it will function or how it could be used by

customers.” Secret projects without management knowing about them until “secret reports” are submitted are of common practice. With this kind of practice, there is lack

Of communication between management and R&D and threat of duplication of resources among the small groups. There is also a lack of general direction. This would be especially prominent when Ibuka and Morita, the symbolic leaders and founders retire. This is because the two in many ways act as the main guidance and bridge between

management and the engineers. Therefore, there is also a succession problem. Sony has always been a leader in technology, creating markets by looking for new markets

where bigger, well-established companies are not a threat. However, new products such as VTR, the Walk-in and the Mavica involve both hardware and software. Sony can no

longer just produce superb quality machines and expect them to sell. The software would also have to be available. For the Walkman, cassette tapes were well established but

for the Beta system and Mavica, a standard has yet to be set. For example, the images of Mavica would be held on a high density magnetic disk but Kodak, 3M and Sony all have different systems and are not compatible. The Mavica system also stands alone with little compatibility with conventional systems and little transitional interfaces. This leads to the problem of cooperation where Sony is often the maverick, alone creating markets. With Sony entering markets such as the VTR with no standards, it might be beneficial to both Sony and other vendors if they cooperated instead of competing on conflicting software

that supports the systems. This could also be seen in Exhibit 2, the Porter competitive forces mode: new entrants from other Asian countries, other Japanese industry competitors, substitutes and buyers are all strong and much stronger than 20 years ago which reinforce the weakness of Sony acting alone. Last but not least, Sony lacks strategy. Product development, manufacturing and marketing are all well established but the firm lacks any formal long term direction. The original mission statement is also outdated with its references to W.W.II. Short term strategy is also lacking and there is little emphasis on profit and accountability of research and development of products. The result: a company with strong components but unable to coordinate in a coherent way in order to achieve maximum potential. Strengths and Opportunities The greatest asset of Sony is of its human capital, especially its engineers which make up the R&D department. Their constant innovation is crucial for a consumer electronic firm

which specializes in audio-visual equipment and the higher profit margin, which comes from being the leader of the pact. Subsidiaries are also well established, such as in the

United States and Europe which give Sony a distinct local

hands-on knowledge of the local market. It also makes Sony an international corporation, bringing together the talents and best of strategies of both world to the organization. Besides the employees, the two founders, Ibuka and Morita also legends in their fields which they create vision and sense of direction for the organization.

The also acts as bridges between the employees and the management. The self promoting system and job rotating systems creates satisfaction for employees and give them greater exposure to all aspects of the business. Ideally, this would produce better products as engineers gain knowledge on consumer needs while marketing people engaged in the production and can give their point of view. The innovative style also stems from the “never copy others” culture, the generous funding of the R&D and huge amounts in capital investments. As described by Ibuka,”It also stems from consumer driven in which technology is targeted at consumers or business while American electronic industry are spoiled be military and space applications.” Sony has been ahead in the race of Video

Tape Recorders and digital imaging techniques in Mavica which both offer tremendous potential of household penetration and sales. It also has the opportunity to set up standards and dominate the field. Sony has also acquired enough technology to increase width by going into the high technology business fields. With the rise of the Asian countries, Sony also has the opportunity to make use of them for markets and for cheap labour. Recommendations Building of Strategy With the succession of the two founders at hand, it would be very difficult for the company to find someone as visionary, as respected and with the same engineering background to lead the umbrella strategy company. With Sony as a much international company with major branches in Europe and the United States and stocks listed in 23 stock exchanges, the Japanese cultural school strategy is not sufficient. Becoming a mature company, the strategy should also change to more profit orientated. There should also be greater emphasis on market share,

especially in Japan where Sony’s market is shrinking. Strategy should be aimed at greater control and communication between manager and workers, especially the engineers in the R&D Department. A more planned strategy should be adopted, which should outline the

general direction of the company. Diversification One direction which is possible is concentrating more on electronic know how in non-consumer business. Currently, the buyer has much more choosing power and competition is fierce (Exhibit 2). The competitors are also able to copy the product in a much shorter time. To create larger profit margins, Sony should concentrate on the business sector and industries, supplying high technology equipment and parts. This would make full use of the R&D Department,

the strongest advantage of Sony without waiting for the price cutting and technology adaptation to fit the average consumers needs. This would also make Sony less dependent on coming up with a steady stream of relatively short-lived hit products, and able to use its unique talents in video and semiconductor technology to create its version of the office of the future. Although the Sony name is often related to expensive, high-profit end of the market, the organization should also expand its product range by offering lower priced, simpler featured products that would compete head on with other copycats. With the lower priced line, Sony can also increase its market shares in both overseas and Japanese markets. Alliance and Cooperation Sony should try to become a leader instead of a maverick. The difference is great, the leader, besides a great innovator, should also be a great coordinator. New products, which involve both hardware and software such as the Mavica, should try to achieve industry wide standards. The standard may not be the best or the one created by Sony, but Sony, by pioneering in the field first, would already have a significant head start and the standards is just a way to ensure stability to allow Sony to

concentrate on product development and improvement. This is because Sony is not large and strong enough to acquire and provide both software and hardware for one product. They also lack the know-how to the creative software market. Consumers also prefer to have the ability to choose between competitive equipment. Internally, the different R&D groups should cooperate more. The product line should also be made more compatible with one another which is crucial through the communication between groups and managers, i.e. no more secret projects. Products should be made with higher added value and longer life rather than making frequent model changes. This is also a shift from a manufacturer-orientated mentality to a consumer-orientated mentality, which is a way to save natural resources. The brand-line compatibility also builds brand loyalty for consumers. In relationship with the other Japanese consumer electronic firms, a more cooperative attitude should also be taken. Just like when Japanese took over the US market through cheap yet quality consumer goods, other Asian countries such as Taiwan and South Korea, with their lower labour cost, pose as great competitors at the lower end of consumer goods. Therefore, the Japanese firms should cooperate in setting up standards in high technology areas in order to reap maximum profits and extend the technological lead-time over their fellow Asian countries. Cost Cutting Cost cutting is important because R&D plays an integral part in the success of Sony and cannot be cut drastically although it gobbles up 10% of sales. Therefore, the only way to improve profit margins is to cut cost. Sony currently has factories in the United States and Japan. Although this is good for relationship of the firm in a foreign firm and offers

a chance to pay suppliers with local currencies, Sony is not fully making use of other lower cost areas in the world, especially Asian countries such as Malaysia, Thailand and the Philippines etc. By setting up factories in these countries, Sony can take advantage of their cheap labour and also get a head start in their budding consumer markets. As mentioned above, products should be refined instead of reinvented so that there would be less set up cost and greater automation could be achieved. Integration of production, design and marketing In many ways, designing and developing of a product is separate from the production and marketing. Although there is job rotation, the design stage is backed by intuition and experience rather than market research and analysis. Often, the rational is that it is the marketing personnel’s job to find a market for a product after it has been developed instead of the other way round. To cure this phenomenon, R&D should listen more to what the consumer needs and then innovate instead of always creating new markets. With great freedom, the designing team should also take on greater responsibility in making the product fit to the current production pattern and marketing aims. They should also be made more responsible to the profit and lost of the particular product. Empowering these three separate groups create conflict, but it also brings these separate efficient groups together achieving synergy. Implementation Internally, strategy should be reviewed beginning with renewing the corporate goals. It should integrate together both the Japanese work ethic and its western counterparts. This is possible, because Sony is a multinational corporation with employees and customers in many

different countries. This involves writing the importance of profits and its responsibility to shareholders in the statement. Integration of the company, the designing, production and marketing should be encouraged, with increased communication between each group and the management acting as liaison and guidance. The management should be providing the organization with specific goals and strategies for the short and long term.

These changes are intended to balance business Vs engineering. Setting up alliances with fellow electronic manufacturers / competitor is crucial to mutual benefit so

should be pursued as soon as possible. In areas such as the VTR, Sony has to decide what standard the world is adapting and make decisions to cut off setbacks. For new products such as the Mavica, new standards for the industry should be actively sort after with commitment from other competitors and conventional producers. This is also a change in culture for Sony so top management has to actively push and pursue for this direction. Cost cutting, with emphasis in making use of lower cost of labour in the Asian developing countries should then be implemented. This could also be seen as a long term strategy. The work force could also be made more flexible. Finally, diversification, with emphasis on making business supplies a major part of Sony’s business. This is one of the long term goals in which Sony should thrive to achieve. However, the end product ratio between consumer and business products should be constantly reviewed throughout the process to achieve the optimum mix. Conclusion Although other electronic firms are taking market share and profits from Sony by being copycats, the heart of Sony’s success, the innovative spirit and quest of excellence and perfection cannot be copied. Sony’s main task is to integrate its talent by placing common goals and priority for this increasing competitive market. Sony also has the potential to innovate into a company with international operations as well as culture since it was one of the first Japanese companies to set up a main branch in the United States. With strategy and luck, Sony could become a great firm as it was and will be.