

Sony's Today and Future Target

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Abstract. This paper analyzes the key success factor of Sony Corporation. Mainly focus on the electronics division of the company. Through deconstructing strategy and market, the business model is revealed comprehensively. The innovation and financial Section portraits the long-term success of the company. The analysis of Sony was meant for business operation study in the future.

Keywords: Sony; Strategy; Operation; Marketing; Innovation; Financial Target.

1. Introduction

The global electronics industry market has reached over 1,000 billion in 2020, this compound annual growth rate is increasing at 5.4% since 2015. The transformation of working and lifestyle affected by the pandemic increased the usage of electronics, especially home appliances and smart electronics. Amongst the industry there are a couple of leading firms that is been there for years, one of them is Sony. Sony is one of the world's leading electronic companies, founded in 1947, with its headquarters in Tokyo Japan. It has a huge range of products including electronic products, entertainment, Audio & Video, gaming, and financial services. In the 2021 fiscal year, its revenue reaches above 2.2 trillion yen. The success of the 75 years old giant was remarkable and irreproducible. Our research is aiming to evaluate the key success factors of Sony, which would provide an insight into the study of successful business operations and models. The research expands around four perspectives: Strategy, Marketing, Innovation, and finance. The strategy focuses on both the operation and intensive strategy of the company. Distribution and marketing model key topics around marking. The innovation portion illustrates the accomplishment of innovative products. The Fourth MidRange Plan is the emphasis on financial aspects. The further development of this research could go in-depth into the forecasting of the company's future development. It is also used as a successful enterprise case study.

2. Analysis

2.1 Operational Strategy

Sony Corporation applies the generic strategy and Intensive Growth Strategies. Sony Corporation uses differentiation as its generic strategy for competitive advantage. Product differentiation is a marketing strategy designed to distinguish a company's products or services from the competition. Boosted by this generic strategy, Sony's products must be attractive and unique. In another word, Sony must continue to make development and innovation about the products to maintain their product novel and keep a competitive advantage against other competitors such as Nintendo Switch and X Box from Microsoft. Therefore, a strategic objective allows Sony to increase the rate of innovation.

2.2 Intensive Strategy

Sony also applies Intensive Strategies.

First, Sony Corporation's primary intensive growth strategy is market penetration. Specifically, this strategy will attract consumers by offering it at a lower rate. Therefore, through carrying out this strategy, Sony can be allowed to take its existing product or service to an already thriving market with high demand. Sony has been successfully using this strategy in the global market penetration envisaged by the business owing to the fact that it has attracted demand from different countries like Africa, Australia, and Europe. Therefore, this Intensive growth strategy can enable Sony to create a larger competitive advantage and take a larger market share. Besides, product differentiation is crucial as indicated above. It is indispensable to implement the market penetration strategy since the uniqueness of the existing product is important to increase the demand.

Second, product development is applied as a secondary intensive strategy to grow Sony's business. This growth strategy supports the generic strategy of differentiation in terms of product design. A brief flashback, during the 2010 FIFA world cup the company officially launched the Sony Bravia, as a favorable watch of the event during the period. Thus, the development model put in place by the company has led to sales escalating particularly in Africa. Sony has been the pioneer and popular close vendor of the product.

Furthermore, Sony Corporation uses market development. To be more exact, the company grows by entering new markets to enforce this growth-intensive strategy. For instance, Sony can enter a new market by introducing the existing product, which means that it can take over some market shares. Sony may find some fresh applications in a new market. Sony's generic competitive strategy benefits this market development strategy since it can make products impressive to new target shoppers. Loaded with the market development strategy, Sony sales existing products successfully to new markets

3. Marketing

Sony has a large and diverse product portfolio, including products and services. It is divided into several groups, such as Television and home theatre, video cameras, audio, car and marine, cameras, etc. In Sony's marketing, we can see that it can be divided into several parts to introduce.

First, from the distribution of Sony, it consists of the manufacturer, retailer and then the customers. This is a big difference from the other companies. Sony has a group of products that is called Elevated Standard (ES). This is such a model of product operation under so many products of Sony. For consumers, this means that products can only be purchased through custom electronic installation companies that are authorized to sell Sony products. Sony mainly carries out selective distribution of products from very selective dealers. The target market of Sony is affluent consumer electronics shoppers nationwide. The reason why people say that "Sony is affluent consumer electronics shoppers nationwide" is that Sony is a brand that sells high-end technology products in the high-end market. With the juggernaut of less expensive products from South Korea and dirt cheap products from China, Sony has a much higher price product than their competitors. Sony has repositioned itself as a "boutique" electronics manufacturer that produces high-quality products. Sony's principal market is the general population that is most focused on electronic products such as mobile phones, gaming consoles, and networks, televisions. These products are mainly targeted at wealthy consumers, families, young professionals and early adopters.

Second, from the basic marketing model of Sony. Sony pays more attention to marketing than other companies. There are three elements that are quite distinct about its marketing strategy - the first one is the product. Sony's product has been divided into several groups such as Television and home theatre, video cameras, audio, car and marine, cameras, etc. Sony focuses on design, quality, and technology. And also Sony is an electronics manufacturer that surpassed the value of many other electronics companies. So that is why Sony can bring us many great inventions that benefit mankind. Because "Sony is focused on design, quality and technology" Pricing and promotions strategy are the other two important elements in the marketing strategy. The pricing strategy is based on the prices of competing products to ensure competitiveness. It's also based on the value of the products. Determine

the appropriateness of some premiums based on the actual value of the product and the customer's perceived value of the product. Sony spends lots on advertising and promotions. Social media is another major support of Sony's marketing strategy. Facebook, Instagram, Twitter, Pinterest plays a major role in the marketing strategy. The reason is that social media is another major support of Sony. It is based on effective, accurate and fast social media monitoring tools, which helps to find discussions in real time and respond as soon as possible. And also, Sony does not have its own direct sales store, it consists of the manufacturer, retailer and then the customers. Sony's products can only be purchased through custom electronic installation companies that are authorized to sell Sony products.

4. Innovation

4.1 Revolution or Business

Throughout 75 years, one of Sony's most important admirable achievements is innovation. Surprisingly started with a failure in the electric rice cooker, Sony launched the revolutionary TR-63 - the first portable transistor radio in history and the "TV8-301" --World's first direct-view TV in the 50s' and 60s'. Moving forward, Sony became the leading electronics products manufacturing company that shifted the world-view of Japanese made from cheap, low-end to high quality and prestigious. Nowadays, Sony's electronic products include TV and Audio & Video, Still and Video Cameras, Mobile Communications products, Imaging and sensing solutions(semiconductors), and the PlayStation. Even though Sony expanded its business across multiple branches, electronic products are continuously being their most prominent field. In the fiscal year 2019 to 2021, their electronic products contribute 61.2%, 58.9%, and 60.4% of the total sales and operating revenue of the year. (Figure 1)

	Fiscal Year ended March 31					
	Yen in Millions					
	2019	(%)	2020	(%)	2021	(%)
Games & Network Service	2,224,622	25.7%	1,919,760	23.2%	2,604,713	28.9%
Music	795,025	9.2%	838,592	10.2%	927,250	10.3%
Pictures	985,270	11.4%	1,010,714	12.2%	757,580	8.4%
Electronics Product & Solutions	2,303,167	26.6%	1,969,880	23.8%	1,902,887	21.1%
Imaging & Sensing Solutions	770,622	8.9%	985,259	11.9%	937,859	10.4%
Financial Services	1,274,708	14.7%	1,299,847	15.7%	1,661,520	18.5%
All Other	299,806	3.5%	214,999	2.6%	196,517	2.2%
Corporate	12,467	0.1%	20,834	0.3%	11,034	0.1%
Total	8,665,687	100.00%	8,259,885	100.0%	8,999,360	100.0%

Figure 1. Sony Sales and Operating Revenue

Source from K-20

In the 2000s', Sony's leading position in electronics goods was catch-up by rising electronics companies. For Example, Samsung had sales revenue of 71.6 billion dollars over Sony's 66.6 billion dollars in the year 2004. [6] The Smartphone market was dominated by Apple, Samsung, Huawei,

Xiaomi, and more. Despite the defeat in the Television and smartphone market, the invention of the PlayStation series helped Sony remain on the top. The PlayStation was an intermixture of technology development, innovative strategy, and speculation creativity. Inherently, innovation appeals to the firm’s intrinsic value that motivates the company going forward.

In the 2021 fiscal year, Play Station consisted 28.9% of the total sales and operating revenues (Figure 1), whereas the rest of electronics products including TV and Audio & Video, Still and Video Cameras, Mobile Communications products only took 21.1%. The PS4 was most popular in 2016 which sold 20 million units globally and decreased to 13.5 million units in 2019 (Figure 3). Sony’s keen sight of the need for renovation leads to the release of PS5 which increases the sales revenue of Games and Network Service by 24%. In the 2021 fiscal year, Game & Network Services contributed 32% of the firm’s total operating income, which is more than any other single branch (Figure 2). In 2016, 2017, 2018, 2019, and 2020, Sony occupied 69%, 58%, 71%, 60%, and 58% of the game consoles market (Figure 3). The success of the PlayStation Series was due to the speculative creative insight into the gaming industry, and the efficiency of innovative products. Sony’s unprecedented ability to occupy the market, which leads them to create an ecological closed-loop platform to secure their dominant speech rights in both gaming-related hardware and software development. The excellent performance of their products is the key factor for their success.

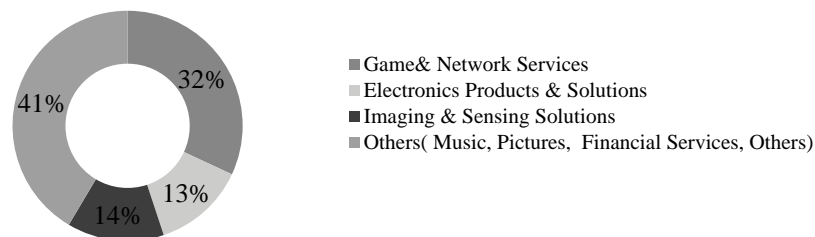


Figure 2. Sony 2021 FY Operating Income

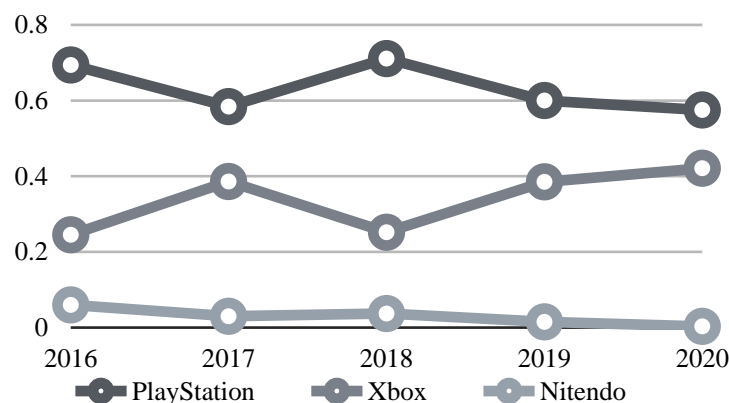


Figure 3. Game Consoles Market Share 2016-2020
 Source from Techno Research

Through looking at the Sony products’ sales units, none of the other products was as popular as PlayStation in recent years (Figure 4). Indeed, the historical data indicates smartphones and TV had a significant selling unit drop in the last decade. Sony was the world’s most pioneer and successful TV producer and till 2020 it only took 3% of the market. The phenomenon was largely due to the failure in product renovation compared with other companies. The fixed growth pattern of market

share in the recent 3 years marked Sony as the straggler in the TV market. (Figure 5) Looking at Sony’s recent performance there are no signs of back-to-track strategy. Instead, Sony transferred their core fierce competition into the image sensor and digital still and video camera market.

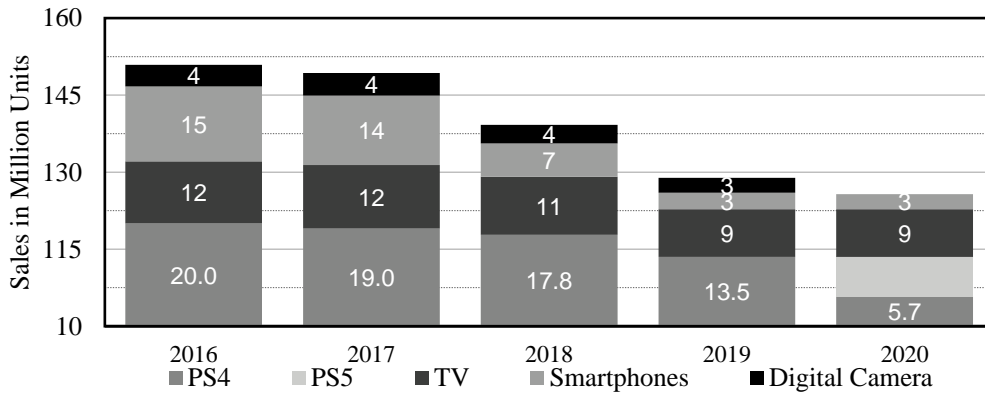


Figure 4. Sony Consumer electronics and PlayStation Sales in Unit Global-wide from 2016-2020

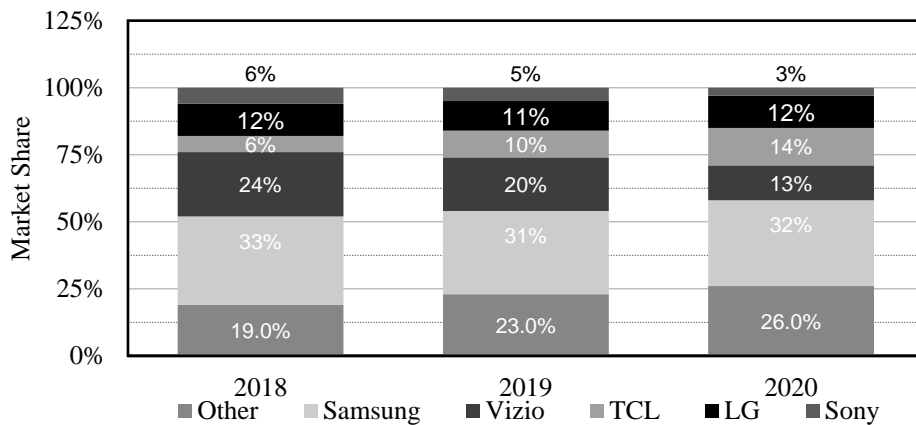


Figure 5. Global TV Market Share 2017-2020
 Source from Techno Research

In 2019, Sony occupied 49% of the global image sensor market (Figure 6), this market share is still growing. In the last decades, Sony’s image and sensing solution business has nearly 800% growth. [7] Their world-leading science in imaging processing semiconductors was insurmountable for its competitor. Recently, they released the world’s first intelligent vision sensors onboard with AI processing functionality. The image and sensing solution branch worked with clients across the mobile, automotive, security, and audiovisual industry. Their inventive technology was the main reason for their success in the image sensor market.

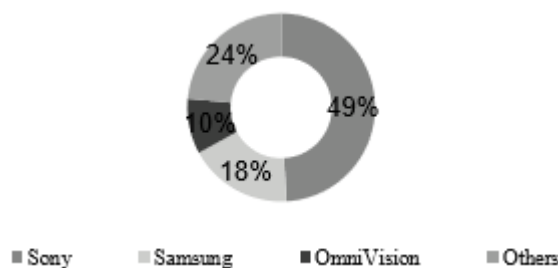


Figure 6. Image Sensor Market Share.2019
 Source from Techno Research

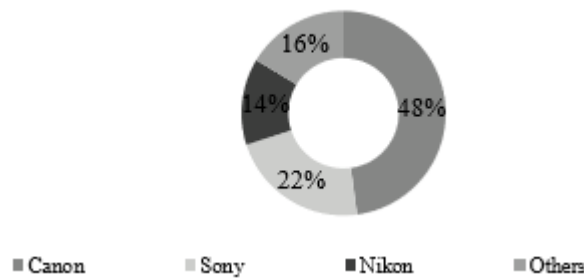


Figure 7. Global Digital Camera Market Share 2020
 Source from K-20

Sony has a famous name in the digital camera market as well. It is the second large peer that occupies a 22% market share in the field. (Figure 7). When competing with Canon and Nikon, instead of taking over the DSLR which was monopolized mainly by Canon and Nikon, Sony invested in the mirrorless camera that the two magnets were not spot on. The bravura to challenge the authority and the robustness of creativity enable Sony to break the ceiling of the giants.

Besides electronic products, Sony’s innovation spirit was shown in their patent. They possess 165,000 patents worldwide. They are the twelfth-ranking patent holders in the world. In 2020, 14131 million yen of intangible assets were acquired from Sony. In the last three years, the value of patents they acquired is growing gradually. (Figure 8)

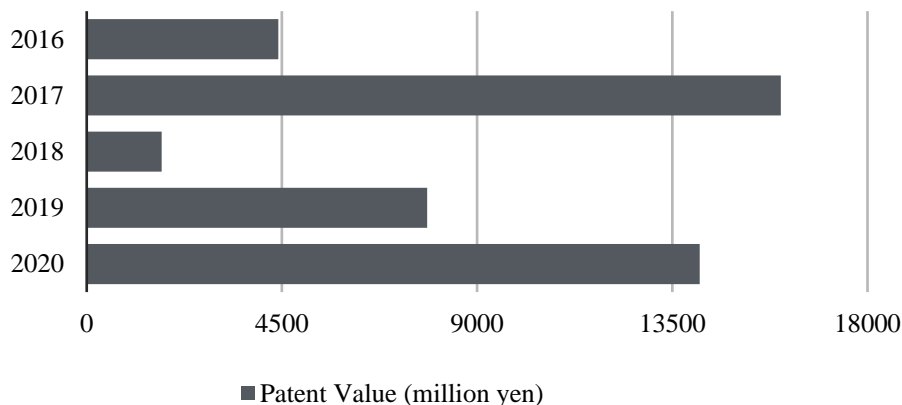


Figure 8. Data of Intangible Asset: Patent acquired during the fiscal year
 Source from K-20

The research and development expense is a key indicator of Sony’s innovation efforts. From 2015-2020 Sony spent a total of 2411 billion yen in R&D expenses. The average ratio of research and development expense over total sales and operating revenue in the last five years is around 5.7% (Figure 9). In comparison, the average ratio of R&D to GDP in Japan in the last five years is 3.5%. Sony contributed above average 2.2% of its revenue to research and development. They are trying maximum the talents of the company by establishing R&D centers across the world in Japan, China, India, Europe, the United States. They also promote interdisciplinary collaboration and projects between different subsidiaries within the company, as well as, setting up programs work with universities and other research institutions. Every year Sony allocates up to 5% of R&D expenses toward the start-up technologies. Special innovation funds and departments were found by Sony. This fund invests in startups from all early middle and late-stage who worked in entertainment, healthcare, mobility, sensor technologies, deep tech, and more fields. Currently, this fund has 100 companies in its profile. Unsurprisingly, Sony’s huge investment in R&D foreshadowed its accomplishment in innovation.

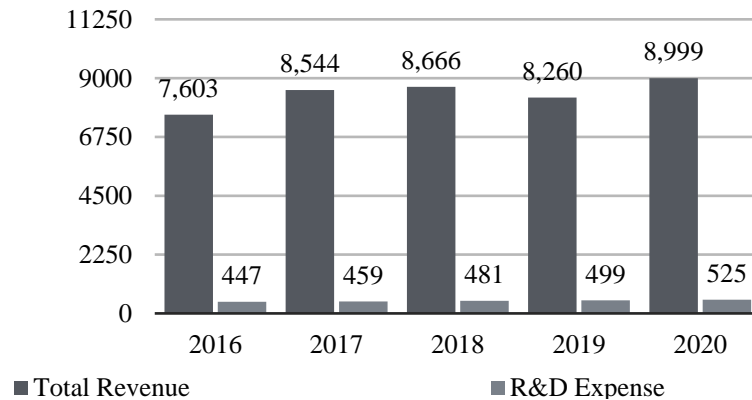


Figure 9. R&D Ratio over Revenue (billion yen)
Source from K-20

5. Financial Section

5.1 Financial Target

The Fourth MidRange Plan, Sony’s crucial indicator for EBITA Adjustment. It is a cumulative key performance indicator for the firm to continue their long-term view, the target of 4.3 trillion yen (about \$39 billion) Adjusted EBITDA in three fiscal years. This plan has been executed for months, and it will end on March 31, 2024.

The reasons for Sony to use Adjusted EBITA as the performance metric suitable for their long-term operation are three:

- 1) Adjusted EBITA is needed for corporate value calculation.
- 2) It represents the long-term earning power and profitability of a business, instead of short-term operating cash flows.
- 3) This stable growth through cycles of investment and return expresses that all subsidiaries and financial services under the Sony Group are in a state of expansion from mid-term to long-term.

5.2 Target Analysis

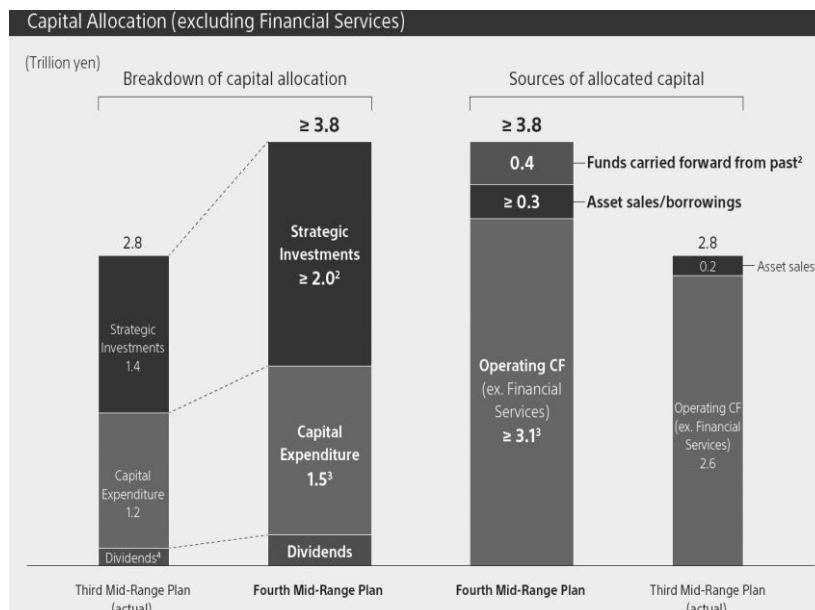


Figure 10. Sony 2020 K-20

In the past three years, Sony completed its Third Mid-Range Plan. The capital allocation takes 2.8 trillion yen of the total sales, to be specific, 1.4 trillion yen for strategic investments and 1.2 trillion yen for capital expenditure. Within that, a very low part of capital allocation comes from asset sales which only takes 7.1%, and the majority of Sony's capital allocation is operating CF which is 2.6 trillion yen, the rest 92.9%. Operating CF includes impacts of differences in accounting standards for principal payments for operating lease liabilities and purchases and sales of content assets. Capital expenditure also includes increases in right-of-use assets related to operating lease agreements.

The Fourth Mid-Range Plan will affect both capital allocation in structure and sources. From the fiscal year of 2020, the dividend result in the Third Mid-Range Plan was approximately 170 billion yen, an impressive improvement from the last fiscal year. Based on their new capital allocation target, in order to achieve Sony's 4.3 trillion yen Adjusted EBITDA goal, they want to increase the spending on strategic investments by at least 0.4 trillion yen, also a 0.3 trillion yen increment in capital expenditure. Therefore the total capital allocation goes to over 3.8 trillion yen. To make this happen, a total 35.71% of increment in three years is required, equivalent to a 10.71% annual growth rate. In this case, Sony's operating CF is mainly financial services, which is half of the operating CF. It is reasonable to assume Sony is transferring to a higher debt ratio.

To check the possibility of making this target done, we can simply use the forecast growth rate of sales directly. Review the past years, the annual sale growth rate was quite fluctuating. After 2016, the lowest point in the past 15 years, Sony had a short depress in 2019, a decline of 2.56%. Combining this information with the 1.42% annual sale growth rate of 2018, it is clear that Sony was in trouble. During this period, Sony was preparing their new game console PlayStation and the Sony TV X90 series. There are a couple of possible reasons behind this: COVID-19, the decline in public evaluation, and Japan GDP decline in 2017, Yen purchasing power depreciation, or even competitor Nintendo, Microsoft became more threatening. Very soon, a dramatic increase in sales was made in 2020. A growth of 11.32% help the firm arrived their destination of the Third Mid-Range Plan. Last few seasons, this health record continued. The 13.08% year-over-year growth rate gives Sony hope, and the 12.16% sale growth in the last quarter represents a recovery of Sony. We may consider this is mostly because of Sony Pictures. After COVID-19's global size lockdown, film and entertainment becomes active again. No data can shows how much revenue was made by Sony from the 2020 Tokyo Olympics (which happened in 2021), but it must have largely contributed to Sony's recovery. Based on historical data, We forecast the growth rate of 12%-13% won't last long after this quarter, but Sony will find out an equilibrium growth rate of around 8% in the next three years. This rate, however, is pretty sensitive, by point out the potential market shock, trade term shock, currency shock, post-CO19 shock, so the error range can be $\pm 5\%$ and by the normal distribution. As a result, Sony only has a 28.76% of probability to achieve their goal of 10.71% annual growth rate or in other words 4.3 trillion yen Adjusted EBITDA.

We also apply GNP to evaluate the Goal. Japan's GNP growth rate is staying in a decelerate stage, the lower and lower positive growth rate is showing the country is coming to its limit, and since most Sony plants are located inside Japan, the output must be affected. The productivity is still good enough right now because most electronic goods have a surplus worldwide, but some new products, like the new Sony TV Z9J and A9J were running short in the first selling month. There is a partial impact of the epidemic, but the sluggish Japanese production capacity probably also takes place in this case. Besides that, it is not optimistic about Sony's foreign plants, for example, the Trinitron plant in San Diego is old. Unlike nearly all-automated factories in Tokyo, foreign plants mostly served for over 30 years, and the production streamlines were poorly developed in recent years under the firm's policy effect because they need a higher expense in R&E. So the sales may be even more pessimistic than previous years based on Japan's GNP. In 2020, the total sale of Japan's electronic industry is ten trillion Japanese yen. Sony wanting to take 30.1% of the entire cake would be a little bit hyperbolic compared to Sony's 21% market share in Japan, even in three years. They will grow constantly, but may not be as high as they predict.

6. Summary

Sony, one of the oldest players in the electronics industry, has last for seventy-five years since 1946. From an immature electronics shop becomes today's Top 500, Sony experienced several huge risks, Global recession, and products iterations but finally overcame it. Those nearly bankrupt experiences changed Sony's structures and themes but never drove them into desperation. Today's Sony has world-leading quality and services, by much more mature operational strategies and intensive strategies compare to itself before. This can tell from their successful financial reports. This firm is also famous for its innovations and technology. To maintain their leading position of quality, however, worldwide, creativity is the root of Sony. Therefore, research and development expense always holds a significant proportion of 2.2% in its total revenue, and this decision made them never lack new productions and expressed an authoritative image in the industry. Different to their high expenses, Sony's price strategy doesn't make them get too far from the majority and keeps them in a friendly position. Most products of Sony have multiple degrees of price levels, thus target customers are widespread in the entire social class. In the 80s year, every street boy could own a Sony Walkman, and in 2021, every family has a Sony PlayStation. Undebably, their growth is dominant and unpredictable, but in recent years, this tendency may meet a obstruct. Neither 2016's financial crisis nor 2019's COVID-19 didn't make this train stop but largely slowed their expansion speed. Sony's next step is to raise the Adjusted Earnings Before Interest, Taxes, and Amortization to a new level. By check the performance of the last two years, yes they will reach the goal if they follow the opportunities from the post-COVID-19. But, in our view, it is maybe way too optimistic. Is it a gimmick to attract investors? Or a practical planned outcome that is going to happen? Nobody can tell with confidence. Today's Sony comes to a turning point. The recovery happening now could take Sony to a new era, or the last afterglow of the old industry giant.

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