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# Sony Corporation: Reinventing Itself to Rediscover the Technological Edge

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**ROBINS**  
School of Business™

**Sony Corporation:  
Reinventing Itself to Rediscover  
the Technological Edge**

**November 2012**

Written by Dheeman Chatterji, Hayes Schildwachter, and Jeffrey S. Harrison at the Robins School of Business, University of Richmond. Copyright © Jeffrey S. Harrison. This case was written for the purpose of classroom discussion. It is not to be duplicated or cited in any form without the copyright holder's express permission. For permission to reproduce or cite this case, contact Jeff Harrison at [RCNcases@richmond.edu](mailto:RCNcases@richmond.edu). In your message, state your name, affiliation and the intended use of the case. Permission for classroom use will be granted free of charge. Other cases are available at: <http://robins.richmond.edu/centers/case-network.html>

Boldly emblazoned across the first page of Sony's 2012 annual report is the phrase "Sony *Will* Change." A company that was once considered the premier creator and manufacturer of electronic products, Sony has seen losses in its electronics division for close to a decade, culminating in a management overhaul and new strategic direction for the company announced in 2012.

Under the leadership of Kazuo Hirai, Sony hopes to return to profitability. The new strategic initiatives dubbed "One Sony" are intended to refocus the company on its core competencies while realigning the struggling electronics division. Sony intends to carry out the initiatives through a revamped management structure that the company hopes will bring synergies across its many platforms and increase efficiencies. However, Sony faces fierce competition and other external factors that present challenging problems for the multinational conglomerate.

## **HISTORY AND EVOLUTION OF SONY CORPORATION**

Sony Corporation, commonly referred to as Sony, is a Japanese entertainment and media conglomerate corporation. As of August 2012, Sony Group is comprised of three main businesses: Electronics, Entertainment and Financial services.<sup>1</sup> The electronics business is focused on AV/IT products and components and PlayStation, the entertainment primarily focuses on motion pictures and music, and the financial services division is built around the insurance and banking sectors.<sup>2</sup>

The global conglomerate, which employed 162,700 people in 2012, had humble beginnings in a post World War II department store.<sup>3</sup> In 1946, Masaru Ibuka started Sony with \$530 in capital and eight employees on the third floor of a department store.<sup>4</sup> The company initially repaired radios and made shortwave converters and adapters for a nation hungry for news from around the world. Ibuka was subsequently joined by his friend Akio Morita, and together they established a facility called "Tokyo Tsushin Kenkyujo" (Totsuken), or "Tokyo Telecommunications Research Institute."<sup>5</sup> In 1956, the company needed a Romanized name to use in American markets that would be easier to remember and pronounce.<sup>6</sup> The Sony name was created by combining "SONUS," the Latin word for sound, with "SONNY," denoting small size or a youthful boy.

Over the next three decades, Sony launched Japan's first transistor radio, the world's first portable TV, Japan's first tape recorder, the first consumer-use still camera, and established a reputation for technical innovation and revolutionary consumer electronic products. In 1961, Sony became the first Japanese company to offer shares in the United States as ADRs on the OTC market of NYSE.<sup>7</sup> Over the coming decades, Sony established its presence across the globe as Sony Corporation of America (SONAM) (1960), Sony Corporation of Hong Kong Ltd. (1962), Sony (UK) Ltd. (1968), Sony Deutschland G.m.b.H in Germany (1970), Hispano Sony in Barcelona- Spain (1973), Sony France S.A. in Paris France (1973), Sony Europe G.m.b.H (1986) and finally Sony China in 1996.<sup>8</sup>

### **Company Vision and Mission**

Due to its diversified business portfolio, each business division in Sony has its own mission statement based on its organizational structure. However, being true to its simple roots, the over

arching mission statement of the Sony Corporation is simple and to the point. Sony intends “to become the leading global provider of networked consumer electronics, entertainment and services.”<sup>9</sup> In the founding prospectus, written by Masaru Ibuka in 1946, he wrote of his wish to build a company whose employees gained satisfaction and pleasure from their work and his desire to create a fun, dynamic workplace.<sup>10</sup> The mission and vision of Sony’s core electronics division are below:

### ***Vision***

*“To create exciting new digital entertainment experiences for consumers by bringing together cutting-edge products with latest generation content and services.”*

### ***Mission***

*“Sony is committed to developing a wide range of innovative products and multimedia services that challenge the way consumers access and enjoy digital entertainment. By ensuring synergy between businesses within the organization, Sony is constantly striving to create exciting new worlds of entertainment that can be experienced on a variety of different products.”*

### **Evolution of Strategy**

The evolution of Sony’s strategy is a direct reflection of the person responsible for the organization’s development and mission – namely, its CEO. In 1971, Masaru Ibuka, the co-founder of Sony, handed the position of the president to his co-founder, Akio Morita. Morita led Sony Corporation until 1989. It was during his term that Sony achieved international recognition for its consumer electronics products.<sup>11</sup> Morita’s successor was Norio Ogha, who assumed presidency in 1982. Ogha came up through the ranks of the tape recorder division and was primarily responsible for moving Sony into media entertainment. During Ogha’s tenure, Sony purchased CBS records and Columbia pictures.

In 1995, Ogha selected Nobuyuki Idei as President and Co-CEO, after assuming the title of Chairman and CEO. Idei’s background was in international marketing, where he held several positions in Europe and Japan as a Global Manager.<sup>12</sup> It was under Idei’s leadership that Sony embraced the principle that digital communications must be at the center of Sony’s competitive business strategy.<sup>13</sup>

In 2005, Howard Stringer replaced Idei as CEO, becoming the first foreigner to run a major Japanese electronics firm. Stringer aimed to revitalize the struggling media business by encouraging blockbusters.<sup>14</sup> Under his stewardship, Sony attempted to sell off some peripheral businesses and focus on its core competency in electronics.<sup>15</sup> In its attempt to provide a unified brand, Sony introduced the slogan “Make Believe” in 2009.<sup>16</sup>

In 2012, Kazuo Hirai began as CEO and president. Hirai hopes to turn around Sony’s struggling electronics business by leading a corporate reorganization under the name of “One Sony.”

## **Evolution of Divisions, Joint Ventures and Acquisitions**

In 1968, CBS/Sony Records Inc. was formed through a 50-50 joint venture with CBS Inc. Over the next couple of years it was restructured and renamed many times until it became a wholly owned Sony subsidiary in January 1988. This paved the way for the birth of Sony Music Entertainment Inc. in 1991. Sony established Sony BMG Music entertainment in August 2004, which in 2008 became a wholly owned subsidiary of Sony Corporation of America.<sup>17</sup>

In 1989, Sony acquired Columbia Pictures Entertainment, Inc. and renamed it Sony Pictures Entertainment Inc. in 1991. A consortium, led by Sony, completed the acquisition of Metro-Goldwyn-Mayer in 2005 to further bolster the growth of Sony's entertainment business.<sup>18</sup>

Sony's finance division began as Sony Prudential Life Insurance Co. Ltd. in 1979 through a 50-50 joint venture with Prudential Insurance Co. of America. It was renamed Sony Life Insurance Co. Ltd. in 1991.<sup>19</sup> Subsequently, Sony Bank was established in Japan in 2001 and Sony Financial Holdings Inc. in 2004.

In the electronics segment, Sony absorbed AIWA by merger in 2002 to enhance the corporate value for the Sony Group.<sup>20</sup> Unlike other Sony business divisions which have grown through mergers, joint ventures, and acquisitions, the Sony Electronics segment expanded by being the leader in innovation and technology. Sony Electronics has a list of firsts to its credit, including the first transistor radio in Japan in 1955, the world's first television with Google TV platform, and the world's first digital still camera with full HD progressive video (Cyber-shot™). In 2009, Sony entered a joint venture with Sharp to produce and sell large-sized LCD panels and modules. However, the joint venture was a failure as a result of contract disputes.<sup>21</sup>

## **SONY CORPORATION IN EARLY 2012**

### **Management and Governance Structure**

The Sony management team is made of key executives who are responsible for the past successes of Sony. Sony's culture places a high premium on consensus building and longevity, and the current management team has broad industry experience. The current CEO, Kazuo Hirai, has extensive experience from his work in the Playstation® and networked entertainment businesses. The Sony board of directors is comprised of select members of the executive management committee and non-employee veterans with vast industry experience. Key employees and board of directors are detailed in Exhibit 1.

### **Sony Financial Problems**

Sony has been struggling financially. The company's sales and income have been declining in the last few years. In 2012, Sony reported operating revenues of ¥6.5 trillion, with an operating loss of ¥67.3 billion and a net loss of ¥456.7 billion. Sony increased capital expenditures in 2012 to ¥295.1 billion, an increase from ¥204.9 billion in 2011 and ¥192.7 billion in 2010. Sony increased R&D expenditures in 2012 to ¥433.5 billion, a slight increase from ¥426.8 billion in 2011.<sup>22</sup>

Sony reported that losses resulted primarily from the negative impact of fluctuating foreign exchange rates, the Great East Japan Earthquake, and the floods in Thailand in 2011.<sup>23</sup> A net loss of ¥456.7 billion attributable to equity holders was recorded due to non-cash tax expenses for valuation allowances.<sup>24</sup> Sony financial statements are found in Exhibits 2-4.

## **Sony Divisions**

As of early 2012, Sony was organized into three primary divisions: (1) Sony Electronics, (2) Sony Entertainment, and (3) Sony Financial Services.<sup>25</sup> Sony shares common platforms, including Global Sales & Marketing, Corporate R&D, and Manufacturing, Logistics, Procurement & Quality, among others.<sup>26</sup>

Sony operated and reported earnings through eight business segments: (1) Consumer Products & Services, (2) Professional, Device & Solutions, (3) Pictures, (4) Music, (5) Financial Services, (6) Sony Mobile Communications, (7) Other, and (8) Corporate. Sony functioned in groups within each of these business segments. The Consumer Products & Services, Professional, Device & Solutions, and Sony Mobile Communications segments were organized within Sony Electronics. The Pictures and Music segments were organized within Sony Entertainment. The Financial Services segment was organized within the Sony Financial Services division. The remaining business segments operated under the common platforms.

Consumer Products & Services constituted the largest segment by proportion of sales, with 47.2% of total sales. Professional, Devices & Solutions was second largest, with 14.2% of total sales, while Pictures was the third largest, with 10.1% of total sales.<sup>27</sup> A description of these segments follows:

### *Consumer Products & Services*

The Consumer Products & Services segment includes televisions, audio and visual, digital imaging, personal and mobile products, and the game business. The segment had an 18.5% decrease in revenues from 2011 to 2012, and reported an operating loss of ¥229.8 billion in 2012, down from a ¥10.8 billion reported income in 2011. Sony relies primarily on its Bravia line of LCD televisions for TV sales. Sony reported that decreased earnings were due to reductions in North America, Japanese, and European markets for LCD televisions. Gaming sales fell as a result of strategic pricing initiatives and sales of PCs and digital cameras decreased as a result of supplier restrictions in Thailand.<sup>28</sup>

### *Professional, Devices & Solutions*

The Professional, Devices & Solutions segment includes professional solutions, semiconductors, and components. The segment had a 12.6% decrease in operating revenue from ¥1,503.3 in 2011 to ¥1,313.8 in 2012. In 2012, the segment reported an operating loss of ¥20.2 billion, a decrease from a reported operating income of ¥27.7 billion in 2011.<sup>29</sup>

### *Pictures*

The Pictures segment consists of Sony Pictures Entertainment businesses including motion pictures, television production, and distribution. From 2011 to 2012, sales increased 9.6% from ¥600 billion to ¥657.7 billion, while operating income decreased 11.7% to ¥34.4 billion. Sony reported that gains resulted primarily from television licensing arrangements in the US and from increased advertising revenues in India and other markets.<sup>30</sup>

### *Music*

The Music segment includes the music recording businesses of Sony Music Entertainment in the U.S. and in Japan. Popular artists include Adele, Usher and Lady Gaga.<sup>31</sup> Sony BMG is one of the top four recording groups, alongside Universal Music Group, EMI group and Warner Music Group. The segment has struggled due to the contraction of physical music purchases, resulting in an operating revenue decrease of 5.9% from 2011 to 2012.<sup>32</sup> Sales decreased from ¥470.7 billion to ¥442.8 billion over the same time period.

### *Financial Services*

The Financial Services segment is comprised primarily of Sony Financial Holdings Inc. and its subsidiaries, including Sony Life Insurance Co. Ltd., Sony Assurance Inc., and Sony Bank Inc. The segment reported an increase in operating revenue of 8.1% from 2011 to 2012, from ¥806.5 billion to ¥871.9 billion. Operating income increased from ¥118.8 billion to ¥131.4 billion.<sup>33</sup>

### *Sony Mobile Communications*

The Sony Mobile Communications segment involves the design, development, and sale of mobile phones. The segment was the result of Sony's acquisition of Ericsson's 50% equity interest in Sony Ericsson in February 2012, and currently operates as a wholly owned subsidiary of Sony.<sup>34</sup> Sony Mobile reported a loss of €536 million, down from an operating income of €133 million in 2011.

### *Other*

Sony separates as a business segment other various operating activities, including disc manufacturing and Internet services in Japan. In 2012, the segment reported an operating loss of ¥3.5 billion, down from ¥7.1 billion 2011.

## **COMPETITIVE LANDSCAPE**

### **Industry**

Although Sony operates across a range of divisions including entertainment, insurance, and chip manufacturing, its largest operations are focused on consumer electronics. This includes audio and video equipment manufacturing (NAICS: 334310), record players, radio and TV receivers

(SIC: 3341), household audio and video equipment (SIC: 3651) and manufacture of consumer electronics (ISIC: 2640).<sup>35</sup>

Because more than half of Sony's manufacturing takes place in Japan, an analysis of the Japanese electronics industry provides insight on Sony's primary competitive industry. Growth is expected to be slow to modest in 2013, as Japan has lowered their forecasts for imports and exports due to weak economic indicators. The Japanese market has also seen a collapse in external demand since 2008.<sup>36</sup>

Revenue is forecast to grow by 5.2% annually over the next five years through 2017 for the industry. The growth is predicted due to a strengthening global economy that will increase stagnant demand for high volume and newly innovated products.<sup>37</sup>

## **Competition**

Sony currently operates across many business segments with several competitors in each segment. Sony's primary competitors include Samsung, Canon, Panasonic, LG and Philips Electronics in the global market and Microsoft and Apple in certain markets. The financial data for the last 5 years for the competitors is found in Exhibit 5.

As can be seen from the financial analysis, the American companies (Microsoft and Apple) demonstrated strong performance. Apple's performance has grown stronger over the last 5 years. On the other hand, the Asian and European competitors have been significantly impacted by the financial crisis. The Asian firms have started recovering, although at different paces, as shown by the financial data. The European firm, Philips Electronics, has been significantly affected by the economic downturn in Europe.

### *Samsung*

Samsung Electronics Co. Ltd. (Samsung), a South Korean company, produces digital media products including audio-visual media, digital appliances and other digital media (with external sales accounting for about 36% of consolidated net sales in 2011); telecommunications systems and products; semiconductors; and LCD panels for TVs, monitors and mobile products.<sup>38</sup> Samsung is a major player in the global market with 15.3% of the market share.

Samsung's TV portfolio consists of LED, LCD, plasma and projection TVs. Samsung has the top share of the world flat-panel TV market in sales revenue and units sold, accounting for about one-quarter of the global TV market.<sup>39</sup> Samsung's digital media segment's net sales have been growing by 10.2% (annualized) over the past five years. This growth has been due to a growth in unit sales of high volume items, even though the average selling price per unit has been steadily decreasing.<sup>40</sup>



### *LG Electronics*

LG Electronics Inc. (LGE), a South Korean company, designs and manufactures home entertainment products, home appliances, air conditioners, LCD panels and telecommunications devices such as wireless phones, handsets and switchboards. The home entertainment business accounted for about 41% of group revenue in 2011. The company generated consolidated sales revenue of about \$47 billion in 2011.<sup>41</sup>

### *Panasonic*

Panasonic Corporation (previously Matsushita Electric Industrial Co Ltd) is headquartered in Japan and manufactures and supplies consumer electronics.<sup>42</sup> From January through March 2012, Panasonic reported consolidated net sales of about \$95.7 billion and a net loss of about \$10 billion (due mainly to restructuring charges). Panasonic has 5.3% of the total global electronics market share. Panasonic has a leading global share in the DVD recorder market and has claimed cost leadership in the plasma display panels market.

In 2011-12, Panasonic restructured its products to comprise the following sections: AVC networks, which manufactures and supplies video and audio equipment and personal computers (accounting for 16.9% of company sales); home appliances; systems and communications; eco solutions; automotive systems; industrial solutions; energy; and other.<sup>43</sup>

### *Canon*

Canon designs, manufactures, and distributes an extensive range of consumer and electronic products including copiers (18% of sales), cameras (23%), and printers (35%) around the globe. Canon's headquarters and 26 of the firm's 45 manufacturing plants are in Japan, but nearly 80% of revenue is delivered from international markets.

Canon CAJ reported second-quarter results that highlight a deteriorating demand environment.<sup>44</sup> A strong growth in the camera sales has been strongly offset by a weakness in the demand from printing.<sup>45</sup>

### *Microsoft*

The Windows PC operating system, office franchise, server and tools businesses comprise 85% of the firms revenue. Of the other, the Xbox 360 video game console competes against the Sony Playstation™.

In 2001, Microsoft released the Xbox gaming system to compete with Sony's PS2. Initially, sales of the Xbox didn't match the PS2. Until 2005, the PS2 sold 33.7 million units in the US, compared with 13.0 million Xboxes. Microsoft went back to the drawing board for the console's successor, and the Xbox 360 was released in late 2006. The Xbox 360 has been much more successful, more than doubling PS3 sales.<sup>46</sup> Revenue declined over 2009 and 2010 as a result of diminished disposable income and increased competition. Moderate growth is expected again in

2013, leading to an average annual increase of 4.0% from fiscal 2008 through fiscal 2013, reaching \$4.6 billion.<sup>47</sup>

### *Apple*

Apple designs consumer electronic devices, including PCs (Mac), tablets (iPad), phones (iPhone), and portable music players (iPod). The iPhones are a major competitor in the mobile phones segment. In September 2012, the Company launched iPhone 5, its latest version of iPhone. The iPhone has huge brand loyalty with its users and generates almost two-thirds of Apple's profits according to some estimates.<sup>48</sup> According to the same estimates, the iPhone is likely to generate almost \$30 billion in operating profit for Apple in 2012. The new iPhone5 has propelled the market share of Apple to 48.1 % in US, overtaking the share of the android smart phones.<sup>49</sup>

### *Koninklijke Philips Electronics*

Philips Electronics segments its products into three markets: lighting, healthcare, and consumer lifestyle. It is in the last segment that it competes with Sony. The company has its global headquarters in the Netherlands and sales in virtually every country.<sup>50</sup> The company has been having major problems in its lighting division, but its health-care and consumer lifestyle segments have been recovering after the financial crisis affected sales and revenue in these segments.

Recently, Philips transferred its TV design, manufacturing and distribution business to a joint venture with TPV Technology, a Hong Kong based company. TPV is the senior partner of the venture, holding 70% of the shares. TPV covers all Philips markets except China, India, United States, Canada, Mexico and certain countries in South America.<sup>51</sup>

### **Suppliers**

Sony's business divisions and manufacturing plants are globally dispersed. Therefore, Sony's suppliers are numerous and are not concentrated in its global supply chain. To manage its global supply chain responsibly, Sony established a Sony Supplier Code of conduct that helps it maintain high quality, competitive prices and a stable supply.<sup>52</sup> Sony also works with its business partners, suppliers and contractors to ensure they adhere to the same standards as the company in areas of human rights, labor conditions, health and safety and environmental protection. Sony chooses its suppliers keeping in mind its basic philosophy of fair business practice, equal opportunity and transparency. It has set up industry standards for its suppliers to meet and selects only the suppliers who are able to meet Sony standards. Apart from complying with laws, regulations and social standards, and a strong consideration for environmental conservation, Sony works with its suppliers with the intention of maintaining sound financial and operating bases.<sup>53</sup> To this end, it has suppliers provide it with details of their management policies and operations. The company expects its suppliers to maintain quality standards and "to offer items at highly competitive prices and make a concerted effort to constantly reduce cost."<sup>54</sup>

## “ONE SONY”

In Sony’s 2012 Annual Report, newly appointed President and CEO Kazuo Hirai acknowledged the need for change, noting challenges in the electronics market and recent operating losses. Hirai spoke directly to Sony’s struggles and outlined his primary objectives as CEO:

The operating environment for our electronics business remains harsh, with profits suffering from price competition resulting from product commoditization and the impact of persistently worsening foreign exchange rates. Accordingly, rebuilding the electronics business and repositioning it for growth are the most urgent tasks for the Sony Group, and my biggest responsibility.<sup>55</sup>

Hirai is dealing with a collection of problems that can be traced back to strategic missteps before his tenure as CEO. Sony was late to adopt new technologies in the television market and struggled to carry out a complex joint venture with Ericsson in the mobile phone industry.<sup>56</sup> Sony was also faced with an industry wide downturn that negatively affected all of its largest competitors.<sup>57</sup>

Additional external factors have caused problems for Sony’s electronics division. Sony stated that the Great East Japan Earthquake and 2011 Thailand floods negatively affected operating profits due to supplier disruptions.<sup>58</sup> Sony also asserted that exchange rates had hurt the company’s bottom line due to falling currencies against the strong yen.<sup>59</sup>

In order to combat Sony’s ongoing struggles, Hirai introduced a new initiative titled “One Sony.” The strategic shift is intended to unify operations and focus on Sony’s core capabilities, namely electronics, while also expanding to new emerging markets. Hirai identifies what he sees as Sony’s most valuable resource and the key to a successful turnaround, “Sony DNA,” a distinctive will and drive to create new value.<sup>60</sup> He states that Sony must remain true to its core values and competencies while overhauling the company, and hopes that a reorganization of management and an increased emphasis on games, mobile, and imaging will help Sony transform into the competitor it once was.

Sony announced in April 2012 a five-point strategic plan underpinned by Sony’s core strengths to turn around the struggling electronics division. The strategic objectives include:

- Strengthening core businesses: Digital Imaging, Game, Mobile
- Turning around the Television business
- Expanding business in emerging markets
- Creating new businesses and accelerating innovation
- Realigning the business portfolio and optimizing resources

To carry out these objectives, Sony will undergo reorganization of the electronics division with a three-pillar focus: Digital Imaging, Game, and Mobile. Sony plans to dissolve the Consumer Products & Services Group and Professional, Devices & Solutions groups and devote resources toward the three key areas. Sony will also introduce a new Medical Devices group housed within the electronics division.<sup>61</sup>

The most significant changes will take place in the television business, where Sony has suffered ¥714 billion in losses over the previous eight years.<sup>62</sup> Losses were mainly due to decreased demand for the Bravia line and fierce price competition.<sup>63</sup> Hirai affirmed his goal to turn the television business profitable within two years, noting a goal to halve the television business's fixed costs and reduce operating costs by 30%.<sup>64</sup> Hirai also hinted at the possibility of an alliance with competing Japanese manufacturer or other contingencies if the television business did not become profitable by 2014.<sup>65</sup>

Hirai set forth other immediate changes in addition to the "One Sony" initiatives. Sony will reduce its total workforce by an estimated 10,000 employees, roughly 6% of its total global workforce, by the end of 2013.<sup>66</sup> Sony stated that it plans to incur a ¥75 billion restructuring charge in 2012.<sup>67</sup>

### **"One Sony, One Management"**

Sony introduced a new management structure in April 2012 in order to carry out the company's new strategic initiatives. The structure "is intended to establish rapid and optimized decision making processes as 'One Sony,' that significantly reinforce and accelerate Sony's overall business management."<sup>68</sup> Sony also hopes "to drive revitalization and growth across Sony's core electronics businesses, and deliver compelling user experiences through convergence of the unique assets in place throughout the Sony Group."<sup>69</sup>

The "One Management" team includes (1) Chief Executive Officer – Kazuo Hirai, (2) Chief Financial Officer – Masaru Kato, (3) Chief Strategy Officer – Tadashi Saito, (4) Head of Technology – Shoji Nemoto, and (5) Head of Product Strategy – Kunimasa Suzuki.<sup>70</sup> See Exhibit 6 for description of management roles.

Hirai will operate at the center of the management team and work together with the heads of each business unit. Hirai will directly oversee the struggling television business. Hirai, Kato, and Saito will oversee overall financial management, corporate and business strategies.<sup>71</sup>

Nemoto is in charge of technology strategies and will work together with Suzuki to create new business and enhance R&D operations. Suzuki will assume responsibility for the planning and design of consumer related products and services, with the goal to align user experiences across multiple platforms. Suzuki will also oversee the mobile business.<sup>72</sup> Sony states that the new structure will focus management resources on areas of core competence, with a goal of approximately 70% of the R&D budget allocated to digital imaging, gaming, and mobile.<sup>73</sup>

### **Expansion in Emerging Markets**

Sony additionally hopes to increase revenues by expanding business in emerging markets. In 2010, CFO Masaru Kato stated that Sony sought to increase electronics sales in emerging markets by 30 percent.<sup>74</sup> Sony has continued this approach, stating in its 2012 Annual Report that it hopes to generate sales totaling ¥2.6 trillion.<sup>75</sup>

Sony outlines two key initiatives to achieve its goals: Sony wants to tailor products to local markets and to promote company-wide assets through promotions across entertainment, music, and electronics. Sony feels that it can leverage the high awareness of the Sony entertainment and music brands to boost electronics sales.<sup>76</sup>

### **MOVING FORWARD**

Hirai has ushered in a new era with the “One Sony” initiatives, but questions remain, the most important being whether the new plans will return the struggling electronics division to profitability. According to Makato Kikuchi, CEO at Myojo Asset Management Japan Co., problems remain, “I still can’t see anything positive in this plan. I’m not convinced that the company has a logical plan to achieve its goal of raising the operating profit margin.”<sup>77</sup>

As Sony begins to implement the new initiatives and refocus the company, will it succeed to turn the electronics division around? Does its strategy make sense given the global downturn and harsh competition in the electronics industry? Should Sony be focusing on digital imaging, games, and mobile, or is it abandoning its core strengths and chasing illusive profits in oversaturated markets?

## EXHIBIT 1: KEY EMPLOYEES AND BOARD OF DIRECTORS

### Corporate Executive Officers

Representative Corporate Executive Officers:

Kazuo Hirai	President and Chief Executive Officer
Ryoji Chubachi	Vice Chairman

Corporate Executive Officers:

Hiroshi Yoshioka	Executive Deputy President Officer in charge of Medical business
Keiji Kimura	Executive Vice President Officer in charge of Intellectual Property
Nicole Seligman	Executive Vice President General Counsel
Masaru Kato	Executive Vice President Chief Financial Officer
Tadashi Saito	Executive Vice President Chief Strategy Officer
Shoji Nemoto	Executive Vice President Officer in charge of Professional Solutions Business, Digital Imaging Business, Disk Manufacturing Business, System & Software Technology Platform and Corporate R&D President of Professional Solutions Group
Tomoyuki Suzuki	Executive Vice President Officer in charge of Semiconductor Business, Device Solutions Business and Advanced Device Technology Platform President of Semiconductor Business Group President of Device Solutions Business Group* President of Core Device Development Group, Advanced Device Technology Platform *Mr. Suzuki to be appointed President of Device Solutions Business Group on July 1, 2012.
Kunimasa Suzuki	Executive Vice President Officer in charge of PC Business, Mobile Business and UX, Product Strategy and Creative Platform President of UX & Product Strategy Group, UX, Product Strategy and Creative Platform

## Board of Directors

Chairman of the Board and Vice Chairman of the Board:

Chairman of the Board	Howard Stringer
Vice Chairman of the Board	Osamu Nagayama

Members of the Board:

Kazuo Hirai	Representative Corporate Executive Officer, President and Chief Executive Officer
Ryoji Chubachi	Representative Corporate Executive Officer, Vice Chairman
Masaru Kato	Corporate Executive Officer, Executive Vice President and Chief Financial Officer
Howard Stringer	Chairman of the Board
Peter Bonfield	Chairman of the Board, NXP Semiconductors N.V.
Ryuji Yasuda	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University
Yukako Uchinaga	Director and Executive Vice President, Benesse Holdings, Inc. Chairman of the Board, Chief Executive Officer and President, Berlitz Corporation
Mitsuaki Yahagi	Representative Director, Chairman of the Board, The Japan Research Institute, Ltd.* *Mr. Yahagi to be appointed Special Advisor, The Japan Research Institute. Ltd. on June 28, 2012.
Tsun-Yan Hsieh	Founder & Chairman, LinHart Group
Roland A. Hernandez	Retired Chairman and Chief Executive Officer, Telemundo Group, Inc.
Kanemitsu Anraku	Director, Mizuho Financial Group, Inc.
Yorihiko Kojima	Chairman of the Board, Mitsubishi Corporation
Osamu Nagayama	Representative Director, Chairman and Chief Executive Officer, Chugai Pharmaceutical Co., Ltd.
Takaaki Nimura	Certified Public Accountant

Source – Sony Corporation 2012. <http://www.sony.net/SonyInfo/CorporateInfo/executive/index.html>

## EXHIBIT 2: CONSOLIDATED STATEMENT OF INCOME

Sony Corporation and Consolidated Subsidiaries

As of March 31

	Yen in millions		
	2010	2011	2012
<b>Sales and operating revenue:</b>			
Net sales .....	6,293,005	6,304,401	5,526,611
Financial services revenue .....	838,300	798,495	868,971
Other operating revenue .....	82,693	78,377	97,630
	<b>7,213,998</b>	<b>7,181,273</b>	<b>6,493,212</b>
<b>Costs and expenses:</b>			
Cost of sales .....	4,892,563	4,831,363	4,386,447
Selling, general and administrative .....	1,544,890	1,501,813	1,375,887
Financial services expenses .....	671,550	675,788	736,050
Other operating (income) expense, net .....	42,988	(13,450)	(59,594)
	<b>7,151,991</b>	<b>6,995,514</b>	<b>6,438,790</b>
<b>Equity in net income (loss) of affiliated companies</b> .....	<b>(30,235)</b>	<b>14,062</b>	<b>(121,697)</b>
<b>Operating income (loss)</b> .....	<b>31,772</b>	<b>199,821</b>	<b>(67,275)</b>
<b>Other income:</b>			
Interest and dividends .....	13,191	11,783	15,101
Gain on sale of securities investments, net .....	9,953	14,325	671
Foreign exchange gain, net .....	—	9,297	—
Other .....	20,690	9,561	7,706
	<b>43,834</b>	<b>44,966</b>	<b>23,478</b>
<b>Other expenses:</b>			
Interest .....	22,505	23,909	23,432
Loss on devaluation of securities investments .....	2,946	7,669	3,604
Foreign exchange loss, net .....	10,876	—	5,089
Other .....	12,367	8,196	7,264
	<b>48,694</b>	<b>39,774</b>	<b>39,389</b>
<b>Income (loss) before income taxes</b> .....	<b>26,912</b>	<b>205,013</b>	<b>(83,186)</b>
<b>Income taxes:</b>			
Current** .....	79,120	117,918	108,545
Deferred** .....	(65,162)	307,421	206,694
	<b>13,958</b>	<b>425,339</b>	<b>315,239</b>
<b>Net income (loss)</b> .....	<b>12,954</b>	<b>(220,326)</b>	<b>(398,425)</b>
Less—Net income attributable to noncontrolling interests .....	53,756	39,259	58,235
<b>Net loss attributable to Sony Corporation's stockholders</b> .....	<b>(40,802)</b>	<b>(259,585)</b>	<b>(456,660)</b>
	Yen		
<b>Per share data:</b>			
Common stock			
Net loss attributable to Sony Corporation's stockholders			
—Basic .....	(40.66)	(258.66)	(455.03)
—Diluted .....	(40.66)	(258.66)	(455.03)
Cash dividends .....	25.00	25.00	25.00

Source: Sony Group 2012 Annual Report



### EXHIBIT 3: CONSOLIDATED BALANCE SHEETS

Sony Corporation and Consolidated Subsidiaries

As of March 31

	Yan in millions	
	2011	2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents .....	1,014,412	894,576
Marketable securities .....	646,171	680,913
Notes and accounts receivable, trade .....	834,221	840,924
Allowance for doubtful accounts and sales returns .....	(90,531)	(71,009)
Inventories .....	704,043	707,052
Other receivables .....	215,181	202,044
Deferred income taxes .....	133,059	36,769
Prepaid expenses and other current assets .....	387,490	463,693
<b>Total current assets .....</b>	<b>3,844,046</b>	<b>3,754,962</b>
Film costs .....	275,389	270,048
<b>Investments and advances:</b>		
Affiliated companies .....	221,993	36,800
Securities investments and other .....	5,670,662	6,282,676
	5,892,655	6,319,476
<b>Property, plant and equipment:</b>		
Land .....	145,968	139,413
Buildings .....	868,615	817,730
Machinery and equipment .....	2,016,956	1,957,134
Construction in progress .....	53,219	35,648
	3,084,758	2,949,925
Less—Accumulated depreciation .....	(2,159,890)	(2,018,927)
	924,868	930,998
<b>Other assets:</b>		
Intangibles, net .....	391,122	503,699
Goodwill .....	469,005	576,758
Deferred insurance acquisition costs .....	428,262	441,236
Deferred income taxes** .....	300,702	100,460
Other** .....	385,073	398,030
	1,974,164	2,020,183
<b>Total assets** .....</b>	<b>12,911,122</b>	<b>13,295,667</b>

Continued on next page

	Yen in millions	
	2011	2012
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Short-term borrowings .....	53,737	99,878
Current portion of long-term debt .....	109,614	310,483
Notes and accounts payable, trade .....	793,275	758,680
Accounts payable, other and accrued expenses .....	1,013,037	1,073,241
Accrued income and other taxes** .....	87,396	63,396
Deposits from customers in the banking business .....	1,647,752	1,761,137
Other .....	430,488	463,166
<b>Total current liabilities**</b> .....	<b>4,135,299</b>	<b>4,529,981</b>
Long-term debt .....	812,235	762,226
Accrued pension and severance costs .....	271,320	309,375
Deferred income taxes .....	306,227	284,499
Future insurance policy benefits and other .....	2,924,121	3,208,843
Policyholders' account in the life insurance business .....	1,301,252	1,449,644
Other** .....	204,766	240,978
<b>Total liabilities**</b> .....	<b>9,955,220</b>	<b>10,785,546</b>
<b>Redeemable noncontrolling interest</b> .....	<b>19,323</b>	<b>20,014</b>
<b>EQUITY</b>		
<b>Sony Corporation's stockholders' equity:</b>		
Common stock, no par value—		
2011—Shares authorized 3,600,000,000, shares issued: 1,004,636,664 .....	630,921	
2012—Shares authorized 3,600,000,000, shares issued: 1,004,638,164 .....		630,923
Additional paid-in capital .....	1,159,666	1,160,236
Retained earnings .....	1,566,274	1,084,462
Accumulated other comprehensive income—		
Unrealized gains on securities, net .....	50,336	64,882
Unrealized losses on derivative instruments, net .....	(1,589)	(1,050)
Pension liability adjustment .....	(152,165)	(186,833)
Foreign currency translation adjustments .....	(700,786)	(719,092)
	(804,204)	(842,093)
Treasury stock, at cost		
Common stock		
2011—1,051,588 shares .....	(4,670)	
2012—1,061,803 shares .....		(4,637)
	2,547,987	2,028,891
Noncontrolling interests .....	388,592	461,216
<b>Total equity</b> .....	<b>2,936,579</b>	<b>2,490,107</b>
<b>Total liabilities and equity**</b> .....	<b>12,911,122</b>	<b>13,295,667</b>

Source: Sony Group 2012 Annual Report

## EXHIBIT 4: CONSOLIDATED STATEMENT OF CASH FLOWS

Sony Corporation and Consolidated Subsidiaries

As of March 31

	Yen in millions		
	2010	2011	2012
<b>Cash flows from operating activities:</b>			
Net income (loss) .....	12,954	(220,326)	<b>(398,425)</b>
Adjustments to reconcile net income (loss) to net cash provided by operating activities—			
Depreciation and amortization, including amortization of deferred insurance acquisition costs .....	371,004	325,366	<b>319,594</b>
Amortization of film costs .....	277,665	250,192	<b>188,836</b>
Stock-based compensation expense .....	2,202	1,952	<b>1,952</b>
Accrual for pension and severance costs, less payments .....	(9,763)	(15,229)	<b>36,647</b>
Other operating (income) expense, net .....	42,988	(13,450)	<b>(59,594)</b>
(Gain) loss on sale or devaluation of securities investments, net .....	(7,007)	(6,656)	<b>2,933</b>
(Gain) loss on revaluation of marketable securities held in the financial services business for trading purposes, net .....	(49,837)	10,958	<b>(21,080)</b>
(Gain) loss on revaluation or impairment of securities investments held in the financial services business, net .....	(53,984)	5,080	<b>2,819</b>
Deferred income taxes** .....	(65,162)	307,421	<b>206,694</b>
Equity in net (income) losses of affiliated companies, net of dividends .....	36,183	(11,479)	<b>138,772</b>
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable, trade .....	(53,306)	104,515	<b>4,427</b>
(Increase) decrease in inventories .....	148,584	(112,089)	<b>29,778</b>
Increase in film costs .....	(296,819)	(244,063)	<b>(186,783)</b>
Increase (decrease) in notes and accounts payable, trade .....	262,032	(18,119)	<b>(59,410)</b>
Increase (decrease) in accrued income and other taxes** .....	71,939	(8,020)	<b>(44,635)</b>
Increase in future insurance policy benefits and other .....	284,972	278,897	<b>332,728</b>
Increase in deferred insurance acquisition costs .....	(71,999)	(69,196)	<b>(68,634)</b>
Increase in marketable securities held in the financial services business for trading purposes .....	(8,335)	(30,102)	<b>(39,161)</b>
Increase in other current assets .....	(32,405)	(89,473)	<b>(35,181)</b>
Increase in other current liabilities .....	5,321	56,076	<b>10,595</b>
Other** .....	45,680	113,990	<b>156,667</b>
<b>Net cash provided by operating activities .....</b>	<b>912,907</b>	<b>616,245</b>	<b>519,539</b>

Continued on next page

	Yen in millions		
	2010	2011	2012
<b>Cash flows from investing activities:</b>			
Payments for purchases of fixed assets .....	(338,050)	(253,688)	(382,549)
Proceeds from sales of fixed assets .....	15,671	18,743	22,661
Payments for investments and advances by financial services business	(1,581,841)	(1,458,912)	(1,028,150)
Payments for investments and advances (other than financial services business) .....	(41,838)	(15,316)	(28,021)
Proceeds from sales or return of investments and collections of advances by financial services business .....	1,128,500	874,031	474,466
Proceeds from sales or return of investments and collections of advances (other than financial services business) .....	54,324	30,332	93,165
Proceeds from sales of businesses .....	22,084	99,335	8,430
Payment for Sony Ericsson acquisition, net of cash acquired .....	—	—	(71,843)
Other .....	(4,854)	(8,964)	28,955
Net cash used in investing activities .....	(746,004)	(714,439)	(882,886)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt .....	510,128	1,499	216,887
Payments of long-term debt .....	(144,105)	(216,212)	(112,043)
Increase (decrease) in short-term borrowings, net .....	(250,252)	6,120	(26,158)
Increase in deposits from customers in the financial services business, net .....	276,454	229,327	211,597
Dividends paid .....	(25,085)	(25,098)	(25,078)
Other .....	(2,126)	(5,748)	(7,869)
Net cash provided by (used in) financing activities .....	365,014	(10,112)	257,336
Effect of exchange rate changes on cash and cash equivalents .....	(1,098)	(68,890)	(13,825)
Net increase (decrease) in cash and cash equivalents .....	530,819	(177,196)	(119,836)
Cash and cash equivalents at beginning of the fiscal year .....	660,789	1,191,608	1,014,412
Cash and cash equivalents at end of the fiscal year .....	1,191,608	1,014,412	894,576
<b>Supplemental data:</b>			
Cash paid during the fiscal year for—			
Income taxes .....	60,022	116,376	127,643
Interest .....	19,821	20,583	20,276
Non-cash investing and financing activities—			
Obtaining assets by entering into capital lease .....	2,553	3,738	56,403
Collections of deferred proceeds from sales of receivables— .....	—	153,550	132,636

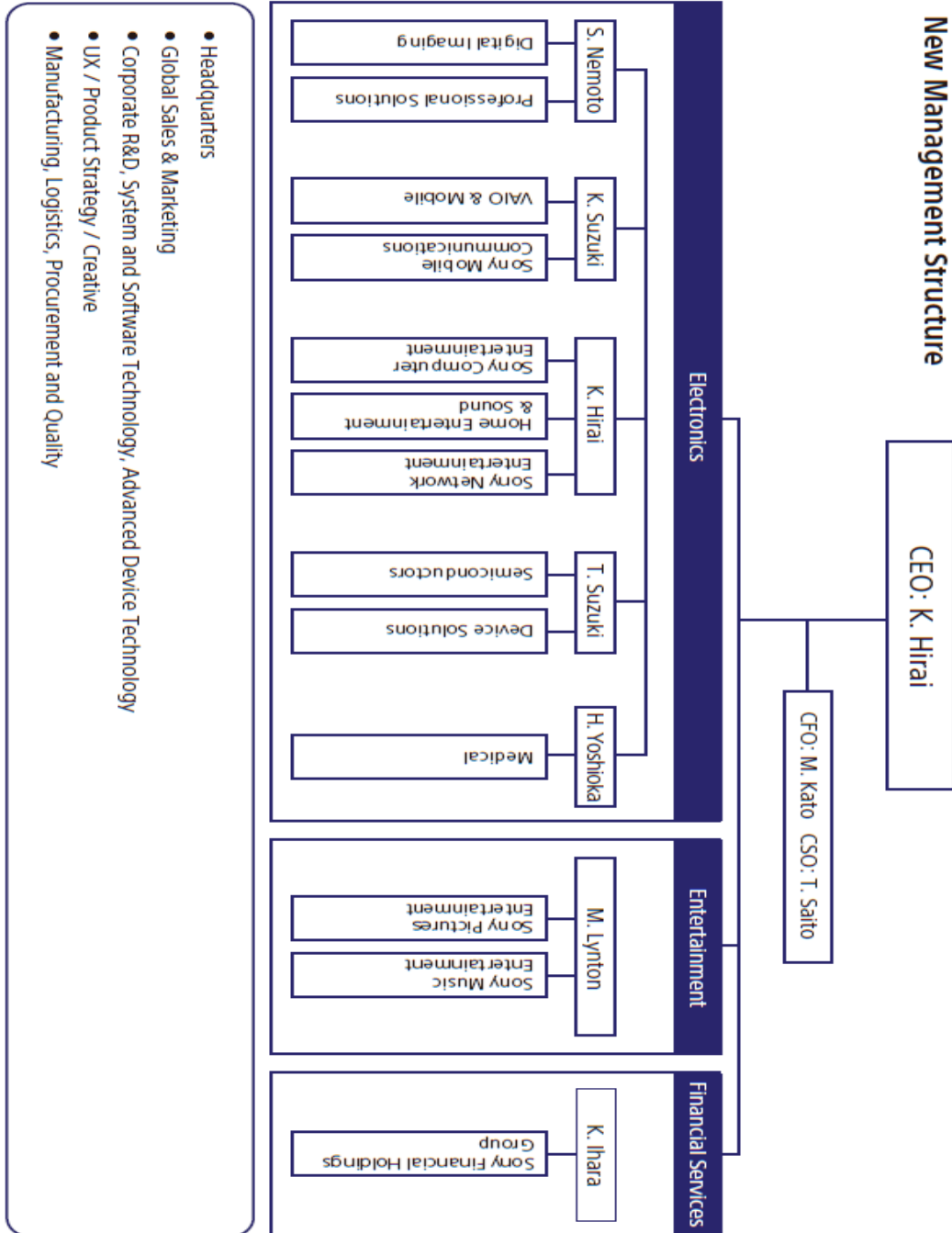
Source: Sony Group 2012 Annual Report

## EXHIBIT 5: COMPETITOR FINANCIALS

<b>Apple Inc. (APPL)</b>					
USD in millions	2008-09	2009-09	2010 -09	2011 -09	2012-09
Revenue	32,479	42,905	65,225	108,249	156,508
Gross Profit	11,145	17,222	25,684	43,818	68,662
Net Income	4,834	8,235	14,013	25,922	41,733
Earnings Per Share	5.48	9.22	15.41	28.05	44.64
<b>Samsung Electronics Co Ltd (SMSD)</b>					
USD in millions	2008 -12	2009-12	2010-12	2011 -12	
Revenue	104433	95887	116465	138137	
Gross Profit	104433	95887	116465	138137	
Net Income	7867	4368	8177	14114	
<b>Canon Inc ADR (CAJ)</b>					
JPY in millions	2008 -12	2009-12	2010-12	2011 -12	
Revenue	4494183	4082876	3209201	3706901	
Gross Profit	2253403	1932658	1427393	1783088	
Net Income	489759	308301	131647	246603	
Earnings Per Share	377.59	246.21	106.64	199.71	
<b>Microsoft Corporation (MSFT)</b>					
USD in millions	2008 -06	2009-06	2010-06	2011 -06	2012-06
Revenue	60420	58437	62484	69943	73723
Gross Profit	48822	46282	50089	54366	56193
Net Income	17681	14569	18760	23150	16978
Earnings Per Share	1.9	1.63	2.13	2.73	2.02
<b>Koninklijke Philips Electronics NV ADR (PHG)</b>					
EUR in millions	2008 -12	2009-12	2010-12	2011-12	
Revenue	26385	23189	25419	22579	
Gross Profit	8495	8079	9546	8647	
Net Income	(186)	410	1446	(1295)	
Earnings Per Share	(0.19)	0.46	1.53	(1.36)	
<b>Panasonic Corporation ADR (PHG)</b>					
JPY in millions	2008 -03	2009-03	2010-03	2011-03	2012-03
Revenue	9,026,730	7,765,507	7,417,980	8,692,672	7,846,216
Gross Profit	2,679,184	2,098,220	2,076,921	2,303,492	1,981,701
Net Income	280,589	(378,961)	(103,465)	74,017	(772,172)
Earnings Per Share	132.90	(182.25)	(49.97)	35.75	(333.96)

Source of Data: Morningstar

## EXHIBIT 6: NEW MANAGEMENT STRUCTURE



Source: Sony Group 2012 Annual Report



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## **SONY CORPORATE: REINVENTING ITSELF TO REDISCOVER THE TECHNOLOGICAL EDGE**

### **DISCUSSION QUESTIONS**

1. What are the unique challenges associated with managing such a highly diversified company?
2. Are there any benefits to such a high level of diversification?
3. Managers at Sony have blamed financial problems on the Japanese earthquake and a weak global economy. Do you agree with their assessment, or do you think there are other major problems that would have led to problems anyway. If so, what are they? If not, then do you think the company should just wait until times get better?
4. Does Sony have any distinctive competencies or resources relative to its competitors? What are they? How can Sony utilize these strengths to increase performance in the future?
5. Sony is highly dependent on global markets. If you were the CEO of Sony, which global markets would you stress? Why? (There is not an obvious answer to this question – you are going to have to really think through it).
6. Should Sony shrink? That is, should Sony get out of some of its businesses? Which one business do you think Sony should most consider divesting?
7. Sony has restructured its management reporting structure. Why would the company do this? Can a restructuring really solve operating problems such as those experienced at Sony? How?
8. Sony seems to have centralized most of its R&D activities at the corporate level. That is, all of the business units in the company make use of the same R&D efforts. What are the advantages and disadvantages of centralizing this activity in a company as diversified as Sony?
9. What do you think Sony should do to solve its problems and regain profitability?