Sony is a leading global media conglomerate based in Tokyo, Japan. The company provides an array of products in several categories including electronics, gaming, video, communications, and information technology. Sony has been working to expand in these markets through corporate restructuring and product development initiatives. This report looks at the company's current activities, and discusses its strategy and financial standing.

Report Contents:

- Fast Facts
- Profile
- Strategy
- Strategic Alliances
- Products and Services
- Financials

Fast Facts

Name: Sony
Headquarters
6-7-35 Kitashinagawa, Shinagawa-ku
Tokyo 141-0001, Japan
+81-3-5448-2111
(800) 556-3411
Fax: +81-3-5448-2244
Profile

Sony is a consumer electronics company, which has its roots dating back to 1946, when the company was founded as Tokyo Telecommunications Engineering. The company manufactures a variety of offerings, such as batteries, cameras, computer monitors, DVD players, flat-screen TVs, home-use game consoles and software, image-based software, MiniDisc and Walkman stereo systems, and semiconductors.

The company also makes stereos, TVs, VCRs, and other consumer electronics, which account for most of its revenues. Sony's wares are chiefly targeted toward those in the consumer and industrial markets. It also conducts its operations in various financial service businesses, such as banking operations; insurance operations; and leasing and credit financing operations. Other operations include an advertising agency business located in Japan; Internet-related businesses; and a location-based entertainment business in Japan and the US. Additionally, the company's entertainment assets include recorded music and video, motion pictures, DVDs, and TV programming.

Sony employs an estimated 163,000 people worldwide and has sales of US$70.3 billion.

History

An outline of Sony's history is detailed below.

- **1946**--The company was founded by Masaru Ibuka, Tamon Maeda, and Akio Morita as Tokyo Telecommunications Engineering.
- **1953**--Paid Western Electric US$25,000 for transistor technology licenses.
- **1957**--Rolled out the pocket-sized radio, a Sony-trademarked offering.
- **1958**--Rebranded itself under the corporate name Sony.
- **1959**--Entered the market for transistor televisions.
- **1964**--Introduced the initial home videotape recorder.
- **1968**--Rolled out the Trinitron color TV tube.
- **1979**--Witnessed another success with the launch of its Walkman personal stereo system.
- **1980s**--Launched Japan's first ever 32-bit workstation.
- **1988**--Acquired CBS Records for $2 billion.
- **1989**--Purchased Columbia Pictures for $4.9 billion.
- **1991**--Manufactured the Apple PowerBook.
- **1994**--Released PlayStation throughout Japan.
- **1995**--Introduced PlayStation to the US.
- **1997**--Entered into a joint venture with Intel to create a line of desktop PC systems. Also that year, the
company teamed with Philips Electronics to establish a recording media, called Super Audio CD.

- **1998**—Shipped its initial digital, high-definition TV to the US. Also that same year, the company merged its Loews theaters with Cineplex Odeon.
- **1999**—Forged a joint venture with Philips and Sun Microsystems to create networked entertainment offerings. Also that year, Nobuyuki Idei was appointed CEO.
- **2000**—Formed PlayStation.com Japan to sell game consoles and software over the Internet. A major restructuring also occurred that year, which led the company to place all of its US entertainment holdings in a company called, Sony Broadband Entertainment.
- **2001**—Started a Web-based financial institution with Japan's Sakura Bank and JP Morgan Chase. The company restructured again that year, placing all electronics divisions under one upper-management unit.
- **2002**—Laid off approximately 13,700 workers, mainly from its electronics and music businesses, during the fiscal year ending March 31, 2002. Sony Pictures Entertainment renamed its Columbia TriStar Domestic Television (CTDT) and Columbia TriStar International Television (CTIT) divisions, designating them as Sony Pictures Television (SPT) and Sony Pictures Television International (SPTI), respectively. Finally, the company transformed its Aiwa unit into a wholly-owned subsidiary and absorbed the struggling firm later in the year.
- **2003**—Acquired Japanese information systems consulting firm CIS Corp. Sony also closed its audio equipment plant in Indonesia. Announced plans to merge its music unit with the music unit of Bertelsmann, forming Sony BMG, a joint venture which both vendors would own 50 percent.
- **2004**—Announced plans to discontinue its Clie PDAs in the US and Europe. Launched Transformation 60, which through 2006, plans to reduce the company’s staff by 20,000, or 13 percent. Began negotiations to acquire movie studio MGM.
- **2005**—Named Howard Stringer as chair and CEO, and Ryoji Chubachi as president and Electronics CEO. Was also ordered to pay $90.7 million to Immersion for alleged patent violations related to the PlayStation 2 gaming console. Along with Consortium, completed the acquisition of MGM.
- **2006**—Launched the PlayStation 3 gaming console in November.
- **2007**—Sony/ATV Music Publishing signed an agreement to purchase Famous Music LLC from Viacom.

### Strategy

Sony has been focusing on CSR, or Corporate Social Responsibility. It recently issued a report on its past-year CSR activities, which include an alliance with the World Wide Fund for Nature (WWF) global environmental NGO, to join its "Climate Savers Programme." It also received a Sustainable Energy Europe Award from the European Commission, which recognizes Sony for its commitment to improve the energy efficiency of its products, as well as for its disclosure of information to consumers. Additionally, the company is engaged in environmental conservation activities at its sites as it works towards its "Green Management 2010" mid-term group environmental targets, which it is working to achieve by 2010. In terms of supply chain management, Sony implemented a program based on the Electronic Industry Code of Conduct (EICC), an industry-wide framework for promoting legal compliance, occupational health and safety, and environmental protection throughout the supply chain. Also, In April 2007, Sony Corporation earned the Tokyo Labour Bureau's "corporate support for parenting" mark. It received this title for achieving targets of the action plan it formulated in response to the "Law for Measures to Support the Development of the Next Generation."

In terms of product development, Sony has been focusing on a number of areas. For example, it is working to
position image sensors as a key area of its semiconductor business. Accordingly, in June 2007, the company reported that it would invest approximately 60 billion JPY in Sony Semiconductor Kyushu Corporation’s Kumamoto Technology Center (Kumamoto TEC) Fab 2 facility, to extend clean room facilities by 5,000m² and reinforce image sensor fabrication capacity. This investment will take place from fiscal year 2007 to fiscal 2009. Sony reports that, over the next three years, it will be strengthening its CMOS sensor manufacturing operations to provide growth markets such as mobile phones and digital still cameras with CMOS sensors.

In other product development areas, the company is launching several new audio and video devices. The company will soon be launching the "Rolly" audio device, and is looking to offer a digital single lens reflex camera for advanced users in November 2007. In a move to take on Cannon and Nikon, Sony is slated to introduce the "DSLR-A700" camera, which comes with 12.24 megapixel resolution and is expected to sell for about 180,000 yen (US$1,560). In September 2007, Sony extended its Portable Media Player lines with the Walkman devices NWZ-A810 and NWZS610. They both feature eight gigabytes of Flash memory storage (similar to the Apple iPhone). Also, in October, Sony is expected to challenge the Apple video iPod with Walkman devices that have enhanced screens and two types of H.264 codec playback.

To ensure success for these Walkman audio devices, Sony needs to establish relationships with online video stores to make content available. It has shut down its Connect service, but promised to offer conversion tools to help customers convert the Atrac 3 formatted audio to the Windows Media Audio. There are rumors that the company will offer new services, such as one that is part of the PS3 network.

In addition, the company recently introduced the sub brand name "x.v.Color" for products that conform to "xvYCC", the international standard for wide color space within moving images. Sony is promoting "x.v.Color" in the industry to be a unified brand name borne by future products compliant with the standard.

Blu-Ray technology has also been a focus for the company. In September 2007, it released the HES-V1000 media server, which is a Sony-branded version of Windows Home Server. It uses Blu-ray technology as a drive and includes a 200-disc Blu-ray/DVD changer. During the fall of 2007, it plans to launch two new players: the BDP-S2000ES model, as well as the BDP-S500. They will be available for about US$1,300 and $700, respectively. Both players support high-definition 1080/60p and 24p output, as well as 7.1 channel linear PCM and Dolby TrueHD, Dolby Digital Plus, and dts-HD High Resolution Audio bitstream output via HDMI 1.3.

In accordance with its September 2005 restructuring plan to reorganize its electronics business, close facilities, and eliminate certain positions within its workforce to remain competitive with Samsung and Sharp, Sony made several personnel changes over the past year. Most recently, Sony Ericsson’s Miles Flint reported plans to step down. This move was not Sony’s decision. A successor has yet to be named. On October 1, 2006 Sony realigned certain executive responsibilities in its electronics business with the goal of strengthening its mid to long-term growth strategy, support its current core businesses, and put focus on product development and product quality. Under President and CEO Ryoji Chubachi’s direction, core consumer product businesses are now led by Executive Deputy President Katsumi Ihara. The semiconductor and component device businesses is now led by Yutaka Nakagawa, who was promoted to Executive Deputy President. It also appointed Keiichiro Shimada to President of the Technology Development Group. Makoto Kogure is now Corporate Executive in Charge of Product Quality and Safety. Ryoji Chubachi is now also the Officer in charge of Technology Development Group. Most recently, Hideki Komiyama was named President, Sony Ericsson Mobile Communications; Kiyoshi Shikano was appointed Senior General Manager, Global Marketing Division; Kyung-soo Ahn was named Executive Vice President, Corporate Executive President of B2B Solutions Business Group, and Chairman of Sony Korea; Shigeki Ishizuka was appointed President of Digital Imaging Business Group; Keiichiro Shimada was named President of Technology Development
Group; and Takashi Fukuda was made President of TV Business Group. The company has also named a number of new members to its board of directors.

**Strengths**

Sony is one of the largest companies in the world, operating globally with a variety of products. Along with its electronic offerings, such as its PlayStation gaming system and VAIO computer products, Sony develops, produces, manufactures, markets, distributes, and broadcasts image-based software, including film, video, and television. It also has various financial service businesses, along with an Internet-related businesses and an advertising agency business in Japan. It strives to maintain consumer loyalty by continually being recognized for having one of the leading brands in its class. Brand loyalty is expected to help the company achieve its minimum consolidated operating profit margin goals of 10 percent, not counting its financial business.

**Vulnerabilities**

Sony has been having problems with its computer battery packs as of late. In July 2007, Toshiba, after working with Sony, began recalling specific production lots of lithium-ion battery packs that contributed to overheating incidents in Toshiba’s notebook PCs. The cause of the incidents has not yet been identified, though it is believed that there was some type of irregularity in the specific cell production lot. This recall comes after Dell began recalling approximately 4.1 million laptop and notebook lithium-ion batteries last year. The batteries caused overheating and resulted in fires. In October 2006, Sony announced a global voluntary replacement program for certain notebook computer battery packs using Sony-manufactured lithium ion battery cells. The program is being implemented in cooperation with the US Consumer Product Safety Commission and other regulatory agencies worldwide. The replacement program was offered for all notebook computer battery packs containing the same types of Sony-manufactured battery cells as were involved in the Dell, Apple, and Lenovo recalls.

In addition, Sony has recently been facing criticism for its PlayStation 3 marketing strategy. Upon its introduction, the product was marketed as a home-electronics product. It is now being marketed as a game machine, which neglects its other features such as a Blu-ray high-definition DVD player and Cell microchip. Its high price has hindered sales, for it costs approximately twice as much as Nintendo's Wii system.

**Outlook**

In regards to the battery fiasco with Dell and others, most experts feel that any negative impact will be short-lived. While this is an issue that will have some bad publicity for Sony, it probably shouldn’t have any lasting effects. Once the affected batteries are returned and replaced, the majority of the problem will be taken care of. Dell has had problems with other battery makers in the past, so this is not a rare occurrence.

As the company looks to grow market share in all of its product categories, it is planning a slew of new product introductions in the areas of electronics, games, and entertainment. In electronics, the company is looking to focus on HD products, mobile products, and the semiconductors/key component devices. In terms of games and entertainment, Sony is looking to motion pictures, music, games, and brand recognition to deliver enhanced products and services.
Strategic Alliances

Sony continues to strengthen its competitive position through alliances and agreements with other vendors.

Mergers, Acquisitions, and Divestitures

- **Sony Financial Holdings**--In September 2007, the Tokyo Stock Exchange approved Sony's application for listing the shares of common stock of Sony Financial Holdings Inc., which is a consolidated subsidiary of Sony. The company intends to sell a portion of its shareholding in SFH in a secondary offering in Japan and overseas markets, mainly in Europe and the United States. Sony is offering 725,000 shares. The representative of the Japanese underwriters may over-allot up to an additional 70,000 shares, which will be lent to such representative by Sony.
- **Viacom**--In August 2007, Sony/ATV Music Publishing signed an agreement to purchase Famous Music LLC from Viacom. Sony/ATV Music Publishing is co-owned by Sony and trusts formed by Michael Jackson.
- **Monex Beans Holdings**--In January 2007, Sony sold a portion of its shareholdings in Monex Beans Holdings. It sold 64,415 shares, or approximately 2.7 percent of outstanding shares of Monex Beans. Its remaining shares are 117,235 shares, or approximately 5.0 percent of outstanding shares of Monex Beans.

Major Alliances and Joint Ventures

Sony's recent and significant alliances include the following:

- **Kodak**--In January 2007, Sony and Kodak signed a cross license agreement through which they will both have access to each other's patent portfolio. Specific terms of the agreement were not disclosed. The companies also signed a settlement agreement to resolve outstanding patent litigations.
- **Toshiba, NEC Electronics, and Sony**--Toshiba, NEC Electronics, and Sony teamed to co-develop an LSI mass production platform for next-generation 45 nanometer process technology. Sony reports that the platform integrates elemental breakthroughs with cutting-edge technologies to achieve an efficient process for the production of high performance system LSI. The platform features a fully renovated MOSFET integration scheme, and a hybrid structure with a low dielectric constant (low-k) film.
- **SanDisk**--In December 2006, SanDisk and Sony developed the "Memory Stick PRO-HG" format expanded from the "Memory Stick PRO" format. Memory Stick PRO-HG uses an enhanced, 8-bit parallel interface in addition to a conventional serial and 4-bit parallel interface. The interface clock frequency also increases to 60MHz from 40MHz. Maximum data transfer speed increases up to 480Mbps, or 60MB/s (theoretical value), three times as fast as that of "Memory Stick PRO" media.

Products and Services
Sony manufactures a variety of offerings, such as batteries, cameras, computer monitors, DVD players, flat-screen TVs, MiniDisc and Walkman stereo systems, semiconductors, stereos, TVs, VCRs, and other consumer electronics. Sony’s core products and services are described in Table 1 below.

**Table 1. Sony’s Core Products and Services**

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Description</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audio</td>
<td>Sony’s audio wares consist of car audio, car navigation systems, home audio, and portable audio components.</td>
<td>Matsushita (audio equipment); Philips Electronics' audio systems; and SANYO (automobile navigation systems).</td>
</tr>
<tr>
<td>Video</td>
<td>Its video line includes digital still camera, DVD-Video players/recorders, video cameras, and video decks.</td>
<td>Matsushita video equipment (camcorders and DVD players) and Philips Electronics' DVD players; and SANYO (digital cameras and video cameras).</td>
</tr>
<tr>
<td>Televisions</td>
<td>The company offers an array of televisions including CRT-based televisions, digital broadcasting reception systems, and projection televisions.</td>
<td>Matsushita; Philips Electronics; and SANYO.</td>
</tr>
<tr>
<td>Information and Communications</td>
<td>Sony's information and communication unit offers broadcast and professional use audio/video/monitors, computer displays, PCs, PDAs, printers, and professional use equipment.</td>
<td>Matsushita’s Information and communication equipment (audio-visual systems).</td>
</tr>
<tr>
<td>Electronic components and other</td>
<td>The company’s electronic components include audio/video/data recording media, batteries, CRTs, data recording systems, IC cards, entertainment robots, optical pickups, and semiconductors.</td>
<td>Matsushita (batteries, CRTs, and semiconductors); Philips Electronics’ semiconductors; and Toshiba’s batteries and semiconductors.</td>
</tr>
<tr>
<td>Gaming</td>
<td>Via its Sony Computer Entertainment unit, the company offers its PSP (PlayStation Portable), PlayStation 2, and PlayStation 3 gaming systems. Along with the hardware offering, the company also offers games and online gaming.</td>
<td>Microsoft (Xbox) and Nintendo (GameCube, Wii).</td>
</tr>
</tbody>
</table>
Mobile Phones

The company offers second and third generation mobile phones through its Sony Ericsson joint venture. The phones include such features as Bluetooth, digital cameras, and Java applications.

Nokia; Motorola; Samsung; Siemens; and LG Electronics.

Product and Service News

Over the past quarter, Sony made the following significant product announcements:

- Launched the HES-V1000 media server, which is a Sony-branded version of Windows Home Server. It uses Blu-ray technology as a drive and includes a 200-disc Blu-ray/DVD changer.
- S-LCD Corporation, a joint venture between Samsung Electronics Co., Ltd. and Sony Corporation, shipped LCD panels produced from its eighth Generation Line.
- Developed a bio battery that generates electricity from carbohydrates (sugar) utilizing enzymes as its catalyst.
- Commercialized "IMX021", an APS-C size 12.47 effective megapixel ultra-high speed, high image quality CMOS image sensor designed to meet the requirement for rapid image capture and advanced picture quality within digital SLR cameras.

Competitor Links

LG Electronics: http://www.lge.com/
Matsushita Electric Industrial: http://www.mew.co.jp/e-index.html
Microsoft: http://www.microsoft.com/
Motorola: http://www.motorola.com/
Nintendo: http://www.nintendo.com/
Nokia: http://www.nokia.com/
Royal Philips Electronics: http://www.philips.com/
SAMSUNG: http://www.samsung.com/
SANYO: http://www.sanyo.com/
Siemens: http://www.siemens.com/
Toshiba: http://www.toshiba.co.jp/

Financials

[return to top of this report]

In September 2007, the Tokyo Stock Exchange approved Sony’s application for a common stock listing of its Sony Financial Holdings subsidiary. The company intends to sell a portion of its shareholding in a secondary offering in Japan and overseas markets, mainly in Europe and the United States.
Figure 1 illustrates Sony's stock performance for the 12-month period.

**Figure 1. Sony's 12-month Stock Performance**

![Graph showing Sony's stock performance over 1 year](image)

Source: *Nasdaq*

**Most Recent Quarter**

For its first fiscal quarter ended June 30, 2007, Sony reported sales and operating revenue of 1,967 billion yen, an increase of 13.3 percent from the 1,744 billion yen reported for the same period last year. Operating income totaled 99.3 billion yen, an increase of 267.2 percent from and operating income of 27.0 billion yen for the first quarter of 2006. Net income was 66.5 billion yen, compared to 32.3 million yen reported for the same period in 2006. Diluted earnings per share were 63.14 yen, an increase of 105.3 percent compared to the 30.75 yen reported for last year.

Table 2 compares Sony’s fiscal first quarter against its year-ago quarter.

**Table 2. Sony First Quarter Comparison**

(For the quarters ended June 30) (in billions of yen, except per share info)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>1,976.5</td>
<td>+13.3</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>66.5</td>
<td>+105.8</td>
</tr>
</tbody>
</table>
Fiscal Year 2007

Sony announced revenues of 8,295.7 billion yen for its fiscal year 2007. This compares to revenues of 7,510.6 billion yen for fiscal 2006. Operating loss totaled 71.8 billion yen, a decrease of 68.3 percent compared to the 226.4 billion yen reported for fiscal 2006. This loss is attributed to the sale of PS3 at price points lower than production cost during its introductory period, as well as charges related to preparation for the product’s launch. Also, operating income from the PS2 business declined as a result of a decrease in software sales.

Net income during the year was 126.3 billion yen, an increase of 2.2 percent compared to last year’s 123.6 billion yen. Diluted earnings per share were 120.29 billion yen compared to 116.88 billion yen for fiscal 2006.

Table 3. Fiscal Years 2005 through 2007
(For the years ended March 31) (in billions of yen, except per share info)

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>8,296</td>
<td>7,511</td>
<td>7,160</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>126.3</td>
<td>123.6</td>
<td>163.8</td>
</tr>
<tr>
<td>Diluted Earnings (Loss) Per Share</td>
<td>120.29</td>
<td>116.88</td>
<td>158.07</td>
</tr>
</tbody>
</table>

About the Author

Sherry Kercher is an editor for Faulkner Information Services. She is responsible for tracking IT areas such as storage, communication networks and equipment, and Internet-related developments.