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Sony's Plan for Profitability

Background

Sony Corporation has been struggling to sustain net income due to increasing competition in the electronics industry. The company has incurred a net loss in four of the last six years. The poor performance can be attributed to competition from companies like Apple and Samsung who are dominating the smartphone and television markets (International Business Times, 2011). Sony Corporation is pursuing a strategy to recover from its poor performance and sustain a positive bottom line.

On February 18, 2015, Sony announced its corporate plan that "is aiming to realize its transformation into a highly profitable enterprise" (Sony Corporation, 2016). The company's plan is composed of three main strategies: business management that emphasizes profitability over volume, business management that grants each business unit greater autonomy, and business management that clearly defines the positioning of each business within a broader business portfolio (Catley, 2015). Sony's plan targets to increase its operating profit to at least $4.3 billion and to achieve a return on equity (ROE) of more than 10% by the end of the fiscal year ending March 31, 2018 (FY2017) (The Economist, 2015).

Kazuo Hirai, Sony's CEO, plans to break up Sony's products into three different groups. The first category consists of products that have a competitive advantage and are expected to grow. It includes devices, game and network services, pictures, and music. The second category consists of products that generate profit consistently. It includes imaging products and solutions, and video and sound. The third category consists of products with slow growth and challenging markets. These products include TV and mobile communications. Sony is planning on executing its strategy around these product categories to grow or sustain profit in each of them.

Problem Statement

Sony needs to restructure its business to recover from the net losses they have been incurring and generate consistent positive earnings.

Alternative Solutions

Sony Corporation should cut spending on products that have little growth outlook. The smartphone and television markets are examples of these. Spending money in these markets will result in little to no return. There are already well established companies in these markets that will force out all competition. Sony should try to salvage all the money they can from these products without putting any more money into them.

Capital investment in products that are poised for growth will enhance and differentiate them from competitors. Sony should do this to put them ahead of the competition and set themselves up for growth long into the future. An investment in growing products will set Sony up to generate a consistent profit. Some of the products that Sony should invest in are gaming, pictures, and music services. The future of gaming is bright and Sony's PlayStation product line would benefit greatly from extra funding. Virtual reality in video games is an area that has potential and Sony should try to be the innovators of this new technology. If Sony invests in its products that are going to grow, it could become a market leader in those products and that would increase its bottom line tremendously.

Sony could start to focus on developing products for developing countries and emerging markets. Markets in developing countries are growing rapidly and require products that are made just for them. Many technology companies do not tailor their products specifically to consumers in these countries. These markets are going to continue to grow and Sony could gain a competitive edge in these areas.

Recommendations

Sony's optimal solution is to employ capital investment in its market segments that are poised to grow. Sony needs to spend money on growing products and limit spending stagnant ones. I would recommend this because Sony will need to fund its growing products in order to meet consumer demand.

The growing products are the future of Sony's revenue and will have the most critical impact on Sony's profits. Sony needs to sustain the growth of its top products by initiating a capital investment.

Program Performance Metrics

Sony needs to consistently monitor the performance of each of their products to ensure that their plan is working. Management should set sales and operating profit expectations for each of the product divisions they invested in. They should review these metrics to determine if they are achieving success or if they should revise their strategy. The sales and operating profit projections will serve as intermediate metrics for Sony to track the progress of management's strategy.

Conclusive metrics should be set at the beginning implementation of the plan. These are the sales and operating profit that Sony expects to achieve for each of its products at the beginning of the implementation of their strategy. These should be realistic goals. If they are not achieved Sony will need to reevaluate their plan and execute a more effective one.

What I Have Learned from This Critical Analysis Exercise

Sony is facing a big challenge competing in the technology industry. The industry is very dynamic and changing rapidly. The huge success of companies like Apple and Samsung have created a very competitive landscape for all technology companies. Sony's success will depend on how well they implement a new product strategy to generate sales from product markets that are projected to grow.

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