On 7th March, Sony announced some important changes in its top management. The most striking was the appointment of Howard Stringer as its new CEO and President. Stringer, who replaced Nobuyuki Idei, had directed the entertainment business and is the first non-Japanese person to hold the reins of the company. The new CEO takes control of this electronics and entertainment behemoth at a time when the company is facing growing internal and external challenges.

The electronics consumer market, which accounts for about 70% of Sony’s sales, is immersed in a strong competitive struggle. Big companies like Sony, Matsushita and Philips are being put against the ropes by others like Samsung, Pioneer or Canon that challenge them to launch innovative products at more competitive prices. This is what has happened for example with Samsung in flat screen televisions or Cannon and Nikon in digital cameras.

Unlike companies like Bose, who devote all their energy to increasing their brand value because they feel that their image is another element in the sale of their products, some companies are transforming their products into commodities, where secondary brands are achieving leading positions. In Sony’s case, the situation is getting more and more complicated given that the company has such an incredibly wide range of products; a 1000 is the latest figure. Therefore, Sony must fight on several fronts where they cannot apply premium prices because of their brand. So they need to have a suitable cost structure that does not erode their margins.

In the electronics consumer market, Sony has been betting on the development of proprietary technologies instead of open standards. In order to push their standards on the market, Sony thought it best to enter the content business and thereby have greater influence over the standards to use. So far this move has not borne much fruit. On occasions the company has had to give in or sign agreements with those other companies. Such is the case of the DVD, the formats of films on small disks that can be installed in the PSP or the support for the present Blu-ray project where they had to enter a consortium with other large companies like Matsushita, Hitachi and Philips.
In the case of the MP3 portable digital music players, Sony’s negative position on giving support to the MP3 format has given market supremacy to Apple. If their bet on Blu-ray and the Cell chip pays off, this tendency could change, but it has not been particularly positive for the company.

In spite of the electronics consumer sector making up most of its revenue, this sector has been making major losses for Sony which last year amounted to almost 300 million dollars and the analysts coincide in pointing out the importance of bringing this worrying tendency to an end.

Stringer is conscious of the magnitude of the problem and underlined the need to reinforce Sony’s electronic brand image through the launching of innovative and more interesting products for the consumer. However, he has also stated his determination to reduce costs (he gave us a sample of his talent in containing costs when he passed through the Sony content business).

On the one hand, Stringer has already explained that the company’s aim of a 10% operational margin set by the “Transformation 60” plan is now beyond Sony’s reach. This is quite foreseeable if we take into account that the profit margin in consumer electronics is about 1.5%. This figure is as far removed from the plan as are the profit margins of other competitors, 3.4% for Matsushita and even double digit figures for Samsung.

On the other hand, the company, with Stringer at its head, will now also have to justify that the hybrid of content and hardware it has become makes sense, getting the synergies that, according to them, exist between the electronics consumer business and content. For now, there is little to show for all the effort that Nobuyuki Idei put into it but with this new management team that could change. That is going to take a lot of coordination among Japanese engineers, something that is not without difficulty for an American who does not have an engineering background, nor speaks Japanese and has made his base in America, the land of the content business.

However, Stringer has made it clear that he will make changes and speed up the decision making process in the company. For him to achieve these two objectives he announced that he would simplify the management structure of the company.

Will they be able to carry out all these changes in an organisation like Sony? The task seems daunting, but at least the new CEO seems far removed from the culture of no confrontation of the company and that in itself is one huge first step.