2002

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SONY Computer Entertainment, Case Study

Ayse Erguner*

EXECUTIVE SUMMARY

This marketing research proposal was prepared to provide Sony Computer Entertainment with valuable information about its customers; customer perceptions about Sony and other giant game companies; how to maintain its strengths; and how to turn its weaknesses into strengths. Erguner Consulting is the consulting firm working on this research proposal. Historical and up-to-date information about Sony Computer Entertainment; internal and external analysis of the company along with its marketing strategies are provided. The company’s niche, sales projections and new product plans, alliances as well as the competition in game industry are analyzed in detail. Consequently, the problems definitions and diagnosis are followed by the hypotheses and their relevance, the expected results of the research, the conclusions and the recommendations. Each of these sections are essential to give the background of the company, its competitors and the environment it operates in as well as to propose applicable solutions to its current and prospective problems.

The issues that Sony Computer Entertainment faces today are market share decrease due to tough competition in the market; software and equipment shortages; and the lack of promotional activities. Four hypotheses have been developed addressing these issues, and through a questionnaire these hypotheses are supported. The hypotheses sequentially are 1) Consumers’ purchase intention for PS2 will increase significantly if Sony reduces the price for its PlayStation 2 game console to $269. 2) Customers will be more willing to purchase PS2 if Sony makes ‘Sony online gaming network’ available on www.playstation.com. 3) Consumer recall of SCEI commercials is significantly less than that of SCEI major rivals’. If we assume recall is tied to exposures to the ads, less recall is tantamount to less exposure. Therefore SCEI should increase its ad exposure and expenditures. 4) SCEI customers who experienced software glitches exhibit a lower level of opinion of SCEI than customers who did not.

The results of this study are expected to reflect the applicability of the hypotheses. Erguner Consulting recommends SCEI to speed up on this availability of HDD/NA, which will enable gamers to connect to the online gaming network in the US, since it has already encountered success in Japan. If SCEI does so, a lot more customers will probably purchase PS2. SCEI must increase its ad exposure and expenditures not to fall

* The author is an MBA student of Frank G. Zarb School of Business, Hofstra University (January 2002).
behind its competitors and maintain its market position and brand image. Sony Computer must end its software problems for PS2 and not repeat the same mistakes for PS3 and other new products to be launched in the future. Sony Computer must reduce its price to $269 as the questionnaire suggests that it would increase the sales.

**BACKGROUND INFORMATION**

**SONY CORPORATION AND ITS ORGANIZATIONAL MISSION:**

The organization’s mission is to “become a “knowledge-emergent enterprise in the broadband era.”¹ Sony believes that it is necessary to transform into a knowledge-led enterprise, which can create conditions of overwhelming competitive advantage by moving from simple manufacturing to embedding their intellectual assets into products and services. In a world of broadband networks, they intend to deepen their sites with customers through interactive communications and to be a company that offers products and services different from any other, individually optimized for the consumer.² In this way, Sony seeks to revolutionize itself as a knowledge-emergent enterprise in the broadband network era.

**Market:**

Sony has its main manufacturing plants in Japan as well as other Asian countries, Europe, Mexico, and the US, and it sells its products worldwide:

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Regional Sales figures for Sony Computer Entertainment, Inc., as percentage of sales of Sony group as a whole.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001 Sales</td>
</tr>
<tr>
<td></td>
<td>$ mil</td>
</tr>
<tr>
<td>Japan</td>
<td>19,206</td>
</tr>
<tr>
<td>US</td>
<td>17,439</td>
</tr>
<tr>
<td>Europe</td>
<td>11,790</td>
</tr>
<tr>
<td>Other regions</td>
<td>10,083</td>
</tr>
<tr>
<td>Total</td>
<td>58,518</td>
</tr>
</tbody>
</table>

Products:

Table 2

A breakdown of Sony Group’s sales by category of product or service

<table>
<thead>
<tr>
<th>Category</th>
<th>2001 Sales $ mil</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>39,989</td>
<td>68</td>
</tr>
<tr>
<td>Games</td>
<td>5,169</td>
<td>9</td>
</tr>
<tr>
<td>Music</td>
<td>4,568</td>
<td>8</td>
</tr>
<tr>
<td>Motion Pictures</td>
<td>4,442</td>
<td>8</td>
</tr>
<tr>
<td>Insurance</td>
<td>3,415</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>935</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>58,518</td>
<td>100</td>
</tr>
</tbody>
</table>


SONY COMPUTER ENTERTAINMENT INC.

Recognized as the global leader and company responsible for the progression of consumer based computer entertainment, Sony Computer Entertainment Inc. (SCEI) manufactures, distributes and markets Play Station one (PS) game console & Play Station 2 (PS2) computer entertainment system.3 Sony Entertainment America Inc (SCEI), along with its Sony Computer Entertainment Europe Ltd. (SCEE) develops, publishes, markets and distributes software, manages the third party licensing programs for these two platforms in the respective markets worldwide.4 Headquartered in Tokyo, Japan, SCEI is an independent business unit of Sony Group.5 Sony Computer Entertainment Inc.’s mission is to create and develop a new world of computer entertainment for the broadband era through the fusion of game, music, movies, and broadcasting.6 SCEI (10% of all sales) develops, designs and sells PlayStation, PS one and PlayStation 2 game consoles and related software mainly in Japan, the U.S. and Europe, and licenses to third party distributors.7

History of Sony Computer Entertainment Inc.

Sony Corporation Inc. invested in Play Station R&D project in 1990. In 1993, PlayStation R&D project was completed and Sony Computer Entertainment Inc. (SCEI) was established and Ken Kutagari became the Executive Vice President of its R&D
division. In 1993 and 1994, PlayStation hardware was demonstrated to the US and European developers. In May 1994, Sony Computer Entertainment America Inc. (SCEA) was established in Foster City, CA. In December 1994, PlayStation was first launched in Japan where sales exceeded 1 million units. In January 1995, Sony Computer Entertainment Europe Inc. (SCEE) was established in London, UK. PlayStation original has been launched in Europe in September 1995, and within six weeks, the UK installed base had risen to 50,000. The price was £299 and by Christmas 1995, around 350,000 units of PlayStation were in customer’s homes across Europe. When it was first launched in the U.S. with a $299 price, within two days it sold over 100,000 units and took in over $45 million. In November 1995, PlayStation was launched in Australia and New Zealand.

In May 1996, the price of PlayStation dropped to $199 in the U.S. and dropped to £199 in Europe. PlayStation game consoles cumulative production and shipment as at August 1996 had reached 7.2 million units worldwide:

<table>
<thead>
<tr>
<th>Worldwide sales figures for Playstation consoles in 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>N. America</td>
</tr>
<tr>
<td>Europe</td>
</tr>
</tbody>
</table>


In March 1997, the price for the game console dropped to $149 and the software was to be targeted for $49.99 or less. At the same time, SCEE brought the price down to £129. PlayStation game consoles cumulative production and shipment as at October 1997, reached 22.5 million units worldwide:

<table>
<thead>
<tr>
<th>Worldwide sales figures for Playstation consoles in 1997</th>
</tr>
</thead>
</table>
Japan 8.6 million
N. 7.8
America million
Europe 6.1 million


SCEE launched its state of art website: www.playstation-europe.com. In August 1998, in UK and Ireland, the retail price of PlayStation has been dropped to £99 and included the Analog Controller (DUAL SHOCK). In January 1999, the price dropped to 15,000 yen in Japan.

PlayStation game consoles cumulative production and shipment as at October 1998, reached 43.14 million units worldwide:

Table 5

Worldwide Playstation sales as of October 1998

Japan 13.1 million
N. 16.0
America million
Europe 11.9 million


By the end of December 1998, the number of PlayStation software available in each Territory was:

Table 6

Number of Playstation software titles available by region, in December of 1998
In March 2, 1999, SCEI announced the completion of its research and development project to design the successor to PlayStation. This next generation PlayStation was a significant part of SCEI's mission to create “a new form of entertainment beyond games” via the integration of innovative computer technology with digital AV technology.16

PlayStation game consoles cumulative production and shipment as at October 1999, reached 65.21 million units worldwide:

Table 7

Worldwide figures for PlayStation production and shipment as of October of 1999.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td>16.63 million</td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td>23.74 million</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>24.84 million</td>
</tr>
</tbody>
</table>

In 1999, SCEE achieved PlayStation sales of 25 million units, which was a historic achievement in the history of video games.17

**Sony Computer Entertainment Inc. Today**

Today, SCEI is competing in the game market with its PlayStation and PlayStation 2. On the 4th of March, 2000, Sony launched PlayStation 2 in Tokyo. Sales exceeded 980,000 units.18 In November 2000, Sony launched Play Station 2 in North America. Sale exceeded 500,000 units in the first weekend.19 In July 2000, SCEI
introduced “PS one,” a newly designed PlayStation game console, into the Japanese market with a retail price of 15,000 yen. This was an achievement of cumulative worldwide shipments of hardware and software. PlayStation 2 recorded close to 15 million units shipped worldwide:

Table 8

Worldwide cumulative shipments of Playstation hardware and software, as of July 2001

<table>
<thead>
<tr>
<th>Region</th>
<th>Units shipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>5.94 million</td>
</tr>
<tr>
<td>N. America</td>
<td>5.15 million</td>
</tr>
<tr>
<td>Europe</td>
<td>3.86 million</td>
</tr>
</tbody>
</table>


PlayStation over 85 million units shipped worldwide:

Table 9

Worldwide combined sales (in console units) of Playstation as of July 2001

<table>
<thead>
<tr>
<th>Region</th>
<th>Units shipped</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>18.79 million</td>
</tr>
<tr>
<td>N. America</td>
<td>32.90 million</td>
</tr>
<tr>
<td>Europe</td>
<td>33.75 million</td>
</tr>
</tbody>
</table>


In terms of software for PlayStation 2:

Table 10

Number of Playstation 2 compatible software available, as of July 2001
Japan 226 titles released since launch, and over 450 titles currently in development
North America 100 titles released since launch, and over 250 titles currently in development
Europe 99 titles released since launch, 330 currently in development


The PlayStation business has become Sony Group’s biggest cash cow. In the six months of fiscal 1999, SCEA earned almost as much in operating profits as Sony’s entire electronics operation, which was 10 times larger in terms of sales. PlayStation even outranked the Walkman and Trinitron TV. Sony Computer now rules Game Land, having sold 70 million units worldwide, an industry record, since PlayStation’s launch five years ago.

Today’s U.S. entertainment business is all classic. Music is traditional content, and Sony Pictures is an extremely old business model making classical theater movies. But Sony Computer Entertainment has the potential to change the digital entertainment world with its capability and its inter-activeness. PS2 is expected to create an enhancement of today’s game business. Its video game business brings in nearly 10% of sales.

However, today, SCEI is facing fierce competition from the other four titans lined up in a bid for the next generation game console market. In today’s game market there are four companies ruling: Sony Computer Entertainment, Sega Enterprises LTD., Nintendo Co., and the industry’s newest entrant, Microsoft Corp. These three companies are major threats to SCEI and its market share.

SCEA indicated in April that they were going to maintain the $299 price tag for PS2 and $99 for the PS1 for the remainder of 2001. The statement came as the parent company Sony Corporation reported that diminishing losses in its PS2 business and healthy consumer electronic sales helped it earn profits of $127 million for the fourth quarter that ended March 31, 2001.

SCEI has formed a strategic alliance with AOL Time Warner Inc. to provide AOL service through Internet-connected PS2 game consoles. The two companies developed a special version of AOL’s Netscape browser for the PS2 users who buy the extra hardware, including a hard disk drive, keyboard and mouse. Sony’s initiative may be
the most significant yet toward streaming on the TV. Web TV and AOL TV offer dedicated consoles for browsing and streaming on the TV but have been slow to grow. By May 21 2001, about 1 million homes had the Web TV console; fewer than 300,000, the AOL TV box.28 Although SCEA claimed that they are going to maintain the price tag of $299 in the U.S., SCEE decreased the price tag of PS2 from 39,800 yen to 35,000 yen ($281) in Japan.29

Today, SCEI’s goal is to put the PlayStation brand and its products into an unassailable position. In order to serve this purpose, Sony has made changes in its pricing, distribution, promotion and pricing strategies. It has repositioned its hugely popular PS1 to appeal to casual garners of all ages—including senior citizens.30 Both PS1 and PS2 were built on brand equity. The fact that PS1 consumers can play their entire library of software titles on PS2 is a key point of loyalty.31

MARKETING STRATEGIES OF SONY COMPUTER ENTATAINMENT INC.

Target Market

Sony had always aimed to introduce the PS2 as a game machine and a DVD player, targeted mainly at young game players. Then in year two of its introduction, Sony planned to transform PS2 with add-ons like a hard drive and a keyboard into an all-in-one Internet device, and a must-have gizmo for adults all over the world.32

PS one is now positioned also to reach potential female purchasers and “unconverted” adults. It is also positioned to tap the youth market, kids under 12 years old. The plan is to hook kids as young as 5, grandparents and late adopters of technology, then bump them up to the more sophisticated PS2, which can also play DVD movies.33 In order to reach this target market Sony will use a combination of TV, print, online, cinema and possibly outdoor advertising.

Sony’s PS1 targets nontraditional gamers with a $99 price on hardware.34 Sony has also introduced hardware and software bundles for PS1 to keep sales moving. Sony’s PS2 targets similar demographic passionate garners with Microsoft’s X-box, who are early adopters, hooked on original content and enthralled by razor-sharp, life-like graphics and high-quality sound.35

Marketing Mix of Sony Computer Entertainment Inc

Product:

What is PlayStation 1?
The best things come in small packages...and PS one is no exception. As PlayStation evolves, the biggest selling console of all time downsizes to a third of the size of its predecessor. But nothing has been compromised in its design - PS 1 encapsulates sleek, 21st century styling and allows for maximum portability. Never has a console looked so cute! Featuring the same functionality of the original PlayStation, PS 1 is compatible with the entire PlayStation back catalogue, and the official PS 1 Analog Controller (DUALSHOCK) with built-in vibration function delivers a super-charged dimension to your gaming. PS is connectable to a 4-inch LCD screen (available 2001), which means the console is no longer confined.

What is PlayStation 2?

PlayStation 2 is a revolutionary computer entertainment system set to reinvent the nature of video games. Incorporation of both CD and DVD formats, PlayStation 2 has been designed to offer a range of computer entertainment options combining games, video, and music. Not only it is to be supported by numerous high quality software titles with hundreds more in development, but it is also the first machine of its kind to offer backwards compatibility. So, you can use your existing PlayStation software on the new system. As well as games, PlayStation 2 also offers both CD and DVD formats. The fusion of interactive entertainment with music and video will open the doors to new entertainment experiences in your home. PlayStation 2 delivers a new dimension to your gaming experience. You will not only be able to play your original PlayStation software on the system, but you will be able to enjoy the enhanced graphics of a range of new games developed specifically for PlayStation 2. The inclusion of Dolby Digital, AC-3 and DTS capabilities allow one to experience surprisingly real sound effects and mood defining music that will deliver a truly emotional experience.

PlayStation 2 includes: PlayStation 2 computer entertainment system, Analog Controller (DUALSHOCK 2), AC Power Cord, Euro-AV Connector Plug, AV Cable (integrated audio/video), Instruction Manual Demo Disc, User Registration Card.

Sony is making it possible for the videogame players in the 10 million homes worldwide, with its PlayStation 2 game console, to stream video and audio on their TV sets. In May 2001, Sony began marketing a $40 plug-in adapter that links the console via telephone line to the Web and permits browsing, e-mailing and, with the help of RealNetworks software, streaming. In addition to the adapter, Sony is offering a 40-GB hard drive for local storage and a wired keyboard and mouse for navigating the Internet. PS2 users have access to Internet radio and other RealNetworks subscription services. PS2 is designed to serve as home entertainment hubs, in addition to its functions as a game machine. Sony has repositioned its hugely popular PS one to attract a more diverse
group of consumers (just like Microsoft). Every convert to the PS one is a stake in the
ground for a long-term consumer relationship.\textsuperscript{46}

Critics said PS2 was difficult to program for; however 10 months after its launch,
Sony had more than double the number of games for PS2 than they had at the same stage
for PS one. They have Codemasters, Infogrames, Ubisoft and many other Euro based
publishers and developers, Konami, Capcom, NAMCO, Square from Japan and
Electronic Arts, Disney, Activision and THQ from the United States all supporting
PlayStation 2.\textsuperscript{47}

On October 10\textsuperscript{th} 2001, SCEI announced that the company would launch a special
“European Automobile Color Collection.”\textsuperscript{48} PlayStation 2 would come in 5 different
colors (white, red, yellow, blue and silver, all in glossy metallic finish) and limited
quantities of 2000 each (666 units per color for Japan, US and Europe respectively)
would be produced.\textsuperscript{49}

With the overwhelming support from consumers around the world, PS2 has
quickly become the platform of people’s choice. SCEI has been receiving countless
numbers of requests for its popular PS2 and to accommodate one of the most frequently
asked request, the company has decided to launch these special versions this time to
match users’ diverse lifestyles and taste.\textsuperscript{50} Colors in glossy metallic finish, inspired by the
image of prestigious European cars, have been chosen.\textsuperscript{51} From the 5 different colors
available for “European Automobile Color Collection”, consumers would be able to
select their favorite color as if choosing their favorite car, or to match their interior
decoration. The controller and the stand will be available in the same color. As this
collection is a special limited version, it will be available exclusively at PlayStation.com
Japan’s website (http://www.jp.playstation.com) for Japanese customers. Availability for
North American and European customers will be announced separately by SCEA and
SCEE.\textsuperscript{52}

\textbf{Pricing:}

From the day Sony launched PS, Sony has adopted a premium pricing strategy,
which means it priced its games above the industry average, since its products were
considered to be unique and of the highest quality.\textsuperscript{53} The original PS one entered the
market with a price tag of $299. However, due to the market share problems in order to
the company dropped the prices little by little every year. Today, PS one sells for $99 and
PS2 sells for $299 in North America although its price has been dropped to 298,000 yen
($240) as of November 29, in Japan.\textsuperscript{54} The statement came as parent company Sony
Corporation diminishes losses in its PlayStation 2 business and healthy consumer
electronic sales helped it earn profits of $127 million for the fourth quarter ended March 31, 2001.\textsuperscript{55}

Today, within its new marketing plan, the company believes that a new price point of £199, DM 599, FF 1990 will make PlayStation 2 much more accessible to the mass market, but it’s not just about the price.\textsuperscript{56} In the run up to the Christmas, the managers of Sony were expecting to see a wealth of outstanding games launched in support of PlayStation 2 including; “This is Football 2002”, “Wipeout Fusion” and “World Rally Championship.”\textsuperscript{57} Plus many titles from independent publishers exclusive for some time to come to PlayStation 2, such as “Devil May Cry” from Capcom, “Silent Hill 2” from Konami, and others.\textsuperscript{58} Sony charges $40 for the adapter for the PS2 to allow users to access the net.\textsuperscript{59}

From November 2000, PS2 has sold over three and one half times the rate of the original PlayStation during the same phase of the product launch and they were ready to make the move to these new price points at that time.\textsuperscript{60}

**Distribution:**

SCEI’s latest distribution channel is the Internet. The company has set up PlayStation.com, a joint venture with Japan’s leading game software developers and convenience store chain Seven-Eleven Japan, to sell PS2 hardware and software over the Internet.\textsuperscript{61} In the months ahead, Kutagari (president of SCEI) hopes to forge alliances with computer and communications companies to create the infrastructure for a high-speed broadband network that will handle games and other services for PlayStation as well as other clients. The new distribution goal is to establish the PlayStation as a separate brand, and not part of a dedicated Sony network for the online distribution of music, movies, and TV shows.\textsuperscript{62}

The web capability is part of Sony’s strategy to develop a centralized entertainment system for the home. Analysts think the move is a winner, if Sony can work out some of the security and child protection issues that come with Internet access. Internet consumers look for high-bandwidth services. If the PS can offer that, a high take-up is anticipated.\textsuperscript{63}

It is known that SCEI had supply problems when PS2 was first launched. As of May 2001, the company announced that they have finally surmounted earlier PlayStation 2 supply problems and they are now shipping new hardware to retailers practically every week.\textsuperscript{64}
In fact, SCEI has announced that the cumulative worldwide shipment of its popular PS2 computer entertainment system had reached 20 million units.\textsuperscript{65} Compared to the shipment achieved by the original PS, which was launched December 1994 and has shipped over 85 million units worldwide by now, PS2 has marked the shipment of 3.4 times the volume during the same period after the launch.\textsuperscript{66}

Table 11

PlayStation 2 Cumulative Shipment by Territory, as of October 9, 2001

- Japan (Sony Computer Entertainment Inc.)
  
  6.86 million units (release date: March 4, 2000)

- North America (Sony Computer Entertainment America Inc.)
  
  8.55 million units (release date: October 26, 2000)

- Europe/PAL (Sony Computer Entertainment Europe Limited)
  
  4.63 million units (release date: November 24, 2001)

Worldwide shipment: 20.04 million units


On June 20\textsuperscript{th} of 2001, Sega Corporation and SCEE have reached an exclusive distribution agreement under which SCEE will manufacture, distribute and market seven SEGA titles dedicated specially to PS2 in all SCEE PAL territories.\textsuperscript{67} During the course of 2001, other exclusive titles have also been announced.

Promotion:

In June 1997, PlayStation became an official partner of Prost Grand Prix.\textsuperscript{68} In August 1999, SCEE announced that it’s official sponsorship of Euro 2000, the UEFA European Championships that was held in Belgium and Holland in June 2000.\textsuperscript{69} Sony emphasizes game titles in advertising. All of the strategic alliances that Sony has done and has been doing are a part of its overall promotional strategy. The strategic alliances will be discussed in depth separately.
The print, TV, online and direct-mail campaign, part of a $250 million marketing
effort encompassing both the PS1 and PS2, was created by Omnicom Group’s TBWA
Chiat/Day.70 A provocative TV spot from TBWA Chiat/Day, which has broken on
October 23, 2001 marked the beginning of this $150 million marketing blitz.71

The marketing campaign is being unleashed even as Sony copes with the
challenge of exciting consumer demand while managing a possible holiday-season
product shortage. Sony’s real challenge in 2001 had been to maintain momentum and
rack up software sales for both PS one and PS2, because, Sony is facing battle with three
major competitors (Microsoft X-box, Nintendo GameCube, and Sega Dreamcast).72
These three giants have entered the market with very aggressive marketing campaigns.
SCEA, which makes the PS2 console, has enlisted PepsiCo, among other partners, for a
summer effort. SCEA partnered with Pepsi in 1999, offering free PlayStation software in
an under-the-cap promotion.73 SCEA has aligned with the likes of Pizza Hut and Nabisco
in past promotions. SCEI has always had the advantage of being owned by Sony, which
can place the product in any of its entertainment properties, including Dawson’s Creek,
Wheel of Fortune or any Sony Pictures Entertainment film.74

The bulk of print and TV advertising begun in October 2000. The tone of the
campaign focuses heavily on the potential of the PS2 to open new opportunities for
entertainment, in order to broaden its appeal. The campaign for PS2 is highly targeted.
Consumer tests thru extensive event marketing with retailers in store kiosks, as well as
direct mail was implemented during the months of July and August 2001.75

Outside of advertising, Microsoft and SCEA have various media properties they
can use to promote their consoles. While Microsoft has MSNBC and MSN, SCEA has
the advantage of being owned by Sony, which can place the product in any of its
entertainment properties, including Dawson’s Creek, Wheel of Fortune or any Sony
Pictures Entertainment film.76 As for the promotion of its products game consoles, Sony
has made a strategic agreement with AOL Time Warner to provide AOL service through
Internet-connected PS 2 game consoles.77 Sony released in October 2000 that the
customers would be able to subscribe to AOL and use features such as instant messaging,
chat and e-mail while playing video games.78 Sony has plans to sell keyboards and
computer mice for the game console so surfers can surf the Web and send e-mail. The
two companies developed a special version of AOL’s Netscape browser for the
machine.79

Niche

Sony Computer Entertainment is a fairly new business of Sony Corporation,
recalling that Sony Corporation has been founded in 1946. However, it is all connected to
the contemporary technological improvements in the world. SCEI was founded in 1993 and it penetrated into the market with a very unique product, which was never done before. There were other game consoles available in the market such as Nintendo’s product; however, PlayStation was something completely unique.

The first PlayStation was a simpler version of PS one. It was very unique when it was first released in terms of both its size and shape and its games available. PS one brought a loyalty since all the games of Play Station original could also be played on PS one, which attracted the customers since they were able to play the same games with an improved console or they could buy the new and different games as well.

When PlayStation was first launched into the market, the entertainment business was all classic, the music was traditional content, and the Sony Pictures was an extremely old business model making classical theater movies. Sony Computer Entertainment had the potential to change the digital entertainment world with its capability of interactivity. PS2 created an enhancement of today’s game business at the initial stage. In fact, Sony’s event was a brilliant ploy to divert video-game fans away from Dreamcast, which has won high marks with players for its flowing, graceful graphics. Indeed, some American news media dutifully reported the Sony’s PlayStation announcement as a “product introduction.”

Sales Projections and New Product Plans

In the years to come, PS2 is expected to be positioned in every living room in Asia, North America, and Europe as the digital hub for downloading games, movies, and music sent over broadband networks. If this goal is reached, Sony could emerge as a dominant force in the unfolding world of digital, on-demand entertainment. Sony expects PS2 households to double by March 2002. Building upon the massive sales momentum of the past few months as stimulated by a raft of quality software launches, SCEE is well positioned to capitalize upon the significant demand for PS2 in the immediate future. In the run up to the Christmas, a wealth of outstanding games were launched in support of PS2 including “This is Football 2002”, “Wipeout Fusion”, “World Rally Championship”, “Airblade”, “Time Crisis 2” and “Jak and Daxter” plus many titles from independent publishers. By the end of March 2002, cumulative number of titles is expected to be more than 570. In North America and Europe, in addition to the 292 and 111 titles already available, 82 and 250 titles were indeed released towards the end of the fiscal year of 2001 as expected.

Sony engineers are now working on the PS3, which is set to roll out in four to five years. By then, Ken Kutagari, the president of SCEI, hopes that the world will be ready for a true network appliance to serve as a conduit for digital games, movies, and music.
flowing into the home over broadband networks. Kutagari is planning a mega plan for PlayStation3 that will connect to the Internet via broadband and bring the Web to the masses.  

SWOT Analysis of SCEI

Strengths:

SCEI is recognized as the global leader and the company responsible for the progression of consumer-based computer entertainment. It has always had the advantage of having the giant Sony Corporation right behind. It has been an advantage for the company since it could use other Sony Corporation companies for its promotional goals. SCEI has also been at a financial advantage since it could survive unprofitability because it corporate parent, Sony Corp., would help it to survive. Among its competitors, SCEI still has the richer history and greater name value.

However, the PlayStation is the Sony Group’s most profitable product, outranking even the Walkman and Trinitron TV. The PlayStation business is Sony group’s biggest cash cow.

The real techie president of SCEI, Ken Kutagari, a hands-on manager uncomfortable with delegating authority is a real strength for the company since he has the ability to create a 10-year vision in his mind and implement it. This ability has brought him legendary status not just within Sony but also far beyond the game industry. Hollywood directors George Lucas and Steven Spielberg seek him out to discuss the future of computer graphics.

In the large and trend-setting Japanese market, Sony has the advantage of a popular role-playing game like Final Fantasy, which is a crucial weapon against Microsoft. Sony’s strategic alliance with AOL in order to accelerate the development of next-generation entertainment through PS2 involves delivering a version of the Netscape browser for PS2 users who buy extra hardware, including a hard disk drive, keyboard and mouse.

SCEE’s exclusive distribution agreement with SEGA has been strength for SCEI in terms of having one of the best content creators writing games for the most advanced Computer Entertainment system. It has been an exciting opportunity both for SCEE and SEGA but more importantly for the consumers. SEGA has been a videogame software leader for more than 40 years. No other company has had more “firsts” in the $7 billion videogame market than SEGA. In addition to that, the new distribution channel of SCEI, the Internet is another strength for the company since it will sell its products
through its web site www.PlayStation.com, and that will help to cut costs, leaving intermediaries useless and making products cheaper and bringing all profits to the company.96

Everything is in place for PS2 to further capitalize upon its unrivalled market leadership. In terms of its marketing strategy, Sony did an excellent job with the PlayStation by marketing the PlayStation itself and not Sony. It has the quality games, an aggressive price point, the best developers in the world, manufacturing capacity and significant trade support. When PS2 was pre-released in Japan in February 2000, the company’s web site had to be shut down after being flooded with 100,000 hits in the first minutes of business.97 This overwhelming success of the launch proves the market was ready for PS2, i.e. the timing of launch was absolutely right. In PAL territories, there has been over 40 million PlayStation sales (PlayStation, PS one and PS2) before Christmas.98 All PS consoles are able to play the 1,238 PlayStation games available; PS2 plays all the 200 games available and DVD movies.99

SCEI is making it possible for the videogame players in 10 million homes worldwide with its PS2 game console to stream video and audio on their TV sets.100 It has also recently launched a $40 plug-in adapter that links the console via telephone line to the web and permits browsing, e-mailing and, with the help of the RealNetworks software, streaming.101 This RealNetworks software will be shipped with Web-enabled games and it is expected to provide a truly innovative and different consumer experience. PS2 users will have access to Internet radio and other RealNetworks subscription services.102

The fact that PS2 has marked the shipment of 3.4 times the volume of the original PlayStation, which was launched December 1994, and has shipped over 85 million units worldwide, is another strength for SCEI since this shows the more they improve their products, the more market share and success they have.103

Weaknesses:

Sony could not use the advantage of being the market leader in game industry and has been late to reply to market demand for more software. In terms of software sales Sony fell behind Nintendo. Some say it is because the PS2 is a complicated machine to write games for. Almost from the start, software glitches and compatibility problems cast a shadow over the unshakable electronics giant. Software companies that design for the PS2 have also suffered. The top designer, Namco, has sold nearly 800,000 copies of Ridge Racer V since the game hit stores in March 2000.104 That would have been considered a good hit before the blockbuster hype for PS2.
Consumers were not happy with the games written for PS2 on the market in December 2000 and they were not waiting for better PS2 games, but playing imported titles on another console made by a competitor. Gamers were hoping that future PS2 titles would not be disappointing.

The internal system of 10 Sony companies was limited. This vertical orientation created a lot of short-term competition (among units) that didn’t fit in a convergent world. Sony needed a fundamental change of mind-set. A silent resistance, especially among high-level staff, was felt. This organizational structure failure was a weakness for the Sony Corporation as well as for the SCEI. However, Sony came up with a successful reorganization plan and implemented it, which has turned the weakness into strength. This reorganization has taken place in the year 1999. Additionally, Sony has effectuated mergers, acquisitions, and strategic alliances since any form of collaboration for the network business is very important. SCEI’s philosophy was to make the most effective use of resources of the fundamental business as one business unit, although each unit should be independently operated.

Opportunities:

With the proper marketing campaign SCEI has always had the opportunity to go into emerging markets, target different demographics in those markets if it is appropriate, use different marketing strategies and pricing if necessary. Nevertheless, SCEI still has the advantage of its rich history and great name value over its competitors. The company should build on these great values. SCEI may plan for new mergers and acquisitions to help its competitiveness and to maintain it.

SCEI may plan more strategically for its new product developments and their marketing. In other words, it may identify the problems with the PS2 console and make sure that it does not repeat them with the PS3 console.

Threats:

Japanese executives are preparing for a fourth recession after having battled through three others in the last decade. According to the latest quarterly Tankan survey released by the Bank of Japan, business confidence is dropping. Leading executives are steeling themselves for a long downturn. The Chairman of the Sony Corporation claims that they have to face the reality of recessions in the U.S. and Europe and a slow recovery in Japan. Sony Corp. has sharply cut its earnings forecasts recently. This shows that SCEI also needs to be alert of the environmental effects and prepare its forecasts appropriately.
Obviously, the fierce competition in the game market, Sega Enterprises Ltd., Nintendo Co., and the industry’s newest entrant, Microsoft Corp. are the major threats to SCEI.

The image that has formed after the software shortages for PS2 needs to be changed. SCEI has had problems with its software designers in terms of creating a variety of available software for PS2 on time. The complicated technology of PS2, the fact that Sony cut out small design houses and SCEI tightened control of software development resulted in the failure of many games to tap the power of the PS2’s vaunted “Emotion Engine” processor.\textsuperscript{109} This has resulted in some games with rough edges and jerky graphics. As a result, there has not been one “killer” PS2 title as one game designer confessed.\textsuperscript{110} The analysts warned that failure to solve the software shortage could derail Sony’s global plan to sell 100 million PS2s by 2005 and allow competitors like Nintendo, Sega and Microsoft back in the game.\textsuperscript{111} Since it is vital to SCEI, competition will be discussed in depth separately in the next section.

\textbf{Competition}

Sony Computer Entertainment has three major competitors in this battle of games: Sega Enterprises Ltd., Nintendo Co., and the industry’s newest entrant, Microsoft Corp. The prize of the winner: a $20 billion annual market worldwide that analysts say is growing more rapidly than the film or music industries.\textsuperscript{112} With two in every five US households owning game consoles, the video game business has turned into a high-stakes business that’s no longer just about fun and games.\textsuperscript{113} For Sony and Microsoft, it has become a deadly serious quest to be the dominant entertainment hub for the world’s living rooms, positioning the survivors to sell movies, music, and other forms of digital entertainment over the Internet.

SCEI, after making its debut with the PlayStation console in 1995, emerged as the undisputed winner of the last round. In 1999, Sony captured 54\% of the US game hardware market and 68\% of the software gaming market, where Nintendo took 33\% of the hardware market and 28\% of the software market.\textsuperscript{114} One in four US households currently has a PlayStation console.\textsuperscript{115}

Behind their cheerful mascots is a brutal economic calculus where billions are invested in each generation of consoles for a market that has room for only one or two winners. In a race to penetrate as many households as quickly as possible, most console makers lose money for each machine they sell in the hopes that they can make up for the losses in future software sales. Hardware is sold at cost or below to get a large installed base.\textsuperscript{116}
The industry is also converging with the Internet. Aside from e-mail, game playing is rapidly becoming one of the Web’s most popular uses. The gaming industry is exploiting that popularity by making a built-in modem a standard feature for next-generation consoles. Consumers eventually will be able to download games, movies and music via their consoles, opening up a whole new source of revenue. And many consumers will pay monthly fees to participate in “massively multiplayer” games, such as *Ultima*, a popular online fantasy game that can accommodate thousands of players at once.

But success is not a foregone conclusion for Sony. For one thing, PlayStation 2, at $299 each, is relatively costly. Another potential drawback is the relatively sparse number of new games available for PlayStation 2. Game developers say that is partly because the new machine is so complex that it’s tough to write games for it.

Today, the most powerful of consoles is Xbox, featuring a 733 Mhz processor and an internal hard drive for storing game data (PS2 and GameCube rely on external storage devices). However, Microsoft doesn’t carry the name value of Nintendo or Sony in the game console industry. Nintendo has been a major player in the industry since its Nintendo Entertainment System was introduced in 1985. The GameCube is compatible with Nintendo’s Game Boy Advance, a handheld gaming system that was launched in North America on June 11, 2001.

Tokyo-based Sega Enterprises Ltd. was one step ahead on Sony in its online strategy. It has invested $45 million and tying up with portals and carriers of online games and content. Microsoft (Xbox) and Nintendo (GameCube) are also looking at putting full web capability into their game consoles, but initial versions of their boxes do not include it. The consoles, however, allow users to play against others online via a built-in modem. Sega around the world has sold some 3 million units of its Dreamcast and like Sony; Sega envisioned a world of multiplayer online games where people will be able to indulge in *Matrix*-like entertainment. However, Sega Corp. has exited from the console market earlier in 2001, which left three major players on the field. This is a battle about the X-box and GameCube and PlayStation. For the first year, X-box and GameCube are fighting for the No.2 slot. So, now, Sony is facing a challenge to maintain momentum and rack up software sales for both PS one and PS2 for its 16 million consumers only in the U.S. and elsewhere around the world.

Microsoft, Sony, and Nintendo together were poised to spend more than $400 million on U.S. marketing in the fourth quarter, which started on October 1st, 2001, to support their videogame consoles and related software. Analysts held out hope that $7.7 billion interactive entertainment industry would remain a bright spot in what may prove to be a sluggish holiday-buying season.
Microsoft, which delayed the launch of its X-box video-game console ($299) from Nov. 8 to Nov. 15, has pledged $500 million in global marketing (about $300 million earmarked for the U.S.) to support its entry into the console gaming and has already begun the ad and marketing blitz with teasers in gaming publications. One teaser features one of the Microsoft’s national promotional partners, Tricon Global Restaurants’ Taco Bell. Unlike the assumptions, Microsoft isn’t exactly new to games. The company is the world’s fifth-largest publisher of PC games and has operated an online gaming site, called Zone.com, for four years. Nor is Microsoft new to hardware; its joysticks and game pads outsell all other brands. But console gaming is an entirely different beast and Microsoft knows that. That is why Microsoft authorities are claiming that they will be developing a completely different set of games for the X-Box. The bottom line is that it’s all about the software inside.

Nintendo’s GameCube ($199), launched on Nov 18th, 2001 is likely to be the sleeping giant in the console race. Nintendo is expected to do a very well long-term marketing campaign. With the GameCube, Nintendo is determined to move beyond its core audience of young kids to lure gamers 17 and older. It’s spending more than $75 million on U.S. marketing in the fourth quarter, with an edgy ad campaign from Bcom3 Group. Nintendo has seven TV spots to support GameCube and flagship games such as “Luigi’s Mansion,” a mystery game. It had six titles available at launch and planned for another 17 by Christmas. To reach older teens and young adults Nintendo is advertising in Rolling Stone and a raft of other magazines. Plus, GameCube will use DVD technology and sport a 400-megahertz IBM copper microprocessor twice as fast as the Dreamcast and one-third faster than the PS2. Despite executives’ protests, Sony’s PS2 and Microsoft’s X-box targets similar demographics who are early adopters, hooked on original content and enthralled by razor-sharp, life-like graphics and high quality sound.

In this battle of games, Microsoft has the financial power to threaten Sony’s PlayStation 2. As discussed earlier, Microsoft is spending $300 million for its marketing campaign in U.S. only, whereas Sony is spending $150 million. But, still Microsoft lacks a crucial weapon for battling Sony in the large and trend-setting Japanese market: a popular role-playing game like Sony’s Final Fantasy. Final Fantasy is one of the most popular in a genre of games in which players assume the identity of a character, then voyage into a complex computer-graphics world to slay fantastical creatures and gather booty. Role-playing games are particularly popular in Japan, the center of the video game industry. In addition, the PS2 was built on brand equity for the Play Station. The fact that PS1 consumers can play their entire library of software titles on PS2 is a key point of loyalty and advantage over X-box and GameCube.
In fact, according to the Co-Chief Executive Officer of SCEI, Nobuyuki Idei, there isn’t even a direct competition between PlayStation and the other game consoles, because the PlayStation is on their own format, whereas the Vaio (notebook computer of Sony) is on Intel format. In other words, if they were manufacturing the game console on the Wintel format, they would have been playing the game under the other game console manufacturers rules, but now they are playing with their own rules.

Alliances

As competition becomes fiercer, SCEI sees more necessity in establishing strategic alliances with game developers, advertisers, and even network companies. Strategic alliances and/or acquisitions allow SCEI to become more powerful since they join forces with software companies, whose products are complementary to the hardware that Sony builds.

In February 1997, SCEE announced the renewal of their long-term strategic alliance in all PAL territories, with Namco Ltd. Namco, SCEI, and Polygon Pictures, and announced the establishment of world-class computer graphics studio – Dream Pictures Studio Inc.

In July 1997, SCEE acquired Millenium’s Games Development Teams. In May 1998, SCEI and Whoope Camp established a joint venture company named “Deep Space.” Deep Space was expected to develop new real-time adventure games to be published by SCEI.

Psygnosis, a software development company, became a subsidiary of SCEE in February 1999. In July 1999, SCEE announced that it has signed an exclusive distribution partnership with Square Europe Ltd. The agreement is to see SCEE distributing Squaresoft’s products, including the Japanese mega-hit Final Fantasy VII, in all PAL territories.

In May 2000, Japan’s leading game software developers and convenience store chain Seven-Eleven Japan made a joint venture agreement to set up PlayStation.com, for the purpose of selling PS2 hardware and software over the Internet. The goal of SCEI is to establish the PlayStation as a separate brand, and not part of a dedicated Sony Network for the online distribution of music, movies, and TV shows.

In August 2000, SCEI announced a strategic partnership with NTT DoCoMo that would combine the I-made service and PlayStation. Both firms hoped their collaboration would inspire software makers to develop new services for a potential new i-made/PlayStation entertainment network.
In January 2001, SCEA announced their acquisition of the creators of *Crash Bandicoot* (a software development company).\(^{147}\)

In January 2001, SCEI and NTT DoCoMo Inc. announced their agreement with six alliance partners to jointly develop network service combining mobile Internet and PlayStation technologies in overseas markets.\(^ {148}\) These partners are: AT&T Wireless Group, Hutchison Telephone Company Limited, Hutchison 3G UK Limited, KG Telecommunications Co. Ltd., KPN Mobile N.V., and Telecom Italia Mobile.\(^ {149}\)

In February 2001, SCEE and Vodafone Multimedia Ltd. announced a joint agreement to conduct research on products and services.\(^ {150}\) Projects to be researched included a plan for Vodafone customers to connect their mobile phone to their PS one or PS2 console, thus enabling PlayStation customers to access web based hints and tips, via text messaging, WAP and other Internet enabled services.\(^ {151}\)

In April 2001, Square Co Ltd. and SCEE announced an exclusive agreement under which SCEE will market and sell the Square software titles “The Bouncer” and “Final Fantasy X” for PS2 in all SCEE PAL territories.\(^ {152}\)

In May 2001, Disney Interactive, SCEA and SCEE announced an exclusive, multi-title agreement through which the companies will develop and publish video games for PS2, PlayStation, and PS one platforms, based on five upcoming and highly anticipated film properties from the Walt Disney Company: *Disney’s Atlantis: The Lost Empire*, *Disney/Pixar’s Monsters, Inc.*, *Disney’s Lilo and Stitch*, *Disney’s Treasure Planet*, and *Disney’s Peter Pan: Return to Neverland*.\(^ {153}\)

In May 2001, SCEE and Telewest Communications, the broadband communications group, announced an agreement to combine the Telewest’s broadband network with Sony’s PS2.\(^ {154}\) Together, Telewest and SCEE will be trailing Europe’s very first broadband connection with a computer entertainment system.

In May 2001, another strategic alliance was announced between AOL Time Warner Inc. and SCEI. They have announced that the two companies are working together to provide AOL service through Internet-connected PS2 game consoles.\(^ {155}\) Owners of the Sony video game console will be able to subscribe to AOL and use features such as instant messaging, chat and e-mail while playing video games.\(^ {156}\) Executives at AOL and Sony did not disclose how the revenue from this agreement would be split between the two companies.

In June 2001, Sega Corporation and SCEE announced that they have reached an exclusive distribution agreement under which SCEE will manufacture, distribute and
market seven SEGA titles dedicated specially to PS2 in all SCEE PAL territories. The titles, which will be localized into five major European languages are: “Space Channel 5” series, “K-Project”, “Virtual Fighter 4”, “Ferrari F-355”, “Head Hunter”, and “Ecco the Dolphin.”

PROBLEM DEFINITIONS & DIAGNOSIS

- As of May 24, 2000 Shares in Sony are off 40 percent since the March 1st, 2000 peak of $89. Sony had a lot riding on PS2: in October 2000, the company announced that the profits for the second quarter of 2000 were down 57 percent to $184 million, partly because of development an production cost of the new game system. Another part of this might be that PS2 is priced at $299, and it is relatively costly. X-box is priced at $299, also. But, GameCube, Dreamcast and PS one are priced between $99 and $199. Another potential reason is the relatively sparse number of new games available for PS2. Another potential reason is that Sony is facing formidable competition from Microsoft Corp and Nintendo Corp. Sony Corp’s sales.

- Sony’s marketing campaign (more than $150 million budgeted) is specifically aimed at North America and doesn’t include spending on retail advertising and promotion, whereas its competitor Microsoft is running a $500 million global marketing campaign.

- Sony’s Japanese launch of PlayStation 2 hasn’t been without snafus. Almost from the start, software glitches and compatibility problems cast a shadow over the unshakable electronics giant. The most severe of the glitches allowed users to easily circumvent regional coding on DVD playback. More serious hacking allowed users to copy DVD content.

- Sony has struggled with equipment problems. These problems contributed to Sony’s failure to meet quantity demands and has meant that thousands of eager customers have either gone wanting or purchased rival game machines in recent months. To compete, Sony had courted independent designers, many of whom bristled at Nintendo’s efforts to micromanage their work. Sony granted designers technical support and “a very easy creative environment. These artists created hot action and fantasy games that catapulted PS one to the top spot in an exploding game market. However, when developing the PS2 Sony made the mistake of cutting out these small design houses. Software companies that design for the PS2 are suffering. The top designer, Namco has seen its share price tumble 60% since March and recently announced that it expects to report its first-ever yearly loss ($19 million) since going public in 1988.

- Another challenge of Sony is to attract game developers to a Sony site if PlayStation becomes a separate brand as aimed, and not part of a dedicated Sony
network for the online distribution of music, movies, and TV shows and how to make money from Internet sales.

**HYPOTHESIS**

**Hypothesis 1:**

Consumers’ purchase intention for PS2 will increase significantly if Sony reduces the price for its PlayStation 2 game console to $269.

**Hypothesis 2:**

Customers will be more willing to purchase PS2 if Sony makes ‘Sony online gaming network’ available on www.playstation.com.

**Hypothesis 3:**

Consumer recall of SCEI commercials is significantly less than that of SCEI major rivals’. If we assume recall is tied to exposure to the ads, less recall is tied to less ad exposure. Therefore SCEI should increase its ad exposure and expenditures.

**Hypothesis 4:**

SCEI customers who experienced software glitches exhibit a lower opinion of SCEI than customers who did not.

**RELEVANCE OF HYPOTHESIS**

**Hypothesis 1** is relevant because it addresses the issue that the consumers perceive PlayStation’s price too high. This perception is one of the reasons that the company’s market share has dropped. PS2 was priced at $299 while its competitors were selling between $99 and $199. In fact, Microsoft’s X-box is priced at $299 right now, too. If Sony reduces its prices, although it may mean that it is giving up its premium pricing strategy, since it will still have the brand image and quality, the company would sell more and increase its market share. However, since there are some other factors known to the public about why the consumers are not happy with PS2 such as the initial supply shortage of the machine itself and its software, reducing the price may not have a significant positive impact on its sales and consequently its market share.

**Hypothesis 2** is relevant because now Sony is aiming to make PlayStation a separate brand and not part of its Sony product line. Consumers are expected to purchase the
console when they are also offered online through the gaming network with high-bandwidth services. For an extra $150, consumers get the hard disk drive and the Network Adaptor (HDD/NA). Online gaming network is a new concept, by which the customers can play the online games with other PS2 players online for unlimited hours. X-box and GameCube have been developing their online gaming networks too. So Sony needs to speed up on this availability of HDD/NA in the US, since it has already encountered success in Japan. If SCEI does so, a lot more customers waiting for this to happen will probably be purchasing PS2.

**Hypothesis 3** is applicable because the fact that SCEI is falling behind its competitor Microsoft in terms of its marketing campaign. Although Sony has created awareness and it has a very strong brand image, advertising and promotion is always needed to remind the consumers of the product and its distinctions among others. Everybody knows the Sony brand and its high quality products all around the world, Sony should advertise PlayStation more and publicize how PS2 is different from X-box, GameCube and Dreamcast. Today, it is more likely to see a X-box commercial than a PS2 commercial on TV.

**Hypothesis 4** is applicable because it is known that Sony has disappointed its customers by failing to offer compatible software with its so called “emotion processor”. Some of the games available came out with rough edges and jerky graphics. This situation has created an image distortion of SCEI for the customers who have experienced these glitches. Thousands of eager customers have preferred to purchase rival game consoles. However, if SCEI develops a large variety of new and compatible games for its PS2, it may regain its customers came out of its competitor’s shadow. It may re-position its PS2 and its software as a game console of the highest quality and unique features.

**EXPECTED RESULTS**

As the questionnaire is designed to support the hypotheses, when the data collection and analysis is finalized, we would expect the results to reflect the applicability of our hypotheses.

**Hypothesis 1:** Consumers’ purchase intention for PS2 will increase significantly if Sony reduces the price for its PlayStation 2 game console to $269. It is expected that the study will provide evidence that if PS2’s price reduces to $269, it would increase the purchase intention of the consumers.

**Hypothesis 2:** Customers have become more willing to purchase PS2 in the US after Sony made ‘Sony online gaming network’ available on [www.playstation.com](http://www.playstation.com). It is known that Sony has been planning for its ‘Sony online gaming network’. It is also known that
X-box and GameCube are developing their networks online. From the data we collect, we expect that the customers have become more eager to purchase PS2 after Sony made this online gaming network available to its customers since this was something they had been expecting for a long time. Although it costs them a $150 more to purchase the HDD/NA, they are happy with the online gaming network since now they can play with other players online for unlimited hours instead of playing by themselves or with friends at home.

**Hypothesis 3:** Consumer recall of SCEI commercials is significantly less than that of SCEI major rivals'. If we assume recall is tied to exposures to the ads, less recall is tantamount to less exposure. Therefore SCEI should increase its ad exposure and expenditures. The data collected is expected to provide evidence that this hypothesis is applicable because, advertising and promotion is always needed to remind the consumers of the product and its distinctions among others no matter how well known the brand is or how well initially positioned the product is. There is always a need to remind the target market, because this is a tough market where there are powerful competitors that the consumers may switch over to.

**Hypothesis 4:** SCEI customers who experienced software glitches exhibit a lower opinion of SCEI than customers who did not. This hypothesis is also expected to find evidence by the data collected as it is reflected in the media, due to the software and equipment glitches of PS2, consumer perceptions for Sony has changed. However, we didn’t want to go that far and say that the image of Sony has changed for everyone. We are only expecting the results to reflect that the customers who have purchased the PS2 and experienced the software glitches are disappointed by Sony and now have a lower opinion for Sony Computer Entertainment Inc.

**CONCLUSIONS & SUMMARY**

Sony Computer Entertainment is recognized as the global leader & company responsible for the progression of consumer based computer entertainment, Sony Computer Entertainment Inc. (SCEI) manufactures, distributes & markets Play Station game console & Play Station 2 computer entertainment system. SCEI is an independent business unit of Sony Group. The PlayStation business used to be Sony Group’s biggest cash cow, but now it is facing fierce competition and needs to take some precautions to maintain its market position.

In today’s game market, there are four companies ruling: Sony Computer Entertainment, Sega Enterprises LTD., Nintendo Co., and the industry’s newest entrant, Microsoft Corp. These four companies are major threats to SCEI and its market share. In
order to compete better, Sony has to make changes in its pricing, distribution, promotion and product strategies.

SCEI has formed several strategic alliances to become a more powerful company. Today, SCEI’s goal is to put the PlayStation brand and its products into an unassailable position. As PlayStation evolves, the biggest selling console of all time downsizes to a third of the size of its predecessor. Plus, it is compatible with the entire PlayStation back catalogue. PlayStation 2 is a revolutionary computer entertainment system set to reinvent the nature of video games. With the incorporation of both CD and DVD formats, PlayStation 2 has been designed to offer a range of computer entertainment options combining games, video and music.

It is known that SCEI had supply problems when PS2 was first launched. As of May 2001, the company announced that they have finally surmounted earlier PlayStation 2 supply problems and is now shipping new hardware to retailers practically every week. The print, TV, online and direct-mail campaign, part of a $250 million marketing effort encompasses both the PS1 and PS2. However, the other two giants, Microsoft X-box and Nintendo GameCube have entered the market with very aggressive marketing campaigns.

Sony had penetrated into the market with a very unique product in 1994, which was never done before. PlayStation was something completely unique in terms of both its size and shape and its games available.

In the years to come, PS2 is expected to be positioned in every living room in Asia, North America, and Europe as the digital hub for downloading games, movies, and music sent over broadband networks such as cable. Plus, Sony engineers are now working on the PS3, which is set to roll out in four to five years.

However, all these plans can become reality if SCEI works on the issues that are vital for its future success. In this research proposal, Erguner Consulting pinpointed several issues that face SCEI, and to evaluate these issues, the consulting firm developed four hypotheses. To support these hypotheses, a questionnaire was prepared and mailed to 6,000 potential respondents with the expectation of receiving at least 2,000 of the questionnaires fully completed. The cost of the study was $42,080. A commercial mailing list firm provided Erguner Consulting with the mailing list. SAS, a statistical software package has been used to run the data analysis.

RECOMMENDATIONS

As the questionnaire is expected to suggest, SCEI can create a higher demand for its PS2 by making ‘online gaming network’ available. Online gaming network is a major...
step in terms of reaching company goals to make PS2 a separate brand and not to lose one of its competitive weapons. Even more since the X-box and GameCube are also planning to do it. Erguner Consulting recommends SCEI to speed up on this availability of HDD/NA in the US, since it has already encountered success in Japan. If SCEI does so, many more new customers will probably purchase PS2.

As new entrants settle in the computer game industry and as they continue to multiply, the competition becomes fiercer everyday. In such an environment, SCEI should consider spending more on its marketing campaigns. The company should increase its ad exposure since recall is tied to exposures to the ads; less recall is tantamount to less exposure. It is known that X-box has planned to spend almost $300,000,000 on its North American campaign only, whereas Sony has only been spending $150,000,000 in North America. Although, SCEI has such a good brand image, it always needs to find ways to maintain its good market position and to serve this purpose, it needs to invest on campaigns to make people recall PS one and PS2. Within 4 to 5 years, PS3 will be included in the list.

Sony Computer should seriously consider reducing its price by 10% to $269. The questionnaire suggests this would increase the sales, although this would mean Sony has to leave its premium pricing strategy. SCEI would make more profit by selling PS2 for a at a 10% lower price than it at the present price of $299. Sony would have taken advantage of the economies of scale.

Finally, SCEI should be aware of the fact that the software problems had really disappointed customers and the disappointed customers who have experienced these software glitches believe that Sony Computer Entertainment’s quality is not as reliable. Sony Computer should make this up to its customers by ending its software problems for PS2 and not repeating the same mistakes for PS3. Additionally, maybe by launching a flashy title: something never done before, Sony may win its disappointed customers’ hearts again.

Sony Computer Entertainment is and has always been a company that is expected to be perfect for all times, and when it makes a mistake it draws more attention than its competitors would. So, SCEI has always needs to be ahead of its competitors so that its does not suffer from perception problems related to its brand image.
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