

Sir Howard: Sony's Affable Integrator

vertical integration

n: absorption into a single firm of several firms involved in all aspects of a product's manufacture from raw materials to distribution

The recent promotion of Sir Howard Stringer to chairman and group CEO of Sony Corp., the first

Westerner to head the Japanese company, promises to yield the synergies that the consumer electronics powerhouse contemplated when it first acquired U.S. content companies in the late 1980s: the CBS Records group of music labels (recently re-christened Sony BMG Music) and the Columbia Pictures movie studio (now known as Sony Pictures Entertainment).

Indeed, in the March 7 corporate announcement regarding his ascendancy, Stringer, who doesn't speak Japanese, commented: "Together we look forward to joining our twin pillars of engineering and technology with our commanding presence in entertainment and content creation to deliver the most advanced devices and forms of entertainment to the consumer." And at the news conference, he promised to "accelerate cross-company collaboration."

The new Sony chairman is already coming up with ways to reap the benefits of vertical integration, best exemplified by the company including a free Universal Media Disc (UMD) edition of *Spider-Man 2* with the new PlayStation Portable (PSP) handheld entertainment system, which debuted for sale March 24. Five other Sony movies will be available in the UMD format April 19.

Often the brain trust that devises technological innovation is often at loggerheads with the interests of content owners. Hence, different units of Sony sometimes find themselves supporting diametrically opposed viewpoints. Luckily for Sony it didn't have to be on both sides of the landmark 1984 *Betamax* case; it was the defendant. Its acquisition of Columbia Pictures would occur five years later.

The new Sony chairman is already coming up with ways to reap the benefits of vertical integration, best exemplified by the company including a free edition of *Spider-Man 2* with the new PlayStation Portable.



Stringer acknowledged this dichotomy in a January 2005 CNET interview: "The interesting thing is that technology companies and pure content companies sometimes have contradictory impulses."

Although not addressing it specifically, Stringer could have been talking about the DualDisc. Last November Sony Electronics issued a consumer advisory regarding incompatibilities between DualDisc and some Sony disc players.

A DualDisc from say Warner Music featuring DVD-Audio content on one side will not play on Sony players and drives because Sony hardware does not recognize the DVD-Audio format. Sony—both the consumer electronics and music divisions—hasn't yet thrown in the towel on Super Audio CD, DVD-Audio's surround rival.

Meanwhile, Sony BMG Music is now championing DualDisc as a way to stimulate physical music sales, and Sony DADC is replicating the DualDiscs. Highfidelity.com surmises that the playability issue might have something to do with Sony purportedly using a slightly different manufacturing spec.

Sony has found that merely owning content doesn't always ensure consumer electronics success (e.g., its various attempts to put prerecorded music content on MiniDisc, and its disappointing sales for Super Audio CD).

On the history portion of the corporate Sony website, its content acquisition strategy is explained: "For [former Sony CEO Akio] Morita and [former Sony president Norio] Ohga, acquiring CBS Records and Columbia Pictures meant the fulfillment of the Sony Group's ultimate strategy: to

secure high quality software in order to complement and promote Sony's wealth of hardware products. The process of developing the software side of the business had begun in 1968 with the creation of CBS/Sony Records. This experience strengthened Sony management's belief that in the long-run Sony needed to simultaneously develop both AV hardware and software for that hardware. Acquisition seemed the logical route to realize Sony's overall strategy."

Still pursuing such a content-for-hardware strategy, there's little doubt that Sony's acquisition last year of the MGM film library was motivated by having more catalog titles to put on the forthcoming Blu-ray format.

Much has been made of Stringer's ability to forge alliances and get along with everyone in all walks of life—very possibly the reason for his promotion. I have personally encountered this: three years ago Howard was assistant coach to my son's Little League baseball team.

I'll never forget a distinctly Welsh accent bellowing "IT'S ABSURD" when it started snowing during the team's first practice in early April. During the course of the season, I mentioned to Howard that we were honoring a DVD pioneer at *Medialine's* conference later that summer Ben Feingold, who heads Sony Pictures' home entertainment unit, and he replied that he thought the honor was well deserved. And I also remember him on the pitcher's mound between innings obliging a teenage umpire's questions later in the season about the then-new PlayStation 2's bells and whistles.

My son ended up missing the last game of that season, due to breaking his arm at school. As his teammates signed the cast, Howard made sure he autographed it too. Following the season prior to a screening, I ran into Howard in the lobby of Sony's 550 Madison Avenue headquarters, and we traded notes on our sons' progress. Howard quipped, "The Amazing Jake Jaffee!"

It's those kind of people skills that translate into any language.