



Keio Business School

Nintendo and Sony

5

In 1990, at a time when Nintendo was achieving high profits, Sony's management was scratching their heads over the low utilization rate at its Shizuoka Production Center—a special-purpose factory producing CDs. For Sony, this Shizuoka Production Center was a major, strategically significant investment.

10

Sony and CDs

The compact disc (CD) is a digital recording technology developed by Dutch company, Philips. For a number of reasons, it was regarded as a promising recording medium to replace conventional vinyl records and cassette tapes. These include that CDs could be manufactured relatively inexpensively, digital recording meant that sound quality would not degrade, and direct access^[1] made them easy to use. However, popularizing CDs to replace records and cassettes, which were already widespread, required significant investment, not only in development of the recording medium and associated players, but also in mass production, advertising, marketing, and changes and adjustments in the distribution stage. Moreover, apart from CDs, there were a number of other direct-access digital recording technologies that were being researched by other companies. In this context, Philips did not decide to develop CDs for the music industry.

15

20

25

Up until the 1980s, Sony had progressively participated in various industries, from audio equipment and video equipment, such as TVs and VCRs, to personal computers and content. Sony was hoping to seize the initiative ahead of other companies, utilizing a multimedia strategy that integrated these

^[1] “Direct access” refers to the method of reading and writing data only at the relevant location in the recording medium. Mechanistically, this is accomplished by moving the read/write device to the relevant location as directly as possible (in a short space of time and over a short distance). In contrast, “sequential access” refers to the method whereby information can only be read and written in a certain physical order, like with a cassette tape. In music, for instance, potential practical applications of direct access include searching for the start of a song, as well as editing and arranging work.

30

This case study was prepared by Professor Atsuomi Obayashi. This case study was developed solely as the basis for class discussion. It is not intended to illustrate effective or ineffective management.

The case study is published by the Keio Business School. Inquiries regarding the reproduction or use of these notes should be directed to the Keio Business School (Address: 2-1-1 Hiyoshihoncho, Kohoku-ku, Yokohama, Kanagawa Prefecture, Japan 223-8523; Phone: +81-45-564-2444; Email: case@kbs.keio.ac.jp). Orders can also be placed via <http://www.kbs.keio.ac.jp/>. This publication may not be digitized, photocopied, or otherwise reproduced, posted or transmitted, in whole or in part, without the permission of the Keio Business School.

35

Copyright © Atsuomi Obayashi (created June 2008)