

The Building of a Firm's Specific Advantages: The Example of Sony

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Abstract: *This study is based on the market imperfection theory that tries to explain the reasons behind an enterprise's expansion and globalization. This theory argues that if a firm is going to expand internationally, it must possess four main kinds of advantages: Those related to technology, brand differentiation, control of distribution channels and scale economies.*

The study tries to apply this theory to the case of the Japanese enterprise Sony that was founded in 1946 as a small enterprise in a commercial center in Tokyo and managed to become in a short period of time a big multinational company. The study reveals the main reasons and factors that have contributed to the building of Sony's power as related to the four mentioned dimensions, and which was reflected in the impressive success of this company.

Keywords: *Specific advantages, technological innovation, brand differentiation, distribution channels, scale economies, Sony.*

1. INTRODUCTION

The market imperfection theory allows specifying the necessary conditions for a successful globalization. It considers that if an enterprise possesses a specific advantage, it can surpass the numerous establishment costs and be successful in the host country.

The term 'specific advantage' was used by the economist Stephen Hymer (1968) at a moment when American multinationals rule the world's economy. At that time, the entry of foreign firms seemed to be difficult. A foreign firm would have to compete head on with domestic companies that have a number of natural advantages. First, domestic companies have a customer base they have cultivated and which is familiar with their products. Second, local companies have developed inter-firm relations that may involve long-term contractual relationships, which effectively impedes newcomers. A third entry barrier is that national regulators would eventually tend to discriminate against foreign firms. A fourth entry barrier for foreign firms would be the lack of institutional and cultural knowledge of host countries.

However, the success of American products in the European markets largely modified this perception, and led a number of researchers to consider that those American enterprises may possess a number of advantages over European firms in the form of assets that can be tangible or intangible (Dunning, 1973). Those assets can take different forms such as technological advantages, brand differentiation, control of distribution channels and scale economies (Hymer, 1968).

Since that period came the idea that a company that possesses a specific advantage can export its products or can produce abroad. To these two forms was added later other modes of globalization such as licensing, franchising, contract manufacturing and service provision.

The specific advantages of firms differ from an enterprise to another. This study tries to apply the case of the Japanese enterprise Sony that was founded in 1946 as a small enterprise in a commercial center in Tokyo and managed to become in a short period a big multinational company.

The paper is structured as follows: Section 2 reveals theoretically the content of the main specific advantages according to the market imperfection theory, and shows how those advantages could allow firms to assure a commercial and productive presence in the world. Section 3 tests the relevance of the theory of imperfect markets through its application to the case of the enterprise Sony. It analyses the

building process of the advantages related to this enterprise. In light of the results of prior sections, section 4 concludes.

2. THE MAIN FORMS OF SPECIFIC ADVANTAGES

According to Hymer, market imperfections are structural, arising from structural deviations from perfect competition in the final product market due to permanent control of technology, differentiation, control of distribution systems and scale economies (Pitelis and Sugdan, 2000).

2.1. Technological Advantages

Technology is an obvious advantage. Indeed, many multinationals in the world are technological leaders in their operating sectors. American multinationals did bring new technologies into Europe in different economic fields such as automobile, steel, oil exploration, pharmaceutical and chemical industries. Those multinationals had played an important role in the diffusion of technological progress and did participate in the decrease of the technological gap between Europe and the United States.

Because of their possession of technological advantages, American multinationals did not have to produce outside the United States in order to enter markets. Many of them have simply exported their products or have proposed to local enterprises license agreements. But others, caring to maintain their technological advantages, begun to construct networks of affiliated companies in Europe and in other countries.

It is mainly the technological leadership of those multinationals that enables them to settle down in distant markets. Their master of technology represents an asset that exceeds by far transport costs or any other type of fees that they should pay in order to get established overseas.

Technology upgrading can provide different forms of benefits to the firm notably in the long run such as (i) an increase in productivity which results in better prices and consequently higher profits; (ii) an increase in intra-firm collaboration since technology provides a platform of exchanging ideas and improving relations among members, which lead to better customer services; (iii) an increase in communication because technology allows companies to expand abroad and hence to further communicate with other regions and achieve a successful globalization.

2.2. Brand Differentiation

The brand identity is related to the actual quality of the product or service and to various intangible factors. Those intangible factors are related to the user (the type of person who uses the brand), the usage (the type of situations in which the brand is used), the personality of the brand (exciting, competent), the feeling that the brand tries to elicit in customers (purposeful, warm), and the type of relationship it seeks to build with its customers (committed, casual, seasonal). Strong brands seek always to remain on the lead and manage their intangibles to fit over time (Ghodeswar, 2008; Keller, 2000).

It is clear that the list of multinationals is also a list of famous marks often prestigious that are wanted for the real or fake attributes of their products. Brand identity is a specific advantage because it allows the firm to get established abroad owing a reputation beforehand. Even if it comes to the host country from a distant market, the firm has no need to spend money and effort to get known; consumers know it already and often they are impatient to see its products available on the local market (mazerolle, 2006).

2.3. Distribution Channels

A distribution channel, also known as marketing channel, is the flow channel of products from the producer to the consumer. It consists of three elements: The producer, the consumer, and intermediaries between them. The function of distribution channel is to eliminate asymmetry of information between producers and consumers so that transactions can be realized. The study of distribution channels represents one of the main areas of marketing theory. It is related mainly to the problems of selection of those distribution channels and their management. Recent studies have shown that selection and management of distribution channels constitute an important part in acquiring competencies and in increasing the competitiveness advantage of firms. This is because differences of products and services between competitors have been increasingly small and marketing tends to be homogenous. Therefore, having a firm control of distribution channels represents an adequate way to obtain higher profits (Zhang and Fu, 2010).

2.4. Scale Economies

The advantage related to scale economies is generated by the firm size and can represent the most important specific advantage. The main reasons behind scale economies are the followings:

- First, big enterprises can achieve a division in the use of factors of production notably labor. Consequently, they can reduce costs and increase profits.
- Larger firms may be able to raise funds in capital markets at a lower cost than smaller firms (financial economies).
- Larger firms may be able to spread out promotional costs (marketing economies).
- Big enterprises have enough capital to undertake R&D activities and therefore they can create a technological advantage.
- A big enterprise is more likely to obtain government assistance and subsidy because of its role in fostering investment and employment levels.
- When a firm is financially strong, it can buy a specific advantage related to technology or brand in order to get established in a foreign market.
- Economies of Scope: that causes a reduction in a firm's per unit cost through the production of distinct goods or services jointly rather than separately.

3. THE RELEVANCE OF THE THEORY OF MARKET IMPERFECTION: THE CASE OF SONY

It is easy to enumerate a number of multinationals that possess some specific advantages related to technology, brand differentiation, control of distribution channels and scale economies. We propose here the case of the enterprise Sony. By emphasizing the main mentioned aspects of specific advantages, we demonstrate how this small company created in 1946 managed to become a big multinational company.

3.1. The Building of the Technological Advantages of Sony

The name of Sony is today recognized in the world as a leading enterprise notably in electronics-related products. More recently, Sony did impose itself on the markets of mobiles, music & pictures, digital entertainment and PCs. The last sector includes yet giant companies such as Dell and HP, which shows the power of Sony.

The Technological advantage was reflected in an impressive capacity of innovation, which allowed Sony to conquer foreign markets first as an exporter, then very rapidly as a producer. Products made by Sony are used daily by millions of people all over the world. It was difficult to imagine such a success in 1946 when its founders Masaru Ibuka and Akio Morita, helped by seven engineers who had just quit the army, have founded a small enterprise of electronic materials in a commercial center in Tokyo. At that time, the main producers in Japan were Mitsubishi and Toshiba.

The two founders of Sony have from the beginning insisted on individual creativity. They managed to develop this in multiple ways (Luh, 2003; Manageris, 2003).

3.1.1. Valorization of the Company's Members

Sony has as a principal to respect its employees and workers and to help them develop their abilities. It encourages them to express the best of themselves, has confidence in them and always tries to make them progress.

3.1.2. Work Environment

Sony aims at affording an environment perfectly adapted to the work of engineers in which they can freely show their talent of making technological innovations in a pleasant and cooperative atmosphere.

3.1.3. A Successful Entry into New Sectors

Since technology is interrelated with new ideas and concepts, Sony understood that it is sometimes important to take the plunge and be the first mover. This applies for instance to the sector of home robots. The robot "Aibo" that simulates with realism six kinds of feelings (happiness, sadness, fear,

disgust, surprise and anger), has allowed Sony to create a new market. This could potentially be one of the most profitable forms of investment in the future.

3.1.4. A Capacity to Improve Available Technologies

The capacity to improve technologies can be shown in the example of the screens "Trinitron". By ameliorating this technology, Sony has managed to present on the market television screens of superior resolution. The same approach applies to the technology of helical VTR initially developed by the company "Ampex". Also, the success of "PlayStation" is another illustration of the capacity of Sony to ameliorate existing concepts created notably by "Nintendo" and "Sega".

3.2. Brand Differentiating Strategy

One of the characteristics of Sony is that it tried from the beginning to differentiate itself from other enterprises and build a brand identity. This would not have been possible without the establishment of a global and international mark.

The mark Sony is a global mark since it does not refer to one single product, but reflects the whole of the enterprise's products. It is not just the transistor, the Walkman, the television, the Hi-Fi stereo or the PC; it is the total of all those products.

Also, Sony is an international mark since its products are destined to the entire world and not to a particular geographic zone. In effect, Sony could have relied solely on the taste of Japanese consumers; but this was not the case. The enterprise tried always to be present in the mind of a variety of consumers. Even its name was chosen to be easily pronounced in order to fit to all people.

Achieving the goal of being a global and an international mark was not an easy task. The company needed to have a thorough understanding of a number of elements such as customer beliefs and behaviors, product or service attributes, and competitors.

3.2.1. Understanding the Behavior of Consumers

Most enterprises do marketing studies in order to discover the needs of their consumers. Sony, however, understood from the beginning that consumers have difficulties in imagining new products since they cannot easily get out of monotonous consumption. Therefore, it considers that the enterprise must in a way help consumers and imagine for them a full range of new products. Indeed, it is by trying to imagine a more practical way of listening to music that the Walkman was created.

3.2.2. Differentiation in Business-Level Strategy

Sony has for long used the differentiation in business-level strategy to sell its products. The differentiation strategy is based notably on the following points:

- The miniaturization of its products: such as radios, transistors, televisions, Walkman, cassette recorders and more recently laptop computers.
- The ease of use: For instance, in Sony's digital camera "Mavica", no additional cables or adapters were required to view the images when using the PC, in contrast to Kodak's and Casio's digital cameras.
- Emphasizing the style: This is an additional method of differentiation for Sony. For example, in 1997, Sony imposed itself on the PCs market with its mark Vaio by adding some devices related to multimedia and style that attracted the public.

3.2.3. Customization Strategy

Marketing innovations such as the "design centers" and the "showrooms" represent clear examples of Sony's customization strategy.

Since the early 1960s, Sony made of design a part in its R&D strategy, and fixed to its engineers the goal of conceiving the most attractive objects. The "Sony Design Center" played a role as a precursor in design well ahead of other enterprises in the electronics sector. Its success encouraged Sony to open many design centers around the world.

Later on, Sony made a new innovation by creating the concept of showrooms, a place where the public could come and try Sony's products. The first showroom opened in Tokyo in 1966, and then others followed in different countries.

3.3. Mastering Distribution Channels

Sony managed to control its distribution channels through a number of ways such as:

3.3.1. *Diversification of Distribution Channels*

Sony distributes its products through different forms of channels such as the zero-level channel, the one-level channel and the two-level channel. It chooses the appropriate form according to the timing and the specificities of the location. For example, since the period of transistors, Akio Morita has refused to distribute Sony products in the United States under the name of the mark "Bulova". That was yet a solution that seemed to be easier at that time and more profitable in the short run.

The fact of mastering distribution channels seemed also to be efficient in the fight with Nintendo to impose PlayStation. Indeed, while Nintendo sold its games through trading companies that imposed their prices and marketing strategies; Sony managed to commercialize its products while deciding on its own price policy and on the timing of advertisement campaigns.

3.3.2. *An Adequate Geographical Division of the Channel*

Appropriate geographical division of a distribution channel avoids unnecessary conflicts between channel members, and encourages distributors to make efforts in increasing their market share.

3.3.3. *Emphasizing the Localization Advantage of Distributors*

Local distributors are familiar with the local market conditions, cultural customs and consumer psychology. Thus, they have unique advantages notably with respect to customer's relationship.

3.3.4. *Continuous Communication with Distributors*

Sony gives importance to the development of distributors and visits them on a regular basis. Like most Japanese companies, the enterprise adopts the method of repeated consultations when encountering problems rather than a confrontation approach.

3.4. Scale Economies

Size was not from the beginning the advantage of Sony. But today, the size of Sony obviously helps the company to create new affiliates all over the world and to conquer other markets. Sony has exploited the specific advantage related to size in conquering further markets through the selling of its products at lower prices under other names such as "Aiwa", which is a sub-mark of Sony. Also, the example of R&D in Sony is impressive. Sony always reserves a big share of capital for its R&D activities (usually more than 10%). This R&D, which would not be possible if the company did not reach that size, comes today to strengthen the initial advantages in terms of technological innovations, differentiation and control of distribution channels.

Size also works as an accelerator when it comes to buy necessary technologies in order to enter further sectors such as PCs or to create a new market such as the market of house robots.

4. CONCLUSION

This study is based on the theory of market imperfection that tries to explain the reasons behind an enterprise's globalization. This theory argues that a firm must have four main kinds of advantages in order to expand internationally. Those advantages are respectively related to technology, brand differentiation, control of distribution channels and scale economies.

The study tries to apply this theory to the case of the enterprise Sony. It shows that the building of the technological advantage of Sony was based on the reliability on individual creativity through multiple ways such as the valorization of the company's members, the good work environment, the encouragement of imagination in creating new products and the capacity to improve existing technologies.

Concerning the brand differentiation aspect, Sony could impose and sustain it mainly through an appropriate understanding of the behavior of consumers, differentiation in its business-level activity and an adequate customization strategy.

As for the control of distribution channels, it was attained through different ways such as the application of different forms of distribution channels, an emphasis on the localization advantages of distributors and a continuous communication with them.

Finally, the size aspect was not from the beginning the advantage of Sony. But Sony managed to exploit it mainly through a focus on R&D activities in order to strengthen its initial advantages and improve the position of the company.

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