iPod craze stuns Sony

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JULIANA SASAKI didn't bother checking out Sony's digital music player in Tokyo before buying her iPod mini.

"I knew Sony and other companies had MP3 players, but they can't beat the mini," Sasaki, 23, says. "I went straight to the Apple store. The mini is so cute."

In Japan, home to four of the five top electronics companies by sales, advance orders made Apple's iPod mini the top-selling portable player three weeks before its July 24 release. It still is.

Tokyo-based Sony's embarrassment at Apple's hands is another setback for the company that in 1979 invented the world's first portable music player, the Walkman.

Sony's profit from consumer electronics has fallen in five of the past six years, as Sharp and Panasonic grabbed the digital initiative with flat-screen televisions and DVD players.

"Sony was the pioneer with the Walkman," says Alexander Shalash, a fund manager at Swissca Portfolio Management in Zurich. "This time they're late. There are no alternatives to the iPod right now."

Sony's NetWalkman, its answer to the iPod, went on sale in July – almost three years after the original iPod.

The NetWalkman was less popular than three iPod models by the end of October, according to Tokyo-based research company GfK Marketing Services.

"Sony's opinion of how important they were in the portable audio market was an illusion," says Yuuki Sakurai, of Fukoku Mutual Life Insurance, in Tokyo.

Sony chief financial officer Katsumi Ihara lamented Apple's jump on the company in an interview.

"Our personal audio business isn't performing to our expectations – partly because of iPod, which has become a fashion," Ihara says. "We must fight back."

Sony has sold 340 million Walkman cassette and compact-disc players worldwide since July 1979. Apple says it has shipped 5.74 million iPods since October 2001.
Standard & Poor's has cut Sony's credit rating for the first time since June 1993, from A+ to A, saying profitability was being strained by competition.

Sony's profit in the quarter ended September 30 rose 62 per cent to $US500 million ($630 million), helped by Sony Pictures Entertainment, its movie unit. Operating profit from electronics, which account for about two-thirds of all sales, fell 83 per cent to $US70 million. Sales slipped 2.5 per cent to $US12 billion.

Sales at Sharp, Japan's largest maker of liquid-crystal displays, and Matsushita, the world's largest electronics maker, rose 13 per cent and 9.3 per cent respectively.

The iPod – which lets users download, store and play thousands of songs – generated 23 per cent of Apple's $US2.36 billion in sales in the same quarter. Overall profit more than doubled to $US106 million as iPod shipments rose fivefold.

Apple shares have almost tripled this year, reaching their highest since September 7, 2001. Sony stock has fallen 27 per cent in the same three-year period.

About 40 per cent of the 1.5 million digital music players sold in Japan this year will come from Apple, according to media analyst David Marra at A.T. Kearney.

That could rise to as much as 70 per cent, led by the iPod mini, as Japan's demand for hard-disk digital players was expected to double by 2005, Marra says.

The iPod won 82 per cent of the US market for hard-disk players in the 12 months ended in August, according to NPD Group, based in New York.

Apple's three iPods – the mini, which stores 1000 songs, and the larger 20- and 40GB models – rank first, second and fifth by sales for digital players in Japan, according to Gfk Marketing.

Even Toshiba, Japan's largest maker of notebook computers, is beating Sony. Toshiba's Gigabeat player, with 20GB of storage, is the sixth-biggest seller in Japan, Gfk Marketing estimates. Sony's 20GB gigabyte NetWalkman is seventh.

Apple executives in the US and Japan declined to comment.

It may get worse for Sony. Apple plans to open its iTunes service, the world's largest online music store with 1 million songs, in Japan before year-end, Apple chief executive Steve Jobs said in Tokyo last year.
The iTunes service allows users to pay by credit card to download songs directly to their iPods. At present, most iPod users in Japan transfer music tracks on compact discs to their computers, then to their music players.

Apple has sold more than 150 million songs through iTunes since it opened in the US in April 2003 and Europe in June this year.

Still, Apple may not be able to mirror its "halo" effect in Japan. US customers enticed by iPods are drawn to Apple products such as new-model iMac computers and Mac notebooks.

"When it comes to computers, Apple is not penetrating the Japanese market," Sakurai says.

Sony has a few digital cards up its sleeve as well. Its first portable PlayStation video games console goes on sale December 12. It has a wireless connection and plays movies and music.

The company is developing the Cell in partnership with Toshiba and IBM. The Cell is designed as the driver for what Sony promises will be a new generation of devices that receive video and music piped over the internet.

Meanwhile, the latest iPod, with a colour screen and the capacity to hold 25,000 photos, was released last month.

The iPod was a "wake-up call," Sony vice-president Howard Stringer said earlier this year. Wake-up call it certainly is.

*Bloomberg*

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