

Intent on domination, the company that brought you the and now brings you and . It's had its (remember in Hudson Hawk?) and hit some bum with the lawsuit. It's going to close 15 and lay off thousands of workers. But still profits . And now it has and in its . Do not underestimate the power of SONY

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Once upon a time, the Sony Corporation took a good American invention, the transistor, and turned it into the cornerstone of a worldwide electronics empire. That was in the 1950s, when the company then led by the legendary Akio Morita was in its infancy. Ever since, the Japanese giant has retained the same guiding principle: drink from the cultural and technological well-springs of the modern world, in an ever-broadening search for global primacy.

While many of its rivals have seen those springs run dry, Sony this week announced a plan whose span is both global and pervasive, reaching down to the tiniest household item. Simply, Sony's futurologists reckon that there is no escaping the digital world, where everything will have a chip in it; so they want to provide the software that lets those chips talk to the outside world, and in the process oust the software giant Microsoft from the consumer world.

You might not think that Sony is really like that. For most people, the brand arouses a few strong images: hits like the Walkman and misses such as the Betamax video in the 1970s (a better technology than VHS, but badly marketed). But the executives in Sony headquarters in Tokyo today run a worldwide conglomerate that encompasses not just electronics and hi-fi equipment, but has branched out into computers, the Internet, the music business and entertainment, including such prestige holdings as CBS Records and the Hollywood studio Columbia Pictures.

Knowing only that much would make the company's latest announcements puzzling. Sony has just recorded its highest-ever quarterly earnings, with group net profit for the last three months of 1998 totalling \$878m (pounds 550m). Yet simultaneously, the corporation announced a massive restructuring which would slash its global workforce over the next three years, shedding 17,000 jobs and closing 15 of its 70 factories. It is not yet clear where the cuts will come; 4,500 jobs are at risk in Wales, for example.

But the hints are there in the formal announcement: the headcount will fall by 10 per cent "by... retraining and reallocating employees from analogue to digital businesses, and from hardware to software operations". If you work for Sony assembling analogue TVs, be worried; if you are a programmer developing its Aperios operating system, be happy, for the future belongs to you.

The need for this radical reworking of the corporation's thinking has been prompted by its haphazard success in capturing a place in the popular imagination. We all know what a Sony Walkman is, and we are increasingly accustomed to the plug-in video game possibilities of the PlayStation - which alone accounts for more than a quarter of current corporate profits. But is the MiniDisc (launched at the start of this decade) a flop or not?

Questions like that have troubled Sony since 1995, when Nobuyuki Idei was appointed its chief executive and had a Damascene revelation during a company briefing after Akio Morita's death. Peter Sealey, a consultant, was explaining the importance of the Internet, which Sony had until then ignored; there were not even Sony brand-name PCs. Then Sealey pointed out that the value of PC sales in the US in 1994 had for the first time been greater than for TVs.

"He stopped the meeting and challenged my data," Sealey recalled. "I think it was a shock to him that this had happened."

Sony was already reeling from separate cultural shocks during its previous attempts to infiltrate the old, analogue world of music and films. In the late 1980s, Sony's acquisition of CBS Records and Columbia Studios was seen in some quarters as the beginning of a Japanese invasion of all that Americans hold nearest and dearest. While Sony bought out the Columbia name from Coca-Cola, its rival Matsushita, manufacturer of the Panasonic brand, snapped up MCA, the entertainment behemoth that included its own formidable music division as well as another historic Hollywood studio, Universal. The acquisition of prime American brand names by Japanese corporations led to racist mutterings about Pearl Harbor all over again.

However, the West Coast was not going to be bought so easily. Hollywood in particular had followed its own crazy, profligate logic for so long that probably no outsider could have penetrated and reorganised it with any success. Matsushita became so alarmed by the millions demanded by Universal and MCA that it bailed out after five years, selling the property on to the Canadian liquor conglomerate Seagram.

Sony, by contrast, took a long, relaxed view of its participation in the entertainment industry - and almost got taken to the cleaners as a result. It paid \$5bn for Columbia Studios, an amount industry insiders deemed grossly inflated. The

men it chose to run the studio, Peter Guber and Jon Peters, were very good at spending money, but apparently not at many other aspects of their job.

Peters, who built his career in Hollywood as a hairdresser who'd dated Barbra Streisand, played the mogul for all he was worth. He hired a clutch of ex-wives and girlfriends as producers on six-figure salaries, persuaded the Sony chiefs to buy a fleet of private jets to fly actors and directors around the world, and built a luxurious ranch in the Colorado mountains expressly to entertain celebrities at weekends. When he was fired in 1993, it was without a single producing credit to his name.

Guber, meanwhile, ploughed the company into one expensive flop after another - Bruce Willis's misadventure Hudson Hawk, Steven Spielberg's Hook, and - worst of all - the costly Arnold Schwarzenegger flop The Last Action Hero. Sony finally stopped the rot in 1994, but was forced to write down a loss of \$3.2bn for the debacle.

The music division, at least, has developed acts who have gone from strength to strength, such as grunge group Pearl Jam, rap stars the Fugees and the phenomenally successful Fugees singer Lauryn Hill. Sony has also made a superstar of Celine Dion, and of Mariah Carey - who also happened to be the wife of Tommy Mottola, president of Sony Music.

Problems remain in both music and film (last year's Godzilla was another flop); but Sony recognises their importance as "software" - that is, something you can render in digital bits. The real profit lies in making "software", not hardware; and especially in being digital, not analogue.

Sony's digital future began in 1982 with the compact disc. It was the piece of consumer electronics which took something previously delivered in "analogue" form - as a continuous wave - and made it digital, sampled into a stream of bits to be reconstituted later. Today, every time you buy a CD, Sony gets a tiny fraction of the price. But the CD was just the start.

What next? Look at everything that presently happens in analogue form, imagine it in digital form, and - if you are Sony - see how you can interpose yourself. TV? To get your present TV to show the digital channels you need a set-top box. Interactive fridges connected to the Internet? Certainly: they are already on sale. "Web phones" able to download data from the Web and act like hand-held computers, but without crashing? Sony is readying one. And it is here that Sony hopes to overtake Microsoft. Controlling those gadgets entails software which can deal with a stream of digital "bits", analyse them and act accordingly. If you are a Web phone and you are sent a film clip, you should send it to the digital TV; if you receive a shopping list you should compare it with the fridge's contents.

Microsoft's problem is that none of its operating systems are designed to cope with those sorts of "real time" problems. PCs appear to sort data quickly but, in fact, data is dealt with in strict order; that which needs processing urgently - such as the next frame of a film - has to wait for the central chip's attention behind less important matters, such as whether you have pressed a key. Even Windows CE, the "cut down" version of Windows for hand-held devices, is not designed for real-time operation. By contrast, Sony's AperiOS operating system is designed to deal with real-time problems. So why not replace Microsoft? After all, who - apart from Bill Gates - says that you need to have a PC in the midst of all the data swapping going on?

Why can't your digital camcorder just connect to your Web phone, to upload a new film to your Web page?

Sealey says that that is the intention; but it is not one which Mr Idei is going to stand up and announce. Publicly, Sony and Microsoft are cooperating on many projects for the digital future, such as Web phones. Privately, Sony wants it all.

Sealey calls Sony's interplay with Microsoft "fearful and respectful and wary". But bear in mind that Sony has often been late into a sector - such as games consoles, or PCs - and then dominated it, with the PlayStation and the Vaio laptop. It could happen as the world goes digital. In that case, yet another chunk of America's West Coast (this time, the Redmond offices of Microsoft) would have to testify to the power of Sony's ideas. As the advertisements said when the games console was first released, "Never underestimate the power of PlayStation". Replace the last word with "digital integration" and you might not have such a snappy phrase - but you could be seeing a future that has Sony written all over it.

NB; Headline full of graphics replacing words, hence its nonsensical nature.

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