

**EXPANDING THE**

**SONY**

**EXPERIENCE**

**THE YEAR OF RED**



# THE YEAR OF RED

## EXPANDING THE SONY EXPERIENCE

Proposed To:

Kazuo Hirai, CEO  
Sony Corporation

Prepared by

**ONE Consulting**

[Student Names  
Redacted, though  
work is shared  
with their  
permission]

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**ONE Consulting**

Mr. Hirai,

## EXPANDING THE SONY EXPERIENCE

ONE Consulting is excited to work with Sony Corporation to help conquer the Chinese market in 2014 and beyond. Sony can beat its competitors and win the console war by implementing our “Year of Red” campaign. Because the 14-year console ban in China recently ended, the Chinese market is highly sought after, with great potential for success. With the slogan “Be Moved,” Sony prides itself on impacting consumers' lives through innovative products like the Playstation 4. With over 517 million gamers in China, Sony has the ability to captivate an entirely new audience.

Because China is a brand new market for gaming companies, Sony should be first to excite consumers with its marketing. By using the pre-orders through strategic retail partners, Sony will edge out its competitors. With high potential sales, Sony is capable of raising its revenues by capturing a new consumer base. We recommend the “Year of Red” campaign to guarantee Sony’s leadership position in the gaming market.

ONE Consulting would like to thank Professor James B. Storey of the Kelley School for his guidance throughout the development of our proposal.

For questions about our proposal, please contact us by email at [REDACTED] or by telephone at [REDACTED]. We would be happy to help with the implementation of the “Year of Red” campaign. We are confident our campaign can get Sony where it needs to be in China and beyond.

Sincerely,

ONE Consulting



## **EXECUTIVE SUMMARY**

### **Purpose of Report**

The purpose of this report is to provide Sony with a detailed plan to enter and capture the Chinese Market. Sony has remained true to its slogan “Be Moved” because it has captivated gamers with its games and technology. Playstation is the system of choice for gamers in many countries and will thrive in China using ONE Consulting’s plan.

### **The Chinese Market**

China is the Wild West when it comes to intellectual property protection. Piracy runs rampant throughout the economy, and there is little government intervention. The "grey market" in Mainland China owns the console industry, but if Sony uses competitive pricing it can undercut these competitors. Before entering China, Sony will face strict government regulations. China has created three entities to monitor the game market: GAPP, MIIT, and the Ministry of Commerce. These entities monitor everything from chat rooms to online currencies. Businesses must take precautions before offering a product in the Chinese market. To help with these problems, we propose Sony provide incentives for consumers to purchase original games. Partnering with a local gaming company to produce a Chinese role-playing game (RPG) will also help avoid government censorship.

### **The Year of Red: Expanding the Sony Experience**

ONE Consulting has created a multi-platform marketing plan. This plan includes promoting a regular and deluxe PS4 package with a pre-order option through television commercials, print ads, and in-store experiences. One Consulting offers a strategic plan for the Chinese market that can be used in both the short and long term to ensure that Sony wins the console war.

### **Implementation**

- Place pre-order forms on TMall
- Produce correct number of bundle packages (regular and deluxe)
- Advertise bundle packages via print ads and television
- Set up in-store experience in Sony stores to promote PS4 and allow customers to experience the product
- Partner with local Chinese gaming firms to produce RPG games for China
- Depending on popularity and success, export RPG games to global market
- Depending on success, implement pre-orders, print ads, television commercials, and in-store experience to promote future products in the long run (i.e Project Morpheus)

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**THE YEAR OF RED**



**BACKGROUND**



## SONY'S CURRENT SUCCESS

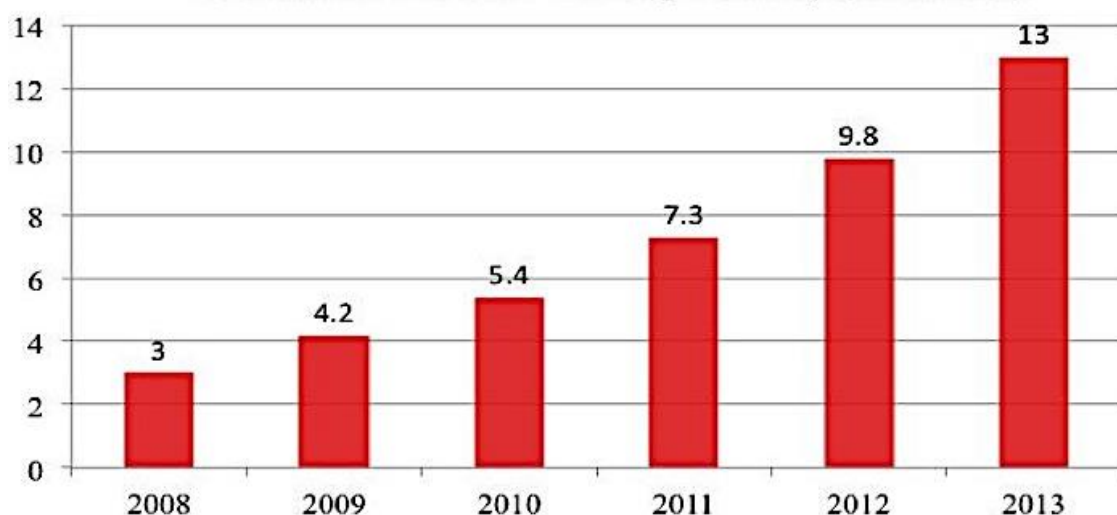
According to the National Purchase Diary's (NPD) numbers in April 2014, the Playstation 4 outsold the Xbox One and is winning the console market in the U.S. (Peckham). When the PS4 launched in the US, it sold one million units in just 24 hours (Williams). Sony's current Playstation sales figure worldwide is 8.1 million as of May 31, 2014 (VGchartz). Almost half is from the USA, with a whopping 3.455 million units sold (VGchartz). Compared to the Xbox One, the PS4 is selling almost twice as much worldwide. As for the US market, the PS4 is selling 20% more than the Xbox One. In Europe, the PS4 is currently beating the Xbox One in the console war at a 7:1 ratio. During a week in March, Sony managed to sell 180,000 PS4s, whereas only 25,000 Xbox One were Sold (Plafke).

## WHAT TO DO NEXT

ONE Consulting has developed a plan for Sony to enter the Chinese market.

## THE CHINESE MARKET

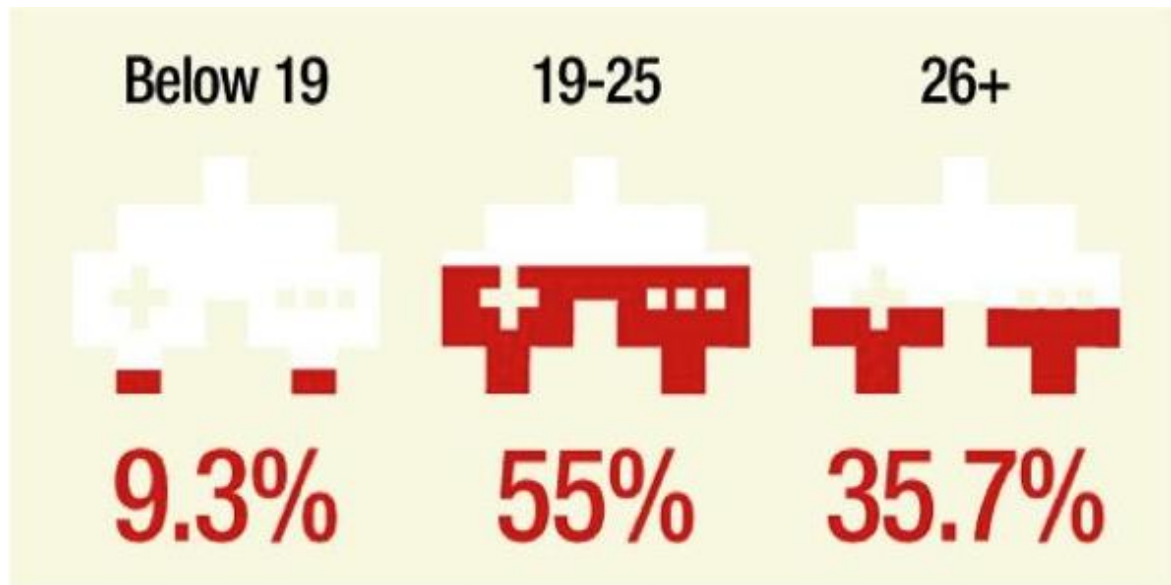
The Chinese gaming market is massive. Now that the gaming console ban has been lifted, gaming companies are free to enter the Chinese market. The country's trade group tracked the gaming industry revenues for 2013 at 83.17 billion Yuan (\$13.75 billion USD), which was up 38 percent from last year (Sinclair). The number of Chinese gamers is approximately 517 million in 2014, and 147 million are core gamers (Haywald).



**THE YEAR OF RED**

## TARGET DEMOGRAPHIC

Our target demographic is gamers. Of all gamers in China, 55% are between 19 and 25 years old, and 35.7% of them are over 26 (Millward). The average age of a gamer in China is lower than the average age of gamers worldwide (Campbell 2). We plan to target gamers 19 years and older because they make up more than 90% of the Chinese market.



<http://www.techinasia.com/china-online-gaming-industry-2013-2014-infographic>

## PREVIOUS EXPERIENCE IN THE CHINESE MARKET

In late 2002, Sony introduced the PS2 to the Chinese market and initially planned to sell the PS2 in five major cities (Jou). The PS2 is the best-selling console for Sony. It entered the Chinese market as a "multi-entertainment system" rather than a console to escape government restrictions. However, Sony subsequently faced intense oversight selling and advertising games. The release date was postponed until 2004 (Jou). During these two years, Sony needed to massage government officials, as most games couldn't be published in China. At the end of 2004, the Chinese government allowed 10 games to be published, including Dynasty Warriors 3 and Dragon Ball Z. However, these games didn't meet the quality expectations of gamers. Ultimately, pressure from local governments forced Sony to stop selling the PS2 in China (Jou). This experience helped Sony learn about the Chinese gaming market from multiple perspectives, especially how to deal with the Chinese government. The PS4's launch will be different.



# POTENTIAL CONCERNS AND SOLUTIONS



## **GOVERNMENTAL REGULATIONS AFFECT THE CHINESE MARKET**

China has the world's most extensive censorship system, restricting access to any content it views as "against public morality and the nation's fine cultural traditions" (China 1). Many games have been banned for portraying Tibet as an independent country or for excessive violence. There are obstacles Sony must deal with before entering the Chinese market, such as the General Administration of Press and Publication's (GAPP) game approval procedures, the Ministry of Culture's regulations, and the Ministry of Industry and Information Technology's (MIIT) requirements (Pilarowski 2).

GAPP requires domestic firms to fill out an application for the game the firm wishes to sell. The application requires pictures of the main characters, major scenes, copies of the entire script, and licensing documents. The game is then reviewed and must not:

- Go against the ideals of the Constitution
- Be obscene, pornographic, or promote gambling or violence
- Threaten the unity of the nation
- Go against national customs
- Slander others
- Represent evil superstitions, such as the nian monster or "year" monster who brings bad fortune to Chinese homes
- Undermine social stability
- Go against Chinese laws

GAPP will respond within 20 days after filing, issuing an acceptance or denial of the game.

GAPP also requires games to follow anti-fatigue standards. These standards protect people from game addiction by requiring gamemakers to forgo rewarding players for extended play times. Anything over three hours a day is considered unhealthy in China. For online games, the laws are stricter, requiring personal identification and forced play-time caps. These rules are even stricter when it comes to children's games.

These procedures are tough on foreign companies because the Chinese game market is an infant industry (Jain 1). National discrimination has pressured firms to create Chinese subsidiaries or partnerships, seeking the protection offered to Chinese business; this is one reason why Sony Partnered with Shanghai Oriental Pearl Group.

If Sony wants to allow online purchases of its software, it will have to file an application with the Ministry of Culture. The Cultural Market division oversees the use of virtual currency. Playstation uses a form of virtual currency on the online store in some countries, so it must file unless it decides to use yuan on the Playstation Network in China.

The MIIT requirements are different from GAPP and the Ministry of Culture because jurisdiction is regional rather than statewide. Sony will file an application in a district and, if it is approved, Playstation can send notice of approval to every other district in which it wishes to operate an internet service. MIIT has strict rules regarding Internet chat rooms and streaming services to protect children's innocence (Pilarowski 3). Playstation has to increase security and parental monitoring, as in Nintendo's Wii, to satisfy this requirement.

Figuring out all the regulations can be a large task. Failure to follow a law or file for a proper license could result in huge losses for Sony. To help companies enter the Chinese market, Niko Partners, a consulting firm that specializes in the Chinese gaming market, issued a report. The firm covers all of the regulations and laws regarding video games. The managing partner of Niko, Lisa Cosmas, states, "The goal of the report is to provide companies in the video game industry with important information on China that could save hundreds of thousands of dollars, months of time, and the headaches that come from not having the proper information to successfully navigate a new market." Sony should consider retaining Niko to aid its market entry.

Though these laws seem strict, ABC News reports that "Industry insiders speculate that the prohibition may be relaxed if domestic companies develop a marketable game console." If Playstation works with the Chinese government, firms like Niko, and the Shanghai Oriental Pearl Group, it will successfully enter this market (Narayan 1).

Nintendo seems most ready to enter this market with hardware and software that will follow the regulations and laws of China. This is likely because its games are family friendly and less realistic; it is hard to imagine a game like Grand Theft Auto 5 entering the Chinese Market.

Xbox has taken a similar strategy to Sony because it has also partnered with a Chinese firm and created BesTV. Xbox claims it will be the first system to launch in China and has taken preliminary steps to follow the various rules and regulations in the country (Mehdi 1). Xbox hasn't given any specific details but has showed its determination to entering this market. Sony must act quickly to compete.

## A LARGE GREY MARKET IN CHINA

Currently, the importation of video game consoles, including the PS4, Xbox One and Wii U, is still prohibited. However, “foreign consoles such as the Xbox One can still be found on grey market sites, such as Taobao for around \$677 (4,099 Chinese yuan) and the Playstation 4 for around \$545 (3299 yuan)” (Villapaz).

The grey market in China has existed for a long time and most game consoles are smuggled out of Hong Kong. The official price of the PS4 in Hong Kong is HK \$3,380 (\$436), slightly higher than the \$399 in the US. But in grey market, some sellers post the price as high as \$650 (C. Custer). When Sony officially releases the PS4 in China, it should be careful about price-point. During the past 14 years, smuggling consoles from HK has become a stable system, and the console supply in the HK market is adjusted to fulfill the demand in Mainland China. Chinese gamers can also register for the PlayStation Plus service on the HK website. The MSRB price in China should be a higher than in Hong Kong and absolutely lower than the price in the grey market. The revenue earned by importers implies that the demand in Mainland China is large, bringing huge profits for Sony. ONE Consulting suggests setting the PS4 price at 3,188 yuan (about \$513). According to a survey conducted by ONE Consulting, Chinese respondents aging from 19 to 25 typically accept a price around 3,000 yuan.

## PIRACY PROBLEMS

The largest problem with the grey market is piracy. Most of the video game consoles sold in the grey market are modified or “cracked.” Using these consoles, gamers can play pirated games for less than 10 yuan (\$1.65), compared with \$60 for the latest licensed titles (CNBC). Since the PS4 hasn’t been perfectly “cracked,” many grey market gamers are waiting. Sony still has time to take action to protect its intellectual property, and we have two suggestions.



### I. IMPROVING HARDWARE

When facing the choice between the PS4 and the Xbox One, Chinese gamers will first ask themselves with which one is easier to crack, then think about which one can play the pirated games that they already own (365jia). However, perfect hacking is not easy. The PS3 took more than three years to crack. This was much longer than the Xbox 360, which only took several months. Sony has already done better than



Microsoft in protecting its intellectual property. It is estimated that PS4 cannot be perfectly cracked within three years. To fight the piracy problem in China, Sony needs to constantly improve its hardware in the long run. Sony is working on technology to detect pirated software by measuring load times against the official software, and if the software does not fall within that range, it cannot be used. Hopefully, this technology will find its way onto Playstation hardware in the future (Brian Ashcraft). Also, Sony can warn customers that it will disable any console that has illegal games detected on it. The console will be bricked via firmware update. However, PS4 would eventually be cracked in the future. Once that happens, Sony should allow customers to play pirated games so that it can earn profit by selling more consoles. Then, Sony should put more effort into developing the next generation of Playstation.

## **II. ENCOURAGING CUSTOMERS TO BUY LICENSED SOFTWARE**

First, Sony can offer bundles with a lower price than other markets. According to Sina's technology news portal, insiders claim that the first batch of games for the Xbox One in China entered the beta stage of testing and will include some domestically produced titles. Prices for the games will range from 60-100 yuan (US\$9.60-\$16.00), which is significantly less than its US counterparts (US\$36-\$60) (WantChinaTimes). Because the ban of violent games still exists, Sony's most popular FPS games might not pass censorship in China. Sony can first choose some old, less violent games and remake them into Chinese versions. ONE Consulting recommends to set price around 100 yuan. It could test the reaction of customers. If they accept the price, Sony can increase the price for new games. Also, based on the reaction of Chinese gamers, Sony needs to decide whether to simply redo more games or cooperate with domestic third party game developers to develop new games. Since Sony is lacking in funds, it should invest carefully on games. Also, Sony could add a region lock that only allows those cheap games to be played in China.

Second, Sony should take advantage of its online service for users. According to Sony's Corporate Strategy Meeting FY2014, "approximately half of PS4 users have registered for the Playstation Plus subscription service, and the number of active users registered to Playstation Network and Sony Entertainment Network already exceeds 52 million (Sony). They are good platforms to attract Chinese gamers. Sony could offer a three-month trial of Playstation Plus subscription service to each customer who buys a console. Apart from coupons and free game demo trials to encourage Chinese gamers to continue subscribing the service, we also want to introduce a point system. Gamers can earn points through discussions, sharing experiences, and buying licensed titles. They could also accumulate points through special events in the real world, like new game releases and advertising campaigns in stores. Gamers can use those points to earn a discount when buying games and get

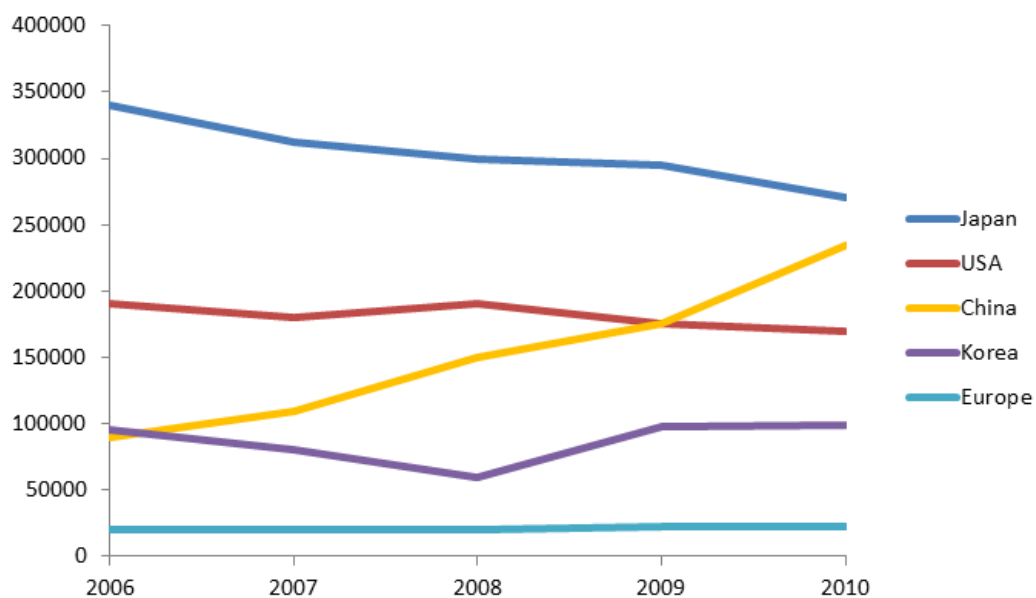


free peripheral products. When Sony's Playstation Now game streaming service comes to China, it could give users a discount on PS3 games if they have purchased legal copies of PS4 games.

### III. ENFORCING IP LAW BY GOVERNMENT

Piracy problems in China may not be completely solvable in the short term, but respect for IP is actually growing, especially among well-educated people. During the first few years after Apple entered China, almost every IOS device was cracked, so that users could get any app for free. However, recently an increasing number of people are willing to pay for the apps. As China's economy becomes more sophisticated and specialized, the number of domestically produced IP will increase, and Chinese people's IP awareness will also grow.

The number of domestic patent applications by country; 2006-2010



Source: Thomson Reuters, 2012

# ***THE SONY EXPERIENCE***



## **THE SONY EXPERIENCE**

When Sony sells a product, it also sells an experience. When a consumer purchases a PS4, he isn't just receiving the console. He is receiving all the competition, loss, adventure, and happiness that comes along with playing games. By taking its business to China, Sony will provide its one-of-a-kind gaming experience to a group of consumers who haven't had the privilege. For Sony to successfully market in China, it must tap into the joy of console gaming in its adverts.

## **GET TO KNOW THE EXPERIENCE**

### **1. THE PRE-ORDER STRATEGY**

A pre-order strategy is often used for electronic devices and has been highly successful, especially in China. In 2013, Apple China received a record-breaking 1.4 million pre-orders for the new iPhone 5s during last quarter (Phoenix Finance). Prior to the release of the iPhone 5s, China had been one of the last countries where Apple launched its products. Even though the iPhone had not been officially introduced there, Chinese consumers could still get information about the product through various media channels. Postponing the release date increased people's curiosity and generated more demand. Once the iPhone 5s was announced to release with rest of the world for the first time in history, Apple took advantage of Chinese consumers' curiosity and desire, receiving massive numbers of pre-orders.

ONE Consulting suggests that Sony uses pre-orders because the company faces a similar situation today that Apple faced in 2013. Since the ban on video games in 2000, Chinese gamers were only able to purchase game consoles illegally through the grey market (Tassi). Compared to many other countries, the official introduction of consoles to the market is late. Surrounded by gaming news but lacking the abilities to purchase consoles through legal platforms, Chinese gamers are excited about consoles' official entry to the Chinese market that contains over 40 million potential consumers according to Tencent Games (Tencent Games). Sony needs to expose its product to these consumers as soon as possible to increase potential sales. More importantly, a pre-order strategy can effectively respond to the special characteristics of the Chinese gaming market.

An important advantage of the pre-order strategy is that it can save Sony money. According research conducted by students from the University of Connecticut and Washington University on the effect of a pre-order strategy, pre-orders allow the seller to obtain advance demand information for inventory planning and price-discriminate the customers (Li and Zhang). In other words, by accepting pre-orders for the Playstation 4, Sony can estimate the number of units for the first production batch in China to reduce potential sunk costs. The company will then have a broader

idea of the Playstation 4's popularity within the Chinese market. Because China is such an immature market, the number of units that can be sold is "an unknown". While Sony's current financial situation is not desirable, cost saving and tested business strategies are essential to the company.

Other than reducing costs, pre-orders allow Sony to set the price relatively higher, to price-discriminate customers. People who pre-order the product are more likely to be video game lovers and big fans of Playstation, so they care less about the price. ONE Consulting conducted an online survey with 52 Chinese people aging from 18-25, the age range that composes the majority of Chinese gamers (Millward). About 23% of Chinese respondents self-identified as video gamers and Sony product fans, suggesting that they would purchase the Playstation 4 in China no matter the price point. Playstation fans and hardcore gamers will become the major potential consumers during Playstation 4's pre-ordering phase.

## II. PRODUCT MIX

In terms of the product mix to promote through pre-orders, ONE Consulting suggests Sony have two skus, a regular and deluxe bundle. With the regular edition, people will get a console, a controller, an HDMI cable and a headset at the regular price (3188 RMB or 513 US Dollar approximately) plus a free 3-month Playstation Plus trail that usually costs \$17.99 per subscription. As for the deluxe version, buyers will receive everything in the regular sku plus a \$50-valued game exchange certificate and a limited edition controller called "China Concept". This deluxe sku will only be available during the pre-order phase which will help promote an exclusive status for consumers who purchased this package. The deluxe sku will be \$50 higher than the regular edition. The regular edition is designed to attract general consumers with no specific interest in Sony's gaming products. The deluxe edition is for big Sony fans who will purchase the console regardless of price point.



**THE YEAR OF RED**



Buyers can exchange the \$50 credit for any video game on the Playstation Network for digital copies or in store for physical copies. As China is still a market with unknown factors for Sony, giving consumers the freedom to decide which games to redeem is much safer than trying to figure out the most popular game in the Chinese market. Sony can also receive information on Chinese consumers' game preferences by looking at the exchange records.

For the deluxe edition, the limited-designed game controller is the compelling selling point. By bundling the console with this controller, the demand for this product will drive incentive to purchase the whole bundle, and selling multiple products in one solution generates greater initial return on the costs of acquiring a customer (Neil). This strategy will work extremely well for the deluxe bundle because there's no other way for consumers to get this controller without pre-ordering. According to MarketingFact, limited edition products increase the excitement of consumers and further the connections they feel towards the products (MarketingFact). A similar strategy has been adopted by Blizzard and was successful: after pre-ordering Diablo 3: Reaper of Souls, buyers would get a limited in-game item, Wings of Valor, and an unlockable hero for Blizzard's upcoming game, Heroes of the Storm (Mejia). These bonus features that gamers could only receive through pre-orders helped Blizzard generate almost 2.7 million pre-orders in the first week of availability for Diablo's new expansion set (Elly). Showing special status, these limited items differentiate buyers from the general consumers. Based on Blizzard's success story, bundling the console with a limited-edition controller will be compelling to Playstation lovers.



### III. PRICING

Sony should consider pricing the Playstation 4 differently in China because of additional costs such as taxes, commissions, and logistics. According to the analysis done by Global Insight, the costs of the raw materials and manufacturing for a Playstation 4 are \$381, so Sony is only able to get an \$18 profit margin per unit sold while the list price in the U.S. is \$399 (IHS). ONE Consulting assumes that the production costs will be similar or lower after Sony enters the market because the costs of raw materials and labors will be cheaper in China. If Sony leaves itself with the same profit margin, the only incremental cost that's inflexible is the 17% value-



added tax levied by Chinese government. Theoretically, the selling price of Playstation 4 should be no lower than the price in the U.S. plus 17% tax, which is approximately \$467. However, Sony's distribution channels in China are not fully developed. Commissions paid to retailers and establishing a service network may generate significant add-in costs. Therefore, the actual price point should be higher than the theoretical price. With all these factors considered, ONE Consulting suggests Sony set the price of the Playstation 4 around 3188 RMB (about \$513).

The regular bundle includes a free three-month Playstation Plus trial. In order to provide this online service, Sony needs to establish a number of servers in China, which will cost millions of dollars. However, these costs will be sunk in the long run because Sony has to build this network if it wants to sustain its business in China. The costs of setting up the servers will not affect our decision for pricing the bundles. As for the costs of offering three months of Playstation Plus services, they should be significantly lower than the selling price of \$17.99. According to Forbes, Playstation Plus helps Sony generate \$1.2 billion annually by offering discounts that increase buyers' incentives of purchasing more games and advertising new games (Tassi). By getting a three-month free trial, consumers will likely have the incentive to continue subscribing, which will generate more profits for Sony. By setting the regular bundle at the console price (3188 RMB), Sony will potentially sacrifice some of its profits in the preliminary phase but will generate larger profits in the long run.

For the deluxe bundle, ONE Consulting suggests to set the price \$50 higher than the regular version. The incremental price covers the costs of the \$50 store credit that consumers can use to exchange for games. Because Sony already has the controllers manufactured, the only extra step is adding the design on them. Sony will know the exact number of controllers to print the design on due to the pre-ordering information, so the costs will be within Sony's control.

#### **IV. SALES PLATFORM**

As for sales platform, ONE Consulting suggests Sony choose online retailers as major channels. Among 173.4 million Chinese gamers, 169.8 million (97.9%) of them own computers and 129.2 million (73%) gamers play massive-multiplayer online games (Newzoo). The statistics suggests that the majority of Chinese gamers are active Internet users. Setting up stores online will allow Sony to expose its products to a large number of potential consumers. In addition, selling products through physical stores requires longer time and larger costs for cooperation with physical retailers and store organization. Although using online platforms requires the company to pay for logistics, the average price charged by third-party logistics companies is only 10 RMB, or 1.6 US dollar, per shipment (Kuqin). While cost saving is a big concern, Sony also needs to react fast in the Chinese market to stand in a better position against

Microsoft. Therefore, using online retailers is the optimal choice for the pre-ordering phase.

In fact, as of June 3, 2014, Playstation 4's biggest rival, Xbox One, has already shown up on one of the largest Chinese e-commerce platforms, Jingdong Mall, accepting pre-orders (NetEase Games). The campaign is called "Bounty for Finding the Loyal Fans," and it will last for 17 days. However, the website doesn't include any information about the console's price or special features, and the slogan of the campaign narrows the target demographics. By introducing two types of bundle options with clear descriptions, Sony can target much wider groups. Choosing a better platform is the only decision that Sony needs to make to win the competition at its current phase, and the retailer that ONE Consulting suggest is TMall.

While Jingdong Mall acts as a retailer that purchases products from merchants and makes profits by charging commissions for each product sold, TMall offers a platform for merchants to open self-managed stores on its website. As the parent company of TMall,



Alibaba Group is currently the largest e-commerce company in China. In 2012, the combined total volume of merchandise handled by TMall and Taobao, another subsidiary of Alibaba, surpassed 1 trillion RMB, or about \$160 billion, which was much larger than Amazon's \$86 billion in total volume (Osawa). On this well-known e-shopping platform, Sony already has an official store with 583,749 followers while Microsoft only has 47,798. Because the store is fully-developed and on average receives 30% more positive feedback than all other stores on products, services, and logistics, ONE Consulting suggests Sony continue to use this store to sell the Playstation 4 during the preliminary phase to save time and costs.

## **SEE THE EXPERIENCE**

### **I. SONY'S CURRENT MARKETING**

Over the years, Sony has captivated gamers through its marketing campaigns and advertisements. Currently, Sony uses multiple media platforms to deliver its marketing campaigns such as television, Internet videos (YouTube), and Twitter. Sony recently released a video advertisement inspired by a UK gamer, called "For the Players Since 1995." According to the Huffington Post UK, the video "celebrated fans' contributions to the Twitter topic #PlayStationMemories." The video clip, which used fans' favorite memories to create a strong emotional connection, currently has over three million views. It was effective not only because it used consumers' ideas but because it was tailored for a specific audience, UK fans. Another popular video

clip on YouTube was uploaded by Sony's Playstation account. The 1:42 clip with the title "Playstation 4" currently has over 31 million views and contains comments such as, "Just picked up my PS4, I'm loving it" and "One year later 5.3 million units worldwide." The company's detailed advertisement highlighting new features and advancements of the PS4 was a smart strategy to peak the interests of core gamers.

## **II. COMPETITIVE ADVANTAGE**

Sony has an edge over its competitors because of its marketing strategies. In a recent article, Adnan Riaz claims, "They are successful in grabbing the attention of people by focusing on their audience as a whole and specifically connecting with them as gamers." Sony's Playstation brands itself as a game console first, so all of its marketing campaigns focus on intense gaming, which has proven quite successful for the company. For Sony to win the console war in 2014 and each year after, it needs to continue to use marketing strategies that relate to its consumers as gamers to get them excited about its products. For example, once Project Morpheus is ready for the market, Sony can develop an ad to draw in consumers and highlight the innovative technology that allows consumers to enter a new world.

## **III. IMPROVEMENTS**

Sony can improve its marketing by focusing on making its advertisements noncontroversial and tailoring them to fit the Chinese market. Sony has had a few marketing mishaps, including the advertisement in Los Angeles for the white PSP. Sony needs to use caution with future advertisements to not offend potential customers. That said, in ONE Consulting's plan to enter the Chinese market, Sony should highlight games that will be allowed in China and create ads for a more conservative audience, since the console ban was just lifted.

## **IV. MARKETING IN CHINA**

Although many think that advertising in China is limited due to strict censorship, there are a few outlets Sony can use to market its product in China. As opposed to the U.S. market, Internet advertisements are not effective in China because of the strict government bans on the Internet. Sony uses YouTube in The United States to connect with its gaming demographic through detailed video clips, but this isn't an option in China because of the government ban on the site. Sony can use print ads in stores that receive a lot of foot traffic, as well as television advertisements.

According to China's Payment Services (CPS), television is currently the largest advertising agent in China. Many popular games like first person shooters are used in advertisements in the United States, but they won't be allowed in China. Sony will have to highlight adventure, racing, and RPG games in its commercials to attract gamers in China. Sony can also promote the PS4 in malls and stores such as Shanghai

Super Brand Mall and The Malls at the Oriental Plaza because they experience high volumes of consumers.

The details within the television commercials and print advertisements should be carefully planned because advertising in China must follow cultural standards. After careful consideration, ONE Consulting has come up with a plan for commercials that will run and print ads that will be placed in shopping centers in Shanghai and Beijing.

## **V. TELEVISION ADVERTISEMENTS**

The television commercials will feature gamers playing diverse games, so Sony may showcase games that intrigue consumers. The gamers featured in the commercial will be over the age of 19 because this demographic has the largest percentage of PC game players. The games that will be featured in the commercial will be Gran Turismo, Drive Club, Infamous Second Son, and possibly a RPG game because these games are popular with the Playstation franchise. They also don't contain violence or other crude behavior that the government won't allow.



Choosing where to run these commercials was a complicated task. After looking at what channels have the highest ratings and offer shows that target our audience (millennials and older), we selected the Hunan channel. According to Metan Development Group, "Over the past 12 years, the company has grown rapidly, expanding its audience from 65 million to 880 million viewers." This specific channel provides Sony with an excellent opportunity to reach its target audience with shows such as "Divas Hit the Road" which according to GlobalTimes has over 59 million views and helped Hunan TV become China's second most-watched station. Many millennials and their parents watch this show. With this many viewers watching the station, Sony has the ability to advertise to a huge audience.

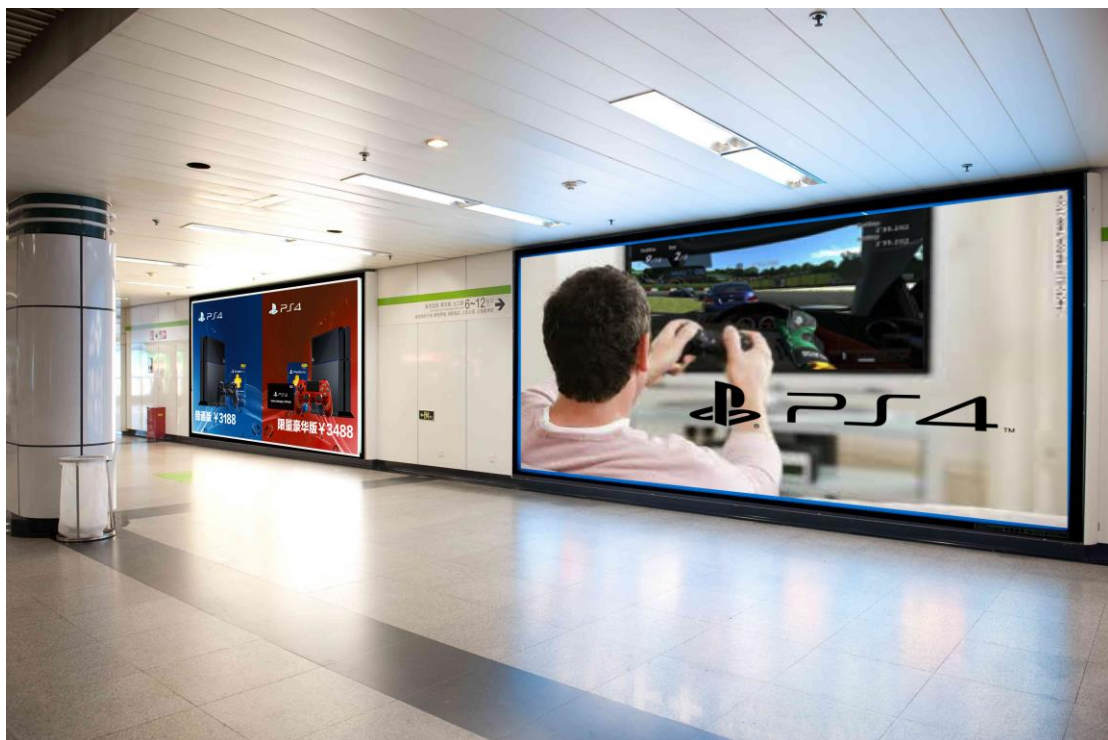


## VI. PRINT ADVERTISEMENTS

The print ads ONE Consulting plans to post in shopping centers and subway stations will be in two forms. Both print ads will be around the size of posters in the airport, which are roughly six feet tall and four feet wide. Print ads are a cheap way of getting the product out to the public and due to China's high population density these advertisements would have many of people viewing them.

The first print ad will be a split with the two skus. There will be a picture of the regular PS4 package and then a picture of the deluxe package. The print ad will have the price of the two different packages on it as well so consumers will know exactly what it will cost to purchase the console. The background colors will be blue and red to get the black console to "pop" on the advertisement and appeal to the public because the Chinese flag is red and Sony's color is blue.

The second print ad will essentially be a screenshot from the commercial we run. We plan to post these print ads in highly trafficked shopping centers in Shanghai and Beijing like the Shanghai Super Brand Mall and The Malls at the Oriental Plaza. These two shopping centers experience a high volume of consumer foot traffic, which allows our print ads to be seen by more than hundreds of thousands of people according to Tour Beijing. Another place we plan to post the print ads is in the subway because one ad can be seen by hundreds of thousands of people a single day. By getting print ads posted in these stores, we will have ads in centers where the PS4 could be sold. This would lead to more impulse purchases.





## **VII. IMPROVING SONY'S FINANCIAL SITUATION**

Sony is in financial trouble so marketing is a way to save money and gain revenue. Currently, Sony's advertising budget for a new console launch is over \$100 million (James). Sony can cut this down significantly in China due to cheaper advertising costs. Television has proven to be one of the most cost effective ways to advertise in China with a price of only \$9.86 per thousand exposures (Most). Sony can use these cheaper television ads to reach a larger number of potential consumers and cut down on its advertising costs.

Another way Sony can decrease its advertising expenditures is by limiting the number of advertisements it produces. If a consumer were to look at YouTube, Sony has many different advertisements to promote the same product. Sony can create one or two powerful advertisements to connect with consumers and save money by not producing as many different ads. By making advertisements more relatable to a large demographic, Sony can use one advertisement to connect with every consumer, like it did with the UK clip, instead of using multiple advertisements to connect with all the consumers.

Sony should try to cut its advertising expenditures by 25% for the campaign in China. This should be possible because there are fewer games to promote due to the strict bans, so Sony can highlight two or three games in their Chinese advertisements. By decreasing advertising costs by 25%, Sony is able to save money but still effectively promote its product.

## **EXPLORE THE EXPERIENCE**

### **I. RENOVATE SONY STORES IN CHINA**

Hands-on experience can determine whether or not a person will purchase a product. ONE Consulting believes Sony should renovate its flagship stores to highlight the PS4. The Apple stores that are built in China receive more traffic than the Manhattan Apple store. They also generate the most revenue amongst all the Apple stores around the world (NYTimes). We believe creating an exciting and memorable experience at Sony stores can help Sony win the console war.

Opening a brand new store from the ground up would require significant funds, this is why Sony should renovate the stores they already own. Unlike Apple, Sony has been falling behind in its revenue. The Playstation division is one of the most profitable divisions in Sony. In order to convince consumers to buy the PS4, Sony should focus on the Playstation brand in its stores.

Sony will need to renovate its stores so that they bring a unique experience to consumers like the Apple Stores do. Sony should let its customers know that they are



at a Sony store once they step in. Similar to Apple, Sony wants consumers to have a pleasant in-store experience that hopefully leads to a product purchase. Sony should design all its stores uniformly, so each customer has the same experience no matter which Sony store they walk into. We suggest Sony

to renovate it like the picture above. This Sony store is located in Hong Kong and has a simple and contemporary design that is memorable.

To highlight the PS4, Sony should dedicate a specific area in each store to showcase the product. For example, there is a Sony store located in Shanghai that is three stories tall and Sony could dedicate one floor to the PS4. These displays also allow Sony to show off its televisions and audio systems at the same time.

By renovating existing stores in China, Sony's consumers can have a hands-on experience with the console. Sony can also save costs because if Sony was to open an individual Playstation themed store, the rent alone would cost around 80,000 USD/month (soufun). In Shanghai the average renovating cost is about 48,000 USD, which will only be a one-time fee compared to a monthly fee of 80,000 USD.

This renovation will be ideal for Sony in the long run as well. Once Project Morpheus becomes available, physical experiences will be the key to sell it. This is because traditional advertisements don't provide the immersive experience the headset offers. In-store experiences allow consumers to enter the virtual gaming world, which gives Sony the opportunity to properly advertise the product.

## **II. COOPERATING WITH INTERNET CAFÉS**

Internet cafés provide computers for people to use and charge an hourly fee for their use. Most net bars are used for gaming. This can also provide a hands-on experience for consumers. Sony can partner with local Internet Cafes, offering the PS4 to people to play by the hour.

Internet cafés are popular in China because not everyone can afford a home PC. By offering PS4s at Internet cafés, we can attract approximately 163 million Internet Café users and increase the awareness of the PS4 (Kan). Putting the product in Internet

Cafés strategically targets gamers because most of the people at these cafés are there to play games. Sony wants people to have a hands-on experience with the console. The figure on the side shows a PS4 café in Turkey.



This would be a simple transition process for Internet cafés, because they would only need to replace the desktop box with a PS4 console. We will replace a section of the computers with the PS4 console and also provide sections where friends can come play multiplayer games.

Possible concerns will be the purchasing power of people in China. Recent studies have shown that the purchasing power of the middle class in China is increasing at a fast rate. 36% of the people who were categorized as middle class will transfer to upper middle class by 2022 (Mckinsey). That is around a 4.5% yearly growth in purchasing power amongst the middle class. As middle-class people gain purchasing power, they will be able to buy the PS4. Even if this prediction is an overestimate, PS4s are still cheaper than gaming PCs. There are also less micro transactions in PS4 games, so in the long run it's cheaper to play a PS4. Sony should partner with authorized cafés such as W.Y.W.K to reduce the potential risk of any bad publicity associated with gaming cafés.

## **ENHANCING THE EXPERIENCE**

### **I. GAME INDUSTRY**

Sony's game division remains a relatively bright spot, and the company reported a 14.3 percent increase for the fiscal year (Handrahan). There is no doubt that Sony should continue to develop its game division to bring more profits to the company. The gaming industry in China is different from the ones in the US and Japan. China has experienced a 14-year ban on game consoles. The main logic behind the console ban is to prevent teenagers from becoming addicted to games with violent and erotic content. Chinese officials cited worries over violent content and the potential for moral decay in explaining the ban (Riley). Besides, Chinese parents also worry that the content of games will negatively influence the development of their children. If Sony brings consoles to the Chinese market, the company should make adjustments to its games.



ONE Consulting suggests two main adjustments to tailor games to the Chinese consumers' tastes. First, Sony should promote games that emphasize Chinese traditional and historical backgrounds. Games like Dynasty Warriors and Romance of the Three Kingdoms are developed based

on the Chinese writer Luo Guanzhong's historical novel Records of Three Empires. This famous novel is one of the Four Great Classical Novels influencing generations of Chinese people in terms of intellectual thoughts and value orientation. These video games offer dynamic and knowledgeable content to gamers because they involve strategic and logistical challenges that emphasize skillful thinking and planning to achieve victory (Kaiser). Also, parents will be relieved when they see their children playing games based on the famous ancient stories they know. When Sony promotes these games, the company should advertise and emphasize the educational information and positive influence. By this adjustment, Sony can enter the Chinese market with a positive reputation and also establish credibility when introducing new games later in the market.

Our second suggestion is that Sony should cooperate with the excellent Taiwanese developer, Softstar Entertainment. Since consoles were banned in the past, Chinese gamers heavily relied on PC games. Role-playing video games (RPG) are popular among PC gamers, but in China's market, the existing games with ancient fiction and Kung Fu are also popular. They easily resonate with Chinese players

(MobyGames). Softstar Entertainment has developed many successful PC role-playing games in the Asian market; the Legend of Sword and Fairy is the most famous. It was released in China's market in 1995, and since then the game achieved widespread popularity. Even now, many players look forward to the series' sixth installment coming in 2015. Chinese Paladin 5, the previous version in the series, sold 1.2 million copies, breaking the sales record for Chinese games. Thus the game has "deeply affected a whole generation of Chinese, and established a particular Chinese style of story-telling and maze-running RPG" (Asian Pacific Arts).







Evidence of success in introducing these Chinese role-playing games (CRPG) is already clear and convincing. The traditional western RPG (WRPG) in the U.S and Japanese markets appears to be too violent and not suitable for Chinese consumers because the Chinese government still has strict rules about publishing video games (Ancientchinese.net). If Sony

cooperates with Softstar and develops video games based on this RPG series, it will evoke the nostalgic memory of Chinese gamers and drive them to buy the Playstation 4 bundle and related games. Besides, Softstar has already analyzed China's market and gained reputation from gamers since 1995; by cooperation with Softstar, Sony can save cost on research and development. This is a smart move since Sony is in financial difficulty, and avoiding unnecessary costs can ease Sony's stress.

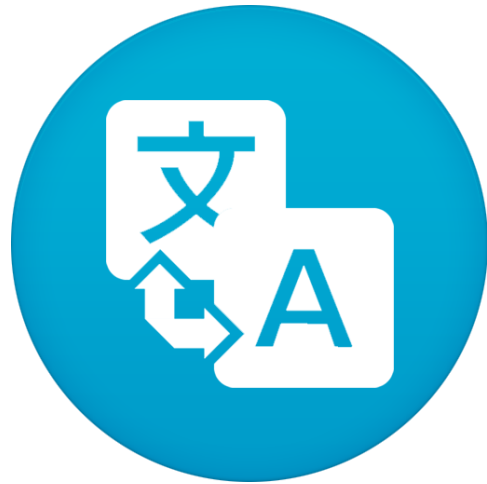
To develop Chinese Paladin video games and promote them, Sony will need to have contracts with local publishing companies in China. SoftStar has its subsidiary company in Beijing, called SoftStar Technology (Beijing). This company researched and developed the games from SoftStar Taiwan, and it's one of the most competent game developers. "The Father of Chinese Paladin", Xianzheng Yao, is also the President of SoftStar Beijing. He has devoted himself to promote Chinese Paladin in China since 2000 and the games have been extremely popular among Chinese gamers. There are seven versions of role-playing PC games in this series, and Chinese Paladin 6 is coming in the summer of 2015. The Paladin 5 had significant sales, which indicates the potential success when Softstar promotes the next generation. Thus, ONE Consulting suggests that Sony should make contracts with SoftStar Technology Beijing to develop Chinese Paladin 6 for video game consoles. Sony currently has a partnership with Shanghai Oriental Pearl Group. This partnership will bring benefits because SOPG already stated it will strongly support the development of local video games and help promote them globally (OPG.CN). By cooperating with SoftStar, Sony can improve its reputation with the government because the partnership will not only benefit Sony but it will also benefit local game developers. If the launch of the console version of Chinese Paladin 6 is successful, Sony can promote the game on a global level.

## **II. LANGUAGE SETTINGS AND OTHER AVAILABLE SERVICES**

To become the first console of choice in China, the PS4 should use Chinese as the system language. The PS4 is well developed in Hong Kong, and gamers there use the



traditional Chinese language, but 517 million gamers in Mainland China are now waiting for a complete system that uses the simplified Chinese language (GameSpot). During the ban, Chinese gamers could only buy Japanese or Hong Kong versions of the PS4. Language issues with these grey market goods exist. Reviews from the Playstation Forum reveal that when Chinese gamers are playing Battlefield 4, the language appears as Spanish instead of Chinese. The PS4 now has 21 foreign languages, and it also provides simplified Chinese characters (Us.Playstation.com). However, it is inconvenient to use imported systems; Chinese gamers are eager to have perfect consoles and games ready for them. It's crucial to update the language services to satisfy Chinese gamers' needs. Thus, Sony should continue to develop a Chinese input and system language and tailor the PS4 to the Chinese market.



Sony should improve PlayStation's software and services because these features attract Chinese gamers and fulfill their needs. ONE Consulting suggests adjustments to software and language setting updates to help Sony tailor the PS4 to the Chinese market. By promoting a localized and complete gaming experience to gamers, Sony can win the console war and gain more profits from its gaming division.

# PROFIT ANALYSIS



## PROFIT ANALYSIS

ONE Consulting recommends Sony set the pre-order quantity goal of the Playstation 4 bundles at 100,000 units. After Sony launched the Playstation 4 in North America, over 1 million units were sold within 24 hours. We have two prices for regular and deluxe bundles, ¥3188 and ¥3488 respectively. For easier a calculation and a clearer statement, we assume the average of the two prices, 3338 yuan, as the price per console. The following will explain the projected costs involved.

Costs:

- Manufacturing cost: \$381 = ¥ 2376
- A report from analysis firm IHS reveals Sony's PS4 costs \$381 to build
- 2% Sales commission to TMall per console sold
- $¥3338 \times 2\%$
- Freight: the average shipping cost in T-Mall is 10 yuan
- Consumer Tax:  $17\% \times ¥2376 = ¥404$
- Commercial advertisements: ¥ 40,000 per second advertisement per week
- Contracts with Two TV shows
- A 30-second Ad =  $30 \times ¥ 40,000 = 1,200,000$
- Advertising for 10 weeks
- Total commercial ads cost =  $¥1,200,000 \times 2 \text{ TV shows} \times 10 \text{ weeks} = ¥13920000$
- Printed Ads: ¥ 15,000,000 in all Subways and Shopping Malls
- Refurnishing Sony's Flagship Stores:  $\$48000 \times 8 \text{ stores} = ¥288,000$

<b>Projected Revenue</b> (money currency in RMB)	
Units of Consoles Sold by Pre-orders	100,000
Units of Consoles Sold in stores	
Price per console	3338
<b>Revenue from sales</b>	<b><u>333,800,000</u></b>
<b>Projected Costs</b> (money currency in RMB)	
Manufacturing Cost (per console)	2376
Sales commission to T-Mall (per unit)	66.76
Freight (per shipment)	10
Consumer tax	404
Total VC per unit	2,857
<b>Total Variable Costs</b>	<b><u>285,668,000</u></b>
Commercial Advertisements	24,000,000
Print Ads	15,000,000
<b>Total Fixed Costs</b>	<b><u>39,000,000</u></b>
Refurnishing Sony's Flagship Stores	2,304,000
<b>Total Costs</b>	<b><u>326,972,000</u></b>
<b>Projected Profit</b>	<b><u>6,828,000</u></b>
<b>Profit per console</b>	<b><u>¥68.28</u></b> <b><u>(\$10.95)</u></b>

With our marketing campaign, Sony can earn projected profit about \$10 per console sold. This is just the short-term view and the sales quantity for in store will be more than 100,000 units because more hardcore and casual gamers can have the opportunity to get the consoles. In the long term, Sony can save costs on the commercial and print ads because PS4 will be popular among consumers then. So, the projected profit per console will increase as the sales volume increases



## **Appendices**

### **Appendix A: Pre-SWOT Analysis of Sony**

#### **Strengths**

- Powerful gaming system
- Unique Intellectual Property
- Experience in Chinese Market

#### **Weaknesses**

- Lack of entertainment function
- Major game franchises too violent and erotic for China

#### **Opportunities**

- Project Morpheus can be future unique selling point for Sony
- Recently lifted Chinese console ban allows Sony to expand to China

#### **Threats**

- More Chinese gamers play PC games
- Government censorship

## **Appendix B: Post-SWOT Analysis of Sony**

### **Strengths**

- Larger consumer base
- Understand market size with pre-orders
- Predict production costs with pre-order

### **Weaknesses**

- Still lack entertainment function
- Have to modify games to appease Chinese government

### **Opportunities**

- Local game development
- Depending on popularity, Sony can export local games to global market

### **Threats**

- Competition from Microsoft and Nintendo
- Piracy
- Grey Market

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