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Sony to slash suppliers as CEO's mettle tested

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FILE - In this file photo taken Friday, Feb. 27, 2009, Sony Corporation's Chairman and Chief Executive Howard Stringer speaks at a press conference at the company's head office in Tokyo. Sony Corp. said Thursday, May 21, 2009, it will halve the number of parts suppliers to slash costs under a turnaround plan that's testing the mettle of Chief Executive Howard Stringer. (AP Photo/Junji Kurokawa, File)

(AP) -- Sony Corp. said it will halve the number of parts suppliers to slash costs under a turnaround plan that's testing the mettle of Chief Executive Howard Stringer.

The Japanese electronics and entertainment company plans to cut purchasing costs by 500 billion yen ($5.3 billion), or 20 percent of the 2.5 trillion yen spent during the fiscal year ended March, company spokeswoman Mami Imada said Thursday.

Sony - whose businesses span video games, camcorders and flat-panel TVs as well as movies and music - has been restructuring under Stringer, a Welsh-born American who became the first foreigner to head Sony in 2005.

But analysts say his true test starts now - after he took on the additional role of president in February to speed up efforts to reshape Sony. At that time, he announced a new team of four Japanese executives under him, representing the various businesses.

Sony sank to its first annual net loss in 14 years for the fiscal year ended March, racking up 98.9 billion yen of red ink, battered by sliding global demand, a strong yen and declining gadget prices. It is expecting an even bigger loss this year.

Koya Tabata, analyst with Credit Suisse in Tokyo, said Stringer has perhaps another year and a half to turn things around before his position becomes untenable.

Sony needs to pursue low-end, high volume business and improve management of inventories to boost earnings from electronics as well as expand its distribution network to improve profit from games, he said.

"However, the company has yet to present a clear strategy," Tabata said.

The streamlining of parts makers is the latest step in Stringer's drive, according to Sony.

Sony will reduce the number of its parts makers from about 2,500 now to about 1,200 next year. That message was relayed to suppliers this week.

One of Stringer's pet themes is stressing how the various divisions of

Sony need to work together. He has said the units often don't communicate well with each other, hinting that they even tended to be territorial.

In the past, Sony's units have each worked out contracts with different suppliers.

Now, Sony will centralize that to negotiate cheaper prices by boosting the amount of business it does with each supplier, while reducing the number of suppliers, said Imada.

The drop in prices in electronics products has also hurt Sony.

"The prices of digital home appliances have been declining by 15 percent to 20 percent every year lately. Unless we cut costs, we cannot hope to survive the price competition," Imada said.

Last week, Stringer brought on board George Bailey from IBM as senior vice president in a new position called "chief transformation officer," to oversee Sony's network products, content and services.

"We are fundamentally transforming Sony into a more innovative, integrated and agile global company," Stringer said in a statement.

Bailey brings his experience from leading changes at IBM, including setting up a profitable industry consulting practice there, according to Sony. Before that, Bailey was at PriceWaterhouseCoopers for nearly a decade.

The move to reduce suppliers comes on top of job reductions and other cost cuts.

Sony has said it is on track with its previously announced plan to reduce

8,000 of 185,000 staff around the world, and trim another 8,000 temporary workers who aren't included in the global work force tally.

It had earlier announced 300 billion yen of cost cuts by March 2010 from the previous fiscal year and has been shuttering plants, reducing its production facilities around the world from 57 last year to 49.

Sony, which makes the Walkman portable player and the PlayStation 3 video game console, had built a reputation for innovation over the years that gave its brand added value.

But it's becoming increasingly difficult for Sony to cling to past glory in the face of burgeoning rivals with similar - if not better - products, often at cheaper prices.

Earlier this week, U.S. market researcher DisplaySearch found Sony fell to No. 3 in global sales in TVs, slipping behind LG Electronics Inc. of South Korea during the first quarter. Samsung Electronics Co., of Korea, remained No. 1 for the 13th straight quarter.

Sony, which fell behind in flat-panel TVs, has a joint venture with Samsung that makes liquid crystal displays for TVs that it sells under its own brand.

Sony stock inched down 0.2 percent to 2,500 yen in Tokyo.

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