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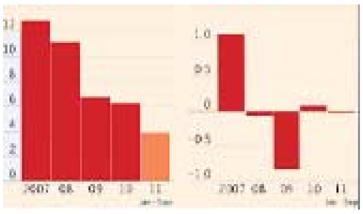
Sony and Ericsson part on good terms

By Maija Palmer, Dan Thomas and Andrew Edgecliffe-Johnson

As divorces go, it was amicable. A smiling Sir Howard Stringer and Hans Vestberg took to the stage at a London hotel on Thursday to announce, with a great show of jokes and goodwill, that the Sony Ericsson handset joint venture was over, almost exactly 10 years after it was created.

Sony is buying out Ericsson's 50 per cent share in the business for €1.05bn ($1.5bn), and will integrate the smartphones created by the business into its broader "four screen" strategy of reaching consumers through an array of network-connected computers, phones, televisions and tablets, all with access to Sony's music, film, TV and games content.



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Ten years ago the alliance between the two companies' then faltering mobile phone divisions made a great deal of sense. Although Sony Ericsson never quite achieved its aim of beating Nokia to the number one spot in mobile phones, it had great success in the middle of the last decade with a number of mid-market handsets that incorporated Sony's Walkman and Cybershot brands.

Since the joint venture was formed the launch of Apple's iPhones has transformed the market.

Sony Ericsson's high-end, Xperia handsets have done reasonably well, taking about 11 per cent of the market for handsets using Google's Android operating system in the most recent quarter. But the competition continues to get tougher, with Nokia, Apple, Samsung and HTC all bringing out new internet-connected handsets in the past month.

"They had some success in smartphones, but it was not enough. They were a niche player and they need to be a lot bigger," said Francisco Jeronimo, analyst at IDC, the research company. "What everyone has understood since Apple came into the mobile phone market is that it is not about the hardware any more, but creating an ecosystem and making customers loyal to it. What we see is Apple and Google trying to dominate the living room with connections between different devices," Mr Jeronimo said.

"Smartphones have become much more concentrated on consumer demand so it makes sense for them to be part of Sony's portfolio," Mr Vestberg agreed.

Cracks had been forming in the happy marriage for some time, with Sony executives privately fuming that Sony Music cut an "all-you-can-eat" music deal with Nokia before offering one to their sister company Sony Ericsson.

Sony ruffled feathers at Ericsson by bringing out a tablet device under its own, rather than the shared brand. A deal to get the PlayStation brand name on to a phone never quite materialised.

With the mobile phone business under sole control, Sir Howard believes it will be easier to join up all of Sony's various hardware with the newly rebranded Sony Entertainment Network, which offers digital delivery of music, movies and games.

Sir Howard called mobile handsets the "last piece of the puzzle" for Sony's portfolio strategy.

"People are falling in love with the smartphone. More and more people are watching TV on their phones and we can bring them that," Sir Howard said.

He envisions a world in which content moves seamlessly between different Sony devices.

"If you don't want to watch something on your tablet you can move it to the phone, and if you don't want to watch it on the phone, sling it on to the TV."

Analysts say that Sony, with huge content libraries at its disposal, will be able to carve out a strong position among the competing ecosystems.

Sir Howard acknowledges, however, that he still faces some challenges in getting the different parts of the company to work together. He has been struggling to break down the various "silos" inside Sony, even before integrating the handsets business.

"Our content companies have actually made good profits in the last few years. But we've got to now learn that everyone is working for the same company and it is all a means to an end. That end is to effectively what Apple did, which is to sell a lot of hardware. Only they sold it with our content. We will sell it with our own," he told the Financial Times.

"We are giddy with the opportunity. The trick is the execution," he added.

Sony will have to get its strategy aligned fast, as analysts predict that the clash between competing, monolithic platforms will only intensify. With its alliance with Nokia, and its Xbox games console, Microsoft can already cover much of the same territory as Sony, while Apple is pushing into the living room with initiatives like Apple TV.

Chinese handset makers have also begun to explore how to take a greater share of the applications market.

In a recent interview with the Financial Times, He Shiyou, head of ZTE's global terminals division, refused to rule out a potential launch of its own services and systems to support its smartphone range.

Amazon, too, is seen as a disruptive force in the sector, challenging Sony in the area of ereaders and tablets, while building its own content library.