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Sony's TV Business Keeps Fading to Red

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A Sony (SNE) outlet store lies in the shadow of the twin cooling towers of the Limerick (Pa.) Nuclear Power Plant. Signs on the merchandise inside show how badly the electronics giant has struggled to avert a financial meltdown. Flashy flat-panel sets take up half the 6,000-square-foot store; all tout hefty markdowns as Sony tries to clear inventory for new models. Two months ago, Sony optimistically predicted it would sell 27 million sets this year; on July 28 it slashed the figure to 22 million and issued a profit warning.

The television business, Sony's biggest revenue generator, is forecast to lose a billion dollars this year—following seven straight years of red ink. Royal Philips Electronics (PHG) and several other longtime rivals have called it quits, saying they can't compete as prices tumble into commodity territory. But Sony Chief Executive Officer Howard Stringer considers the TV unit vital to helping sell products that work with the company's sets, including Blu-ray players and its popular PlayStation game consoles.

On Aug. 1, Sony said it would not divest its TV business and the next day announced that a reorganization of the unit is in the works. Masashi Imamura, who on Aug. 1 replaced Yoshihisa Ishida as president of the home-entertainment unit, hasn't much time to come up with a turnaround plan. Details of the reorganization should be decided by Aug. 31, spokeswoman Mami Imada says. "There will be no sacred zone," Sony said in a statement. Stringer was unavailable for comment.

There's little fat left to cut. Stringer already has eliminated 30,000 jobs, entered into joint manufacturing ventures with rivals, and shed assets. In March 2010, Sony agreed to sell 90 percent of a TV factory in Nitra,

Slovakia, to Foxconn Technology Group's Hon Hai Precision Industry unit, after unloading 90 percent of its largest North American TV-making site to the Taipei-based company. Six months later, Sony agreed to sell another TV facility in Barcelona. It's even started to farm out production of lower-end sets to other manufacturers.

Sony's vow that it can eke out profits by focusing only on sales of sets with standout features such as 3D displays has its skeptics. The company last October was the first set maker to sell Internet-enabled TVs that use Google (GOOG) software in the U.S. It still came in third in overall sales behind Samsung Electronics and low-priced upstart Vizio.

Another Japanese set maker, Pioneer Electronics, predicted in 2009 that consumers would flock to premium products and was quickly ushered out of the business altogether as Samsung and Vizio used their supply chain prowess and greater volumes to sell comparable sets at rock-bottom prices.

"My generation was willing to pay a premium for that [Sony] brand," says Jack Ablin, chief investment officer for Harris Private Bank, which oversees $60 billion in assets. "They were innovators. They had quality, and they had consumers. But the rest of the world has caught up to them. I'm not sure what their edge is anymore."

Sony's widescreen woes aren't unique. Most major manufacturers are sitting on six- to 10-weeks' inventory as consumers show scant interest in the latest features such as sets with Internet connectivity or those that can show movies in 3D, says IHS iSuppli (IHS) analyst Riddhi Patel. Not helping matters is the slew of smaller-screen devices such as iPads and iPhones that are competing for consumers' disposable income.

No doubt many investors, who've seen Sony lose half its market value since 2005, would be happy to see a "for sale" sign placed on the TV business. One big obstacle to that, however, is that the TV revenue helps pay for expenses such as research and development at Sony's other divisions, says Kazuharu Miura, an analyst at SMBC Nikko Securities in Tokyo. Losing that revenue would mean earnings might suffer at the businesses that are being subsidized, he says. "When that revenue is gone," Miura says, "the company will have to do more drastic cost cutting. You really need to be brave to do that."

The bottom line: *Sony has lost more than $74 billion in market value since 2000, in part due to woes at its TV business. The unit's lost money for seven years.*