Sony Failing to Connect in Online Music Market

The company's Internet store falls far behind in its competition with Apple's iTunes.

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Sony Corp. marked the launch of its online music store two years ago by hiring Sheryl Crow to belt out songs in the aisle of a jet at 30,000 feet.

The store, called Connect, has lost altitude ever since and the Sony executive who was at the controls, Phil Wiser, is bailing out as Connect limps along with less than 3% of the digital music market.

Wiser's planned departure Friday underscores the challenges facing the company that invented the Walkman as it struggles to regain its former prestige and prominence in a digital world.

"The challenge isn't so much [Wiser's] departure, but it underscores the fact that Sony Connect has really failed to take the world by storm — or even a little drizzle," said Michael Gartenberg, an analyst with Jupiter Research.

"There's just not a lot happening with the Connect service and with Sony devices, especially in the U.S. where, to an entirely new generation, the word that defines portable music player isn't Walkman, it's iPod."

When it debuted in May 2004, Connect was positioned as the consumer electronics giant's answer to Apple Computer Inc.'s iPod and the companion iTunes Music Store for downloading and managing music.

Connect was intended to elevate Sony's MiniDisc music player from an isolated product to an Internet-connected device capable of storing songs purchased and downloaded off the Web.

Wiser, chief technology officer of Sony Corp. of America, headed the project after joining the company in 2001. Previously, he co-founded Liquid Audio Inc., an online music service, and had spent years trying to persuade Sony and other entertainment companies to embrace Internet distribution.

Connect was beset by a series of problems, starting with its pairing with the MiniDisc player, which, although popular in Asia and Europe, never caught on with American consumers.

The service was further hamstrung because it supported Sony's proprietary music format, and its anti-piracy software. Those earlier devices couldn't play unprotected music files known as MP3s. Newer devices support unprotected music and play songs in Microsoft's Windows Media format.

In a sense, Sony's problems are rooted in its heritage in the transistor world.

"Apple is a computer company. They specialize in things having to do with computers and digital. Sony is a hardware company, they specialize in hardware. The problem is they don't have software and they don't understand software," said Ted Schadler, an analyst with Forrester Research in Cambridge, Mass. "It's completely not in their DNA to build products for this digitally connected era."
Sony executives privately acknowledge that Connect is, in the words of one, "broken." But Sony's chief executive, Howard Stringer, has put it behind other corporate priorities, such as fixing Sony's troubled television division.

The company is aware of its own shortcomings, notably its lack of expertise at creating the software to connect devices seamlessly to the Internet. Wiser fought for better software and user interfaces, said company insiders who spoke on condition of anonymity because they still work at Sony.

"Phil was making all the right recommendations," said one, "but they were falling on deaf ears."

Wiser conceded that Connect failed to achieve many of his ambitions for the service.

"The U.S. Connect service is clearly not where we wanted it to be," Wiser said. "That is related to the fact that Sony's hardware is not where we wanted it to be. iTunes would not be successful if not for tens of millions of iPods."

Nevertheless, Wiser said, Connect prompted a new level of collaboration in Tokyo.

"This is the first time that the hardware groups and content groups have worked this closely, have had a combined organization to execute on this," Wiser said. "The result has not yet come to the market, but it will."

Executives within the company are actively discussing what's next for Connect. Steve Banfield, senior vice president and general manager of Sony Media Software, will take over as manager of Connect.

Stringer on Tuesday circulated an internal e-mail announcing Wiser's return to his entrepreneurial roots.

"On behalf of everyone at Sony, I want to express our sincere gratitude to Phil for his significant contributions," Stringer wrote. "We all wish him every success in his future ventures."

That will be as chairman and president of Building B, a Silicon Valley start-up developing new home entertainment technologies.