
Bill Frezza

Sony Shifts Sales To Cyberspace, Further Unwinding Japan Inc.

Bill Frezza is a General Partner of Adams Capital, an early-stage venture capital fund focusing on Telecommunications and Information Technology. Prior to joining Adams, Bill founded Wireless Computing Associates, providing technology strategy consulting services to the telecommunications industry.

Over the prior twenty years, Bill held engineering, marketing, and product management positions at Ericsson, General Instrument Corp. and Bell Laboratories. He has also been involved in several start-up ventures.

Bill obtained his BSEE and MSEE from M.I.T. and is a regular columnist for *InternetWeek*. He holds seven patents and serves on several private company boards.



Bill Frezza

ABSTRACT

Sony Corporation said it would be the first major manufacturer to sell products directly over the Internet. Sony estimates it will eventually do more than a third of its business online. If Japanese retailers hope to survive they must give up their reliance on a political solution and learn to fight back in the marketplace.

This article originally published in *Internet Week*,
Reprinted with permission of CMP Media, ©2000

Once lauded as a model of government-industry cooperation, moribund Japan Inc. took another blow recently as Sony Corp. said it would be the first major manufacturer to break ranks and sell products directly to Japanese consumers over the Internet.

Bypassing a labyrinthine retail distribution system designed to enrich powerful middlemen and protect neighborhood shopkeepers by keeping prices high and competitors out, Sony will instead configure customized products online and deliver them directly to consumers' homes.

Starting with its VAIO line of personal computers, the new Web site will be gradually expanded to include digital cameras, portable music players and other types of consumer electronic equipment. Sony estimates it will eventually do more than a third of its business online. In time, this will include downloaded digital music and, as broadband deployment allows, perhaps even video, unlocking Sony's vast and growing content library.

Shocked Japanese retailers reacted with threats to boycott Sony products if their "concerns" are not addressed. Accustomed to being coddled by nervous manufacturers and courted by protectionist politicians, retailers are ready to do battle. But the outcome of this war against progress is a foregone conclusion. As Sony goes, so goes Japan.

This is not an isolated event that will pass in favor of business as usual. Sony's brave announcement will undoubtedly create a domino effect, giving further momentum to the destruction of the centralized capital, land and market controls that lie at the root of Japan's lost decade.

How so? If Japanese retailers hope to survive the Internet onslaught, they must give up their reliance on political pull and learn to fight back in the marketplace. The winning strategy is obvious, as it has already been pioneered here: Embrace vigorous competition, adapt to the culture of discounting and shift to large-format, consumer-friendly stores. This will require fleeing cramped downtown areas and heading out to the suburbs, pushing farmers off the land to make room for American-style megamalls. The ensuing Darwinian struggle will weed out the weak, consolidate the strong, unlock vast reservoirs of low-yield consumer savings and fan the flames of change.

Welcome to Costco, where the customer is king!

Paving the way, quite literally, is the new Torius Mall, which opened last year as Japan's largest shopping mall. Covering 2.6 million square feet of what used to be rice paddies, the mall represents a unique triumph over land-use restrictions that have herded Japanese citizens into high-rise rabbit hutches so family farmers can eke out a government-subsidized living.

The end is near for this futile exhibition of economic inefficiency. Try not to shed too many tears for the displaced farmers. They are now receiving lease payments for their land that are five times what they were making by picking rice.

Expanding this trend across Japan will require the complete elimination of the infamous anti-large-store laws, which require mass merchandisers to get permission from every mom-and-pop retailer whose business they might hurt.

Building up the suburbs as a focus of economic vitality will also help crack the concentration of jobs in downtown areas, reducing the punishing commutes while encouraging job mobility. How ironic that suburban sprawl -- the very phenomenon Goreist politicians are railing against here in the United States -- is exactly the remedy required to revive Japan.

Pave over enough farmland and you will eventually force Japan to give up its antiquated delusions of agricultural independence. Consumers will shift to imported rice, which is cheap and abundant, incidentally helping the economies of Third World countries that rely on agricultural exports to pay for infusions of technology. Opening up the agricultural market will also reduce trade imbalances, taking pressure off the yen. Destroying trade barriers and facilitating full integration of the

Japanese economy with world markets will restore economic growth. And so the dominoes fall.

The lesson we must take from this is that it is not possible to freeze a society in amber, promising the security of knowing one's place by restricting the freedom to seek a better way.

So the Internet marches on. What Admiral Perry's gunboats crudely did to the Tokugawa Shogunate in the middle of the 19th century, the Internet will subtly do to the Ministry of International Trade and Industry at the outset of the 21st century. There is no place to run. There is no place to hide.

Bill Frezza can be reached at Frezza@alum.MIT.EDU or www.acm.com.