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Michael Jensen

Blu-ray versus HD DVD

It was an agonizing decision for me, but I thought if we kept running this business it would have grave ramifications for the management of our company. We made a quick decision, judging that there is no way of winning the competition.

Atsutoshi Nishida, Toshiba President¹

Sony management had just received word from Toshiba that it would stop production and promotion of its next generation high-definition DVD players and recorder. The admission of defeat by Toshiba made Sony's high-definition video format, Blu-ray, the industry standard. As Sony's management reflected on its victory, it wondered why it had taken so long to resolve the conflict. It had been nearly six years since Sony first started its efforts to bring the Blu-ray format to market. During this time, Sony and Toshiba had spent millions of dollars each in research and development, alliance formation, marketing, and promotion. But had the long, costly, and drawn-out battle been necessary?

Just a few months earlier, Toshiba had won over two powerful allies: Paramount and DreamWorks Animation. "This seems like a move of desperation," said Andy Parson, a member of the Blu-ray Disc Association, referring to the Toshiba's successful effort to swing the two movie producers to exclusively back its next generation high-definition DVD format, joining Universal Studios.² By aligning with Toshiba exclusively, Paramount and DreamWorks were reported to have received \$50 million and \$100 million, respectively, and other promotion and marketing incentives. The move would clearly affect the balance of power in the battle over the next generation high-definition DVD format.

The Blu-ray format had an initial advantage over HD DVD, boasting superior technological performance and locking up key industry players in its alliance, such as Disney, 20th Century Fox, and Dell Computer. However, executives at Sony were all too familiar with what happened in the VHS and Betamax war. At the time, Sony's Betamax format was pegged as the superior format, but eventually lost out to the VHS format due to a variety of strategic missteps by Sony. Sony did not want to repeat history, and the announcement by Paramount and DreamWorks had many executives at Sony concerned.

In the end, however, Sony prevailed. Now it was time for Sony to evaluate.

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