

UNIVERSITY OF TAMPERE  
Department of Management Studies

**Patrons and Pathfinders**  
**Two Tales of Successful Strategic Evolution in the Finnish Music Industry**

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# Foreword

It's been a long time comin'  
but now it's here

Above is a verse that pretty much describes the essence of this whole project. Namely, this thesis is an end result of a project that got started already in the first years of this millennium. In the beginning there was just a simple idea of a study about Poko Rekords, but eventually the scheme somehow expanded further and further. First, the Poko project ballooned from a mere article to a full-scale review of the company's strategic evolution, and next the inspiration of a similar review of Fazer Music somehow came into being. Thereafter, it did not take long before it became evident that the two studies offered enough material for a licentiate thesis. So, here it finally is.

Getting all this finished was eventually a whole lot more difficult than I expected (which is probably true of almost any thesis). Many times I thought that I had everything ready and the thesis would need only a little fine-tuning. Then, somehow I always discovered some new ideas that needed more work and suddenly another month had passed. That is probably also one reason for the somewhat lengthy final thesis.

Nevertheless, I would like to express my gratitude to all those who feel they have earned it. I would like to thank all of the interviewees, who found the time to pause and stroll down memory lane, and especially for their important remarks on a work-in-progress. I am also particularly indebted to the late Professor Juha Näsi for his valuable comments and furthermore for creating a framework that even I could comprehend. Moreover, I express my gratitude to Tony Melville for making all of this at least almost understandable – after all, the majority of this thesis was written between midnight and 4 a.m. so there were certainly some language issues that needed improvement. In addition, I wish to thank the Central Finnish Cultural Foundation's Artturi

Jämsen Fund and the Finnish Cultural Foundation's Outokumpu fund along with the Foundation for Economic Education for their open-minded financial support for this project. I would also like to thank other supporters of this work that made all of this possible. Finally, last but not least, I am grateful to Bruce Springsteen and the Rolling Stones for their "inspiration" regarding the subtitles of the cases.

Jyväskylä, March 2009

Manu Aunola

# Abstract

This thesis presents the entire lifespan of two major record companies in Finland, starting from their creation and ending with their present situation. In this research the strategic evolution of these companies is analyzed through the lens of the strategy logic perspective. In doing so, this thesis takes a qualitative look at the development of strategy in two individual companies. In addition, the study aims to reveal the main issues the strategists of these companies have faced over the decades and the key principles that have steered their companies through successes as well as certain failures.

This thesis seeks answers to the following research questions. 1. What were the strategy logics of Fazer Music and Poko Rekords in the days when the companies were founded? 2. How have the strategy logics of these companies changed during their existence? Have there been any radical turning points or have the changes been incremental? What were the similarities and differences in the evolutionary paths of the two companies? 3. What were the reasons behind the changes in strategy logics? Were the changes deliberate or did they just somehow come about?

The analysis shows how the strategy logics of Fazer Music and Poko Rekords evolved as the companies transformed themselves from their humble beginnings into serious players in the Finnish music industry. Both companies had a similar evolutionary path where they eventually outgrew their own capabilities and ended up divesting their operations. Similarly both companies also became a part of multinational conglomerates, even though these two acquisitions had very dissimilar results.

From a theoretical perspective this thesis demonstrates that the number of essential elements in a certain strategy logic is not the key factor that determines its successfulness. On the other hand, this thesis also points out that any strategy logic inevitably changes gradually or more rapidly. Furthermore, even small changes in the essential elements of a strategy logic may bring about significant changes in the actual operations of a company. In addition, this thesis further indicates that in order to succeed a company should focus both on doing the right things as well as doing things right. Finally, the thesis demonstrates that successful strategies can be created either through a comprehensive analytical process or simply based on personal vision. Neither of these paths is fundamentally wrong, but their functionality should be evaluated on the basis of the characteristics of the organization in question.

*Keywords: strategy, strategy logic, mental models, record industry*

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# 1 Introduction

For as long as I can remember, I have been interested in music in its many forms, despite the fact that I am practically tone deaf. I hope and believe that this disability has been a key factor that has hindered my so far fruitless attempts to learn to play the guitar. Even so, it has never annihilated my interest in music. On the contrary, it has simply driven me to investigate music from more perspectives than just one. This interest has manifested itself every once in a while in my studies, as well. So, quite naturally, when I embarked on a journey to study strategy, music eventually followed and I found myself examining the strategies of major Finnish record companies.

It did not take long before I discovered that the Finnish record industry has never been a very popular research topic among academics, mostly because of its relatively small size compared, for example, to the Finnish forest industry. Strategy-focused research in particular has so far been virtually non-existent as the very few completed studies have concentrated mostly on purely musical or marketing issues. Furthermore, practically all of these studies are Master's theses (cf. e.g. Aunola, 2000). Jari Muikku's musicological dissertation (Muikku 2001) was the first real academic study that examined the industry as a whole, even though its primary focus was not on the business side of the industry.

Research on strategic issues in the music industry has even on a global scale been relatively rare, although some interesting works have been published. One of the most important studies in this respect is a paper by Huygens et al. (2001). This longitudinal research studies the evolution of the global music industry with a time span of 120 years, thus looking even further back in time than the thesis at hand. Huygens et al. also combine two different approaches in their paper as they present a historical case-study covering the period 1887 – 1990 and a multiple-case study focusing on the evolution of the U.K. music industry during the period 1990 – 1997.

However, the most notable difference between the paper by Huygens et al. and this thesis is the focus of interest. Huygens et al. focus on the co-evolution of firm capabilities and industry

competition whereas in this thesis the focus is more on the evolving content of the strategy itself. Thus, this ground-breaking study is meant to be one important step in filling the abovementioned research gap as it covers the entire lifespan of two major record companies in Finland, starting from their creation and ending with their present situation.

*The strategic evolution of Fazer Music and Poko Rekords is analyzed in this study through the lens of the strategy logic perspective, which aims to describe the subjective logic representing the thinking of key persons in an organization. The approach has previously been utilized in both longitudinal (cf. e.g. Näsi, Laine & Laine, 1996; Aunola, 2005) and cross-sectional (cf. e.g. Sokeila, Mäkinen & Näsi, 2003) studies. Nevertheless, the amount of research completed utilizing the strategy logic approach is still very minimal and thus needs to be expanded. For example, the earlier longitudinal strategy logic studies have focused only on a single company and not on two companies operating in the same industry. Thus, the different ways of creating strategy in a certain industry have not been really been examined at all.*

On the other hand, this study also aims at expanding the period under study from the previous longitudinal studies. Although the approach has previously been employed in an investigation covering several decades, this thesis will enlarge the evaluation period to a full century, thus creating insight on crafting strategy in a single company during very different environmental situations both economically as well as socially.

The key aim of this study is to reveal the main characteristics of a major Finnish record company from a strategic perspective. Therefore, the thesis searches for answers to the following research questions:

1. What were the strategy logics of Fazer Music and Poko Rekords in the days when the companies were founded?
2. How have the strategy logics of these companies changed during their existence? Have there been any radical turning points or have the changes been incremental? What were the similarities and differences in the evolutionary paths of the two companies?
3. What were the reasons behind the changes in strategy logics? Were the changes deliberate or did they just somehow come about?



Thus the key focus of the research is the strategic evolution of two individual Finnish record companies. Consequently, this study does not aim to describe the evolution of the whole Finnish music recording industry, even though the companies under investigation have definitely been an essential part of the industry's evolution as a whole. Accordingly, instead of a generic description of the whole industry, the objective of this research is to offer a rich and in-depth description of the issues these two companies have faced. Naturally, some of them are the same as any other record company in Finland has faced, but some of them are distinctive only to the companies in question.

The segments of this thesis describing the major events in the evolution of the case companies are written on the basis of interviews with several people who influenced these actions (list of interviewees below) and supported by publicly available sources. The main literary sources in the case of Fazer Music were the company's 25th (Fazer, 1922), 50th (Marvia, 1947), and 75th (Lampinen, 1972) anniversary publications, and in the second case the history of Poko Rekords (Konttinen, 2004) as well as the memoirs of Mr. Miettinen (1983). Other publicly available sources were utilized where noted.

The cases also include selected quotes from the interviewees. I have deliberately not named the person who made each statement, so that the focus would remain on the content of the quote and not the speaker. After all, the quotes have been added to further illustrate the events that have taken place, and thus the quotes themselves are not meant to express the thinking of the individual speakers. In addition to my own interview material, I have had the chance to go through selected interview materials of Dr. Jari Muikku who has also made a significant effort in studying the Finnish music industry. His perspective on the industry is rather different, however, but his materials did nevertheless raise some interesting questions for discussion in my own interviews.

Finally, I would like to take a quick look at the title of this thesis. Based on the analyses presented in this study it should be easy to see that Fazer Music was founded and for most of the time also managed by patrons whose interest was focused on the well-being of Finnish music culture as a whole. In addition they were also pathfinders as they explored many areas of the industry that others had previously neglected. However, it is also important to remember that the same applies to Poko Rekords as well. It may have not been managed by patrons in the traditional sense of the word, but still Poko was clearly a patron for a lot of different kinds of musicians.

Furthermore, Poko was without a doubt also a pathfinder in its own selected area of business as it boldly expanded Finnish musical horizons in its own special way.

On the other hand the title also includes one ambiguous term, namely successful. It is common knowledge that success is success for the time being, and today's heroes may be the fools of tomorrow. In the corporate world this rule applies as well, as could be seen from the not-so-glorious fates of several successful companies presented in Peters and Waterman's landmark book "In Search of Excellence" (1982).

In this case the word successful does not refer to financial success, however. After all, both companies under study certainly had their downturns, too. Furthermore, I do not claim to have found the ultimate truth on whether the performance of a firm is the result of firm or industry-based factors. That debate has been ongoing for at least nearly two decades, and so far the end result is still open to debate (cf. e.g. Rumelt, 1991; Hawawini, Subramanian & Verdin, 2003; McNamara, Aime & Vaaler, 2005; Hawawini, Subramanian & Verdin, 2005). Instead the word successful refers here to the ability to produce successful music, which both companies unquestionably mastered even when their financial success was less than magnificent.

This successfulness is also one reason for selecting precisely these companies for this study. Nevertheless, the selection of case subjects was even more strongly guided by the sheer impact of these companies on the evolution of the whole industry. Firstly, there is no doubt that Fazer has been the company that has shaped the Finnish record industry more than any other, as it practically created the industry and indisputably dominated it for decades. On the other hand, Poko was a significant counterforce in an industry controlled by a Finnish giant (i.e. Fazer) and subsidiaries of multinational conglomerates. Thus, it proved that a Finnish record company could be triumphant even when it operated differently from the common modus operandi of the industry.

# 2 Theoretical Foundation of the Research

## 2.1 What Is Strategy?

Today strategy is a popular word, but this attractiveness has a downside, too. Namely, there are almost as many definitions of strategy as there are writers who have embarked on their own strategic journey. Thus, several scholars' have questioned what strategy really is (cf. e.g. Porter, 1996; Chaffee, 1985), and, furthermore, what elements does it actually include (cf. e.g. Hambrick & Fredrickson, 2001).

However, in this thesis the concept of strategy has its primary foundation in the Mintzbergian tradition (cf. e.g. Mintzberg, 1987). More specifically, strategy is seen as the plot of the action of an organization, the string that pulls the events together (Näsi, 1986; Näsi & Aunola, 2002). Therefore, this concept can be used for both normative (i.e. what should be done) as well as descriptive (i.e. what is actually being done) purposes. Furthermore, it can thus be seen both as a basis for future plans and an interpretation tool for past strategies.

Regardless of how the concept of strategy is used, there is and has always been one common factor underlying the essence of strategy, namely choice. After all, the concept of strategy is all about acts of choice. In fact, in the 1980s strategy was seen as a set of important decisions derived from a systematic decision-making process conducted at the highest levels of an organization (Gilbert et al., 1988). Today this rather bureaucratic definition is seen less rigidly and different ways of creating strategy are commonly accepted, as, for example, in this thesis.

Nevertheless, the basic question of any practical strategist remains very simple: what to include in our operations and what to leave out. However, the answers to this simple question are, in most cases, far from simple. This is why there are whole departments of people in many large organizations looking full-time for the right answers for their organization. It is also important to

remember that these “right” answers – if they can be found – are only right in the case of that particular organization because there are no universal truths in the world of strategy.

On the other hand, this research is not merely about strategy, but also about the *formation* of strategy. A nimble reader may have already noticed that I use the word formation instead of formulation. Namely, in the 1970s there was a lot of interest in studying strategy formulation, but already then it became evident that not all strategies are formulated, they just come into being (cf. e.g. Mintzberg & Shakan, 1978; Miller & Friesen, 1978; Mintzberg, 1978). More specifically, Mintzberg (1978, 945) studied the patterns in strategy formation and discovered that some strategies are never realized, but those that are realized can be both deliberate as well as emergent. A number of identified strategies in this research were likewise emergent, even though other strategies were the result of very substantial analysis and planning.

Nevertheless, the choice between planned and emergent strategies does not need to be exclusive. In fact, King (2008) has discovered that both types of strategies may even co-exist within the realm of a single company. Namely, he has revealed that venture capitalists may follow a clearly planned strategy in the case of their portfolio companies while operating with an emergent strategy in their own company.

Then again, Wiltbank et al. (2006) have suggested a quite different perspective on creating strategies. Namely, they have noted that the more traditional positioning approaches – the planning approach (represented by Ansoff or Porter, for example) and the adaptive approach (like Mintzberg or Quinn) have a very low emphasis on control. Thus, they have suggested also two other approaches with a high emphasis on control. They have called these construction approaches visionary (i.e. predictive control represented by Hamel & Prahalad, for example) and transformative (i.e. non-predictive control discussed by Kim & Mauborgne among others). The key difference between the positioning and construction approaches is that the former aims at positioning the firm within an exogenously given environment while the latter aspires more to control the environment with or without attempting to predict its evolution. However, such behavior was not determined to be dominant in either of the case companies.

On the other hand, more than twenty years ago, Miller and Friesen (1982) called for more longitudinal research into organizations and their adaptive processes. Interestingly, Mintzberg and Waters (1982) answered their call at the same time as it was made – although Mintzberg

(1978) had immersed himself in that kind of research already earlier, too. Even so, most strategy-related research was then and still is conducted on a cross-sectional basis. However, the importance of applying a more longitudinal perspective on strategy has been noticed by other researchers, too (cf. e.g. Schendel, 1996) and their call has increasingly been answered by scholars from this side of the Atlantic as well (cf. e.g. Sajasalo, 2003). Two significant, but very different perspectives applied to longitudinal research have been the evolutionary perspective (cf. e.g. Barnett & Burgelman, 1996) and the co-evolutionary perspective (cf. e.g. McKelvey, 1999; Lewin & Volberda, 1999).

This study approaches its subject from an evolutionary perspective with the guidance of the strategy logic concept. Many studies employing an evolutionary perspective are carried out quantitatively with large samples (cf. e.g. Barnett & Hansen, 1996; Carroll et. al., 1996). However, this thesis takes a qualitative look at the development of strategy in two separate, yet sometimes very closely related companies. According to Näsi (1999), the strategy logic approach examines the development and evolution of firms in the long run, thus providing a perfect framework for this study.

When studying the evolution of a company, naturally one cannot review a very long period of time without coming across certain smaller or larger changes. However, as change per se is not the main focus of this thesis, we shall not dwell on the vast literature dealing with the management of change in the pages of this study. Let us just briefly note that Pettigrew et al. (2001), for example, have stated that the organizational change literature remains underdeveloped, among other issues regarding the inclusion of time, history, process, and action. This study could be seen as a humble effort in filling that gap, too, even if we are for the most part looking at the cases from a somewhat different perspective.

As mentioned before, this thesis studies the strategic evolution of two very significant Finnish record companies through the lens of the strategy logic framework. Thus, strategic evolution is the *phenomenon or occurrence* being investigated and not the theoretical basis of the work. Therefore, the following theory section of this thesis focuses on the strategy logic framework and not evolutionary theories in general.

## 2.2 Strategy Logic Framework

### *2.2.1 Origins of the Framework*

Even though the strategy logic framework has never been as popular among academics as, for example, the value chain or the balanced scorecard, it is certainly not a new innovation. On the contrary, the term itself finally materialized in the 1990s (cf. Näsi et al., 1996), even though the basic idea of the framework was conceived already in the 1980s (cf. Näsi & Tichenor, 1988). Furthermore, the foundations for the framework, which will be discussed further below, were built at least a couple of decades earlier.

Namely, the cognitive approach was first introduced about 40 years ago, for example, by Neisser (1967) and recently it has again gained more and more attention (cf. e.g. Mintzberg, Alhstrand & Lampel, 1998). This approach sees man as a processor of knowledge and further as an intentional and learning creature. On the one hand, a human being has dreams, visions, goals, and objectives that he/she shapes and towards which he/she advances. On the other hand, a human being seeks feedback and changes his/her advancement based on his/her experiences. Thus, the approach studies the cognitive models of a decision-maker and the consistency of decision-making (cf. Sokeila, Mäkinen & Näsi, 2003).

According to Aunola and Näsi (2006) the most essential dynamic character of cognitivism is learning, a change in a person's knowledge and its structures, and also in the action resulting from them. A human being learns to cultivate intellectual meanings and to form an increasingly comprehensive general view. He/she also acquires refined understandings that may be called opinions, for example. Further, a human being learns to expand his/her informational capacity, as we can see from all small and even slightly bigger school children. Finally, it is important to express the functionality of the cognitive approach where thinking and doing intertwine through actions and learning. Thus, it may be concluded that when a human being learns, his/her mind and functioning improve even further.

These cognitive concept and idea structures that help us understand and think about our world guide our actions and future thinking. On the other hand, these models also reduce uncertainty in decision-making because they help to simplify issues that include too much information. In

contrast, they also assist in dealing with situations where there is not enough information by filling the gaps. Thus, cognitive models have a very significant role in the thought process because they help to organize and interpret information. (cf. e.g. Laine, 2000.)

Furthermore, these structures have already operated for a long time as elements in psychology and educational science and in these sciences they are often referred to as schemas. A schema is an internal model of the essential aspects of a certain phenomena that is built through the experiences of an individual. A more recent view has brought forth the collective schema, which is important in every organization. A schema is usually implicit, but in management training, for example, it is made explicit. Generally these creations are referred to as “cognitive maps” and “mind maps”, for example. However, one must remember that these cognitive models do not exist as raw empirical data, but are based on the interpretation of the researcher and are thus themselves a product of the research (cf. Laine, 2000).

The mere existence of a certain cognitive map is not enough for efficient strategic management, however. It is also very important how these mental models are brought to life as a part of an organization’s everyday reality. Nevertheless, investigating this issue further is totally another research area (cf. e.g. Ritchie-Dunham & Puente, 2008) and has therefore been consciously left out of the scope of this thesis.

On the other hand, the explicit forms of these schemas can, in this case, be referred to as strategy models (cf. Näsi & Neilimo, 2006). In brief, these models are simplifications of reality and desired reality. In this research they can more specifically be seen as simplifications of the plot of the action of certain companies. It is also worth noting that strategy models are by no means a new invention. To realize this one must not get lost in the wilderness of terms because in this case there is a veritable plethora of names that have been offered to us over the decades. So, let us now take a closer look at some of the most well-known models.

### *2.2.2 Evolution of Strategy Models in Brief*

The history of strategy models dates back more than 30 years. In this time we have been introduced to numerous strategy models that have become popular – and in most cases also fallen into oblivion like a shooting star. Nevertheless, these models have a strong common basis, even though their creators may not have always realized it. Some of the most popular models are presented briefly in the following, but it should still be noted that there are more than enough models that had to be omitted from this discussion.

Good examples of one of the first strategy models from the 1970s were “operating logic” (Karpik, 1978) and “business idea” (Normann, 1975), which challenged the traditional step-by-step formal planning process brought forth by Ansoff (1965). In the place of the Ansoffian planning machine with 57 boxes Normann offered an idea of small step strategizing. The golden age of the business idea framework was in the late 1970s and early 1980s throughout the Nordic countries and especially in Finland.

In the 1980s the concept of “schema” discussed above found its way into business circles, but it did not really break through. Bartunek (1984) was one of the first to proclaim the concept, and she presented the schema as the ways in which the different parts of an organization are connected and through which they have formed a sense of unity, for example. On the other hand, Porter created his “value chain” (1985) as a tool to analyze the basic choices of competitive strategy. This concept divides the company into strategically important functions and helps it to find the focus areas of differentiation and cost efficiency. It is always unique, like the business idea mentioned earlier.

Then again, the “dominant logic” (Prahalad & Bettis, 1986) is a mental model, a kind of world view. It is also a tool for achieving set goals. A company may have several of these logics. According to the creators of the concept it comprises two levels: the dominant logic requires lower level models i.e. schemes to become concrete. Still another model from the 1980s was the “industry recipe” proposed by Spender (1989). He claimed that mental models can also be found at the industry level. At the company level the popular term was “action recipe”.



Furthermore, the concept of “paradigm” also found its way into the management field from the philosophy of science (Näsi & Giallourakis 1991). A paradigm can be defined as a collection of assumptions, beliefs and principles. It is attached to the distribution of power in a company and steers the plot of the action (Johnson & Scholes 2002, Johnson 1988).

Näsi and Tichenor (1988) saw the business idea as a “working logic” while four years later Näsi, Laine & Laine (1992) coined the term “strategy formula”. However, the writers soon replaced that term with “strategy logic” (Näsi, Laine & Laine, 1996), which is the basic framework applied in this thesis as well. The Swedes, on the other hand, joined the model market again in 1993 when Hellgren and Melin presented the idea of a “strategic way of thinking”. Their concept consists of the values, assumptions, beliefs and ideas of management.

Michael Porter also returned to the strategy model scene in 1996 with his article “What is Strategy?” (Porter 1996). The article’s main instrument for describing strategic reality was “activity system”. According to Porter, the competitive advantage of a company is based on the fit between different activities in the system. Therefore, success grows from the whole activity system and not so much from its individual parts. The key ideas in this concept are strategic themes, which are realized on a daily basis through interrelated bundles of activities.

More recently Gary Hamel (2002) joined the chorus with his “business model”. He uses the term to describe the practical concept of a company. According to Hamel a solid business model requires the specification of customer interface, core strategy, resources and value network. Chesbrough’s (2003) “business model” has several elements, too, but he uses a different number of parts, which are also referred to in another way than those of Hamel. Thus, his model consists of the market segment, value proposition, elements of the value chain, cost structure and profit margin, position in the value network, and competitive strategy.

Kaplan and Norton (2004) have also joined the ranks of strategy model writers with the “strategy map” concept. This model describes the cause-and-effect relationships of the segments of an organization’s strategies. Thus it is a link that combines the formulation and implementation of strategy. Another model called “strategic logic” (Sanchez & Heene 2004) saw the light of day the same year. This term is used to define the operative understanding of an organization, which is directed towards the corporate goals through value processing.

The above list of models is by no means exhaustive. On the contrary, it presents only a few well-known examples from different decades that have been created around the same foundation. However, as such the list shows that strategy models are certainly an important issue. Nevertheless, one must also remember that any model that works as a tool in describing the corporate reality is a good model for somebody, whatever its name may be. Each and every candidate presented above can therefore be useful for some pragmatic strategy analyst or manager.

### *2.2.3 Comparing Different Strategy Models*

When analyzing different strategy models, it should be remembered that strategic thinking and strategy models go hand in hand. In fact, their original idea does not come from business economics at all, but more from other sciences dealing with the mental evolution of the human being. Their task is to simplify, while their main characteristics are both comprehensiveness and systems thinking. (cf. Aunola & Näsi, 2006.) On the other hand, one can never even hope for complete objectivity when applying strategy models because they are always at least somewhat subjective and sometimes decidedly so. In any case the basic form of these models is that of an opinion, which can be seen as an emerged comprehension with a varying number of elements.

On the other hand, we may categorize different strategy models on the basis of their creator and the degree of explicitness. Thus, we may first identify an *implicit model of an individual*, which has been crystallized through the experiences and learning of an individual. It has not been written down or drawn up anywhere, but it just exists in the mind of its creator. However, an entrepreneur may eventually write down these ideas thus creating an *explicit individual model*. Nevertheless, the model of a group or even a whole organization can be just as implicit. A great example of an *implicit collective strategy model* is corporate culture with its rites, rituals, and values built up over time. Then again, the top management team may also draw up their views on a whiteboard in a strategy seminar and turn their implicit ideas into an *explicit collective strategy model*. (cf. Aunola & Näsi, 2006.)

Nevertheless, just as every individual and every organization are different, each of these models is equally unique and authentic. Even so, we should bear in mind that an essential part of being human is the possibility to disagree. Therefore, individuals and organizations may see and may want to see entities in different ways. Aunola and Näsi (2006) point out that this is also true in the case of strategy models. Each person or group comprehends a certain model in a different way: using different terms or looking at the model from a different perspective. On the other hand, while we may disagree, our opinions may also converge. Thus, it is possible that eventually certain individuals or groups may feel that the same model suits them and their purposes best.

Still, there are also other distinctive differences in these strategy models, which mostly speak of the same issue with different names. For example, we may position five of these different models on a continuum, as in the following figure.

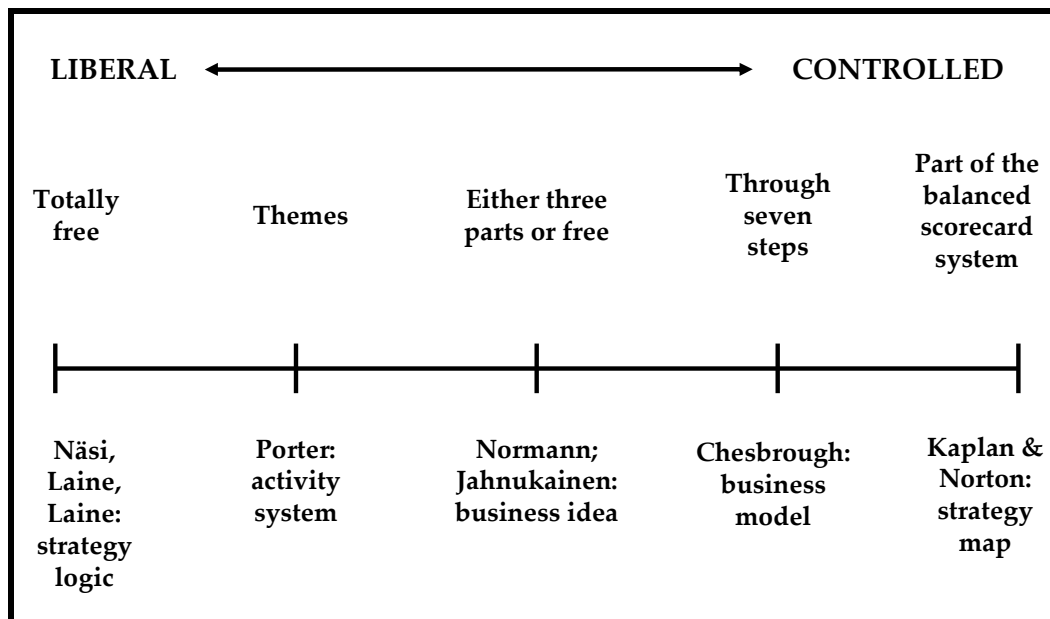


Figure 1. Degrees of liberalization of five different strategy models (cf. Aunola & Näsi, 2006)

Let us start from the left where we find the strategy logic of Näsi et al. The number and nature of different elements in this model is totally unlimited – they may be actors, principles, systems, or whatever. The main thing is that they are key strategic issues. Next, Porter’s activity system is likewise rather liberal. The only thing that Porter has predetermined is the concept of theme. The number of themes is nevertheless completely unrestricted.

Normann's business idea can be found at the center of the continuum. He started from a loose inclusion of three issues, but later drifted to the left where even totally unrestricted elements were possible. On the other hand, the last two examples are clearly controlled. Namely, Chesbrough's business model gave his followers a thesis of seven criteria of how to analyze and compare companies. Finally Kaplan and Norton with their strategy map are the bureaucrats of this comparison. After all, they have not only disciplined model making, but they have also commanded it into a part of their larger management system, i.e. Balanced Scorecard thinking.

Then again, both small and large companies may have more than one strategy model, but large companies may also have different models at different levels of the organization. Typically, the highest level of a large corporation is the corporate level. Furthermore, in many cases a corporation has business units on several levels. Thus, the next common strategy level of a corporation is the main business area level. On this level the operating area is narrower, and the key word is no longer the corporation, but business. Finally, it is easy to find the third strategy model level, the operative business unit level, where the actual daily profits are made (if they are made at all). (cf. Aunola & Näsi, 2006.)

Strategy models may also be based on a different time perspective. Namely, a strategy model may be drawn from history, today's situation or even the future. Most commonly academics have focused on the first two cases while business managers have shown more interest in the third model. Even so, a thorough understanding of the first two models should be the basis of any future model, in order to realize it efficiently. (cf. Aunola & Näsi, 2006.)

Then again, Aunola and Näsi (2006) suggest that a strategy model may also be fundamentally descriptive or normative regardless of its time perspective. Firstly, a descriptive model illustrates what the company's situation has really been like, what it is like today, or what it will probably be like in the future, if there are no major redirections. On the other hand, a normative model tells us how things should be now or should have been yesterday, but most of all, how they should be tomorrow.

However, all of these strategy models have one thing in common: they are static models. There is only a single model in a single time and place. Thus, Aunola and Näsi (2006) have determined that this stagnation is in fact the main weakness of the whole strategy model approach. Since an actual living company is always changing, so should its models, too. They propose that one way

to significantly reduce the effect of this stagnation in strategy modeling is to draw a sequence of chronologically advancing models. Even though this will not create a constantly evolving model, it will at least provide some indication of how the company’s strategy has developed over time. This thesis employs just such an approach when analyzing the evolution of the case companies’ strategies.

Table 1. The doctrine of strategy models (Aunola & Näsi, 2006.)

<b>“Doctrine of Strategy Models”</b>
<b>Strategy models are instruments of strategic thinking</b>
<b>Strategy models represent simplifications of the plot of action of an organization</b>
<b>Strategy models represent systems thinking; their results are comprehensive and in a systemic form</b>
<b>The basis of strategy models is in the cognitive approach and its scientific roots in learning psychology and pedagogics</b>
<b>Strategy models are subjective views by nature</b>
<b>Strategy models may be both individual models and collective models</b>
<b>Strategy models may be both implicit and explicit models</b>
<b>Each strategy model is a unique depiction</b>
<b>Model makers may disagree on strategy models, but may also change their viewpoints</b>
<b>The theory of strategy models is an unorganized and terminologically confused group of approaches dealing with the same phenomenon</b>
<b>Several strategy models can be found in the case of a single company, at least one for each area of business</b>
<b>Several strategy model levels can be found in the case of a single company, each with their own typical field of know-how that differs from the others</b>
<b>Strategy models may be descriptions of the past, present, and future</b>
<b>Strategy models may be descriptive or normative by nature</b>

Aunola and Näsi (2006) have also summarized the basic characteristics of various common strategy models into a “doctrine of strategy models” that is presented above.

#### *2.2.4 Strategy Logic vs. Strategic Logic*

In this thesis we employ the strategy logic concept. It describes the dominant way in which the enterprise solves its strategic problems over a longer period of time. Näsi et al. (1996) have defined strategy logic as *the subjective logic representing the thinking of key persons in the firm*. They further state that strategy logic may include both a metalogic – indicating the method and framework to create a strategy – as well as a substance logic, now deciding what will be done in the firm. In this instance logic is seen simply as a line of argument that is shaped around several basic ideas or principles (Gilbert et al., 1988).

However, it is important to remember that strategy logic is not the same concept as strategic logic (Sanchez & Heene, 2004) discussed briefly above, although the names of the two frameworks are almost identical. The strategic logic framework has its roots in the core competence approach and the term is used to define the operative understanding of an organization, which is directed towards the corporate goals through value processing. Similarly to the definition of strategy logic presented in more detail below, the strategic logic framework has three essential elements. However, these sub-concepts (business concept, organization concept, and core processes) are quite different from the basic elements of strategy logic. In general, strategic logic is primarily focused on achieving organizational goals through coordinated deployment of resources and thus, in my opinion, it aims at a slightly less comprehensive view of strategy than strategy logic. Nevertheless, these two concepts do have a lot in common, which is why they both belong to the same group of strategy models discussed above. Still, they both have their own perspective on strategy, and so they should not be confused.

Interestingly, while the term strategy logic has practically always been used in more or less the same meaning, strategic logic has been applied in several very different situations. Namely, almost ten years before Sanchez and Heene, Kim and Mauborgne (1997) described their value innovation concept as the strategic logic of high growth. In this case the value innovation was

seen as an alternative strategic option to the conventional logic from which it differed in five dimensions. Kim and Mauborgne named these five dimensions of strategy as industry assumptions, strategic focus, customers, assets and capabilities, and product and service offerings.

On the other hand, Jarillo (2003) released a book titled “Strategic Logic” almost simultaneously with Sanchez and Heene. However, his main focus was on corporate profitability, and especially on how to enhance long-time profitability. Importantly, Jarillo did not leave his conclusions to just theoretical ponderings but also commented on how to bring his logic to practice. Then again, Nicholls (1995) applied strategic logic to different types of everyday resource allocation decisions with the help of his MCC decision matrix. Moreover, this term combination has been applied in very different areas than just strategy literature, for example political science (cf. e.g. Pape, 2003) and theoretical computer science (cf. e.g. van Otterloo & Jonker, 2005).

In contrast, the strategy logic framework has, in fact, more in common with Porter’s activity map and perhaps more still with Siggelkow’s ideas about strategic fit (cf. e.g. Siggelkow, 2002; Siggelkow, 2001), even though Siggelkow’s approach carries a much more quantitative emphasis. Namely, Siggelkow’s papers firstly present two longitudinal case studies on the evolution of two very different companies with a special focus on the formation of their strategies. Similar, although significantly older studies were also conducted, for example, by Mintzberg (1978), and Mintzberg and Waters (1982). Second, Siggelkow’s papers concentrate on the core elements of these strategies, and, finally, their primary aspiration is to zero in on the fit between these elements or activities, which is also the primal focal point of this study as well.

### *2.2.5 Main Characteristics of Strategy Logic*

So, if strategy logic is not the same as strategic logic, then what is it? According to Näsi et al. (1996), the strategy logic of an enterprise dictates what is to be done. They note that its nature remains relatively constant, while changes and developments come into being incrementally, which brings this perspective close to logical incrementalism (cf. e.g. Quinn, 1988). This means that usually a company changes only a small part of its strategy logic at one time instead of every

single component. These small modifications can, however, create very significant changes in the actual operations of the company as the following cases demonstrate. Nevertheless, the following cases also illustrate that, at times, even the strategy logic models face periods of revolutionary change, which are then followed by another period of incremental change. Such alternations have been studied quite extensively in other connections (for a brief summary of the nature of these changes see e.g. Laine, 2000).

Näsi and Tichenor (1988) applied the related business idea concept in their analysis of strategic turnarounds. They employed the concept in sketching the situation of the example company at the beginning and the end of its strategic turnaround. They further note that by comparing business ideas at different points in time they endeavor to reveal not only the differences between them, but also the dimensions of the changes in the company's activities which have taken place during the period in question. This research aims at a similar objective by analyzing the changes in the case companies' strategy logics.

On the other hand, strategy logic may be the creation of a single powerful individual (usually the CEO or managing director) but it may also be a construct of the board or top management team, for example, being more influential compared to the managing director (cf. Myllykangas, 1998). After all, strategic decisions do not simply come into being somewhere outside the company, but instead are made by the managers themselves. They are conscious actors that make choices from a pool of options based on their own preferences. (cf. Laine, 2000.) Thus, a new manager practically always shapes the strategy logic of an organization to better fit his / her own preferences sooner or later.

In this thesis the strategy logics of the case companies are analyzed mostly from the perspective of the managing directors in order to render the amount of data somehow comprehensible. This does not suggest that the managing directors have been the only ones engaged in strategy-making in these companies. On the contrary, in both companies there have been several people involved in strategic activities, even though they may have not participated in any formal strategy process. Thus, even though the managing directors may have been the formal decision makers, they certainly have been willing to listen to others' opinions as well. This kind of an extended involvement in strategy-making has also been seen as a possible source of competitive advantage (cf. Collier, Fishwick & Floyd, 2004). Furthermore, Miller, Hickson, and Wilson (2008) have



noted that strategy is not the sole province of a lone, heroic chief executive, but other powerful interests combine to form a hub of strategic practice.

In addition, Näsi et al. (1996) note that strategy logic may be described in different ways on the basis of different sources. It can be discovered straight from documents of the firm or it may be found in discussions with the key persons, or it can be an interpreted result of a case study, for example. In this thesis a description of the evolving strategy logics of the case companies has been created on the basis of both interviews and written documents and then cultivated into the form of two case studies.

As mentioned earlier, the Scandinavian business idea concept first introduced by Richard Normann (1975) and later refined by Iiro Jahnukainen (e.g. Jahnukainen, Junnelius & Sonkin, 1980) belongs to the same group of strategy models as strategy logic. In fact, it can even be seen as an early strategy logic concept (cf. Seppä, 2000). In this thesis the strategy logic concept is also based significantly on the business idea framework, which is why the concept is built on the basis of the same three basic elements: the product system, niche or market segment and the organizational resources and structures needed in the process. However, unlike the business idea framework, the strategy logic framework discussed in this thesis uses these three elements only as a starting point.

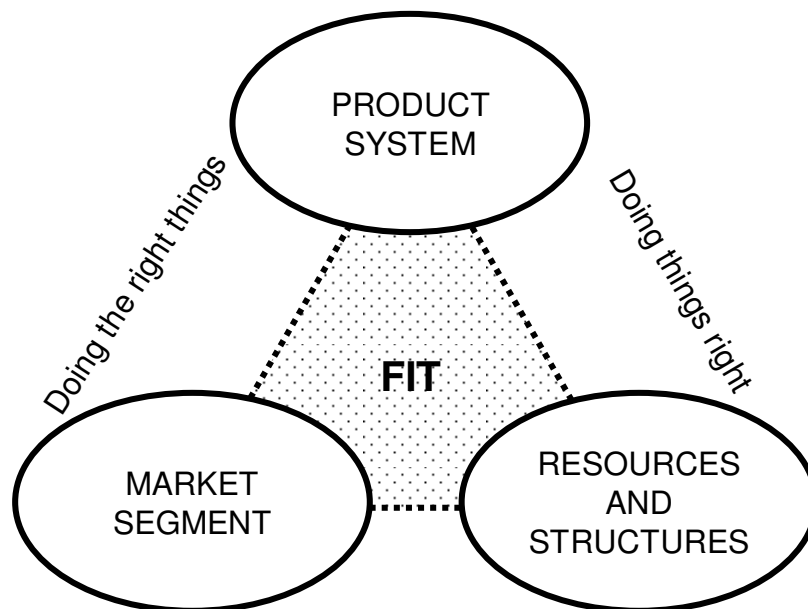


Figure 2. Basic elements of the strategy logic framework

The product system and the company's niche or market segment define the concrete framework in which the company operates whereas the resources and structures describe how these operations are actually performed (Jahnukainen et al., 1980). On the other hand, the market segment and the products or services provided form the "doing the right things" dimension whereas the company's working logic and its product system form the "doing things right" dimension (Näsi & Tichenor, 1988). Thus, a company needs to understand both these dimensions in order to succeed. Nevertheless, the most important aspect of this concept is the fit between its three elements. All of its parts should fit together and in combination create a harmonious whole (Normann, 1975). Therefore, an unbalanced strategy logic is most likely also an unsuccessful one. The figure above illustrates the basic elements of the strategy logic framework and their interrelationships.

Lengnick-Hall and Wolff (1999) come to a rather similar conclusion in their analysis of three different core logics (capability logic, guerrilla logic, and complexity logic), i.e. basic strategic choices for companies. They determine that neither of these logics is universally the right choice for all firms or continuously the right choice for any given firm. Instead the appropriateness of a certain strategy frame depends on how well the foundation principles fit the internal and external realities a firm encounters or can create. Furthermore, they note that effective application of an appropriate core logic may be what determines strategic success or failure. Thus, they can also be noted as discussing the need for both doing the right things as well as doing things right.

### *2.2.6 Conclusions on the Strategy Logic Framework*

So, what have we learned about this particular framework or mental model? Firstly, we should bear in mind that the basic ideas of the framework have existed for decades, and even though they originated outside management science, numerous applications have later been created in this field as well. Second, as mentioned before, strategy logic is only one example of the wide variety of similar models sketched by several more or less well-known scholars. While this ample selection may seem rather confusing at first, on the other hand it also enables a researcher to select a model that suits his/her own preferences best. In this case the choice was made to apply this somewhat less popular model.

On the other hand, these similar models also have some notable differences. Firstly, while all of the models are subjective by nature, they may appear as either implicit or explicit models. Furthermore, the models created may be individual or collective, or they might emphasize either descriptive or normative viewpoints. Moreover, other models are very tightly controlled while others have far less rules to follow. Since strategy logic is in itself a very liberal framework, it does not dictate the ways of applying the model in the abovementioned issues. Thus, strategy logic may just as well take the form of an implicit descriptive mental model of an individual or it may appear as normative and explicit rules of operating of an organization.

However, it is important to remember that a balanced strategy logic is a complete entity. Thus each component is connected to one or more other components. Therefore, one cannot remove a single component of a certain strategy logic without influencing other components as well. These connections are probably the reason why any strategic logic is very hard to imitate successfully. In the following case analyses I have illustrated the most significant connections between the components by linking them together with lines. To keep the figures readable, the lines describe only the most significant connections and not every possible chain of influence.

Although a company's strategy logic evolves gradually over time, it may also operate through different strategy logics simultaneously. In fact, this is usually the case in any corporation of significant size. Namely, the company has a strategy logic, which covers the whole enterprise, but it also has several sub-logics for different levels of the corporation. Sometimes the company even operates in such different businesses that these sub-logics have very little in common, although they are all a part of the overarching strategy logic of the company. Indeed, only small, single-business companies have just one strategy logic to guide their operations. In this thesis the main focus is on the evolution of the strategy logics of entire companies and not so much on the sub-logics, in order to render the issue at hand easier to comprehend.

As the strategy logics of the case companies have been elucidated by drawing them into the form of individual figures, the descriptions have naturally become more or less snapshots representing the situation at a certain moment in time. Therefore the evolutionary process has been illustrated by using several strategy logic descriptions from different periods. In each depiction the new elements have been written in italics to better visualize the changes that have occurred.

In conclusion, it is important to remember that strategy logic does not actually exist per se. Instead it is only a mental model within the brain of an individual or, on the other hand, a tool that is used to describe these key strategic issues as the manager sees them. Furthermore, we must also bear in mind that as the researcher in this case is not the manager in question it is impossible to confirm that the strategy logic descriptions presented in this thesis are completely accurate. In any case, the descriptions are the interpretations of the researcher and thus may include some underlying biases caused by the same. Furthermore, the strategy logic descriptions are (and in fact have to be) simplifications of the reality of an organization, so that the central constituents could be comprehended in a single glance. However, an attempt has been made to remove these biases by engaging in several discussions with the managers and other key players during the research process and improving the strategy logic models presented based on these discussions.

# 3 Methodology

## 3.1 Methodological Basis of the Research

In a nutshell, the philosophy of science simply tells us what kind of science we can do. Then it is up to us researchers to decide what we either do or we do not. Thus, the philosophy of science provides us with limits on what we can achieve with different approaches. On the other hand, the philosophy of science also presents us with alternatives, from which we must choose before even attempting to commence a scientific research project. This chapter presents the basic methodological assumptions behind this study and the characteristics of the research setting that have resulted from them.

This research leans clearly toward subjectivism. The ontological assumptions behind the study are unmistakably nominalistic, and so the social reality is seen as being different to each individual. Furthermore, the epistemological basis of this study is visibly anti-positivist, as it emphasizes the uniqueness of situations. (cf. Burrell & Morgan 1989.) In other terms, this study considers reality itself as a social construction, which results in a world of continuous process. Thus, the social world has no concrete status, but it is manifested in shared but multiple realities. (cf. Arbnor & Bjerke, 1997.) Accordingly, the aim of this research is not to find regularities, but to try to explain a unique chain of events.

In addition, the idea of man in this study is clearly voluntaristic and man is seen as having a free will. Man is also the creator of his/her own reality or at least a perception of it. In strictly empirical thinking people are seen as passive experiencers whereas in this study people are considered as intentional acting and creative actors (cf. Arbnor & Bjerke, 1997). Based on these assumptions, the methodology of this research has become ideographic, which is characterized by the aspiration to understand the issue at hand as well as the historical research setting. (cf. Burrell & Morgan 1989.)

Therefore, the influence of the interpretative paradigm can clearly be seen behind this study. This paradigm comprehends social reality as an alternative social process which is created by individuals. According to this paradigm, phenomena are examined in a wider context, and the research conducted is thus often qualitative. Hermeneutic ideology and phenomenology can be seen, among others, as influencers behind this paradigm. (Burrell & Morgan 1989, 28 – 32.)

Alternatively, this research could be classified as employing the actors approach, while borrowing some aspects of the systems approach as well (cf. Arbnor & Bjerke, 1997). Namely, the actors approach of Arbnor and Bjerke considers reality as socially constructed with different levels of meaning. Further, human beings are seen to create reality at the same time as reality is creating them. Thus, knowledge is dependent on the individuals, including the observer. Consequently, there is no single objective reality, but instead several partially overlapping realities. Therefore, the aim of the observer is to understand and describe these relations.

Then again, the value-laden model of the systems approach sees systems as including a culture or a basic set of values. Thus, the model aims at understanding the individuals who actually constitute an important part of the real systems studied. However, as the approach considers reality at least mostly objective, its basic assumptions lie outside the realm of this study. (cf. Arbnor & Bjerke, 1997).

On the other hand, this research could also be called case research, or, to be more precise, a multiple-case holistic case study (Yin 1994). This research could be called holistic because the phenomenon researched is the general nature of a conception. In general, the main reason for conducting case study research is to better understand complex phenomena such as change processes observed in this study as well. After all, innumerable factors and entangled interconnections between them do not generally allow simple and unambiguous research designs or quantifications. (cf. Gummesson, 1993.)

There are several types of case studies, and many types overlap. Using Gummesson's (1993, 8) terms this research could be labeled, for example, as an exploratory (explores a little known area, like the Finnish music industry), descriptive (describes a process, like the evolution of the case companies' strategies), or perhaps reconstructive case study (historical and retrospective). On the other hand, Siggelkow (2007, 20 – 22) has noted that even a single case can be a very powerful example. Further he argues that using a single case approach is especially important in the

context of longitudinal research that tries to unravel the underlying dynamics of phenomena that play out over time, as this has the ability to get closer to theoretical constructs. In fact, this research includes two such case studies.

Then again, this study also has some characteristics of grounded theory research, as its key focus is also to make statements about how actors interpret reality (cf. Suddaby 2006, 635 – 636). However, the aim of this research is not to abstract the subjective experiences of the actors into theoretical statements about causal relations between actors. Instead the objective of this study is to describe the evolution of the key actor's perceptions.

According to Bryman (1992, 34), in a quantitative research study the researcher has, in most cases, an aspiration to prove the generalizability of the research results also beyond the object of the research. Therefore the basic issue regarding the meaningfulness of quantitative research is that to what extent the basic characteristics of the phenomenon researched are systematically measurable or to what extent measurable parts can be isolated from the phenomenon researched (Alkula, Pöntinen & Ylöstalo 1995, 20).

On the other hand, the starting point in qualitative research is describing real life, which naturally includes the idea of the diversity of reality. In qualitative research the subject is studied as wholly as possible. The researcher cannot dissociate himself/herself from his/her basic values, however, because values have an effect on our actions. They mediate on how we try to understand the phenomena we study. Thus the researcher cannot achieve objectivity in the traditional sense, because the researcher and the information on the phenomenon researched become intertwined. The researcher can only get conditional explanations as results, which are confined to a certain time and place. In general, it can be noted that the aim of qualitative research is more to reveal facts than to verify already existing statements. (cf. Hirsjärvi, Remes & Sajavaara 1997, 161.)

Tynjälä (1991, 392) states that triangulation is a research setting, where several different methods, researchers or theories are used. The assumption in methodical triangulation is therefore that different methods have different weaknesses and strengths. Thus the incorrectness of the method can best be rectified by using in addition another, completely different method, because very different methods probably do not have similar distortions. Methodical triangulation may mean, for example, that both quantitative and qualitative methods are used in the same research. Tynjälä (1991, 392 – 393) further adds that several qualitative methods can also be used in the

same research as supports for each other. In that case the interview material can, for example, be augmented with written expositions when the material provided by these methods can be compared to each other. Another possibility is to compare, for example, different viewpoints on the subject researched. In this study, both interview and written material have been employed, and different viewpoints from several key players have also been collected.

Reichardt and Cook (1979, 25) have nevertheless found several obstacles to the use of triangulation and especially to the use of both qualitative and quantitative methods. The costs of this kind of method constitute one of the most common obstacles to its use because combining several research methods is often quite expensive. Another common obstacle is that using several methods often takes too much time and the researcher does not necessarily have sufficient education in both research methods, either.

So, what is the methodological basis of this thesis? In conclusion, it can be noted that this research is a descriptive one because its main aim is to describe the evolution of the strategy logics of the case companies. Furthermore, the thesis consists of two qualitative case studies that provide an in-depth view of this evolutionary process. On the other hand, this research is not a comparative study, although some comparisons are made between the two companies. Still, the focus is on interpretation of the separate cases. All in all, the thesis does not endeavor to create or verify any universal laws or patterns, but presents subjective viewpoints of the management of the case companies construed by a similarly subjective researcher.

## 3.2 Methods Used in This Research

The research design of this study was structurally quite similar to Mintzberg's (1978), and Mintzberg & Waters' (1982) studies, although in terms of content the projects were in many aspects different. Accordingly, the first step was the collection of basic data where a vast amount of literary data spanning over a century was gathered in addition to in-depth interviews with the key actors. The second step was the inference of strategies and periods. However, in this case the focus was not so much on the degree of change in these strategies, but rather the change in the content of the strategies themselves.



The next phase of the study was an intensive analysis of each period, just like in the studies mentioned above. However, the focus of the analysis was again on the content of the strategies instead of the nature of the changes. The fourth and final step then consisted of drawing the conclusions. However, in contrast to the above-mentioned studies, this research did not aim to create a new theory, but instead to illustrate two interesting cases and, at the same time, demonstrate the usefulness of the strategy logic framework in these types of studies. Thus, there was no need to generate hypotheses to explain the findings.

Chronologically this rather lengthy research process was started already in the first years of this millennium. One of the reasons for the somewhat lengthy duration was the way this whole thesis came into being. Namely, in the first phase, the idea was just to conduct a brief study of Poko Rekords. Next, the plan was to execute a similar study of Fazer Music, and only then did the idea of a licentiate thesis come into being.

So, in the beginning the theoretical framework was constructed for the purposes of this study. Next, in the fall of 2003, basic data on the first case (i.e. Poko Rekords) was collected. This data included literary material as well as interviews with the founder-manager Epe Helenius and other key players. Conclusions on the first case were then drawn after a thorough analysis of the material had been completed. Lastly, the first phase was concluded with writing a case study.

Then the process started over when basic data for the second case was collected in the spring and summer of 2006. This material included again both literary material and interviews with several key actors. However, in this case I could only conduct interviews with the more recent key players, as the founders and several later managers passed away decades ago. Nevertheless, there is a significant amount of literary material available from the earlier phases of the company, including a book written by one of the managing directors himself. Thus I am fairly confident that it is still possible to sketch the basic factors of the strategy logics of these earlier phases of the company as well. Naturally, it is impossible to fully understand the world view of any person that lived a century ago. On the other hand, even the more recent strategy logics are the result of a subjective analysis and interpretation carried out by the researcher, so they are not that different from the earlier depictions in that respect.

As was the case with the first phase of the study, the second phase of the research process continued with a thorough analysis of the material and drawing the conclusions. This stage was likewise concluded with writing a case study on the company. By then the need for a concluding review had been identified and a licentiate thesis was already being prepared. This last phase included a revision of the two cases and their findings. Finally, new conclusions were drawn from the cases and some comparisons were also made between the cases, after which the final thesis was written.

Nevertheless, it should still be pointed out that this kind of approach does not produce such a full history of a company or companies as one focused mostly on the major turning points. Therefore less attention has been given to more regular operational issues, which are by no means less interesting, but simply beyond the scope of this research. Besides, such histories have already been written on both case companies, so there is no need to replicate those significant efforts.

This research was carried out as a qualitative interview research study because the phenomenon researched is very complex and requires thorough treatment to be fully understood. In general, using qualitative interviews is the most common way of generating data in case study research (cf. e.g. Gummesson, 1993). The thematic interview was chosen as the key method of gathering information because the subject researched is a phenomenon which the interviewees do not discuss every day. Therefore the aim of this research is to create a complete view of the phenomenon researched and thus increase knowledge about the subject.

The thematic interview is one variation of the semi-structured interview. In this type of interview the themes of the interview are set, but the precise form and order of the questions are determined only during the interview. Each thematic interview is its own entirety and the form and order of the questions presented may thus vary a great deal, even though the subject of the interview remains the same. (cf. e.g. Hirsjärvi & Hurme 1995.)

Taping the interviews is an essential part of the nature of the thematic interview because it is the only way to ensure that the interview proceeds rapidly and without pauses. Thus it is also possible to record essential features of the communication event which cannot be recorded in writing. These features include, for example, stress and pauses in the interviewees' speech. (Hirsjärvi & Hurme 1995, 82.) Taping the interview also enables as natural and unconstrained discussion as possible, which is not interrupted by the interviewer's note-taking. This is

especially important when the deeper meaning of the subject researched is being examined, in particular when the subject researched requires notable concentration from the interviewee as well.

Gummesson (1993, 41) has noted that qualitative interviews are more demanding of the interviewers than formal questionnaire surveys. He notes that the main reason for this is the fact that carrying out a formal questionnaire survey does not require much understanding of the actual design of the study. On the other hand, the interviewer's paradigm and pre-understanding play an active role throughout the qualitative interview study. If the same researcher conducts the interviews and interprets and reports the study, he / she can get very close to the studied phenomenon. This aim has guided the methodical choices in this research, too.

The material from the thematic interviews is analyzed in this research directly from the tapes because the number of interviews under examination is relatively small, which makes this kind of analysis possible. Content analysis is carried out qualitatively through the means of impressionistic examination. The analytic comparison method is used as the qualitative method of analysis in this research. This method is suitable for both collecting new information and analysis of previously collected qualitative materials. (cf. Hirsjärvi & Hurme 1995, 115 – 117.)

Conclusions can be drawn somewhat more freely in this method of analysis, which is reasonable especially when there are no more than a few cases being researched. The danger in this type of analysis is, however, that the interviews as such are presented as results, when the researcher has generalized the results too little. On the other hand, the researcher may also be guilty of too much generalization of the results, if he/she only analyzes them quantitatively. The analysis of material in the analytic comparison method is begun already in the data collection stage and theory developed from a partial idea or a model which is deliberated upon for a long time during the research. Comparison and especially similarities and differences between groups or cases are essential in this method of analysis, and they are used to proceed toward a theory. In the analysis different themes should be crystallized into a general framework or model. The material should also be arranged so that all the relevant information in the formulation of conclusions is easily available. Finally the researcher should examine whether all the details fit the analysis or contradictions exist. (cf. Hirsjärvi & Hurme 1995, 125 – 128.) Thus, it can be noted that we are again working close to the area of grounded theory (cf. e.g. Suddaby 2006).

### 3.3 Reliability of the Material

According to Pyörälä (1995, 15) there are two main dimensions in estimating the validity of qualitative research. Firstly, the researcher must be able to demonstrate that by using precisely this research setting and examining precisely this target group we are able to answer to the research question set. Secondly the researcher must clarify whether the proposed interpretation is valid both throughout the research material and in the environment that has been the target of research. In addition, the researcher must also be able to evaluate the generalizability of his/her interpretations, i.e. how well the interpretations of the research hold good in the societal reality. The relationship between theoretical concepts and the concepts arising from the research material must be logical as well as the relationship between the theoretical conclusions and empirical material for the research to be valid. (cf. e.g. Hirsjärvi & Hurme 1995.)

On the other hand, the scientific validation of the qualitative research process could be established if researchers show clearly in their reports the basis on which the different interpretive patterns are developed. In other words this means establishing the logic and the reasonableness in the development of these patterns. Further, the subjective interpretation must be clear, so that scientific concepts must be clearly shown to be subjectively rooted. (cf. Arbnor & Bjerke, 1997).

In contrast, the first of the factors influencing the reliability of the material when using a thematic interview is concept validity. Does the research attain the essential characteristics and central concepts of the phenomenon, are there weaknesses in the proposed problem, and how well has the planning of the frame of the interview succeeded? These are problems that should be solved already before the research is carried out because the concept validity of research cannot be improved afterwards. Another factor influencing the reliability of the research is internal validity: do the questions posed attain the desired meanings? This problem can be prepared for by using several questions and sufficient additional questions. Other factors influencing the reliability of the research are, for example, errors caused by the interviewer, the selection of the interviewees and the conclusions drawn. (Hirsjärvi & Hurme 1995, 129 – 130.)

In traditional empirical research, the researcher must also prove that the findings and results of the study have been formed objectively. However, in this case, the objectivity of the researcher is not even an issue because the whole basis of the research is built upon a subjective world view.

Thus demanding objectivity is by definition illogical. According to the basic assumptions of this research, the observer must engage himself in the situation of the actors being studied, in order to interpret and understand the situation more thoroughly. Thus, the observer becomes also an actor that shapes the social reality, and as such he can never be really objective. (cf. Arbnor & Bjerke, 1997).

In this research, credibility is aspired to by getting thoroughly acquainted with the theoretical basis of the research before carrying out the interviews and by becoming familiar with the target companies beforehand. The interviewees have also been chosen from the top management of key player companies because they can be expected to master the content of the researched subject best. In addition, questions which aim to illustrate the researched subject from as many sides as possible are used in the interview situation.

Furthermore, several key players related to both case companies' actions were interviewed extensively during the research process, which resulted in approximately 20 hours of recorded interviews. Finally, an attempt has been made to reduce the possible errors caused by the interviewer by asking for comments and corrections on preliminary versions of the case studies from the interviewees.

### 3.4 Introduction to the Cases

The following section presents two case studies of the evolution of very significant Finnish record companies. They aim to describe what the companies' strategies were like at their foundation, and how they changed over the decades. Therefore, they are both products of historical analysis and interpretation. However, in the final conclusions of this thesis some comparisons are drawn from these two cases, although the key focus still remains on understanding the evolution itself.

The first case takes us all the way back to the late 19th century, when the company that was to become known as Fazer Music was founded. Thus, the case illustrates more than a century of strategic evolution in the Finnish music business. On the other hand, the second case spans a notably shorter period as its starting point can be found in the 1970s. This case describes the evolutionary path of a significant counterforce to the first case, namely that of Poko Rekords. Together these two cases offer an unforeseen look into the different strategic perspectives of major Finnish record companies.

One important part of the analysis in both cases is an evaluation of the companies' market share. This data has been compiled by the researcher from the archives collected by the Finnish National Group of the IFPI (International Federation of the Phonographic Industry). Previously this data had not been gathered into a single file, but instead existed only in the form of printed annual tables. An extensive listing of significant Finnish record companies and their annual market shares dating back to 1975 was thus created as a byproduct of this research.

The cases have been divided into several periods to illustrate the evolution of their strategy logics more clearly. In the first case these periods have been formed simply according to the era of each significant managing director. There are two main reasons for this division. Firstly, these periods were easily identifiable because the manager changes have been thoroughly documented. Second, as mentioned before, strategy logic aims to illustrate the thinking of key persons in a company. Naturally, this usually refers to the managing director or the board. Thus, it may be argued that the strategy logic of a company will most likely change when the managing director changes.

In the second case the founder-manager has controlled the company from the beginning, so the same division principle could not be used in this incidence. Therefore, the periods were formed on the basis of the company's evolution. Namely, the case company went through clearly identifiable phases, which undoubtedly also represented a significant change in the company's strategy logic. Such phases could be observed in the first case as well, but due to the very lengthy time span of observation, each different phase could not be discussed thoroughly within the boundaries of this thesis.

Finally, a brief comment on the origins of the strategy logic depictions themselves is probably appropriate. As mentioned before, the definition of strategy logic in this research is based notably on the business idea framework. Thus, the three basic elements of that framework (product system, market segment, and resources and structures) have also been used as a starting point in sketching the illustrations. However, as this is not a study about business ideas, the analysis has not been bounded by the somewhat narrower definition of the business idea. Instead every factor that has been deemed strategically important has been included in the analysis. Subsequently the essential elements and their interrelationships have been collected into the form of figures.

# 4 The Strategic Evolution of Fazer Music

## 4.1 The Fazer Family

The first thing that comes to mind for most Finns when they hear the name Fazer is chocolate, namely the famous blue chocolate of Karl Fazer. He was not an only child, however, but had three brothers and four sisters. Therefore, some Finns – but not very many – first think of his elder brother, Edvard Fazer, who founded a small opera house in Helsinki in 1911. This little opera house still exists and since 1956 it has been called the National Opera. Neither of these heritage issues is the key focus of this study, however.

Instead, this research focuses on the legacy of the middle brother, namely Konrad Georg Fazer, born in 1864. His creation is probably the first Fazer that comes to mind for those of us who grew up – before the 1990s – with music that was not as classical as opera, although some of it is today just as classic as the former. After all, Konrad Georg Fazer was the prime mover behind a company that became known as Fazer Music, a company that was the dominant force in Finnish music life right up until the 1990s.

## 4.2 Start Me Up (1897 – 1918)

This story begins in the early 1880s when music had gradually become a more common form of recreation in Finland, too. However, there were no large music shops here back then, so Ms Anna Melan decided to set one up in Helsinki, probably in 1884. Unfortunately she died from cardiac failure in March 1897 at the age of 50 while on vacation in Bavaria. She left the music shop to her sister's children who were minors at the time, so Ms Melan's sister, Augusta Nyström, had to take care of the business.



Mrs. Nyström could not run the undertaking for very long and so the music shop was put up for sale. A young fur retailer – and avid music aficionado – called Konrad Georg Fazer was interested in the store but did not have enough capital to buy it on his own. Thus, he contacted his friend Robert Emil Westerlund who had purchased a piano shop in Helsinki in 1896. Westerlund was also interested in the venture and on 27.11.1897 the duo signed the contract. This date is regarded as the birthday of Fazer Music, but it is also commonly considered as the birthday of the whole Finnish music industry.

The two gentlemen started their business with a less-than-simple trade name: “Helsingin Uusi Musiikkikauppa, ent. A. Melan, omistajat Fazer ja Westerlund.” Still, the company got started in quite favorable conditions as the purchase price was determined simply by the value of its inventory and there was no premium set for the experience and contacts gained during the 13 years of the shop’s successful existence. Nevertheless, the first weeks of the new company were not so great in terms of sales, despite the approaching Christmas period. However, the company’s business began to grow gradually, and it did not take long before the store ran out of space in its first premises and moved to a new location on the corner of the same street at the beginning of October 1898. The new premises were three times the size of the previous ones and soon proved to be a wise choice as the company’s turnover multiplied in just a few years.

In the summer of 1898 the partners had already formulated plans to expand their business by setting up branch stores in several provincial towns as well, e.g. Tampere, Kuopio, Turku, and Viipuri. Eventually the first branch store opened in Tampere on 1.9.1898, but it did not turn out to be very profitable and was consequently sold to its shop manager in July 1904. The second branch store opened in Turku in the beginning of June 1901, but was not successful, either.

Nevertheless, some of the music shop’s most enthusiastic provincial customers sought permission to begin distributing music items in their home areas. This request was willingly accepted and thus the basis for the company’s agent network was born. The first agents operated in Lappeenranta (first contacts made before Christmas 1897) and Viipuri (first contact in January 1898). Over the years this network became quite dense and as such had a significant influence on the growth of the company’s provincial sales.

The music shop also began expanding its operations to new business areas. Thus in 1898 the partners started their music publishing activities. They were not the first publishers in Finland,

but the start of their publishing business coincided with the emergence of several significant Finnish composers. In consequence their publishing operations were soon well under way and before long the partners had found their own focus areas in the company: Westerlund took care of the publishing activities while Fazer managed the instrument sales and other business issues.

Starting a publishing firm without previous experience was no easy task, however. Thus Westerlund contacted Swedish publishers for advice and with their assistance he quickly learned the basics of music publishing. The first piece published by the company was not very significant on a national scale; it was simply a mazurka named Zoraida. However, the piece that was eventually assigned the number 1 in the Fazer publishing catalog was something quite different – and surely more famous today. Namely, it was a complete piano score of Fredrik Pacius' opera "The Hunt of King Charles" running to 354 pages. This was a significant move from the company because publishing such an extensive piece was purely a cultural act as it was obvious from the beginning that it could not sell more than a few copies. Nevertheless, this clearly demonstrates how promoting Finnish music culture was an essential characteristic of the company from the very beginning.

Furthermore, as early as in 1899 some of the company's provincial retail dealers also began to order sheet music produced by foreign publishers from the music shop in addition to their own pieces. Eventually this operation grew as well and became an important part of the company's activities.

In the early days the company published a certain amount of foreign music, too, but by 1900 the partners had determined that they would publish only compositions by Finnish composers. This also supports the conclusion that Finnish music culture was highly regarded in the company, but it was not such a bad business decision, either. Namely, of the first 100 pieces the company published, 33 were composed by Jean Sibelius, and several also by Melartin, Järnefelt, and Merikanto, for example.

Although global record production was just getting started at the turn of the century, the first Finnish records were, in fact, made as early as 1901 by British Gramophone Company's local agent in St. Petersburg, where a Finnish choir lead by Mooses Putro recorded a dozen songs. On the other hand, around that time the record companies split the world into spheres of interest, after which the Gramophone Company controlled Europe among several other areas. Local

subsidiaries were set up in all the important markets, but tiny Finland, however, was not considered such an area. Thus, as Otto Brandt in Koneliike was the first to react, this firm became their local agent in Finland. (Gronow 1998; Gronow & Saunio 1990.)

On the other hand, Fazer and Westerlund's music shop became an agent of His Master's Voice gramophones right from the moment HMV arrived in Finland in the first years of the 20th century. Even so, Brandt was reluctant to sell records to the music shop – or any other music shop for that matter – and so Finland was in a strange situation where customers could not buy records and gramophones from the same place. The situation did not improve until Skandinavisk Grammophon A/S, HMV's Scandinavian subsidiary, intervened shortly afterwards.

However, by the end of 1903 Westerlund had realized that he did not have the time to commit himself sufficiently to their joint undertaking as his own piano shop was increasing need of his efforts. On the contrary, Fazer had devoted himself more and more to their company at the expense of his own fur shop. Thus, Westerlund decided to sell his share of the music shop to Fazer, and the deed of sale was signed on 1.3.1904. Now the company could continue under a slightly less difficult name "Helsingin Uusi Musiikkikauppa, omistaja K. G. Fazer." Despite the breakup of their joint venture, the former partners remained friends and their shops continued to conduct a lot of cooperation.

Even though the first Finnish recordings were made already at the very beginning of the 20th century, the first actual recordings made in Finland were not completed until 1904 when Gramophone's technician visited Helsinki. That year was also the beginning of regular record production in Finland. Surprisingly, the record producers did not release only serious music targeted at wealthier buyers, but also folk songs and humoristic music, for example. However, the most active orchestra on the recording front was the Helsinki Brass Band. Unfortunately there are no accurate records available from that period, but sales were probably rather modest compared to today's levels. Nevertheless, it has been estimated that in the 1910s the annual sales were at least 100 000 copies, which comprised a wide selection of domestic and foreign music. (Gronow 1998; Gronow & Saunio 1990.)

In the beginning of the 20th century Fazer's publishing house had quickly become a significant player in Finnish musical life. It had managed to obtain publishing rights to very successful compositions and thus it could be managed in a healthy cultural spirit instead of just focusing on

the bottom line. This became especially clear when Jean Sibelius expressed his desire to shift to a larger European publisher. Despite the fact that the company had already acquired the rights to a vast amount of his compositions, the composer's wish was honored and in July 1905 Fazer sold all past and future publishing rights to Sibelius' music to Germany's largest publisher Breitkopf & Härtel for a mere 30 000 marks.

Eventually, the music shop's new premises turned out to be inadequate, too. Luckily, K. G. Fazer and his siblings had inherited a lot – again on the same street – where their father's fur shop had stood. Consequently, the widow of Edvard Fazer senior and her children decided to build a modern business property on the lot, and so K. G. Fazer was able to plan new business premises for his music shop, too.

The company moved to the new building in November 1908 and at the same time a repair shop was set up in connection with the music shop. The basic reason for starting this operation was the fact that the music shop's extensive inventory needed constant repairs and skilled repairmen were often very busy. The repair shop soon proved its necessity as its operations began to grow. The first expansion was made in the summer of 1915, and as early as 1917 the repair shop moved to new premises where it occupied 10 rooms and 350 m<sup>2</sup> of space.

Around 1911 the company increased its advertising substantially and simultaneously it began controlling its marketing activities with a detailed card index of advertisements. Thus, the company could plan its marketing activities systematically. These efforts significantly boosted the music shop's provincial sales so that they sometimes even exceeded the shop's own turnover. This achievement was especially notable because mail order was not a common phenomenon in Finland at the time.

The relationship between Fazer and His Master's Voice was formalized in 1912 with a contract that granted HMV's subsidiary Skandinavisk Grammophon A/S exclusive rights to record Fazer's publishing items and in exchange Fazer obtained a special price on the gramophones. Thus, Skandinavisk Grammophon did in fact record a large amount of the most popular Finnish music already in the 1910s. Furthermore, besides just selling gramophones Fazer also imported gramophone parts and assembled gramophones in their own workshop to reduce customs duties. This was an efficient way of keeping the price of gramophones lower and so the practice was continued for decades.

After his business studies in Finland, K. G. Fazer's son Georg Fazer studied the music business for several years at musical instrument factories in Germany and Austria. Thus, he quite naturally joined his father's company in 1913 and after obtaining a procuration in 1915 he also began to take part in managing the company.

In 1915 the music shop needed to expand again as the war had created boom conditions for business as a whole, and so it took over the third floor premises, too. Nevertheless, the other shareholders in the joint-stock property company Stella decided to sell the entire property to the Union Bank of Finland already in December 1916 and the store was again looking for a new home. However, K. G. Fazer had become the main owner of the joint-stock property company Hamstern, which was located on the same lot where the music shop was originally founded, in 1912. Thus, it did not take long before plans to return to the music shop's roots were being sketched. Even so, because of the tenancy regulation after the war it took until 1919 before the first unit of the store – the piano department – could finally move and by fall 1922 the move to the new four-story premises was complete.

As the war endured it became evident that small provincial music shops could not take care of the procurement of their merchandise but had to rely on the assistance of large music wholesalers. As a result, orders from provincial retail dealers increased so substantially that the question of opening their own branch stores came up again. Georg Fazer liked the idea and consequently set up several branch stores around the country in a short period of time. However, the first new branch store started just a few blocks away as Aktiebolaget H. Lundström Oy was bought in January 1917.

Next Fazer bought a music shop from Karl Wasström in Viipuri and the second branch store opened in January 1918. Fazer also negotiated about buying O. Manninen's music shop in Tampere – the former branch store of Fazer & Westerlund – but as the parties could not agree on the terms of sale, Fazer decided to set up a new store in Tampere, which opened in the fall of 1918. In 1919 Fazer also purchased another music shop in northern Helsinki and opened a new branch store in Vaasa.

All of the new branch stores were formed as separate joint-stock companies even though they were managed from the main shop with which they shared a board of directors. Furthermore, setting up these stores naturally strengthened Fazer's position as its organization and its network

covered a large part of the country. This naturally increased the amount of provincial sales to unforeseen levels. Moreover, the competitive position of Fazer improved even further when it became the principal agent of Skandinavisk Grammophon in October 1917. Consequently, gramophones also became an even more important part of the company's sales.

When K. G. Fazer began to reduce his involvement in the company, Georg Fazer accordingly assumed more and more responsibilities. Thus, it was not a big surprise that Georg Fazer became the company's new managing director in 1918. Consequently, K. G. Fazer resigned from active involvement in the company in May 1919 after 22 years of hard but successful work. After all, his little music shop had become without a doubt the largest in Finland.

### 4.3 Good Times, Bad Times (1918 – 1935)

After K. G.'s resignation Georg Fazer decided it was time to incorporate the now substantially larger music shop. Thus he founded a new company with a simpler name "Oy Fazerin Musiikkikauppa." This company then bought K. G. Fazer's music shop for 2.5 million marks on 1.5.1919. Georg Fazer became the company's new managing director and Chairman of the board while the other members of the board were K. G. Fazer and Toivo Voss-Schrader. These three men also owned all of the shares in the company.

Already the first year of operation of the new company turned out to be very successful. Its turnover increased from 1.1 million marks to 3.5 million marks, although substantially high inflation also had a considerable effect on this growth. Nevertheless, as mentioned before, the music shop was undergoing a lengthy period of relocating to its new premises on the same street. Thus, the new company got started with two places of business. During 1922 the company's new premises were being rebuilt with at times more than 100 men working overtime and finally in the fall the whole company was again operating under one roof.

In 1920 Fazer compiled a new publishing catalog of which 35 000 copies were printed in Finnish, Swedish, and German. Consequently, sales of their own publishing items almost doubled in just a year. Another issue that had a notable effect on Fazer's sales figures was the decision to begin

publishing “light” music again. Fazer’s publishing house had for long been very reserved about publishing light music, but in the 1920s it was returned to the agenda as gramophones were becoming considerably more popular. Thus, the most popular recordings were also published as sheet music, which turned out to be a very efficient way to advance sales.

In the beginning the music shop had only three employees and during the first 20 years of its existence the company grew at a very moderate pace. For example, in 1907 the company employed 14 people and ten years later the number of personnel had grown to 37. However, when Georg Fazer took over the company, its expansion began to pick up speed, and by 1922 the little music shop had grown into a company with 104 employees as the following figure illustrates.

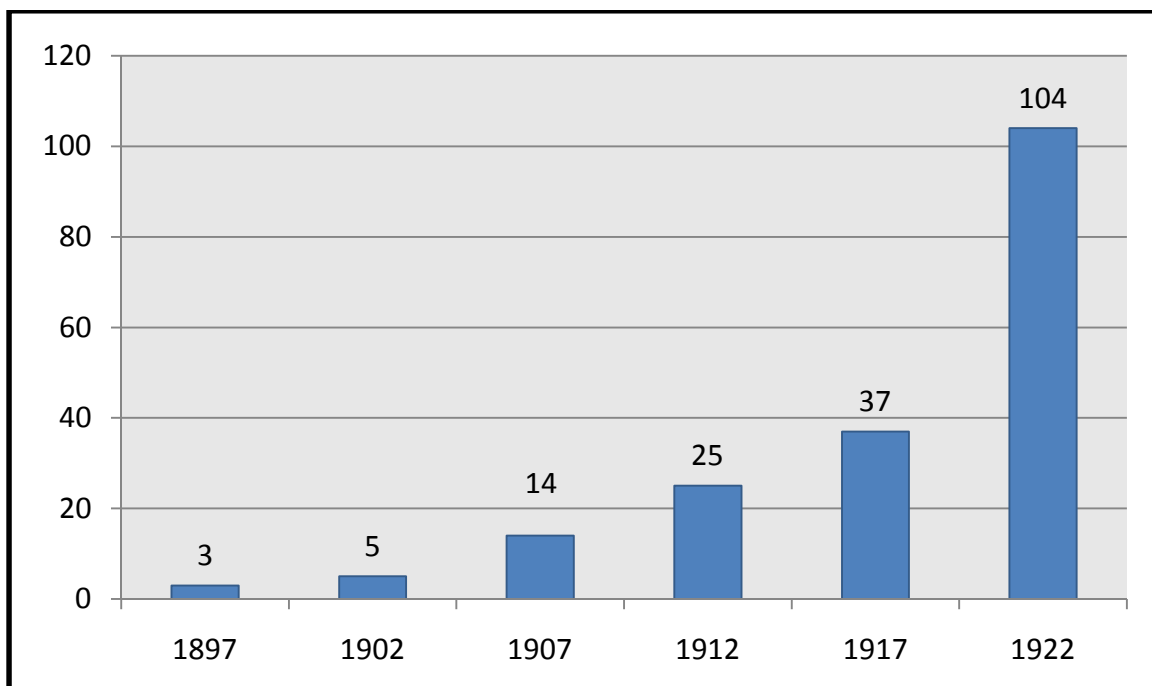


Figure 3. Fazer’s personnel 1897 – 1922 (cf. Marvia 1947)

Organizing concerts was one of the company’s business areas during the time Anna Melan managed her music shop. However, when Fazer took over the company, this business was almost completely abandoned, as it was not officially considered to belong to the company’s operations. One of the main reasons for this exclusion was to avoid competition with K. G. Fazer’s big brother Edvard who had organized concerts since the 1890s and founded his own concert agency

already in 1903. After all, his concert agency more or less dominated the business in Finland as its customer list included almost every foreign artist that performed in Finland as well as most of the top domestic artists.

Nevertheless, in 1910 Edvard Fazer yielded the management of his company to Helge Mörck, who ran the company until his death in 1924. At that point his widow Maj Mörck began to supervise the concert agency, but she lacked experience in such activities and so the company's financial situation began to go downhill rapidly. Therefore, soon the only viable solution was to combine the concert agency with the music shop with which it already shared a name.

So, in the beginning of June 1925, the concert agency was officially incorporated into Fazer's music shop as an individual department with the simple trade name Fazerin Musiikkikaupan Konserttitoimisto. As early as its first year of operation the concert agency organized 90% of all concerts in Finland, of which 60 were held in Helsinki and 139 elsewhere in the country. In 1926 the company also became profitable, which was largely due to Edvard Fazer's substantial efforts as the primary artistic advisor of the company even though he had numerous other obligations as the head of the newly-founded opera, for example.

Composer Ernest Pingoud, who worked simultaneously as the curator of the Helsinki Philharmonic Orchestra, was hired as the manager of the concert agency. Thus, he practically controlled concert life in Helsinki. The following table demonstrates the notable growth in the number of organized concerts as well as the rapid drop in 1929 due to the beginning of the recession.

Table 2. Concerts organized by the Fazer Concert Agency 1926 – 1931 (Marvia 1947, 121)

<b>1926</b>	<b>1927</b>	<b>1928</b>	<b>1929</b>	<b>1930</b>	<b>1931</b>
302	355	379	246	210	186

In 1925 Anton J. Benjamin obtained exclusive rights to sell the Fazer publishing house's items everywhere in the world except in Scandinavia. Moreover, Skandinavisk Musikförlag had controlled the rights in Denmark, but this contract was terminated in 1926 so that Fazer could more freely organize sheet music sales. Fazer had also expanded its publishing catalog in 1925 by



buying K. E. Holm's former catalog, which had brought several important items under Fazer's control. All in all, between 1919 and 1930 Fazer's publishing catalog grew by slightly over 1 200 items.

In another area of the business, gramophone technology began to improve rapidly in the 1920s, and simultaneously the prices of gramophones dropped quickly. This development created a real boom in gramophone sales in Finland. Especially the new suitcase model that became available in the fall of 1925 and cost only 1 500 marks became hugely popular. Consumer interest in gramophones grew at such a pace that sales virtually doubled each year.

On the other hand, Finnish record production had ceased almost completely after the war. In fact the only Finnish records in the early 1920s were made in the U.S.A., where the first American Finnish records were recorded in 1907. However, in the mid-1920s local production gradually started again in Finland and in 1925 the Gramophone Company began once again to release Finnish records on a regular basis. (cf. Gronow 1998; Gronow & Saunio 1990.)

After the war especially the company's piano and horn sales grew rapidly and provincial sales in general were also developing markedly. Thus, Fazer started to manufacture horns again in their horn shop in 1926. In addition, the same year the company struck a deal with organ manufacturer Kangasalan Urkutehdas about building four different models of a special Fazer harmonium, which was manufactured exclusively for Fazer. In November 1926, Fazer printed a harmonium catalog that was delivered to every Parish Minister and cantor. As a result, harmonium sales expanded rapidly until the manufacturer raised its prices in 1929 so much that harmonium sales became unprofitable as a whole.

Besides opening new branch stores, Fazer experimented with a "mobile branch store" as well. In the spring of 1927 the company acquired a Chevrolet truck that was used as the basis for a spacious mobile music shop, which traveled around the country during summer and fall. The sales figures of this mobile shop were not excellent, but it was still profitable business. However, even more important than the sales figures was the promotional value of the mobile shop. Thus, the Fazer name became much more familiar to provincial customers, too, than would have been possible just through catalog sales. Therefore, the next year the company built a larger mobile shop that could even carry a piano. Even so, as the recession was approaching in 1929, sales soon plummeted and the experiment was terminated.

Fazer had been the forerunner in Finland in many areas related to music. In 1927 the company was taking a lead in yet another area by starting a radio department because their management had faith in the future of this novel business. At first the department sold only parts and supplies, but quite soon the range expanded to include the company's own tube receivers as well. A little later the department began to sell Telefunken radios, too.

The emerging gramophone boom of the late 1920s also brought about a growing interest in domestic artists' recordings. At first they were sent abroad to record their performances, but later the recordings were made mostly in Finland. Furthermore, the first actual Finnish-made records since the pre-war days were manufactured in 1928.

1928 was a significant year for the gramophone business in other ways as well. Namely, His Master's Voice had invented electrical recording, which improved the sound quality notably. Furthermore, the customs duties on gramophones were dropped to just a quarter of their previous level at the end of the year. These advancements combined with further improvements in suitcase gramophones and the prevailing economic boom generated a final surge in the gramophone boom, and made 1929 the peak year for gramophone sales. Both the sales of gramophones and the sales of gramophone records exploded to seven times the level of 1928. The company sold almost 8 000 gramophones in 1929 while they had sold only 1 051 gramophones the year before. The following table illustrates the total development of Fazer's gramophone sales.

Table 3. Sales of gramophones and related items 1917 – 1929 (Marvia 1947, 109)

<b>1917</b>	<b>1922</b>	<b>1927</b>	<b>1929</b>
21 000	327 862	1 591 000	21 965 000

Fazer was not the only company that faced rapidly growing demand. However, it was the first to realize that consumer demand was not only rising but also changing. Namely, the changing times had not influenced at all the type of music being recorded until the Gramophone Company's agent Fazer decided in June 1928 to assemble a Finnish dance orchestra called "Suomi Jazz Orkesteri" in a temporary recording studio. The orchestra's records became hugely popular, and further strengthened the gramophone boom. (cf. Gronow & Saunio 1990.)

Consequently, in a few years almost all the major international record companies had found themselves a local agent in Finland to oversee their production. Nevertheless, the annual sales of records remained between 10 000 and 20 000 copies until 1929, when the markets finally exploded and annual sales exceeded a million copies for the first time. In fact, this record was not broken before the 1970s and the compact cassette boom. Even so, the 1930s brought the recession and annual sales rapidly fell back to around 100 000 copies. (cf. Gronow & Saunio 1990.)

The increased demand for gramophones did not remain unnoticed at Fazer, and so during the summer and fall of 1929 the company opened three new stores in Helsinki that focused purely on gramophone sales. In addition, the gramophone departments of the existing stores were expanded wherever that was possible. However, by then the boom was almost over. In the fall of 1929 customs duties on gramophones were doubled and then tripled already in the beginning of 1930. Understandably, this increase resulted in significantly lower sales figures. Moreover, all the sellers of gramophones and records had built up exceptionally large inventories by the end of 1929 because of the boom, and consequently they eventually had to sell off their inventories at way below the break-even point.

The Great Depression naturally affected Fazer's operations, too, quite significantly. For example, most of the ten branch stores the company had started primarily in the 1920s went under during the 1930s. First, three branch stores that were set up in Helsinki primarily for gramophone sales closed in May 1931 and the next – the first of the new branch stores – was shut down in March 1932. In the beginning of 1933 Fazer also had to close the branch store in Oulu and in the summer of 1934 the last branch store in Helsinki as well as the one in Vaasa. Thus, only three of the branch stores survived the depression; the store in Viipuri was at times even profitable, and the stores in Tampere and Kuopio somehow languished with the main shop's support.

On the other hand, Fazer opened a new branch store on the ground floor of the Conservatory's brand new building in September 1931. However, this store's primary function was to fulfill the sheet music needs of the Conservatory's students, and its business operations were generally very small. All in all, in 1929 the company as a whole had reached a peak financially, and in 1930 its turnover had already fallen to just 9.8 million marks from almost 30 million the year before. Moreover, everyone knew for certain that even harder times were ahead. They were right, too, because by 1932 the company's turnover had sunk to a mere 3.9 million marks.

Then again, in the late 1920s and early 1930s Georg Fazer began to change the names of the branch stores so that they all included the Fazer name. This reform was meant to increase the unity of the stores and, on the other hand, the name recognition of Fazer in the provincial towns concerned. In addition, Georg Fazer often set out on inspection visits to the branch stores, the results of which he reported to the shop managers in extensive and detailed guidance letters. On another front, Georg Fazer was awarded the title of consul general of Switzerland in 1934. He had been a consul of Switzerland since 1928.

As record sales decreased the number of titles released declined as well and the record companies put their emphasis on the most likely sellers, i.e. traditional schlagers (cf. e.g. Gronow & Saunio 1990). Then again, in an attempt to increase sales of gramophone records, Fazer obtained exclusive rights to sell Linguaphone language courses in Finland in 1932.

Furthermore, in 1934 Fazer obtained a license from the Swedish Förenade Piano- och Orgelfabrikerna i Arvika to manufacture miniature Mignon pianos. This deal notably boosted the otherwise slow piano sales. On the other hand, Fazer started to produce its own piano model as early as the following year. The goal was to widen the offering with an inexpensive, yet high quality piano. In addition, the company brought the first electric organs onto the Finnish market in 1935, too. However, they did not become very common here for another 30 years.

The depression was a difficult time for the publishing house as well. Namely, only 36 titles were printed between 1930 and 1934 while earlier the number of titles published had sometimes clearly exceeded 300 in a single year. The slowest years were 1933 and 1934 when there were only one and two pieces published respectively. In 1935 the publishing house managed to increase the number of new titles by 84, although some of them were part of a collection purchased from the bankrupt's estate of Musiikkikeskus Oy.

However, Fazer's steady development was jeopardized on 4.5.1935 when Georg Fazer suddenly died. After his death Toivo Voss-Schrader was chosen as the new managing director, which was quite an easy choice as he had been working as the managing director's assistant since 1920. Concurrently, K. G. Fazer was selected as the chairman of the board until 1938 when he finally resigned from the company's service, although he still followed the company's operations closely until he passed away on 7.10.1940.

## 4.4 On with the Show (1935 – 1971)

K. G. Fazer's daughter Lilla Lindberg was chosen as a deputy member of the board in 1935, and after Georg Fazer's death she became a permanent member. Georg Fazer's widow Ebba Fazer then took her place as a deputy member until she was made a permanent member in 1937. Subsequently, K. G. Fazer's grandson Roger Lindberg, who had studied the music business in the USA in the late 1930s and joined the company's ranks a couple of years earlier, became a deputy member. When K. G. Fazer resigned from the board in 1938, Arne Öhman was chosen as the new chairman.

Fazer's branch store in Tampere moved to new premises in 1936. However, the new premises were too small to enable any piano sales, so Fazer acquired a piano shop from A. Pilvinen in the spring of 1939. The same year the branch store in Kuopio moved to new premises as well. On the other hand, the branch store in Viipuri survived the recession fairly well and its turnover exceeded one million marks again in 1938 for the first time since the depression.

Turkulainen Saaristokauppa Oy became an agent of the Swedish Sonora record label in 1936, which resulted in a number of Finnish Sonora records. As the records were selling well, in 1938 the company decided to purchase the first record press in Finland and began to release records in Turku on the Sointu label. Having its own record press demonstrated its value during the war when other record companies were experiencing troubles with their shipments, but after the war the company's record operations eventually faded away. However, Sointu goes down in history as the first completely Finnish record label. Thus, before Sointu, Finnish records as well were pressed – and most of the time even recorded – abroad.

As the radio became more common in Finland, too, Fazer's radio department gradually grew and eventually it was the largest department in the company in terms of sales. Increasing sales also made it necessary to start a radio repair shop in 1939.

Having survived the depression, Fazer had been growing steadily as a whole. However, the Winter War stopped this evolution in 1939, as the last three months of this otherwise busy year were practically dead business-wise. The beginning of 1940 was not much different – just like in Finnish business life in general – as women tended the store when there was anything to tend and

knitted socks for the front. On the other hand, all of the company's pianos, grand pianos, radios, and gramophones had been evacuated to various parts of the country, as were two copies of each of the publishing house's titles.

Nevertheless, in late 1940 business began to pick up speed again. The radio department was especially successful during and immediately after the Winter War, which is quite understandable as people were hungry for information and inexpensive entertainment. Then again, the war did not in fact hinder imports too much because the company's extensive inventory lasted mostly through the Winter War, and Germany and Scandinavia as well as occupied France provided enough imports during the next phase of the war. The only department that suffered notably from the war was the gramophone department because contacts to the U.K. – the largest European record producer – were cut off.

On the other hand, Fazer's management was again facing changes because Toivo Voss-Schrader moved to Sweden in 1940. Roger Lindberg was thus chosen as the acting managing director and eventually he became the permanent managing director in March 1941. As Voss-Schrader was clearly a transitional stage managing director, I have deemed it unnecessary to sketch a separate strategy logic description for his period. After all, he largely continued on the same path his predecessor had roamed, so the depiction would have been practically the same as that outlined for Georg Fazer. On the other hand, more managerial changes were in store when Ebba Fazer died in January 1943. At that point J. G. Lindberg took her place on the board, and subsequently Erik Lindqvist was chosen as the fourth member in 1946.

Nevertheless, Lindberg began expanding Fazer's operations very rapidly after becoming the company's managing director. One of his first actions was to reconfigure the piano manufacturing. Due to the war Fazer could no longer get import licenses for pianos, and so Lindberg deemed that the time was ripe to establish their own piano factory. His brother Konrad Lindberg was responsible for getting the factory up and running in practice, and thus he became the factory's manager. Eventually, Fazer's piano factory started its operations in downtown Helsinki in 1940.

As wartime continued, Fazer began to collaborate with the German Kristall-Schallplatten G.m.b.H. to compensate for the discontinuation of its cooperation with His Master's Voice. First, Fazer gained exclusive rights to sell the company's Kristall and Imperial records. Then Fazer also

started extensive recording operations and it published 40 Kristall records in both 1941 and 1942. However, the production capabilities of German factories were not too extensive, and so Fazer struck a deal with a new Finnish record manufacturer, Oy Rytmi Ab. Simultaneously, Fazer gained exclusive rights to sell the company's records all over the country.

Several small studios and record presses were founded in Finland in the 1940s because the war had cut off most of the contacts with large foreign record companies. Thus, the industry was gradually shifting into domestic ownership. One of the first enterprises was a record company called Oy Rytmi Ab, which was established in Helsinki in November 1940 by two engineers from the Finnish Broadcasting Corporation Yleisradio. The company set up a recording studio in the basement of an apartment building a couple of years later and in addition opened a record press on the outskirts of Helsinki. (cf. Gronow 1998; Gronow & Saunio 1990.)

Fazer's sheet music sales were at a satisfactory level all through the war, although the department's turnover was very modest compared to other departments. Its significance to the company was much more substantial, however, because to most people a music shop meant primarily sheet music sales back then. The publishing house had to print wartime music, like marches, military songs, and light music as well. On the other hand, it also began to publish popular classical miniature pieces in its cheaper "Yellow Series".

Fazer Concert Agency operated within the music shop's premises until 1944, when it moved to the Conservatory building – to the former branch store's facilities. Thus it was located in the immediate vicinity of the Conservatory's concert hall, which naturally made its operations more flexible. Furthermore, the concert agency was separated as an individual joint-stock company in the beginning of September 1946 under the trade name Oy Konserttitoimisto Fazer.

The branch stores in Tampere and Kuopio survived the war years reasonably well while the branch store in Viipuri had its ups and downs. The Tampere store in fact bought the shares of Pilvinen's piano store from the main shop in 1945, and the Kuopio store also managed to increase its sales notably because it was one of the most significant places in the settlement of the Karelians.

On the other hand, the most valuable items in the Viipuri store were evacuated already in August 1939 and everything else that could be saved was transported to safety before the Karelian

Isthmus fell in February 1940. Mostly sheet music was left behind. When Viipuri was recaptured, the branch store was thoroughly restored and reopened in September 1943. Nevertheless, the frontline was fast closing in on Viipuri before midsummer 1944, and this time the company was unable to evacuate its inventory as effectively. However, they managed to rescue a truckload of radios.

Even so, Fazer's situation by no means improved after the war because imports from Germany virtually dried up. Thus, contacts were made with French and British companies, but their production capacity was still so small that they could not really assist Fazer at first. For example, instrument imports petered out almost completely, although trade in used instruments compensated for lost sales to a small degree.

One of the few imported goods that could still be manufactured in Finland was radios. Consequently, Oy Fenno-Radio Ab assembled dedicated Fazer radios for the company, and eventually the radios became quite successful. So, gradually Fazer began to manufacture other instruments as well. First, the company expanded to mandolins and guitars produced under the Fazer brand, and soon another instrument manufacturer began to produce Finnish zithers bearing the Fazer name.

Fazer's record manufacturing operations began to grow as well after the war. However, this function was greatly hindered by the lack of raw material. Nonetheless, the problem was alleviated by an innovative solution of demanding a used record in compensation whenever a customer bought a new record. These old records were then utilized in manufacturing new records.

Einari Marvia started in the position of Publishing Manager of Fazer in 1946. Consequently, he soon became Roger Lindberg's factotum in the expansion and development of Fazer's publishing house. Lindberg and Marvia internationalized the company's whole publishing operations and also established solid contacts with music publishers in the Nordic countries and Germany. However, the publishing house had already grown significantly during the first half of the 20th century. Namely, the fastest expansion in titles occurred right after Finland became independent as the following figure illustrates. Since that time growth had leveled off and the number of published titles had gradually climbed to nearly 3 000.



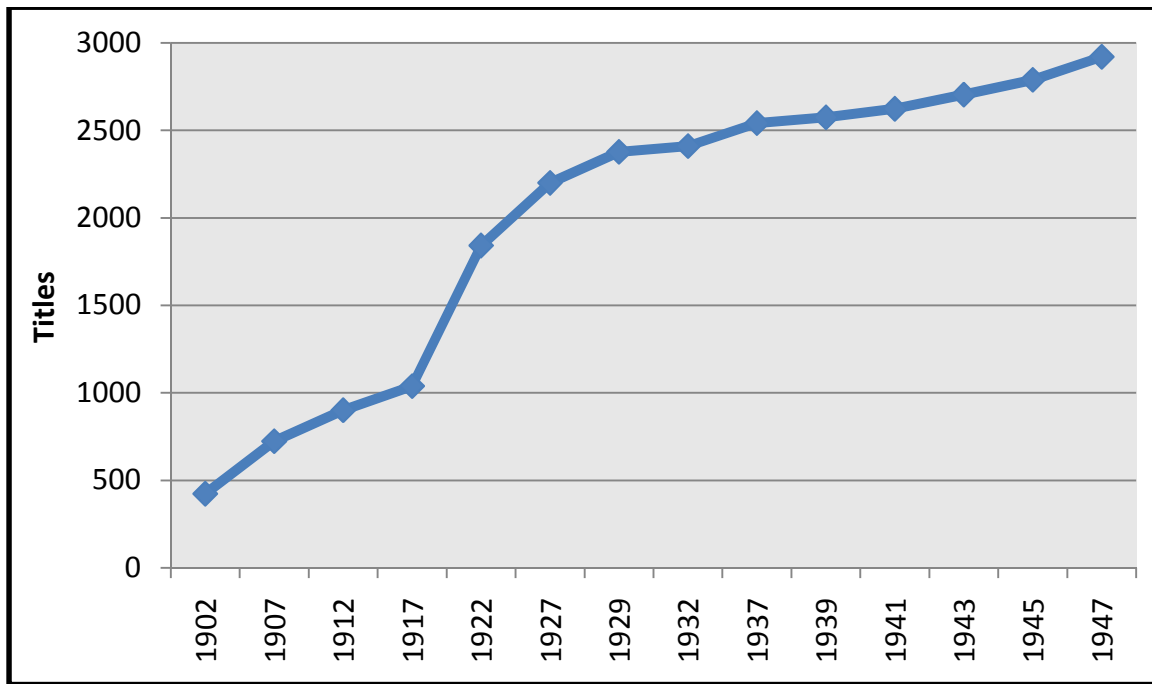


Figure 4. Published titles 1902–1947 (Marvia 1947, 147)

In 1946 Fazer also reached an agreement with Electrolevy Oy, which granted Fazer exclusive rights to sell the company’s records in Finland. Thus the deal was similar to the one made with Rytmi Oy already at the beginning of the Winter War. Fazer had sold 55 000 copies of these records by 1944, and the new accord further boosted sales notably. Thus, in the beginning of November 1947 the company’s record sales had exceeded 150 000 copies. Since 1947 Fazer was also in charge of selecting the music played on these records, and shortly thereafter Fazer acquired Electrolevy. Naturally, the company had followed demand and produced mostly dance music and pastime music, but plans were already being made about recording Finnish classical music.

Electrolevy had signed contracts with foreign record manufacturers in 1947 that allowed the company to press records from foreign matrixes. Thus, most well-known international music was also available in Finland in late 1947. According to this agreement, Finnish records could also be included in the international repertoire of these foreign factories. Then, in 1949, Rytmi was merged with Electrolevy, and Rytmi continued as a Fazer label. In the post-war years Fazer also released records on the Decca and Sävel labels. However, most of the company’s production was then released on the Rytmi and Decca labels. In fact, Fazer became an agent for Decca mainly thanks to Lindberg’s own personal contacts. (cf. e.g. Muikku 2001; Gronow 1995.)

The sheet music department's sales increased after the war just like in the other departments of the company. Furthermore, Fazer was able to sign contracts not only with British and French music publishers, but also with Belgian, Swiss, and even American music publishers. These contracts more than compensated for the cut-off in imports from Germany. On the other hand, Fazer was again contriving to expand its manufacturing operations. Namely, in the beginning of 1948 Fazer was planning to open a piano and furniture factory that would produce both Mignon pianos and normal-sized pianos in serial production.

Nevertheless, the evolution of Fazer's turnover during the first half of the 20th century has been compiled in the following figure. It clearly shows how the company's operations remained rather small until it was incorporated by Georg Fazer in 1919. From then on the company expanded rapidly for ten years, but eventually the recession put an end to this development. As times got better, the company again began to grow, but this time its expansion was terminated by the Second World War. However, on this occasion the drop in sales was much more short-term, and before the war was over the company's turnover had reached unforeseen heights. When World War II finally ended, the company's growth took yet another leap as its turnover nearly doubled in just two years. On the other hand, this growth was in fact mostly due to the changes in the value of the Finnish Mark. Thus, if we look at the evolution of Fazer's turnover after the currency value changes have been eliminated, we notice that it actually fell from 1943 to 1947.

The post-war years were clearly the tentative beginning of actual record production in Finland. Even though there had been records released here before the war, those activities had remained very small and irregular. On the other hand, directly after the war people were in need of everything, which naturally meant that there was not much demand for such luxury items as records. According to Gronow (1995, 36), there were only about 136 000 records manufactured in Finland in 1945, but two years later the number produced had risen to approximately 333 000. Even though the figure was low by international standards, it still indicated that sales had again risen to the level of 1937, which naturally attracted the interest of several old and new entrepreneurs.

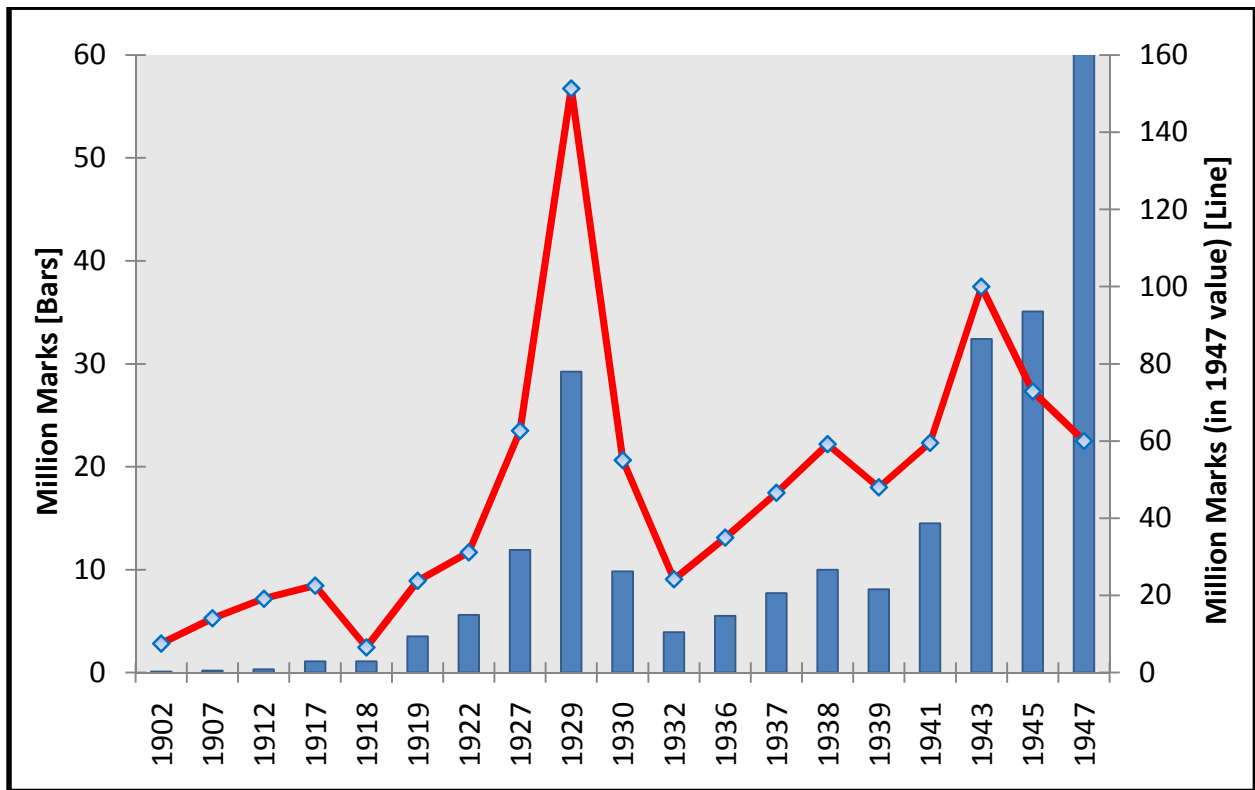


Figure 5. Fazer's turnover 1902–1947 (cf. Marvia 1947)

However, in the 1950s the demand for records began to grow, which obviously resulted in increasing production volumes as well. According to Muikku (2001, 85) there were roughly 100 records released here every year in the late 1940s while in the beginning of the 1950s the amount rose to 200 and by 1955 to more than 300 annual releases. Approximately a third of these were released by Fazer, which was the unchallenged market leader. In the late 1950s Fazer's position became even stronger as the company multiplied its production volumes, and was thus producing almost twice as many records as its closest competitors (cf. Muikku 2001).

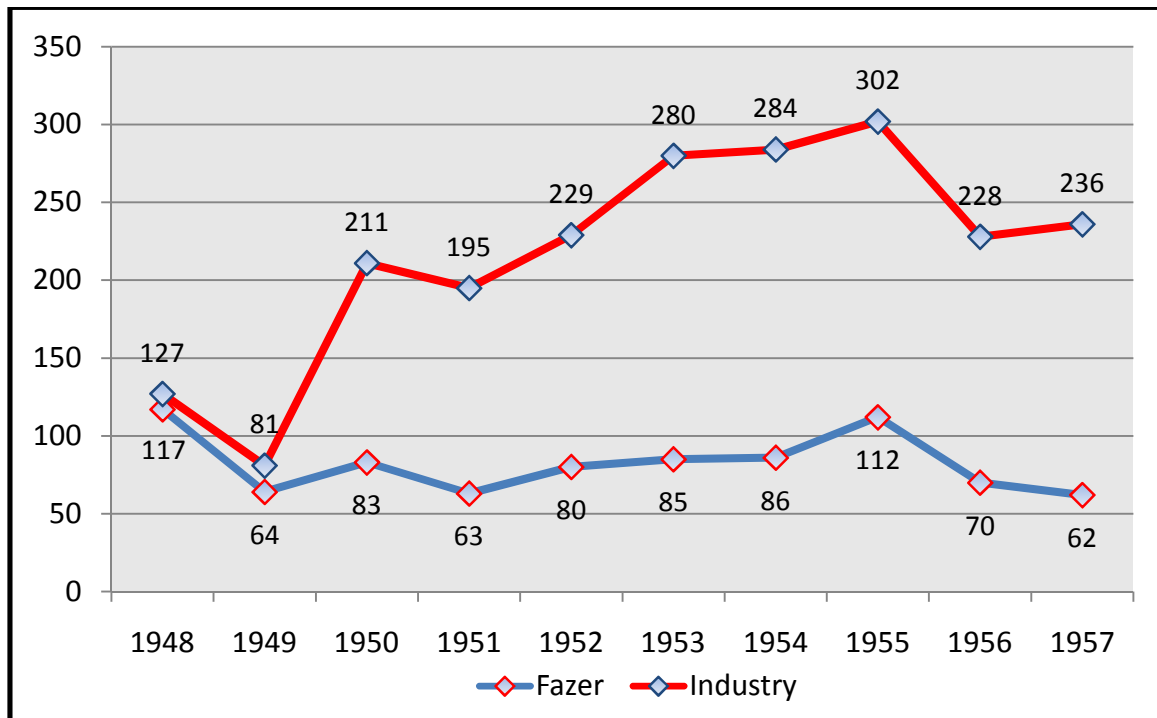


Figure 6. Records produced by Fazer and other key players 1948–1957 (cf. Muikku 2001)

The above figure demonstrates just how dominant a position Fazer had during the post-war years in record production in Finland. In fact, the company had virtually a monopoly in the late 1940s because only one other record company released anything in 1948 and just three companies in 1949 (Muikku 2001). There was not much of a market for such luxury items in Finland in the 1940s in general, so the number of entrepreneurs was naturally very small. Nevertheless, the recorded music market began to grow gradually in the 1950s, which also attracted several newcomers to the industry as well as inspiring older ones – like Sointu and Levytukku – to restart their mostly dormant activities. However, despite these new entrepreneurs that wrested some of Fazer’s market share, there was still no doubt who was the market leader.

All things considered, Fazer was clearly the most active company before the 1960s in terms of total record production. Namely, the company published approximately 1160 releases before 1960, which is equal to the production of Levytukku and PSO combined. The releases were also successful as they accounted for approximately 40% of all chart appearances at the time. Interestingly the actual competition between the large record companies took place in the area of domestic production, because each competitor was an agent for one or more large international record companies. Consequently, the market share of international production was divided quite

equally among the competitors. Thus, the dominance of Fazer was not as obvious back then as it was a couple of decades later. (cf. e.g. Muikku 2001; Gronow 1995.)

The 1950s were a significant time for the whole record industry, too. First, the technological advancements that improved the sound quality of records notably became commonplace in Finland as well. Namely, the first Finnish microgroove records were issued in 1953, and regular production of the new format began around 1955. In addition, the shellac disc was totally replaced by vinyl in 1959. Second, import restrictions on records were gradually lifted in the mid-1950s, which boosted annual record imports from 37 000 in 1955 to 350 000 copies in 1956. This naturally widened the variety of records available and consequently affected also the industry's sales positively. (cf. Gronow 1995.)

The following figure demonstrates just how minimal music exports were until 1955 and how rapidly they grew in the latter part of the decade. Interestingly, exploding imports did not seem to significantly reduce the volume of domestic sales, but instead appear to have created a new market.

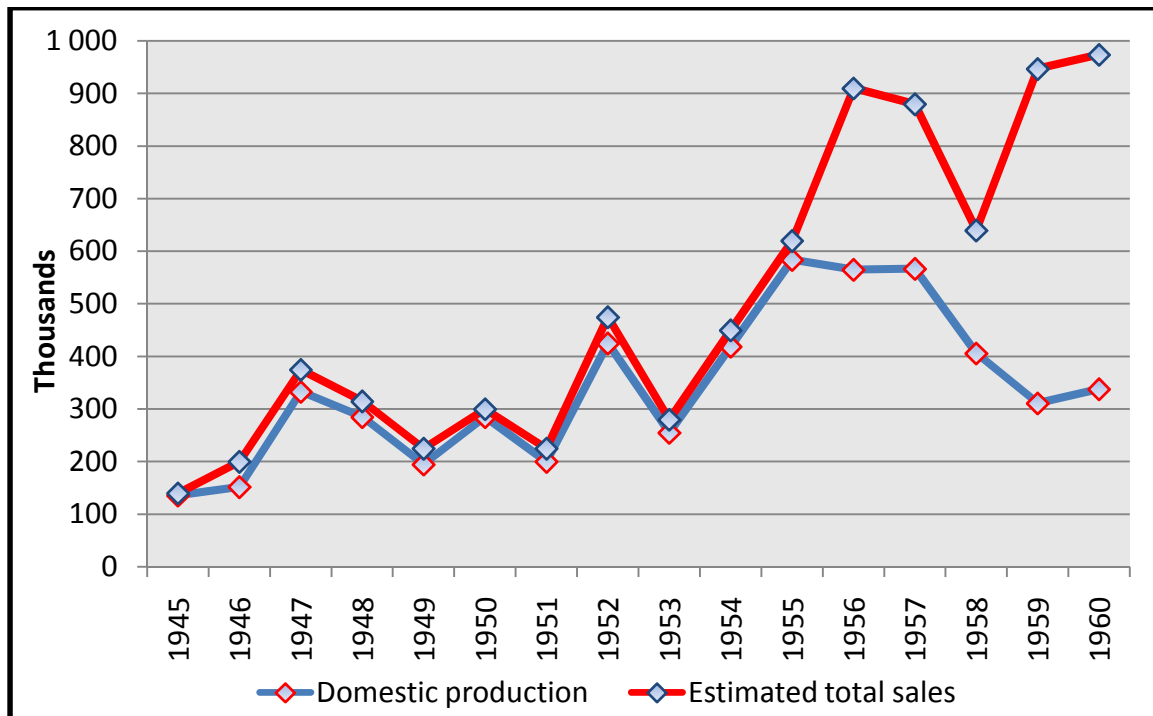


Figure 7. Recorded music market in Finland 1945 – 1960 (Gronow 1995, 38)

On the whole, Fazer's dominance in record production began to form in the 1950s. This could be mostly credited to two recruitments: Toivo Kärki and Reino Helismaa. In 1955 Roger Lindberg had invited Toivo Kärki to become the head of domestic production for Fazer. In fact, he was the first producer in Finland whose salary was based on royalties. (Gronow & Saunio 1990, 328.)

Kärki and Helismaa were without a doubt the most influential creators of music of that time. Furthermore, they did not base their production merely on intuition, but instead Kärki analyzed prevailing music tastes and successful records in very much detail. This analysis was the foundation on which the whole record production of Fazer was then principally built. Combining this kind of a production method with Fazer's direct way of doing business was already then carving out the basis for the company's long term success. (cf. Muikku 2001.)

In the beginning of the 1960s Roger Lindberg felt that the company's name was too difficult and did not describe the company's extensive activities well enough any more. So, in the summer of 1961 the company took on a new official name "Oy Musiikki Fazer Musik Ab". In addition, Fazer's publishing house began to publish its own magazine, "Pieni Musiikkilehti", in 1961.

As mentioned before, Fazer had founded its piano factory in 1940. In the early 1960s the factory had again outgrown its current premises and was looking for more space. Thus, on 7.6.1963, after years of planning, Fazer bought an industrial site in Halkia, which is located in the municipality of Pornainen. This site would later become the new home of Fazer's piano factory, simply called the Halkia factory.

Furthermore, Fazer's concert agency began to organize school concerts in the fall of 1963. Later this turned out to be quite a large field of operation for the company, but then it was mostly another demonstration of the fact that Fazer Music was not a company whose only purpose was just to make money. This had always been the case, and especially so with the concert agency.

Many Finnish record companies were ready and willing to experiment with new types of music in the mid-1960s, which naturally meant that most new groups or artists did not become hit makers for the long run. This was also the case with Fazer. Namely, more than half of the seven new groups that the company produced between 1964 and 1965 did not release anything after their first single. (cf. Bruun, Lindfors, Luoto & Salo 1998.)

What is more, the board of Fazer was again facing changes. Namely, in addition to continuing as the managing director, Roger Lindberg took on the task of Chairman of the Board as well in 1964. Furthermore, Lindberg felt that Fazer's record production operations as a whole needed updating as the company had mostly been focusing on its domestic production. Accordingly, he believed that the company needed to become an agent for more international record companies than merely Decca and Phonogram (Philips). Thus, in 1965 Fazer set up a new record company, Finnlevy Oy, on the basis of its Electrolevy company with the Dutch Philips Corporation and the German Siemens Corporation, which had began to cooperate in the international record publishing business in 1962 through the joint venture PolyGram (cf. e.g. Gronow & Saunio 1990).

Previously a small and unprofitable Siemens-owned record company, Finntone, had been the agent of Siemens' Deutsche Grammophon company in Finland. However, because of the cooperation between Philips and Siemens, Finntone would probably have soon become the agent of Philips as well. Nevertheless, all of Fazer's record production and wholesale operations were now moved to Finnlevy, and also Finntone was merged into the company. Thus, Finnlevy not only continued as the agent for Phonogram but became the Finnish agent for Deutsche Grammophon as well.

Although Finnlevy was a joint venture, it was clearly under Fazer's control as Roger Lindberg owned 60% of the company's shares and PolyGram the remaining 40%. For this reason – and probably also because of the small size of the Finnish market – the foreign partners did not even attempt to control the venture, but remained more in a mentoring position. On the other hand, one of the main reasons for starting this new joint venture was Lindberg's desire to keep foreign ownership apart from Fazer's music publishing operation even though he wanted Fazer to become an agent for more international record companies.

...It was extraordinarily harmonious that... that cooperation that they were, of course, a minority owner there... they had 40%... the Finns had 60... but it... it was certainly based on a kind of complete trust...

...That is where we got... quite a lot of examples, both good and bad, from these international... from the Philips group, or PolyGram group, which had then... taken planning and budgeting quite far... after all there were loads and loads of forms and... you know, fortunately we decided that since majority ownership was in Finland, however, that we're not going to worry about it and... it was quite a good solution...

Then again, Fazer was the buyer in the first significant artist deal in the history of Finnish record production in 1966. Namely, Roger Lindberg paid a sensational 30 000 marks to Finndisc for a contract with Irwin Goodman (cf. Muikku 2001). Soon after that another of Finndisc's key artists, Juha Vainio, moved to Fazer, first as an artist and then as a salaried lyricist. These coups further strengthened the position of Fazer, but in contrast were one of the main reasons why Finndisc was sold to Scandia in 1969.

Nevertheless, Fazer's old partner Musiikkitalo Westerlund had not been as successful as Fazer and eventually it had run into financial troubles. Therefore, Fazer acquired the company's record production operation and its extensive publishing catalog of 3 800 titles in 1967. The deal was significant even for Fazer because it increased Fazer's own catalog to more than 9 000 titles (Jalkanen & Kurkela 2003, 28; cf. also Muikku 2001). This acquisition was the beginning of a new era for Fazer, because from then onwards the company began to systematically purchase every available catalog, which turned out to be a very good strategy especially whenever new recording formats were introduced to the market.

...Yes, we can say it was born then in the late 1960s, we began to... think this way that it is... it, like, strengthens our... our position...

...It is related to the fact that all the rights, which are available and can be bought, like, are bought... but back then there was this thing that let's build a kind of... a kind of rights bank...

...As more came along, more catalogs were bought from competitors there... at the stage when they were already going or had gone under, then it was kind of consistent that extending this... back catalog was most important...

On the other hand, another significant record company in the early days, Levytukku, had also been unable to create successful music any longer in the early 1960s and thus its publishing catalog was sold to Scandia in 1967 while its record production operations were sold to Fazer.

...Everything that was... for sale, we certainly bought...



Despite the fact that import restrictions and “protective” customs duties on most goods were removed fairly quickly after the Second World War in Finland, record players were one of the items that suffered from such customs duties right up until 1968. Fortunately, at least import restrictions were lifted soon after the war. When customs duties were finally abolished the record industry was faced with a boom as, for example, record sales doubled in just two years.

In 1968 Yamaha of Japan began to export televisions, radios, and hi-fi equipment as well to Finland. However, this expansion of their selection in fact created some unexpected consequences for Fazer. Namely, Yamaha more or less forced Fazer to include these new additions, too, in its offering because Fazer was already the representative of their instruments here. On the other hand, Fazer simultaneously strengthened its radio department further by becoming agents for the Sanyo brand.

...This was a bit of a deviation also, of course... perhaps not for strategic reasons... or for our own strategic decisions, but through agencies, so... half-compelled...

In the late 1960s Fazer’s management felt that Finnish customers did not have enough opportunities to buy records because the number of music stores was still very limited, and provincial customers in particular often did not have a music shop at hand. They believed that if customers had more opportunities to buy records, total sales would certainly grow.

...One of the first measures was, of course, this... developing this distribution... because still in the late 1960s and... and also in the early 1970s that... there were relatively few retail businesses that kept records of their range or product groups... it was mostly these large department stores and then there were a few such separate specialty record stores...

On the other hand, they also knew that a mail-order company called Concert Hall controlled more than a 50% share of classical music, even though its offering consisted of much less prestigious artists than were included in Fazer’s repertoire. Therefore, they felt that this situation required significant actions from Fazer.

...For example, in art music they had... more than 50% of all records that were sold in Finland went through them... kind of, we might say... a little less expensive productions, which they did with orchestras from Eastern Europe and... and we, you know, felt that it was wrong... especially because we had Deutsche Grammophon, which was THE art music label back then...

Thus, in 1968 Fazer set up a mail order music club that offered its customers all types of music. Since they had no experience of such an operation, Fazer followed the guidance of their foreign partners to a great extent. On the other hand, the Fazer name was included in the club's name as well to guarantee quality and trustworthiness to customers.

As in many areas previously, Fazer was also the forerunner in releasing LP records. As the following figure demonstrates, all of the LPs released here in 1958 were released by Fazer. Nevertheless, other companies soon followed, but Fazer's share of the total major LP releases was more or less astonishing well into the 1960s. On the other hand, its share of single releases, which was still the dominant format in the late 1950s, rose gradually in the 1960s because the company did not reduce the number of single releases as rapidly as other companies.

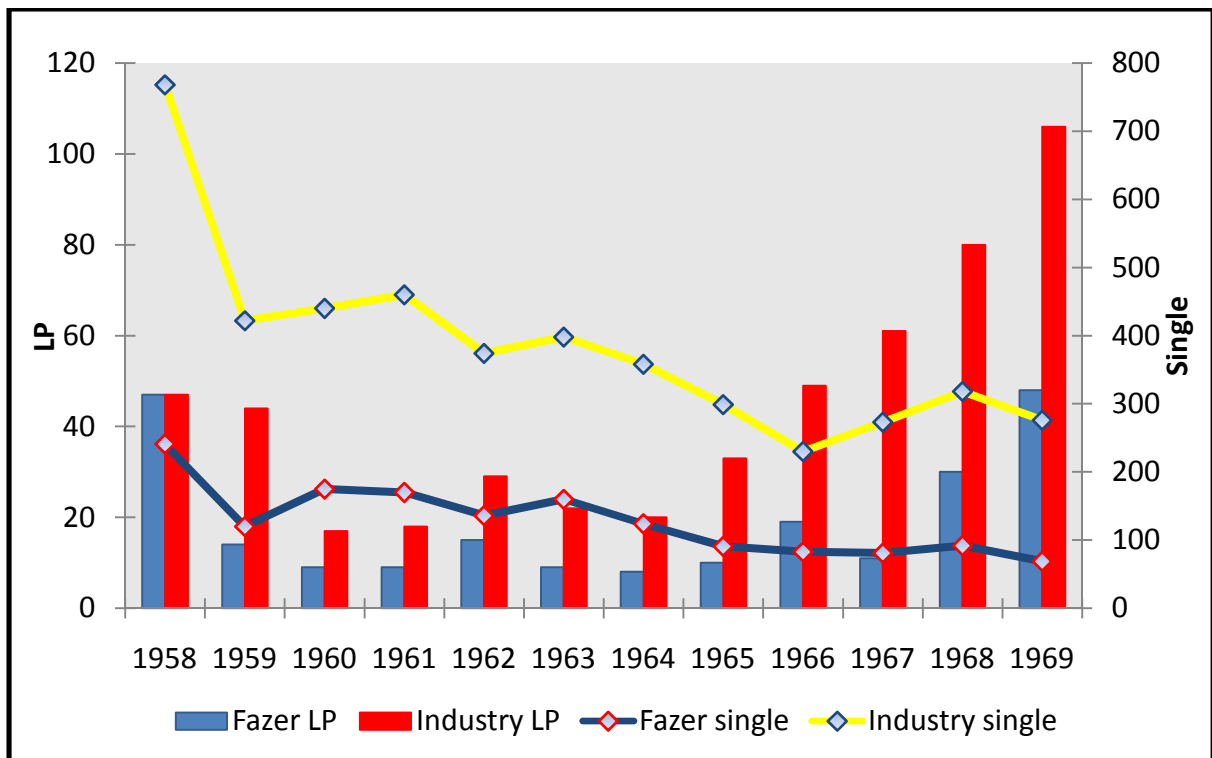


Figure 8. Records produced by Fazer and other key players 1958–1969 (cf. Muikku 2001)

## 4.5 Hold on to Your Hat (1971 – 1988)

In the early 1970s Roger Lindberg began to think it was time to reduce his own involvement in the company, as he was not so young any more. Eventually he did not have to look far, and in 1971 Finnlevy's deputy managing director John Eric Westö was appointed as the new managing director of Fazer. Westö knew the company thoroughly as he had joined Fazer back in 1961 and worked among other things as Lindberg's assistant since 1965. He had also been a key player in setting up the whole Finnlevy and Fazer Music Club operations.

When Westö joined Fazer in the beginning of the 1960s, he was quickly given the assignment of creating a budget for the company. This was quite natural as he had a business degree from the Helsinki School of Economics. Nevertheless, Fazer had operated, even before Westö's arrival, under quite strict financial policies regarding recordings, which were controlled mostly by the producers. However, Westö made these policies more systematic and less based on just feelings.

Fazer was also trying to modernize its recorded music offering because previously the company had produced mostly traditional schlager music. This was mainly due to the dominant position of Toivo Kärki and his analytic production method, which had been successful most of the time, but conversely it significantly hindered the adoption of new tastes (cf. e.g. Muikku 2001). To achieve this goal Finnlevy also set up a new label called UFO in 1971 to release new popular music (cf. Bruun et al. 1998). Unfortunately, the label never became very successful, however.

Finnlevy was, after all, and Fazer before Finnlevy...it was quite such schlager... schlager-dominated... which wasn't wrong, but certainly just right back in the late 1950s, in the 1960s, because Finnish schlager music was strong and, of course, also these... these Finnish cover versions of international schlagers...

On the other hand, a younger record company Scandia Musiikki – established in 1953 – had succeeded very well with its more up-to-date repertoire. Especially its young female singers had become very popular in the late 1950s and early 1960s (cf. e.g. Jalkanen & Kurkela, 2003). In the 1960s Scandia was also much more willing to produce the newly popular rock music than Fazer.

After several fruitless attempts to create similar successes, Fazer eventually bought Scandia in 1972. This acquisition differed from most of Fazer's other deals in that this time the whole company was acquired while in most cases only the company's catalog was purchased to avoid any business surprises. On the other hand, on this occasion the target company's financial troubles were not the reason for the acquisition, but more or less Scandia's Harry Orvomaa's tiredness with his work and Fazer's willingness to buy (cf. Muikku 2001).

...The basic strategy here was, you know, from the very beginning that... that it is worthwhile to acquire this... this repertoire... it related both to mechanized music, i.e. records, and it related to this publishing house, i.e. publishing rights...

Simultaneously with the Scandia acquisition, Fazer renamed Columbus-Sähkö – a company acquired earlier – to Scandia Kustannus Ltd. Oy. The main motive for this change was that Scandia itself operated only in the area of record production, and Fazer wanted to have another company taking care of the related music publishing operations.

One of the key reasons why Fazer was eventually able to buy Scandia – even though it had been even more successful than Fazer in the late 1960s – was the fact that the company's main owner Harry Orvomaa had not believed in the new compact cassette as a recording format. Thus, Scandia had licensed all its record production rights in this format to Fazer. This deal, which was based more on instinct or just pure luck than careful analysis, turned out to be very profitable for Fazer in the long run because the new recording format did in fact become very successful in Finland as well.

During the 1960s Fazer went through a series of reorganizations, which were also needed to cope with the numerous mergers and acquisitions that the company had been involved in. However, by the early 1970s the company's structure had been more or less stabilized to the format presented in the following figure.

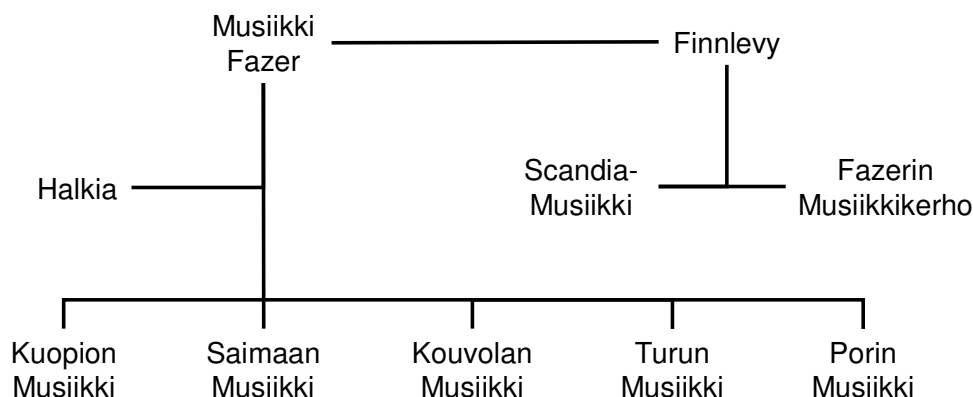


Figure 9. Fazer companies in 1972

As the figure shows, Fazer had two main business lines. First, Oy Musiikki Fazer was in charge of the larger sector of the business. Besides the main store the company had two smaller branch stores in Helsinki and its subsidiaries had shops in Kuopio, Lappeenranta, Imatra, Turku, Kouvola, and Pori. Furthermore, Halkia took care of the manufacture and export of pianos. Second, Oy Finnlevy and its subsidiaries Scandia-Musiikki and Fazer Music Club were in charge of the import, production, and wholesale of records and music cassettes.

By the early 1970s the publishing house had increased its catalog to more than 10 000 titles, and it had acquired a number of smaller publishing companies. Thus, it had become one of the leading music publishers in the Nordic countries and definitely the dominant company in Finland. Its primary focus area was new Finnish music, but it naturally published older Finnish music, too. However, the publishing house's most extensive area of business was pedagogic music, as it was the leading publisher of schoolbooks in music and it had also published a great deal of sheet music for school choirs and instruments.

On the other hand, Fazer was also the leading publisher of popular music in Finland. In fact, after acquiring several other publishers, Fazer's market share was notably larger than all the others combined. Besides focusing on the domestic market the publishing house also had export operations in the area of popular music, too. In fact, these contacts extended all the way to Japan.

Although domestic interest in Fazer pianos had grown steadily, interest abroad increased even more in the late 1960s and early 1970s. Thus, it was determined that the piano factory in Halkia needed to be expanded, even though some of the manufacturing operations had already been

moved to another factory in Linnanpelto. Nevertheless, in 1972 Fazer exported approximately half of its production. Consequently, the company exported more pianos than it imported. The most important export countries were Sweden, Norway, Switzerland, and the United Kingdom.

It was estimated that in the early 1970s there were approximately 300 000 record players in Finland, which meant that every fifth household owned one. This was far from the almost 50% level of other western countries. On the other hand, Finns owned about 220 000 tape recorders and consequently the share of music cassettes of total album sales – nearly a third – was one of the highest in Europe. Thus, Fazer set up its own cassette duplicating plant in 1972 as a part of Finnlevy.

The Finnish music market also had other characteristics that differed from most other European countries. For example, the share of domestic music was notably higher than elsewhere, although in the early 1970s this share was still just over a third. Then again, the share of classical music was approximately 15% of the total Finnish music market, but in the case of Finnlevy's offering this share was slightly larger. This figure was also exceptionally high as the share of classical music was only half that in the United States and around 7% – 10% in most other western countries.

Fazer's decision to start a mail order club had quickly proved valuable. Namely, in 1972 Fazer Music Club was already taking care of approximately 10% of the whole music market and its membership figures were still rising. Even so, the club's sales were not made completely at the expense of other sellers. On the contrary, the club invested heavily in promotion – several times the amount of the other advertisers altogether – and this investment naturally increased the whole demand for recorded music in Finland.

As a result of the increasing popularity of the compact cassette, Fazer also realized that the new format could benefit from more sales outlets and so the company decided to expand its distribution operations by setting up a rack sales organization called Levypiste. It sold cassettes in racks located within stores and gasoline stations, but the key invention was that Levypiste was responsible for actual sales and not the store where the rack was placed. Nevertheless, this idea did not originate at Fazer, but was learned from foreign partners who were more thoroughly acquainted with a similar company already operating in the U.S.A.

All in all, Fazer's development between 1968 and 1972 was quite astonishing. The company's turnover had climbed from 15 million to nearly 46 million, and it had created a full line of offerings related to music. Naturally the development was partly due to its old and new international agencies and its partners, but the production of domestic music was also rising at the time.

Moreover, in the fall of 1973 Fazer started a new marketing chain, F Music, which consisted of a national chain of independent music shops. The key idea behind the chain was to extend Fazer's physical reach to major urban centers in the country. With the help of this chain, Fazer and its divisions (music club, Levypiste) controlled well over 60% of the whole retail trade. The chain operated rather loosely, however, and the chain controls employed were more frequently training and campaigns on a voluntary basis than strict pricing directives.

In the early 1970s a small Finnish guitar manufacturer called Landola had realized that its resources were not sufficient to handle the growth possibilities available. Thus, Fazer bought the company and laid out plans to multiply the company's guitar production. A key motive for the acquisition was the belief that Fazer mastered the manufacturing of wooden instruments because the company had already operated a piano factory for decades.

When Fazer and its foreign partners signed a ten-year partnership agreement for Finnlevy, the contract included a clause under which Philips could have acquired Fazer's share of the company – and thus Fazer's whole domestic record production – when the contract expired. Fortunately, Philips had bigger issues to focus on in 1975, and thus Lindberg managed to buy the remaining shares of Finnlevy from the other partners, making it an independent company. The purchase was not an easy decision, however, but Lindberg believed that Finnlevy would remain profitable even though the markets were beginning to show signs of weakening.

K Tel, a record company which produced mostly compilations, turned to Fazer to obtain popular Finnish music for its records. This led Fazer's management to the realization that they could make their own compilations instead of licensing songs to others. So, in 1975 Fazer started to release compilation albums under the title "Finnhits". These records comprised popular schlager titles, and they were the first Finnish recordings that were systematically promoted on television. This strategy also turned out to be successful as they were the first domestic recordings that sold over 100 000 copies (cf. Muikku 2001). On the other hand, Fazer can also claim the credit for

releasing the first Finnish punk rock recording, namely Briard's "I Really Hate You". However, the ideologies of the company and the group were so different that their cooperation unsurprisingly ended after that one single.

Since Fazer's position in the whole record production business was so dominant, it was also natural that the company represented the most significant international labels in Finland. However, in 1977 Fazer was faced with its first major setback in this area when CBS set up their own subsidiary here. On the other hand, Fazer was trying to renew its domestic production operation by ending the reign of Toivo Kärki as the manager of this area at the end of 1977 (cf. Muikku 2001).

There was still no abundance of professional recording studios in Finland in the late 1970s, so in 1977 Fazer decided to set up its own Takomo studio, which was designed from the beginning to be one of the highest quality studios in the Nordic countries. The company had already gained possession of a sophisticated recording studio in 1972 as part of its acquisition of Scandia, but this studio was shut down when the new studio complex was opened. Before the 1970s Fazer had recorded its music in several different studios even though it had generally preferred one studio at a time (cf. Muikku 2001).

On the other hand, the branch store in Pori ended its operations in July 1978. Then again, Fazer released the first album on its Finlandia Records label in February 1979. This release was the result of years of planning, and the first in a series of classical albums that were targeted at the international market, too. Prior to this no one had simply dared to specialize in concert music because the domestic market was so small and the export market had seemed too difficult to conquer (cf. Gronow & Saunio 1990).

The 1970s was in general a time of rapid expansion for the whole record industry. Namely, the combined annual sales of the industry rose from 1 to 10 million copies during the decade (cf. Gronow & Saunio 1990). Thus, it can be said that the industry had achieved a critical mass, which was mostly due to the huge popularity of the compact cassette. This growth changed the nature of the whole business, turning it into a more professional activity.



Nevertheless, Fazer’s dominant position in the industry did not weaken, but, on the contrary, it even gained strength. In fact, in some years Fazer released even more singles and albums than all of the other significant companies combined, as the following table shows. Furthermore, its share of compact cassette releases was at times even higher. However, this dominance was based significantly on the active utilization of the company’s vast back catalogue; so, Fazer was not actually that dominant regarding new releases. (cf. Muikku 2001.)

Table 4. Records produced by Fazer and other key players 1970–1979 (cf. Muikku 2001)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Fazer single	61	59	66	87	68	75	71	59	62	65
Fazer LP	71	64	84	82	59	132	88	71	111	81
Fazer cassette	34	129	164	*	98	99	95	122	177	122
Industry single	229	187	194	154	162	173	151	160	159	189
Industry LP	193	213	229	189	168	239	205	225	221	160
Industry cassette	81	282	394	*	211	180	200	190	263	193

\* The number of cassette titles in 1972 is the combined total for 1972 and 1973 because individual data is not available

If the 1970s was a period of rapid growth for the Finnish record industry, then the 1980s brought along very different challenges. Firstly, total market growth slowed significantly, which led some to speak of a crisis in Finnish music. Second, the traditional schlager became less significant as rock music eventually increased in importance, both financially and image-wise. Third, the decade also saw the rise of new entrepreneurs in the business, although most of their enterprises did not last very long. This development caused significant problems for Fazer, as it had traditionally focused on schlager music and its key personnel did not understand the new format as well. (cf. Muikku 2001.)

...We had to, kind of... condense and cut costs and expenses...

On the other hand, Fazer had been the most important record distributor in Finland in the 1970s, which had not always been considered very positive among its competitors. Thus, in 1980 the multinational record companies already operating in Finland – namely EMI and CBS – as well as the domestic PSO founded their own distribution company, PEC-Musiikkitukku. This move naturally caused a significant drop in Fazer’s turnover. However, Fazer quickly struck back when it acquired one of its most significant long-time rivals, namely PSO, already the same year.

Next, in early 1982, Fazer restructured its music production organization, and founded the Finnsandia group as an umbrella company, which controlled a large part of Fazer's operations excluding the piano and guitar factories as well as most retail trade businesses. Thus, the group included the Finnlevy, Scandia, and Finndisc labels as well as Levypiste, Scanvideo, background music service, popular music publishing, Takomo studios, and Fazer Music Club. All the group's administrative and financial operations were handed over to Finnsandia itself under which the units operated.

Due to taxation issues, the Finnsandia group was actually formed to buy Finnlevy, which was owned by Roger Lindberg. One of the key reasons for this reorganization was the sheer size of the former Finnlevy, as it had turned out to be too large an entity to be managed efficiently. On the other hand, Finnlevy also had too many strong-willed producers and artists on its payroll, so the company needed different labels to keep them happy. The idea was also to create different profiles for the labels, but this idea never really turned into reality.

...It was too big this Finnlevy... we had to resort to this kind of solution because so many artists, so many producers did not fit in the same place and the same... community... they are relatively strong-willed... however, especially at Finnlevy where Topi Kärki was still sitting...

Official market share data for the Finnish record industry exists from 1975 onwards. Nevertheless, it has been estimated that Fazer commonly had a market share of more than 60% and sometimes almost a monopoly before the statistics came into being. However, the following figure presents the evolution of the market share of Fazer's labels during the time they existed as independent units. The figure clearly illustrates how rapidly Fazer started to lose its dominant position in the beginning of the 1980s when the international conglomerates began to open their own offices in Finland, and new music trends brought along new competitors and different success factors than had existed in the 1950s, for example.

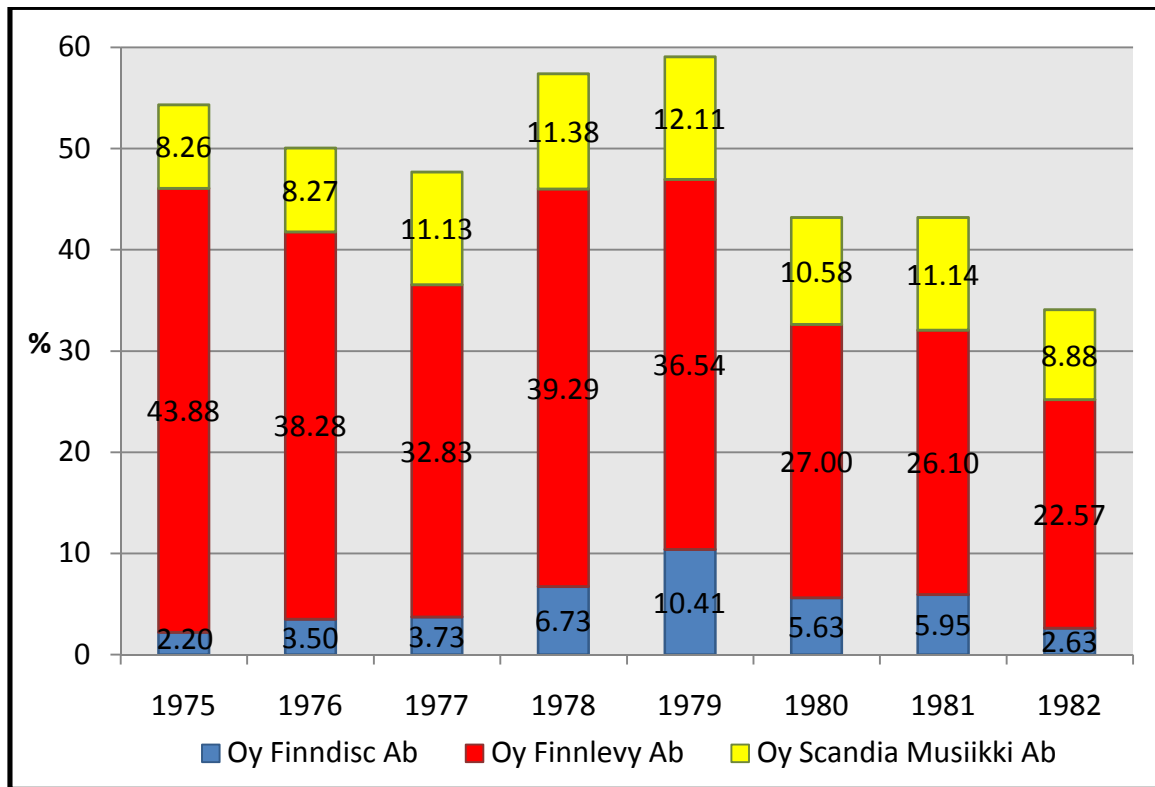


Figure 10. Market shares of Fazer labels 1975–1982

In 1983 Fazer was producing more than 7 500 pianos a year in its factories in Halkia and Linnanpelto. The two modern factories employed about 150 people, and thus Fazer was one of the biggest piano manufacturers in Europe. Approximately 75% of its production was exported, mainly to other Nordic countries, West Germany, France, Switzerland, and the United Kingdom.

On the other hand, the early 1980s was also a time of substantial rationalization for Fazer. Notable reorganizations were conducted especially in 1983. Firstly, the company sold the guitar factory back to local entrepreneurs because the guitar boom had ended and the market had shrunk rapidly. Second, Fazer also got rid of the branch store in Mikkeli and terminated the operations of PSO-Musiikki Oy as well as Fazer Musik Ab (Sweden). Third, the company additionally streamlined its operations and inventories significantly. For example, Finnsandia Musiikkiosakeyhtiö was merged back into Musiikki Fazer in June 1983.

After these measures, Fazer’s business operations were organized in five main groups: the Fazer, art, Finnsandia, finance, and administrative groups. The Fazer group took care of instrument manufacturing and sales as well as radio and TV operations. The art group was – as its name

suggests – in charge of publishing and producing classical music, and also included the concert agency. The Finnsclandia group, on the other hand, consisted of popular music production and publishing, studios, as well as record and video distribution both in-store and via the music club.

The reorganizations did not end in 1983, however. Instead, Fazer sold its branch store in Kuopio already at the beginning of 1984, thus continuing its policy of focusing retail operations only on Helsinki, Turku, and Tampere. On the other hand, the company had found new markets for Fazer pianos, and the first 84 pianos destined for the U.S. market were loaded into their container on January 19. Fazer's organization was also refined again in the fall, when the radio and TV department was transferred from the Fazer group to the Finnsclandia group and combined with the Scanvideo department.

Fazer had attempted to shift its record production activities more towards rock music from its schlager roots already in the 1970s, but without much success. However, in the mid-1980s the company finally hit the jackpot in this area when it signed a group called Dingo. This group soon became extremely popular, especially among young girls, and created unforeseen hysteria and, accordingly, very pleasant turnover figures, too. Then, after releasing albums by Miljoonasade and Mamba, for example, Fazer's record production was again generating good results, and the whole company had finally gained at least a bit of credibility among consumers of domestic rock music.

On the other hand, the company shortened its name again in August 1986. From there on the company was simply called Fazer Music, in Finnish, Swedish, and also English. So, Fazer was clearly showing more interest in international markets as well. Nevertheless, the company was also interested in developing its businesses in Finland. However, its position in the music business was so strong that it did not offer much potential for expansion. In contrast, the company's competitive position in other sectors of the entertainment industry was notably less dominant and thus seemed to provide more opportunities. Consequently, Fazer was very interested in the movie business, for example, both as an importer of video films and as a theater operator through the newly formed Finnkino company in which Fazer was one of the major owners.

During the first 90 years of its existence Fazer had faced its ups and downs, but significant restructuring of the whole company in the 1980s did eventually pay off and by 1987 the company

was again clearly profitable. The most visible part of the company was naturally its main store in Helsinki, which had served its customers on the same spot for 65 years. On the other hand, Fazer had only one branch store left, namely in Turku. Instead of its own stores Fazer had focused on increasing the number of music shops in its F Music chain. In contrast, the company was looking for ways to reduce its involvement in the RTV sector, in addition to loosening its direct participation in musical instrument sales.

While reducing the number of branch stores, Fazer had, on the other hand, opened eight record stores in its City-Musiikki chain. Five of them were located in Helsinki – one of them actually within the main Fazer store – and the others in Tampere, Turku, and Lahti. Moreover, Fazer also distributed records through its rack sales company Levypiste, which was the biggest record distribution organization in Finland with its more than 1 000 sales racks around the country. All in all, in the late 1980s Fazer distributed approximately 40% of total record production in Finland.

Furthermore, the Fazer Music Club had become a significant player in the music business as a whole in the space of 20 years. Namely, it had more than 85 000 members, so the whole industry followed closely what was chosen as the record of the month on each occasion. After all, an album would almost certainly achieve gold disc sales just by being the club's album of the month.

Although some accused Fazer of favoring its own records in the music club – and also in its retail system as a whole – the company's retail organizations served all the record companies operating in Finland. Nevertheless, Fazer's own products were understandably well represented in these operations, after all the company's domestic production still comprised more than a quarter of the whole industry's sales and it represented almost a third of foreign production, too.

Fazer's popular music publishing house Fazer Songs was also a dominant force in its area of business as it gathered approximately 80% of the yearly copyright payments to music publishers from Teosto. Furthermore, Fazer's piano factory was one of the largest piano factories in Europe and among the 20 largest in the world, even though its yearly production had fallen to around 6 000 pianos. In Finland its market share was roughly a third while 70% of its production was exported, mostly to Western Europe. All in all, the company had manufactured more than 90 000 pianos in total by 1987.

## 4.6 New Faces (1988 – 1993)

In the late 1980s Roger Lindberg felt it was time to start looking for new ownership arrangements for the company as he was already in his seventies. Since his own daughters were not interested in the company, Lindberg decided to expand his search to other close relatives. His nephew Erik Hartwall was interested, but felt that the investment was too big for just one person. So he decided – together with his father and brother – to ask if there was any interest on the other side of the family, and so they contacted Peter Fazer. The team concluded that it would be nice to continue the family tradition and so they agreed to go ahead with the deal. After all, the Hartwall family had always remained close to the company, even though their ownership had been purely nominal. For example, Kay Hartwall, the head of the family, had held a position on the board of Fazer.

A new company called MF-Invest was set up to purchase a majority of the shares of Fazer Musiikki from Roger Lindberg and six minority shareholders. The company was a 50/50 joint venture between Oy Karl Fazer Ab and Ky K. Hartwall Kb, which was the investment company of the Hartwall family. Along with the deal, the participants also signed a shareholder accord on 25.11.1988. This contract, written in Swedish, included a clause which stated that the purpose of the ownership arrangements was to promote the future development of the company in the long term and simultaneously continue the family tradition in the company. After the deal Roger Lindberg also retired from his position as chairman and Erik Hartwall became the new chairman of the board.

...Because this was, however, his... his life's work... after all Roger had developed it into quite a unique, extensive... music corporation, so he wanted somehow guarantees that it would continue... and Lindberg was in that sense... quite an extraordinary dealer that he... he was very culturally... or he took more of an interest in culture than business...

One of the first key tasks of the new owners was to intensify the efforts taken to improve the company's financial situation. The new owners were even ready to let go of the piano factory, which had been an essential part of the company for almost 50 years. Nevertheless, this was not an easy decision for the new owners, either, because they still were part of the same family. Even so, they realized that there was no way to make the factory profitable within the boundaries of Fazer. After all, there had already been numerous such attempts that had not been successful.

...My job was then, like, to keep an eye on that... when time had, like, passed and changed and so forth, however... like, to oversee that which was profitable and that which wasn't...

The F Music chain reached its 15-year milestone in the fall of 1988. In that time the number of music shops in the chain had risen to more than 40. On the other hand, successful artists Matti and Teppo Ruohonen had set up their own record company M&T-Tuotanto in 1974, which released mainly Finnish schlager music from the duo and other artists as well. However, maintaining a successful career and running a record company turned out to be too exhausting for the brothers and so they sold their quite profitable company to Fazer in 1988. (cf. e.g. Öhrnberg & Karhunen 1995; Muikku 2001.)

Then, as some had already speculated, Fazer Piano was sold to Hellas Piano in September 1988. The timing of this deal was especially good for Fazer because only a few months after the deal the piano market plummeted. Thus, Hellas eventually had two piano factories at a time when the market situation was very weak.

...It was determined that we were involved in too many operations... we cannot master everything...

Another interesting issue regarding the deal was that only a couple of years earlier, namely in early 1986, Fazer had planned to either buy Hellas or find some areas for close cooperation between the companies. These plans were being discussed when the piano market was booming, but fortunately for Fazer the two parties could not agree on the price of the factory back then.

Next Fazer made a move across the western border when it bought Nordiska Musikförlaget in March 1989. The company, which was founded as early as 1915, was a central cultural institution in Swedish music life. It had released records since the 1940s and had also been involved in other related areas of the business. This acquisition further strengthened Fazer's position as a culturally oriented company, but was also planned to be the basis for creating a real Nordic alternative in music publishing to reduce the threat of the multinationals. On the other hand, Fazer acquired two Finnish record companies in 1989 as well, namely Kompass Records and Sauna-Musiikki. Then again, the company also lost the agency for Warner Music when the global giant set up its own subsidiary here.

...Now everything that makes a nice sound then there was... you know, about music... you name it then it was there... We checked that where there is, like, business... you know everything that makes a nice sound is not business... but this... of course, this making records and selling them and utilizing these... publishing rights and, like, cultivating them into products... that just is business... that is good business... there is... the marginal is... the marginal cost is almost zero, you know...

The new owners also had other ideas about developing the company. So, on 14.8.1989 Fazer Music went public. The management of Fazer had already earlier made some plans to list the company on the OTC list of the Helsinki stock exchange, but the new owners were convinced that the company should aim straight at the A list. So, as usually happens in this kind of situation, the owners had the final word and the company was listed on the A list, and it acquired nearly 1 000 new owners. Nevertheless, the largest owners were Oy Karl Fazer Ab, Roger Lindberg, Konrad Lindberg, Ky K. Hartwall Kb, and Oy MF-Invest Ab, which controlled the majority of the votes. Unfortunately, going public was really poorly timed in retrospect, as the recession was just around the corner and the whole economy was heading into slump.

...I guess the OTC was...it would have been easier to operate and... and so on... but then, on the other hand, the differences back then were rather small... that it is a terrible strain the whole stock market, like... all the reporting and all the annual reports and all the stock market notices and others... compared to operating, like... free...

The market share of Fazer had already begun to fall significantly in the 1970s when new entrepreneurs entered the market and the multinational record companies began to set up their own operations here. This development continued in the early 1980s as the figure below demonstrates. However, in the latter part of the decade Fazer's market share leveled off at slightly more than a quarter.



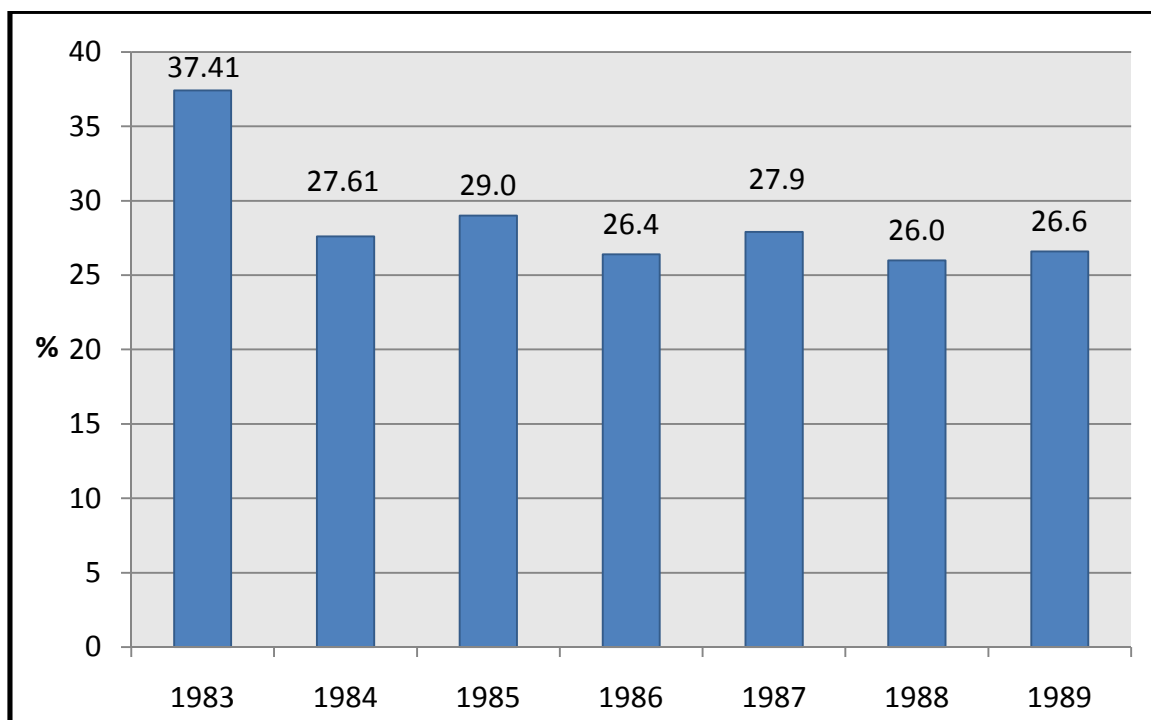


Figure 11. Market share of Fazer 1983–1989

On the other hand, as the table below illustrates, Fazer’s share of total releases had remained somewhat higher than its market share, which naturally means that the company had not been able to create those vital hits as efficiently as its competitors. In contrast, Fazer’s production volume slowed down significantly between 1984 and 1988, which were not very productive years for the whole industry, either. Nevertheless, Fazer was the first record company to release CDs in Finland, and consequently its share of total CDs released remained high all through the latter part of the decade.

Table 5. Records produced by Fazer and other key players 1980–1990 (cf. Muikku 2001)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Fazer single	118	127	87	59	72	63	48	51	53	43	60
Fazer LP	74	93	84	67	59	45	54	59	41	63	63
Fazer cassette	90	98	93	109	75	68	51	49	26	72	77
Fazer CD							5	6	46	103	83
Industry single	353	329	275	218	256	281	241	248	249	238	291
Industry LP	224	243	221	219	211	192	175	197	149	207	188
Industry cassette	201	237	315	272	279	225	194	222	157	228	218
Industry CD							5	28	90	204	198

In the early 1990s Roger Lindberg had already begun to wonder about the ultimate intentions of the new owners. Thus, he wanted to make sure that the part of his creation he loved best, i.e. the concert agency, would not be jeopardized no matter what happened to the rest of the company. So, in 1991 he bought back the shares of the new owners and restarted the old company as an independent enterprise.

On the other hand, the pace of restructuring the company remained swift in the 1990s as well. Firstly, the operations of Fazer's Takomo studios were discontinued in 1990 as the whole studio building was torn down. Then, in December 1991 Fazer's video and radio & TV group was shut down as this unprofitable home electronics division was seen to be operating so far outside the company's core business.

Moreover, the group's Yamaha and Sanyo agencies – the hi-fi operations – were sold to Kaukomarkkinat, and the video business ended as Warner started its own operation here. Fazer's background music service ceased, as well, and the manager of the business continued the operation as an entrepreneur. This function had differed greatly from most of the other Fazer activities as it was purely a business to business operation, and thus it was considered too separate from the company's main business. Furthermore, Fazer combined the retail and wholesale of instruments with Discus record stores as a new unit called Musiikkitalo Alexi in the beginning of 1992.

...We trimmed the company, so that we then had this retail trade, and then there was this... record business, and then there was the publishing house... like these three... profit centers... each one of them was, like, profitable... the company was... in pretty good shape...

The different perspectives of the management and the owners of Fazer regarding the development of the company finally culminated in the inevitable in the beginning of February 1992: the owners sent Westö into early retirement. They felt that this move had to be made because very difficult cutbacks were unavoidable.

...When you... when you have to do this kind of, like, downsizing... it is... it is like really spanking your own child or something... so that it is very hard... It is, like, mentally so difficult... like, difficult for a person that... that we did not want that he, like, had... to do it again...

Nevertheless, new management arrangements may have been necessary in any case. Namely, Westö might have left the company soon anyway because he felt it had changed so much after the changes in ownership.

...I kind of doubt... you know... I did not think that it was any longer the same company... culture than when we worked with Roger... it changed so much...

Harry Söderholm was then appointed as the new managing director from the beginning of March. However, he was not completely new to Fazer as he had already worked as a consultant for the company for a few months, but he was still clearly an outsider. Thus, it was quite evident that the new owners were going to make some notable changes to the company.

...His job was, like, to take these... we had, like, a clear plan about what is trimmed away and what should be done and how do we get this... company, like, into good shape... because it was not... in tremendous shape...

In the 1992 annual report Söderholm already outlined domestic music publishing, production, and distribution as Fazer's key business areas where the company had good chances to succeed. Thus, he – and probably the new board as well – evidently would have been ready to add also musical instrument sales to the list of discontinued businesses along with instrument manufacturing, studios, and consumer electronics, for example.

...Making the actual records and owning the studios and all this... you know it just was not so important anymore... when there were plenty of them...

1992 was a year of other significant actions for Fazer as well. Namely, Fazer Musiikki Estonia Oy was established in January to publish music from Estonian composers. On the other hand, the cooperation pact between Fazer and PolyGram International ended at the end of June, which was caused by PolyGram's own unit being set up in Finland. In addition, the company acquired Ab Discophon Oy as well as Oy Edition Coda Ab in March, even though these two companies were not officially merged with Fazer until March 1993.

Fazer also restructured its units and in October Discus record stores were first merged with Fazer Retail, and then Fazer Retail was merged with the main company, thus combining Fazer's instrument and retail operations. Furthermore, Karelia Communications and Opportune Ltd – both established in 1986 – were merged with Fazer in November. After these changes Fazer's

organization consisted of six groups: the record group, publishing group, Musiikkitalo Alexi, Levypiste, Fazer Music Club, and Nordiska Musikförlaget. In addition, separate administration and material functions units supported the activities of these six business units.

The reorganization did not end there, however. On the contrary, next Fazer sold the branch stores in Turku, Tampere, Jyväskylä, and eastern Helsinki to their shop managers. On the other hand, in 1993 Fazer did not have as large investments, but it did, however, acquire the publishing operations of another successful record company Flamingo, and the activities of one of the more successful smaller rock record companies of the 1980s, namely Euros. Then again, the company's financial result climbed from unprofitable back to profitable after the reorganization and rationalization conducted in previous years. This was quite an achievement in a shrinking industry with tightening competition.

...It had gone a bit, like, slow that it did not really get flying... we then made it fly...

In the early 1990s Fazer did not succeed as well as it could have in its record production. In the 1980s the company had been able to create hysteria among teenagers, as well as ringing cash registers, with the group Dingo, but since then Fazer had not had any really big successes. However, this did not threaten the existence of the company as it had acquired producer's rights to approximately 25 000 recordings and publishing rights to about 30 000 titles (cf. e.g. Herlin 1992; Öhrnberg 1993a). So, Fazer could have continued to operate for years without any new production activities.

On the other hand, Fazer increased notably the number of records published. Namely, the company released 450 records during the fiscal year 1992/1993, compared to approximately 400 the previous year and only about 250 during 1990/1991. It was naturally believed that by releasing more records, the number of hits would rise accordingly.

## 4.7 Mixed Emotions (1993 – 1994)

Cooperation between the board and the new managing director was not as smooth as had been planned, however. So, just a year after the previous management arrangements the board felt that changes had to be made, and eventually they came to a decision that it was time to find a new managing director. Moreover, it was obvious that Söderholm's mission had been completed, as the company had again become clearly profitable. Nevertheless, this time the board also decided that the next managing director should have more experience in the entertainment and media sector.

...It just absolutely didn't work... after all you don't, like, make these changes just for fun...

After a thorough selection process, the board finally settled on Heikki Lehmusto. Before joining the ranks of Fazer Music Lehmusto had built up the Finnish commercial television network Kolmostelevisio. Furthermore, Lehmusto was ready and willing to take on a new assignment because he had finished his task of getting the network started. Consequently, Lehmusto started as the new managing director of Fazer Music in May 1993.

The board gave the new managing director the key task of continuing to enhance the company's financial situation and creating a well-managed company that had clear plans for growth. Thus the managing director and his top management team set out to further rejuvenate Fazer Music.

...The assignment included that... the company had to be in a healthy state... and it ought to be... well-managed, it should have clear growth tracks and then... it ought to have capable management... and then... it could not have any skeletons in the closet and... it should be managed so that the healthy value increase of a public company... that a clearly healthy, affluent company, which sees future opportunities, was born...

On the other hand, the Finnish business press speculated whether the management changes had been planned from the beginning. It was believed that Söderholm was hired to take care of the severe operational trimming while Lehmusto was appointed to supervise the trimmed company without any negative burden (cf. e.g. Öhrnberg 1993a). Then again, Lehmusto publicly declared early on that the whole Finnish music industry should become more international and start looking for artists that could become successful internationally, too (Öhrnberg 1993b).

One of the first responsibilities of the new managing director was to lead his top management team on a thorough strategic analysis of the whole company. Already in June he defined some guidelines on how the team should prepare themselves for the planning process in August. During the actual two-day top management strategy meeting the team analyzed the company's market and competitive situation as well as their planning processes and corporate culture. Even more importantly, however, the team also discussed thoroughly the whole strategic basis of the company which included, for example, its core competences and strategic goals. After all, this kind of an analysis had not been done comprehensively in the past couple of years.

So it certainly was, you know, like... hard continuous work... that there... there was no such, like... great creative freedom that let's just do things and see what ends up at the bottom of the chest... but it certainly was, like, really... weekly, monthly follow-up...

Nonetheless, in the meantime it had become obvious that the company was too big an investment for its principal owners, especially when the recession burdened the whole industry severely. Therefore, even though it was an extremely hard decision especially for the previous principal owner Roger Lindberg, the board decided to begin looking for alternative ownership arrangements.

...This was very hard for Roger... or a difficult situation, when... but as a real gentleman he never, like... said anything to me or to anyone, like... like, not a single foul word about... he was so damn loyal... when we began to discuss this, then... he did not object to it... if this was where we had ended up, then he would accept it... although it, like... he did not like it, but... on the contrary... he was... was, like, disappointed... you can certainly understand it...

Thus, the board and the managing director started to search for a possible domestic partner or a buyer for Fazer Music. The team examined all the potential Finnish companies that were operating in the publishing, communication and mass media industries and presented their company to several of the most promising candidates. Nevertheless, despite serious efforts they could not find anyone interested enough who would also have been ready to pay a reasonable price for the company.

...For some reason there... there was nobody, I mean... it would have fitted... the company would have made a nice fit with Sanoma WSOY... it would have fitted MTV very well, and it would have fitted... reasonably well with Yhtyneet Kuvalehdet...

...As hard as it was, then we... we discussed a lot about this with Roger and... we went through all the Finnish, like, potential buyers, when... he didn't want this... he really didn't it want to go, like, abroad... but when there was just no one who would have been... interested enough... I mean somebody would certainly have taken it, like, for free... or, like, for a very low price...

So, the company was not directly put up for sale, but all options were still open. The new owners would have been ready to accept a new partner instead of a buyer, but they were also prepared to retain ownership if nobody was willing to pay a fair price for the company. In addition, the board did not insist that the new buyer or partner should maintain the high importance of promoting Finnish culture, even though that kind of a solution would have been preferable.

Perhaps the cultural mission... so it certainly was connected a lot to Roger... that he, like, as a person... and he collected around him these... good people... which were at the top of Finnish music life... I think that he was so central in this... that his mantle, like... it certainly would have... it was another company...

## 4.8 Black Limousine (1994)

So, it was time to look for a partner further afield. The team then analyzed the potential international candidates and the managing director traveled around Europe to present the company to all the major record companies which seemed interested. Most of the multinational record companies had opened their own offices in Finland by the early 1990s but their own domestic production was still very small in general. On the other hand, although the market share of Fazer Music had fallen notably from the 1960s and the 1970s, it still remained very significant – especially in domestic production – as the following table illustrates. Thus, it was not a surprise that there were a number of interested parties available.

Table 6. Market Share of Fazer Music 1990–1993

	1990	1991	1992	1993
<b>Total</b>	21.0	21.5	18.5	20.64
<b>Domestic</b>	25.4	26.1	26.1	35.98

On the other hand, Fazer’s turnover had been gradually falling in the early 1990s as the following figure demonstrates. Even so, it was still fluctuating around 300 million marks. Furthermore, the real value of Fazer’s turnover was even more steadily falling as the red line (turnover in 1993 value) demonstrates. In contrast, the number of personnel at Fazer had decreased much more rapidly from 700 to just over 200 in slightly more than a decade. So, the company’s operations had obviously become more efficient. However, a significant proportion of the personnel reductions resulted from the divestment of the piano factory, and also the other discontinued operations had helped in reaching this goal. All in all, the evident improvements in efficiency certainly raised the interest of potential buyers. The trend in Fazer’s personnel is presented in figure 13.

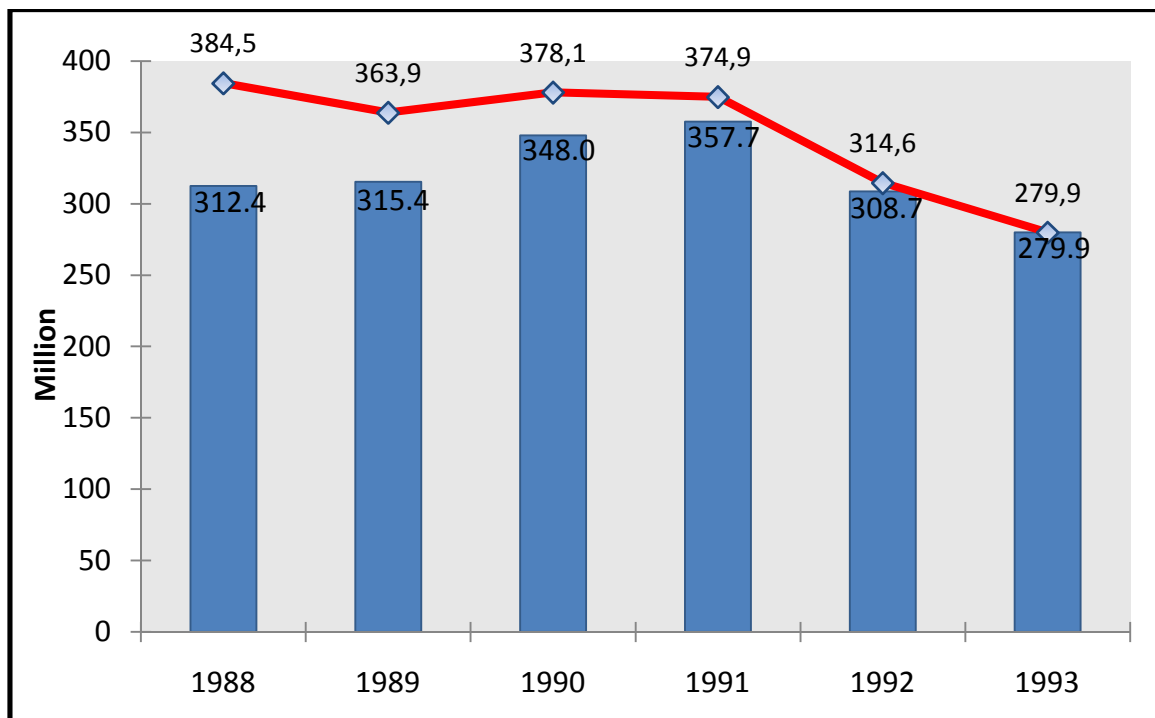


Figure 12. Fazer’s turnover 1988–1993

Eventually the team found two giants from opposite sides of the Atlantic which showed enough interest to begin negotiating the deal further. The first was Warner from the U.S. while the second bidder was BMG, part of the German Bertelsmann media corporation. Negotiations with the two competing bidders advanced fairly swiftly and in October, after just six months of discussions, the news was officially made public: Warner Music Finland had bought Fazer Music with effect



from the beginning of November 1993 (cf. e.g. Lichtman 1993). According to the Finnish business press the price tag was set at approximately 155 million marks, which some competitors found high (cf. Koistinen 1993; Öhrnberg 1993c).

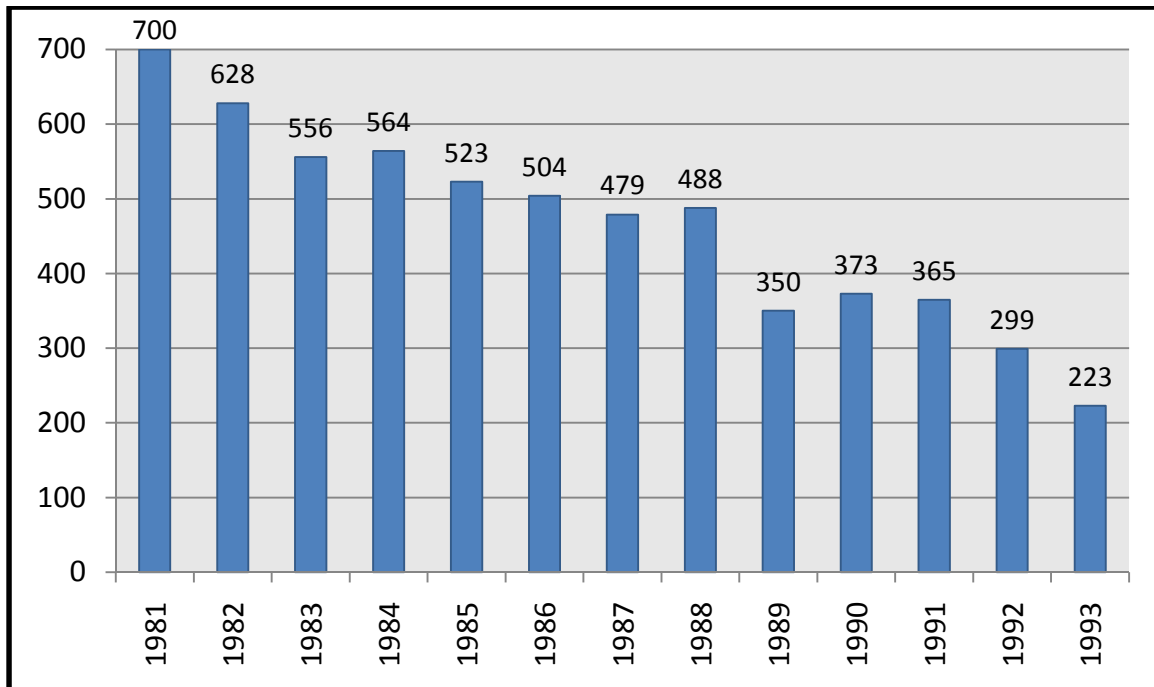


Figure 13. Fazer's personnel 1981–1993

The deal was without a doubt a relief for the new owners as they could now concentrate on the urgent issues of their main businesses. However, some participants felt that the sale was in direct conflict with the shareholder accord's spirit. On the other hand, the arrangement also raised a serious public fuss about selling the complete Finnish musical heritage to foreigners. Roger Lindberg was especially disappointed at the outcome.

...It was very hard for me to get over this issue...

Even so, Fazer complemented Warner's own offering unusually well, as the subsidiary of the multinational had not operated in Finland for very long, and thus its domestic activities were still very small. Namely Warner's domestic market share had risen to a mere 3.5% while Fazer's market share had remained at more than a quarter. On the other hand, Warner's total market share was fluctuating around 10%, and Fazer's share was twice that.

Although the name of the company still remained the same, the deal brought with it considerable changes to the actual operations of the company. For example, both Warner Music Finland and Fazer kept their own managing directors, but Matti S. Kurkela was named as the new chairman of the board of both companies (cf. Herlin 1993). On the other hand, both Erik Hartwall and the other former principal owner Peter Fazer were appointed to the board of the new Fazer to assure continuity and a local perspective. However, when Hartwall was asked if he still had an interest in investing in the culture business, he replied that their main business needed all his resources at that time (Koistinen 1993).

Nevertheless, at Fazer Music the managing director and the board had always been responsible for everything and well into the 1990s the managing director had also known about almost everything that went on in the company as all the division managers reported directly to him. This all changed when Warner took over Fazer because the whole company was reorganized according to Warner's own global divisions. In the new matrix organization the division managers reported to their own division executives usually stationed in the U.S., and naturally less well informed – and most likely less interested – about the tiny Finnish music industry.

...It was, of course, obvious when we saw the Warner organization... how Warner wanted to begin running these units that... so then Warner did not have, like, the will... that they wanted to operate so that... the core business where they are, that is being done in every country, but... other businesses are given up... at some point...

... Of course, their like... their focus was on the foreign repertoire and... and, like, in that... Warner – Elektra – Atlantic... like, on labels and... and, like... you know, that the domestic production was, like, a kind of an oddity... So that we had, like, such strong domestic production was a bit, like, some kind of an oddity to them... and you know... it was, like, equal to that from abroad...

One of the first of these major changes was the placing of Fazer's music publishing and its catalog of 47 000 titles under the control of Warner/Chappell. Simultaneously it became evident that Warner had no interest in producing Finnish classical music, so the whole idea of promoting Finnish culture was now completely abandoned. Furthermore, Warner showed no great desire to capitalize on the vast Fazer catalog at all, as most of the catalog had no international significance.

Another major modification was naturally adopting the global corporation's reporting policies in Finland, too. Besides just reporting, this modus operandi included, for example, regular budget

meetings in London. However, like many other Finnish-based corporations, Fazer implemented these very detailed policies the Finnish way, i.e. not every tiniest directive was followed to the letter, but instead things were worked out employing just plain common sense.

...You know we really do not need these now when we, like, try to operate with reason... and not, you know, like... like politics...

Lehmusto continued as the managing director of Fazer Music until the due diligence process and other aspects of the deal were completed, after which he moved on to the Finnish Broadcasting Corporation Yleisradio's board of directors in the beginning of April 1994. Simultaneously, Hans Englund – the managing director of Warner Music Sweden – became the managing director of Fazer Music as well, which left the whole company a bit in the wilderness (cf. e.g. Isokangas & Neptune 1994), even though Englund was a frequent visitor on this side of the Baltic Sea as well. On the other hand, the new Warner divisions had already begun to report to their own division headquarters located around the world, so the role of the managing director was somewhat vague anyhow.

Then, at the beginning of December 1994 Fazer Music was formally merged into Warner Music Finland, which was managed by Englund. The new company comprised two separate divisions, WEA Records and Fazer Records. WEA Records' role was to market the international repertoire under the direction of Marita Kaasalainen. On the other hand, Fazer Records, managed by Jaakko Karilainen, continued to produce the domestic repertoire (cf. e.g. Billboard 17.12.1994). Besides the record company arrangements, the record distribution operations were facing reorganization as well. Namely, the formerly very extensive distribution operation discontinued its activities with several small record companies and continued with only two external labels.

...All the others we have tossed to hell, all the small ones I mean, we did not want them... the ones we had before, when Fazer did distribution for almost everybody, but we... we tossed out then about a dozen... small companies, which are, like, so small that they do not interest us...

When Warner acquired Fazer the deal allowed it to continue using the Fazer name for five more years. However, the executives of Warner did not appear to be too interested in using the name at all, which on this side of the Atlantic seems quite surprising. After all, the Fazer name had become very familiar to most Finns during its more than 90 years of independent existence.

After these reorganizations it was unambiguous to everyone that the former Fazer entity would face some major changes sooner or later. Thus, in April 1994 Erik Stenros, then the manager of Musiikkitalo Alexi, first presented a proposition to buy the musical instrument business, and perhaps also the record store operation with it – i.e. basically the unit he was then managing. After serious negotiations the proposition was not accepted for some reason. However, Stenros did not give up, but presented his ideas every once in a while at top management meetings.

## 4.9 Slipping Away (1994 – )

Even though the actual analysis of Fazer Music ended above with the closing stages of the whole entity, I felt it appropriate to briefly overview the evolution of the company's remains in the hands of the global media conglomerate. First, the following table presents the evolution of Fazer Music's market share during the Warner era, i.e. the last years for which these figures are available. The table shows just how quickly Fazer's total market share fell under the new ownership, even though its domestic market share peaked at over 30% in the mid-1990s before falling back to about a fourth of the market.

Table 7. Market Share of Fazer Music 1994 – 1997

	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
<b>Total</b>	19.16	16.25	12.00	11.04
<b>Domestic</b>	34.73	30.56	23.06	23.80

Surprisingly, this decline in market share was not caused by a rise in the market share of Warner itself even though Fazer's share of foreign recordings vanished almost completely during this period. Instead Warner's own total market share decreased as well from just over 10% to 9%, and its share of domestic production shared the same fate as Fazer's foreign productions. This makes one wonder if the decline was caused by the reluctance to emphasize the Fazer name and instead focusing on promoting the global Warner brand. Nevertheless, after combining the two labels Warner's total market share has remained around 15 – 17% and its domestic market share between 19 and 23%. So, Warner has not been able to create any new synergies from combining the companies, but instead has lost its position to some extent.

On the other hand, after Warner had fully incorporated its new Finnish companies, it did not take long before the chopping axe found the former Fazer units. The first one to leave was Fazer Music Club, which initially changed its name to Warner Music Club in 1996, after which it was sold to Reader's Digest Finland already the next year. Then, the record company Finnlevy was merged with Warner's own Finnish operation as Warner Music Finland Oy in May 1998, which simultaneously ended the use of the Fazer Records name.

...In a certain way they think that the country organization is, like... a marketing apparatus for the international repertoire...

Then again, in the spring of 1998 Warner had eventually found someone interested in acquiring the former Fazer record stores. This someone was the Dutch Free Record Shop Holding (cf. e.g. Isokangas & Tilli 1998). As the record stores were thus taken care of, top management then gave Stenros three months to secure financing and attend to other details regarding the instrument trade. Fortunately, Stenros managed to get his offer ready in time and, in the beginning of August 1998, F-Musiikki purchased the whole instrument trade operations, just one month after Free Record Shop had acquired the record stores.

Next, Fazer Musiikki Estonia ended its operations in December 1999. Eventually Warner found a buyer even for the Levypiste operation that had been unprofitable as a whole, when Musiikkijakelu acquired the company in February 2002. Consequently these two companies controlled more than a third of the whole music distribution business in Finland.

On 24.7.2002 F-Kustannus Oy (an associated company of F-Musiikki managed by Kai Airinen and Erik Stenros) bought Warner/Chappell's popular music print operation in Finland, and later expanded their cooperation to administering the licensing of the whole popular music catalog of Warner/Chappell Finland. Then, three months later, a new company called Fennica Gehrman was founded to take over Warner/Chappell's serious music publishing activities in Finland. Thus, Warner could concentrate solely on actual record production operations or, as some might say, the business where the quick (but not necessarily so easy) money is. Finally, in the spring of 2004, Warner Music announced that it would eventually shut down the prestigious Finlandia Records label, too (cf. e.g. Tuomisto 2006).

However, in the summer of 2007 Fennica Gehrman, under the supervision of Westö, acquired all of Warner/Chappell's publishing rights to Nordic serious music. An essential part of these rights are the more than 12 000 titles of Edition Fazer, which constitute a real cultural treasure of Finnish compositions spanning more than a century. Thus, the deal was a kind of a homecoming of Sibelius and associates.

## 4.10 Analysis

### *4.10.1 Strategy Logic of Konrad Georg Fazer*

It is naturally very difficult to provide a fully accurate description of the company's strategy logic during Konrad Georg's reign because all the key players from that time have passed away decades ago. Fortunately, there are still a few literary sources available that offer us some idea of his thinking. Accordingly, the following figure has been sketched on the basis of the available material and presents us with one proposition of how he might have seen his company's strategic issues.

Just a quick glimpse at the figure tells us one thing: even though the company was still rather small, it was involved in many things. Besides selling sheet music and instruments like traditional small music shops, it had already begun its publishing, wholesale, and import operations. The company had also begun to manufacture and repair both instruments and gramophones, and it was even involved in the new record business as a retailer. Furthermore, Fazer represented several notable foreign companies operating in the music industry.

Fazer's target group consisted not only of residents of the capital area, but in addition it had expanded its offering to several other areas through agents and branch stores. Nevertheless, all its customers were more or less interested in some form of music, which basically meant a slowly expanding market. However, one important thing above all in the company's operations was the essential role of promoting Finnish culture. This manifested itself, for example, in the wide and not solely commercially focused selection of Finnish music published by the company.

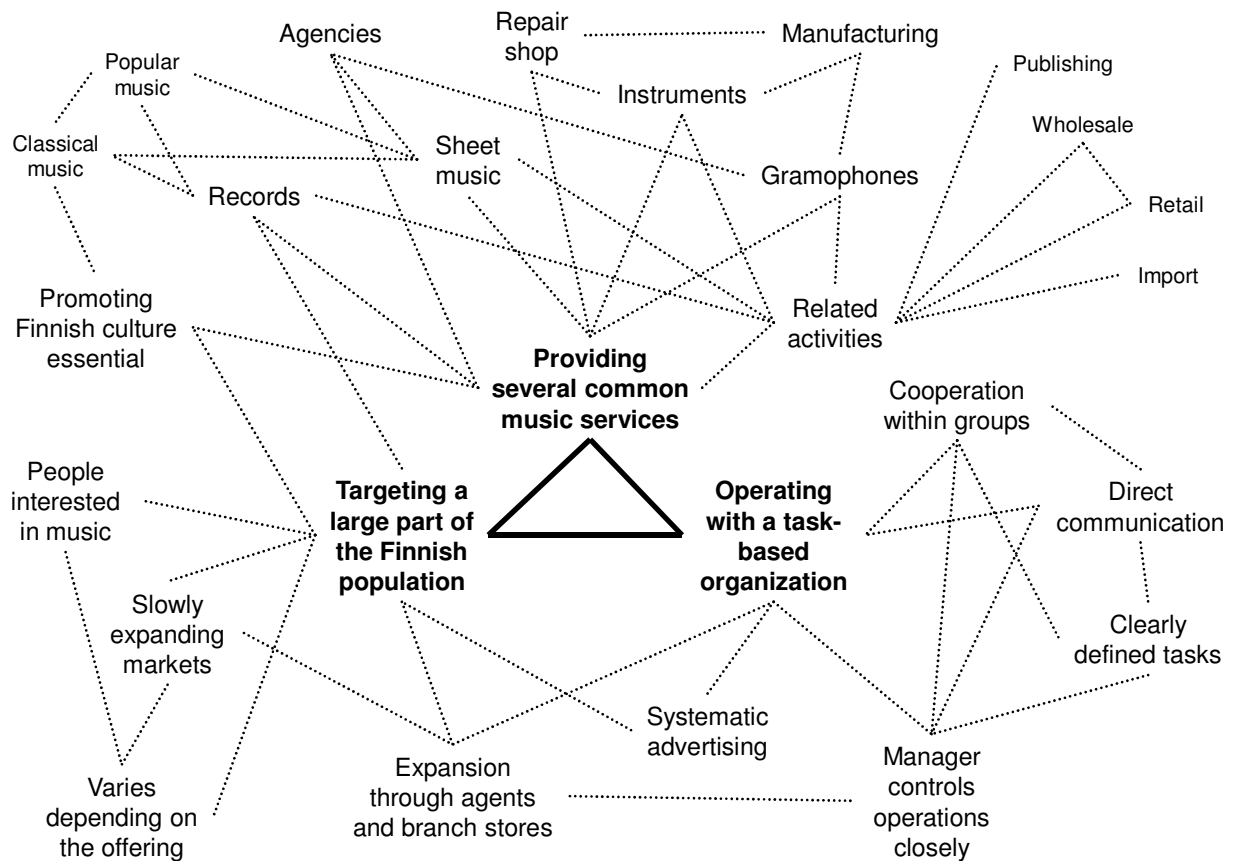


Figure 14. Fazer Music's strategy logic in the early years

Furthermore, even though the company had grown to employ several dozen people, it was still largely a one man show. The manager knew everything that went on in the company and also controlled its operations closely. Furthermore, the organization was clearly built on the basis of different tasks. However, the organization was still ready to introduce modern ideas such as systematic advertising controls.

All in all, we can conclude that the strategy logic of Fazer Music in the early days was a harmonious one in which the different elements supported each other. Moreover, it definitely proved to be a successful one. The company's rather wide and diverse offering fit the needs of its growing target group. In addition, Fazer's employees had their own specific tasks that were designed to enhance the organization's ability to fulfill its mission. Furthermore, as the company itself could not reach the whole country, it had built a network to assist in this undertaking.

#### 4.10.2 Strategy Logic of Georg Fazer

Just as was the case with the strategy logic under Konrad Georg's reign, it is still very difficult to present a completely accurate description of Fazer's strategy logic in the days of Georg Fazer. However, more extensive literary sources are available from this era and one especially important source is the 25th anniversary book of Fazer Music, which was written by Georg Fazer himself. Thus, it has been slightly easier to follow the thoughts of Georg Fazer and sketch the following figure of Fazer's strategy logic during that period.

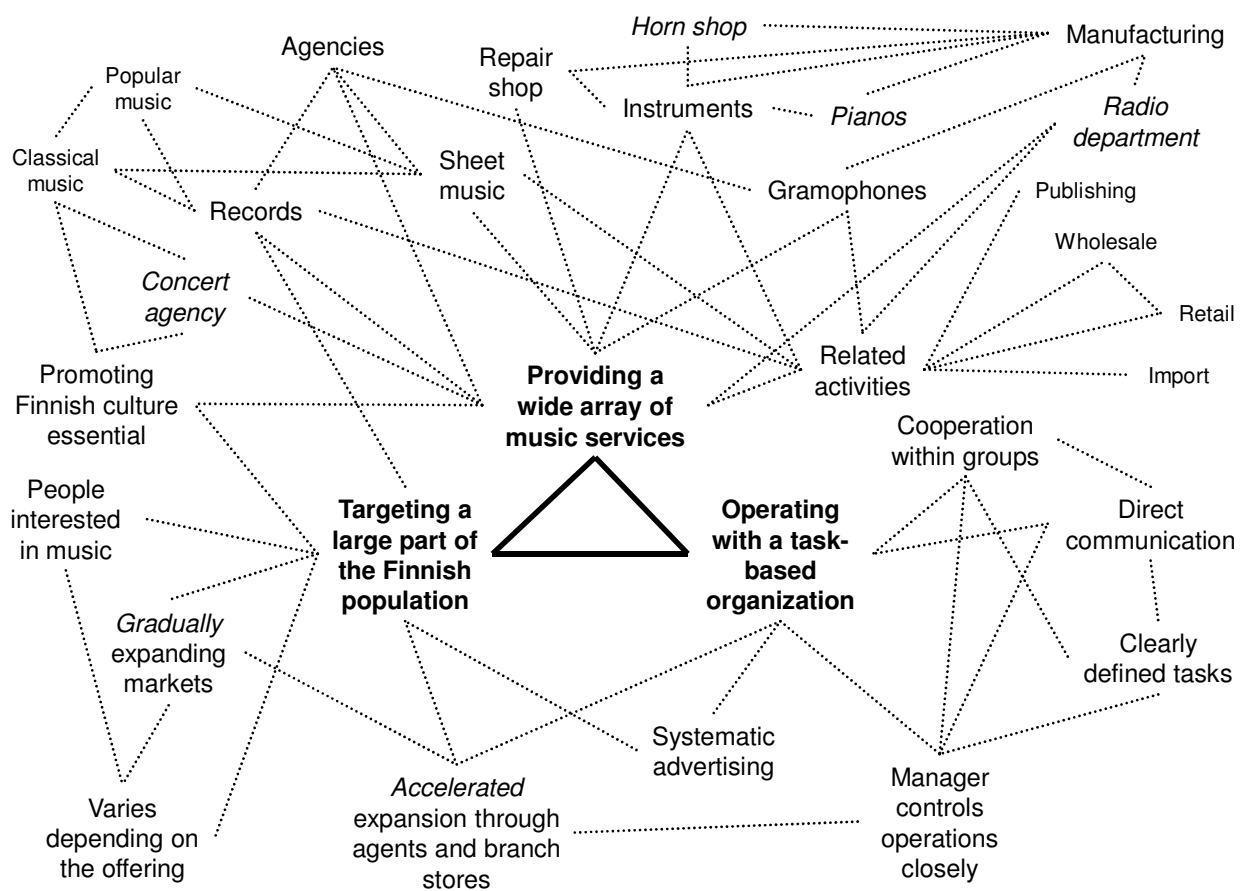


Figure 15. Fazer Music's strategy logic in the days of Georg Fazer

Interestingly, only one of the three key elements of Fazer's strategy logic changed at all when Georg Fazer took over the company in 1918. Further, this single slight change was the widening of the company's offering even further. This broadening included the founding of the radio department and the horn shop as well as starting the manufacturing of pianos. On the other hand,



the company also took over the concert agency founded by Edvard Fazer, but other aspects of the company's offering remained fairly constant.

In contrast, Fazer's target group had basically not changed at all, although it had begun to expand more rapidly through the addition of new agents and branch stores. Nevertheless, the recession had significantly hindered growth, but the target group was still expanding. On the other hand, the essential role of promoting Finnish culture had certainly not lost its significance, but was still a basic value for the whole company.

Moreover, the company had grown considerably larger in terms of both personnel and turnover, but the key role of the managing director had not changed. The manager was still aware of almost everything that went on in the company, and also controlled its operations closely. However, by now the managing director needed the assistance of middle management much more than in a small music shop with only a few dozen employees. Nevertheless, we can conclude that the organization was still task-based.

In summary, we can note that despite the small improvements made by Georg Fazer, the company's strategy logic remained virtually unchanged. This was probably caused by the fact that Georg Fazer had already worked in his father's company for several years. Thus, he was most likely very familiar with Konrad Georg's way of thinking and probably also shared his views to a degree. On the other hand, the improvements that Georg Fazer made were mostly a reaction to new opportunities, like the founding of the newly popular radio department or the acquisition of the concert agency. Thus, they continued the tradition of trying new related businesses when possible, which was the policy of Konrad Georg Fazer as well.

All in all, Georg Fazer's strategy logic was evidently as comprehensively balanced as his father's strategy logic, and certainly no less successful. The increasingly wide offering and the expanding target group were being taken care of by a substantially larger organization with even more clearly defined tasks. In addition, the significance of promoting Finnish culture as the backbone of both the company's offering and its target group selection had been further strengthened with the addition of the concert agency.

### 4.10.3 Strategy Logic of Roger Lindberg

The following figure summarizes the strategy logic of Fazer during Roger Lindberg's period as the managing director. The reader must remember that this figure, like the other strategy logic depictions earlier and virtually all of those that follow, is a kind of a compilation of the different possible strategy logics that may have guided the activities of Fazer in this period. This time it is especially true, as the period under observation covers approximately 30 years, during which Lindberg's strategy logic has most likely changed at least partially.

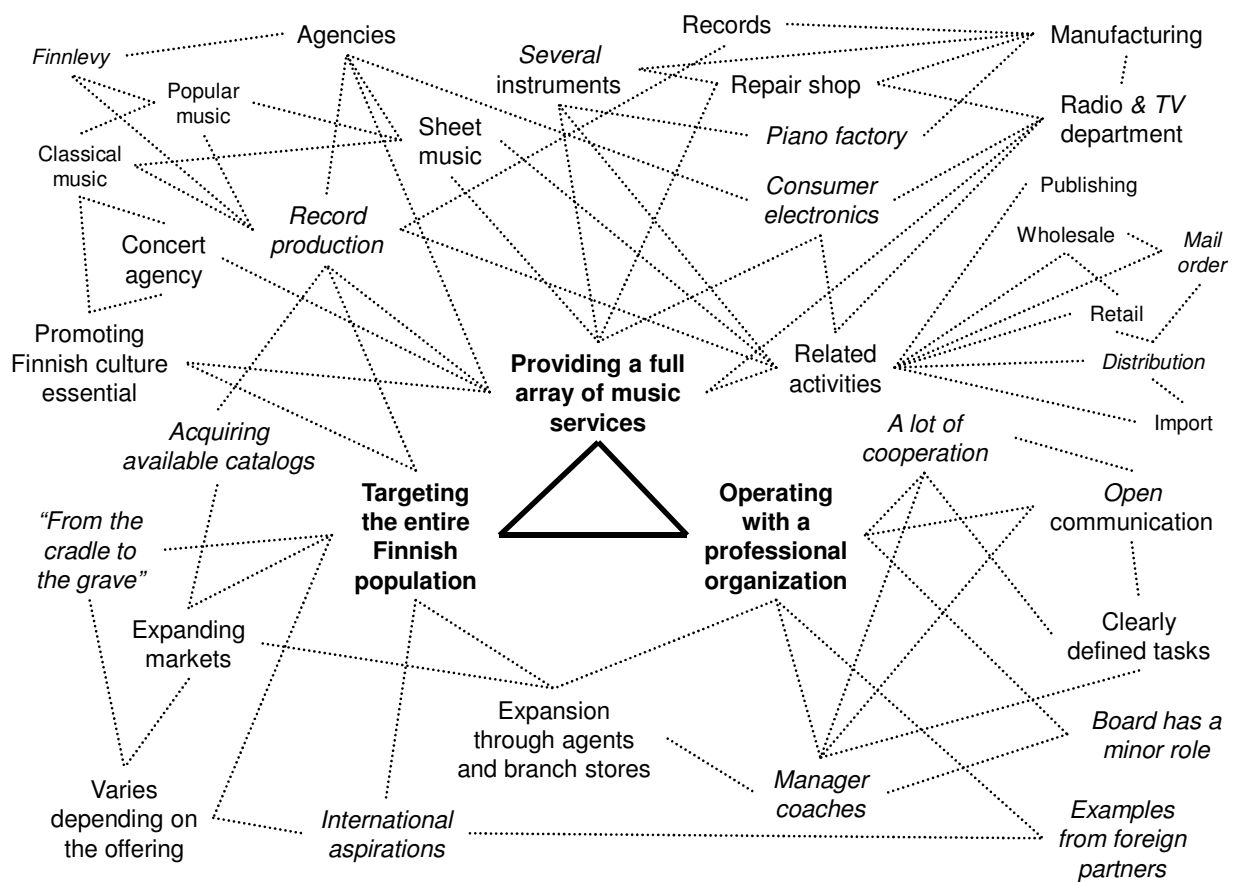


Figure 16. Strategy logic of Fazer Music in the era of Roger Lindberg

However, it is impossible to describe all the different models within the boundaries of this study, especially because Mr. Lindberg is no longer with us to comment on them. Nevertheless, there is lots of material available from this period, in addition to which I have been able to review several interviews with Mr. Lindberg. Although I did not conduct these interviews personally, they have

still provided a substantial amount of information to assist in this research. Thus, I believe that the following illustration most likely depicts the actual state of affairs fairly accurately.

In this case, all three key elements of Fazer's strategy logic changed compared to Georg Fazer's time as the managing director. First, Fazer further expanded its offering, and eventually became a company with a full line of products and services in the music sector. The company diversified its manufacturing operations by opening a piano factory and beginning to sell, for example, Fazer guitars and mandolins as well as consumer electronics from Japanese manufacturers. In addition, Fazer began to produce records and also manufacture them in its own record press. Moreover, this operation included the joint venture Finnlevy, which had also gained several notable agencies through its partner owners.

Second, Fazer's target group had also expanded. Now it more or less consisted of the whole population of Finland. This expansion was further supported by the starting of record distribution and mail order operations as well as the acquisition of competing record producers and music publishers. Thus, the target market was expanding more rapidly than before but still the whole company had not forgotten the importance of promoting Finnish culture.

Third, the company's operations had become more professional, in addition to growing in size. This had also changed the role of the managing director. Even though the manager still knew almost everything that went on in the company, he had become more a coach than an autocrat. By now Lindberg had also recruited several professionals in various areas, who did not need anyone telling them what to do. In addition, the organization had learned through the examples – both good and bad – of partner owners of Finnlevy, and thus it did not need to reinvent everything. These international partners were also an important part of beginning to look beyond the borders of Finland.

One more difference between the strategy logics of Konrad Fazer and Roger Lindberg that needs to be discussed more thoroughly is the disappearance of systematic advertising. This policy did not end by any means when Roger Lindberg took over the company. On the contrary, these activities were continued and further refined continuously. However, by now it was no longer a practice followed exclusively by Fazer. Instead it was a common practice in most companies, and as such it had lost its strategic importance and become more of a routine. Therefore it is no longer present in these latter strategy logic illustrations.

Just like the managers before him, Roger Lindberg was also eager to try out new business opportunities. In this case there were lots of them, which is only natural as his sole reign covered a very extensive period from before the Second World War to the beginning of the technologically much more advanced 1970s. Thus Lindberg had a chance to direct Fazer's offering to include, for example, consumer electronics, television, and the main interest area of this research, namely record production. Furthermore, as Lindberg himself was an educated man, he naturally also created a more professional organization to support him. In addition, Lindberg understood that you do not need to create every business from scratch, but instead you could acquire suitable operations or rely on the expertise of partners in some areas.

Eventually the expanding strategy logic gradually changed the nature of the company as well. Namely, under Roger Lindberg's leadership this more substantial music shop grew to become the de facto conglomerate of the Finnish music industry that was involved in every possible area of the business. Naturally this required changes in the company's way of operating because by now the company employed several hundred people and thus needed more professional management systems as well. These changes were started by Lindberg, but a lot of them in fact materialized only during the next phase of the company's evolution which will be discussed in the following chapter.

To sum up, it can be noted that the strategy logic of Fazer Music changed notably during Roger Lindberg's directorship compared to the early days of the company. Nevertheless, the strategy logic did not lose its equilibrium as a result of these changes. On the contrary, the extensive offering served the needs of the whole population, and the relatively large organization of professionals was able to fulfill this task. Furthermore, the essential role of promoting Finnish culture gave the organization additional thrust to reach its goals.

#### *4.10.4 Strategy Logic of Roger Lindberg and John Eric Westö*

The following figure demonstrates the strategy logic of Fazer Music under the supervision of the Lindberg – Westö team. I have deemed it appropriate to present the perspectives of both the board and the managing director in a single figure because the key players seem to have shared a

very similar view of the company. It is also worth noting that this is the first strategy logic illustration in this study which is not based solely on secondary sources. Instead I had the chance to interview several key actors that participated in the company's activities during this period.

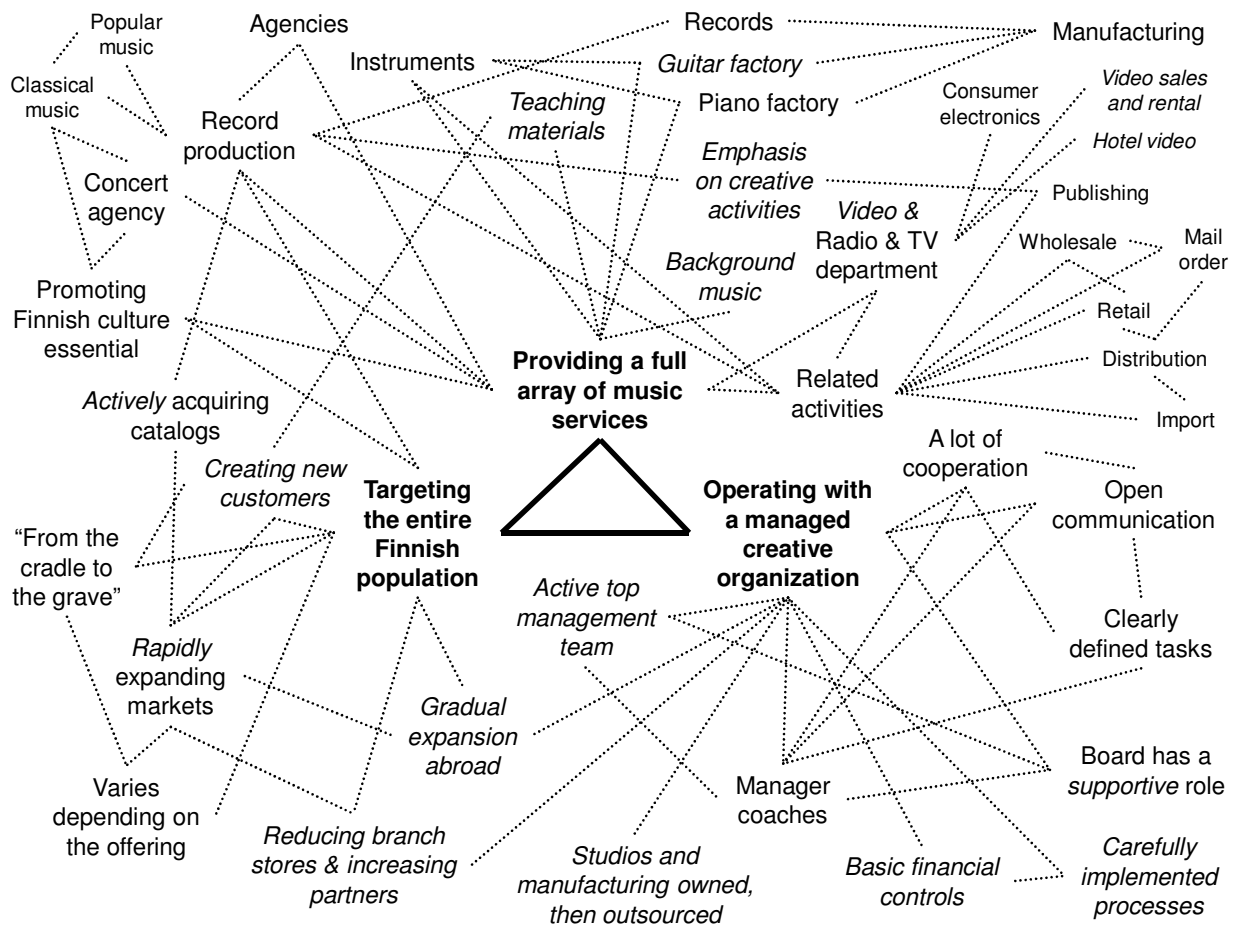


Figure 17. Strategy logic of Fazer Music in the period of the Lindberg – Westö team

This illustration actually includes two phases: the rapid expansion phase of the 1970s and the nascent rationalization phase of the 1980s. However, the figure includes all the key elements of the whole phase, including the ones that were dropped in the latter part of the period. Although only one of the three key elements changed from the previous era, there were numerous changes in the supportive elements.

For example, the company's offering was expanded with the additions of the guitar factory, video operations, and background music service, but also by engaging in the pedagogic music area and beginning to acquire catalogs more aggressively. In addition, the company enlarged its

distribution operation with Levypiste and its retail operation via the F Music marketing chain. However, the guitar factory was also divested during this period. On the other hand, the financial value of sheet music sales collapsed early on in this era, which caused it to lose its strategic importance as well. Furthermore, Fazer's distribution operation was no longer the only significant player in the field but was facing notable competition from PEC-Musiikkitukku.

On the other hand, Fazer's target group did not change very significantly. The company did, however, begin to show more interest in international markets as well, but one important addition was seen on the domestic side, too. Namely, Fazer also began to create new customers by educating the population with the pedagogic material, for example. Additionally, the company produced a guitar school for television following its acquisition of the Landola guitar factory, which resulted in a real guitar boom shortly thereafter.

Fazer's modus operandi had also evolved. Now, the organization was operating less freely but with more creative aspirations. On the other hand, the different units had created very diverse policies depending on their businesses, so that while other divisions operated with a lot of creative freedom, others had much more strict procedures. Furthermore, the company had adopted some basic financial controls and operational processes, but also the top management team and the board had begun to work actively.

The growth of Fazer Music naturally changed the way the company operated, but the evolution of the whole industry was also an important factor behind these changes. Namely, the Finnish music industry in the early 1970s was still in many cases more of an amateurish pastime than serious business. However, by the late 1980s the situation had changed significantly, even though this had not yet resulted in any significant international success. Fazer was clearly the forerunner in this area as its operations were undoubtedly more professional than those of its smaller competitors already in the 1970s. This professionalism also manifested itself in the fact that besides just testing new areas of business, the company also began to divest itself of operations that had lost their importance – like the repair shop that was a very significant part of the company during the recessions – or become unprofitable – like the guitar factory eventually did.

In summary, we may conclude that the change from Roger Lindberg's sole leadership to the teamwork of Lindberg and Westö did not change the strategy logic of Fazer Music very significantly. The core of the logic remained very harmonious, but the first signs of too much diversification were beginning to show in the supportive elements. Nevertheless, the whole company's basic value, i.e. promoting Finnish culture, had not lost its importance.

#### *4.10.5 Strategy Logic of Erik Hartwall*

When the ownership base of Fazer changed in 1988, the balance of power also changed significantly. Namely, prior to the deal the managing director had been the key composer of strategy, either alone or in harmony with the board. However, after these arrangements power clearly shifted to the board. Thus, the strategy logic of Fazer was no longer the creation of the managing director, but a construct of the board. Furthermore, this design differed quite significantly from the views of the managing director, which understandably caused notable changes in the company's operations. The following figure presents the strategy logic of Fazer Music from the perspective of the board.

The strategy logic of Fazer Music during this period has changed quite considerably from the previous model. The most significant modifications naturally occurred within the company's offering. Although Fazer's focus had already earlier been on the creative activities of record production and publishing, the board's increased involvement cut out quite radically those functions that did not fit within these limits. The company divested the complete video and radio and television operations as well as its background music activities. In addition, the company relinquished its ownership of studios and manufacturing operations, and it also let go of the concert agency.

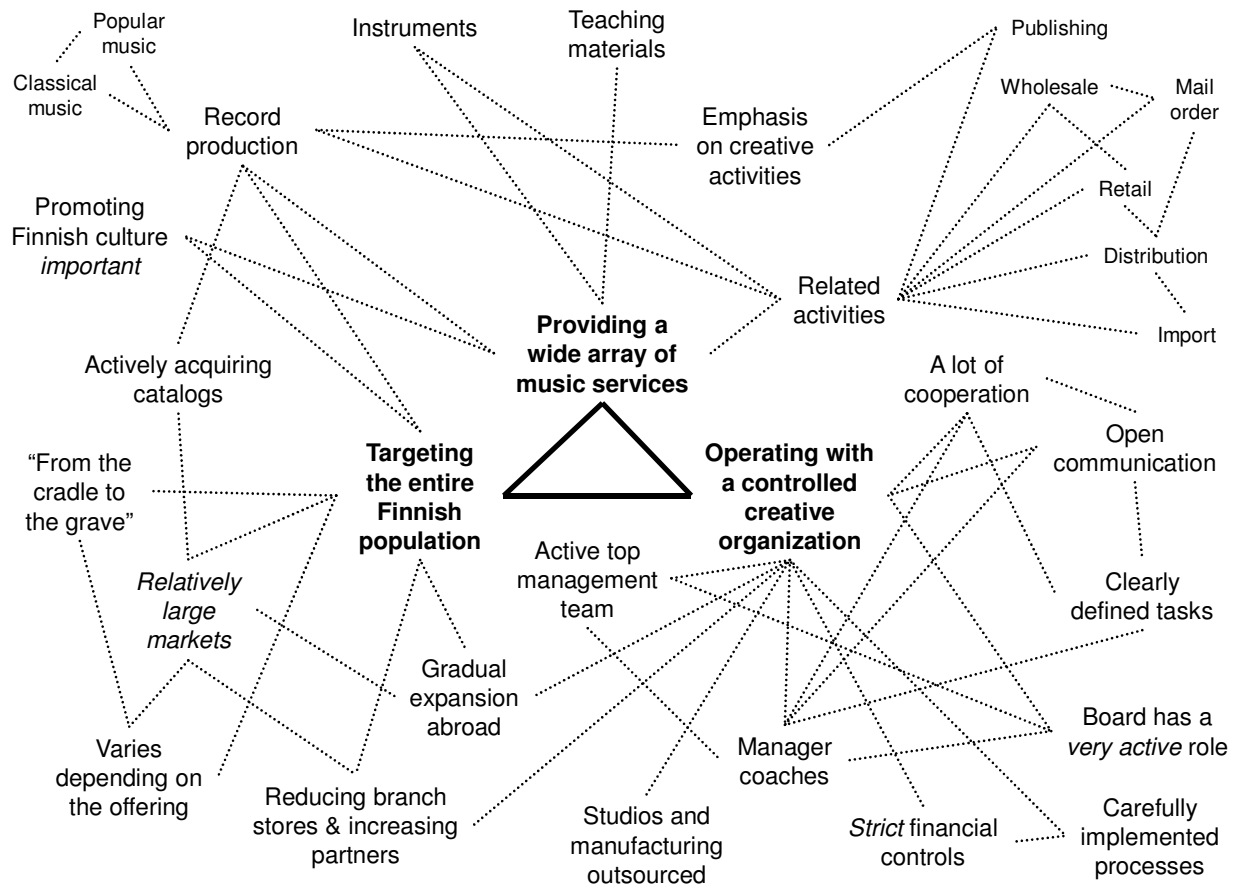


Figure 18. Strategy logic of Fazer Music under the direction of Erik Hartwall

In contrast, Fazer’s target market remained predominantly unchanged. The goal was still to reach practically the whole country, although with a significantly narrower offering. Still, the idea of being involved in creating more customers was no longer seen as important. In addition, the inspiration of promoting Finnish culture was no longer considered essential as Roger Lindberg was gradually retiring, but still valid because of the classical music production operations.

Moreover, Fazer continued to reduce its own presence in remoter parts of the country, and relied instead more on its partners to extend the reach of its offering. In addition, the operations of the whole company were now being controlled more thoroughly because Fazer was a public company. This was most visible in the increased number of financial controls although the actual creation of music suffered from these burdens slightly less. On the other hand, the company was aiming to reduce the threat of the multinationals – after all, now Warner, too, had entered Finland with its own organization – by attempting to create a substantial Nordic publishing company.



The change from the strategy logic of Lindberg and Westö to the strategy logic of the board led by Erik Hartwall manifests itself mostly in the significantly reduced number of elements. Even though the company had already started to divest some of its operations during the earlier management, the axe really began to strike the less profitable or otherwise less essential operations after the management changes. It is not clear whether the changes would have been this radical if the recession had not injured the industry's prospects again. However, I believe that the divestments would in any case have been significant as the whole company was compelled to focus more on the bottom line than culture.

All in all, Fazer Music's strategy logic in this period was a return to the direction of the early days in regard to its offering, but with more sophisticated controlling systems. The heart of the whole logic was still functional, but the entire new *modus operandi* was so different from the company's traditions that it probably negatively influenced the organization's creativity. Furthermore, the reduced importance of the cultural perspective had further crippled the organization's spirit, which had suffered significantly during the restructurings of the previous years.

#### *4.10.6 Strategy Logic of Erik Hartwall and Heikki Lehmusto*

After the second managing director change the board seemed to be more willing to accept the input of the managing director as well, which is why the strategy logic during this period is no longer the sole creation of the board, but more of a hybrid of both perspectives. Nevertheless, the big picture did not change very significantly, as the following illustration demonstrates.

It is easy to see that the strategy logic of Fazer Music had evolved rather gradually from the previous model. The company's offering remained practically the same, excluding the continually reduced importance of promoting Finnish culture. Conversely, Fazer began to show more and more interest in international markets as well. At this stage, this goal was no longer considered just a dream, but in fact a viable option that could be achieved with hard work and the right material.

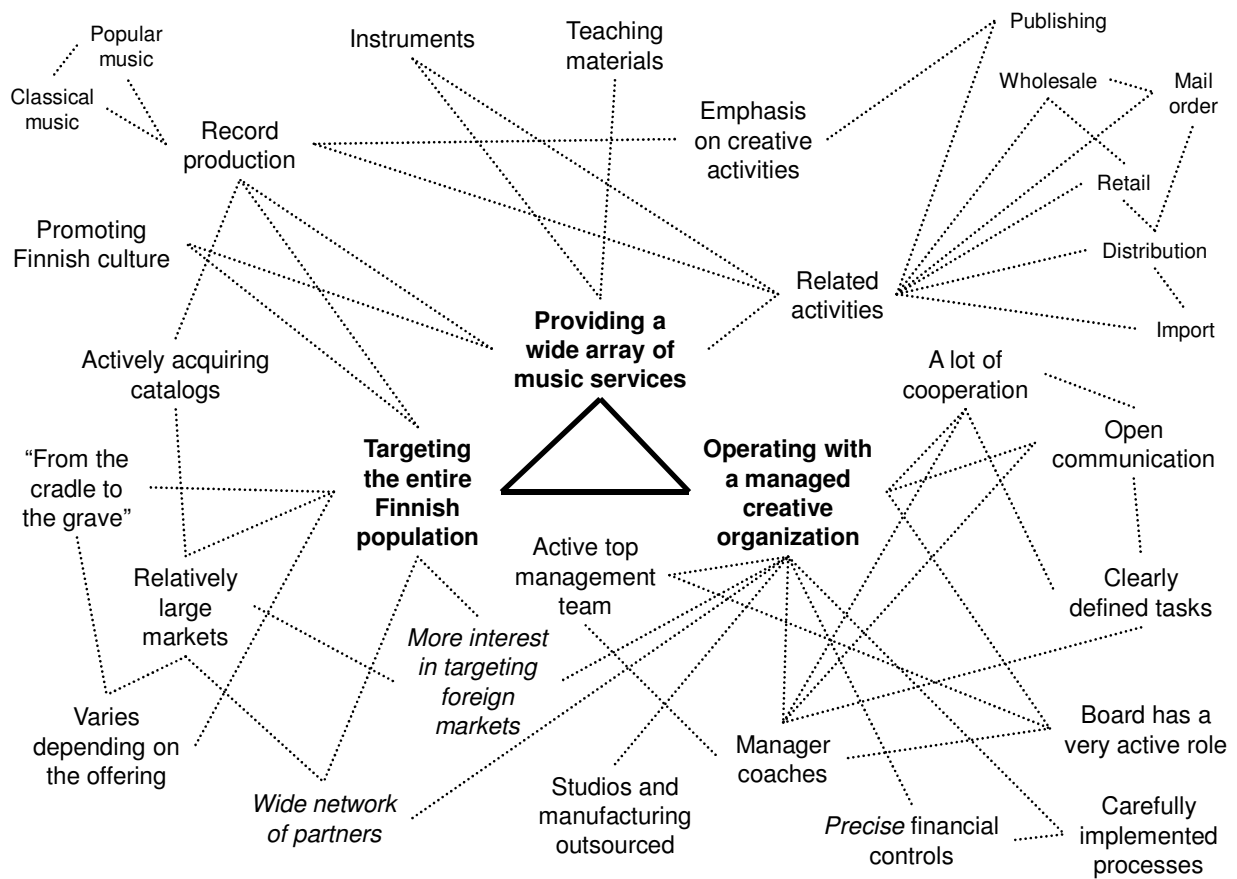


Figure 19. Strategy logic of Fazer Music before the final ownership arrangements

Furthermore, the company had developed its operations more towards the style of other creative organizations. This meant that people had the freedom to be creative, if they could do so without sacrificing the profitability of their activities. In addition, the company trusted its partners to provide it with many of the support functions, instead of owning the whole production chain.

This time the management change influenced the basis of the strategy logic very minutely, but the changes were still very important. Namely, the explicitly developed interest in foreign markets and the willingness to operate with foreign partners already raised the concerns of some of the more informed followers of the industry. Quite accurately some speculated that Lehmusto was chosen to sell the company to some multinational player, which naturally was not always seen as a positive development. Nevertheless, this period took the company a bit more towards an artist-friendly way of operating, although the bottom line was still closely monitored.

In conclusion, this strategy logic of Fazer Music was perhaps even more harmonious than the previous one because it offered the organization more opportunities for creative action. On the other hand, Fazer was no longer a culturally-focused company, even though it still supported Finnish culture in some form or another. This new orientation most likely deprived the organization of one of its sources of inspiration, which could have helped the company to succeed in the ever-intensifying competition.

#### 4.10.7 The Final Strategy Logic of Fazer Music

At this point the independent strategy logic of the single Fazer Music entity finally faded away. Thus, I felt it appropriate to also end the analysis of the company's strategy logic with the following figure which illustrates the last strategy logic of Fazer Music as an (almost) independent unit.

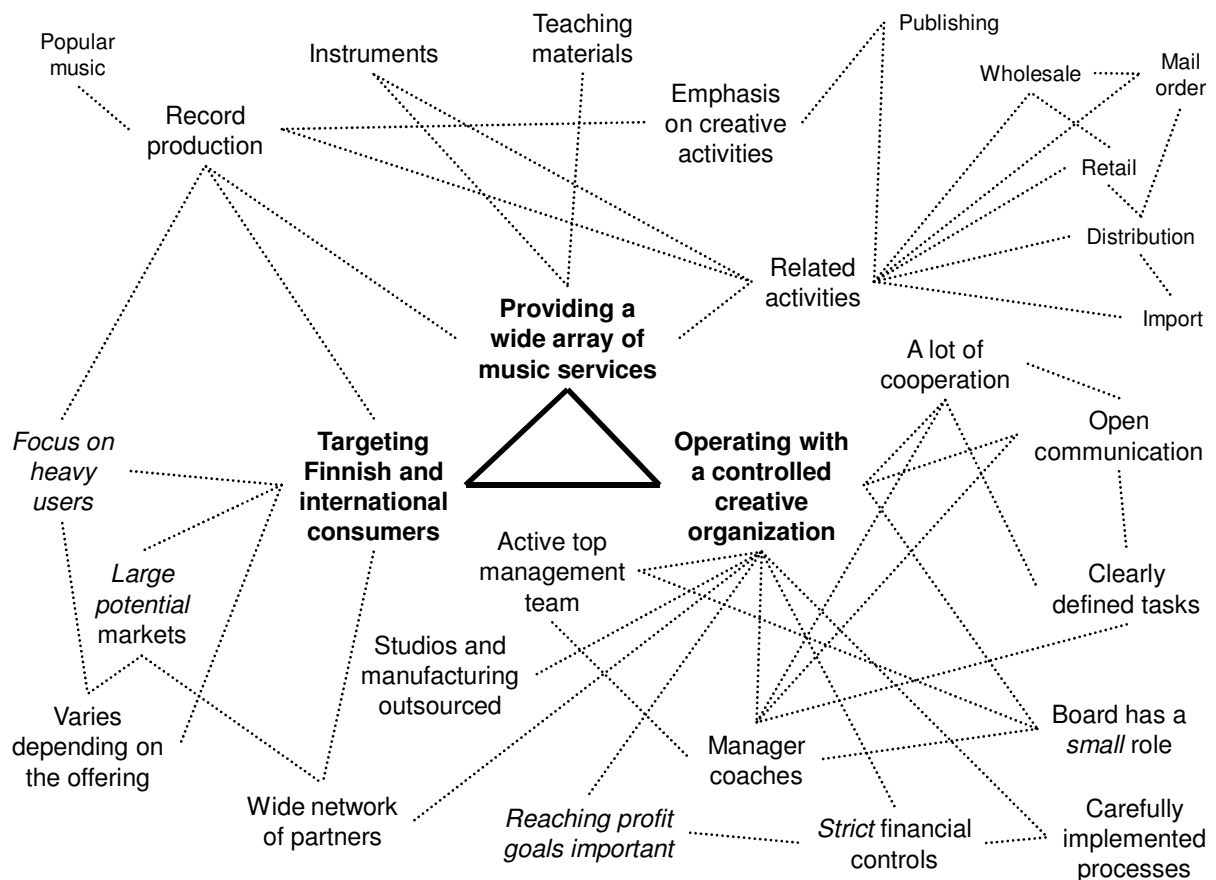


Figure 20. Strategy logic of Fazer Music in 1994

When Warner took over Fazer, it naturally changed the company, but interestingly this change was strategically not as huge as might have been expected. In fact, the company had already changed so significantly since the previous ownership arrangements that this time the changes were perhaps less thoroughgoing as a whole.

Actually the only change in Fazer's offering was the aspiration to get rid of its classical music operations completely. This aim was closely related to probably the most significant change in the whole company's history, namely discontinuing the idea of promoting Finnish culture as a basic value for the company. In fact, promoting Finnish culture had no room in this kind of a conglomerate's small local operation at all. Instead the focus was turned towards heavy users of popular music, which naturally offered much larger markets internationally.

Quite interestingly, even during the Warner era, the company's domestic production was still targeted mostly at the domestic market. In contrast, the Swedish Warner unit was mostly focused on creating products for the international market. On the other hand, the creativity of the company was again tested as the company once more moved towards a more controlled operating environment.

Although the decision to discontinue the classical music operations may seem like a rather small change, it was in fact a very significant move strategically. Namely, the whole company had gotten started with classical music activities, so this was an undisputed break from the past. In the light of this change, it should have not come as any surprise that Warner was not interested in promoting its Finnish operations under the Fazer brand. Some may have wondered why the teaching materials did not suffer the same fate as classical music. The answer is, however, very simple, as they were a very solid source of income as Fazer's position in that area was so strong. In any case, the whole company was now being managed more on the basis of the bottom line than any other values.

In summary, it may be noted that at this point the strategy logic of Fazer Music had probably become much simpler to comprehend as a whole. However, the harmonious unity of the earlier logics was gone as the company was focusing mostly on a small heavy user segment with a wide selection of services. This was especially the case because some of these services did not appeal to the target group selection at all. Furthermore, the company no longer constituted a single entity, which hampered the creation of possible synergies across functions.

## 4.11 Summary

In the beginning, Fazer Music was just a small music shop acting as agents for some notable foreign companies. However, its owners had a genuine interest in music and they were also ready to sacrifice some of their possible future profits to a greater cause, i.e. promoting Finnish music culture. On the other hand, because the founders were willing to experiment in related fields as well, Fazer was soon on its way to becoming the dominant company in the whole business. Furthermore, subsequent generations continued on the path of their predecessors and expanded the company's operations to unforeseen amplitude. However, eventually the company had become too fragmented to function efficiently and thus it had to begin divesting its activities. Moreover, after two extensive ownership reorganizations the whole company had been chopped into pieces that belonged to several different companies both domestic as well as foreign.

Nevertheless, the following figures summarize the most significant ownership arrangements in which Fazer participated. The figures do not include each and every catalog acquisition but focus on the ones that had some kind of an influence on the activities of Fazer, too. On the other hand, the figures also describe the changes in the ownership of Fazer itself, which eventually had a profound influence on the strategy of the whole company.

The first figure illustrates how the company initially began to expand very rapidly after its founding. However, this first wave of expansion was then followed by a decade of less active expansion. Then, when Georg Fazer took over the company, it again began to expand more rapidly. Nevertheless, the Great Depression slowed down the expansion plans of the company and eventually led to significant cuts in the number of branch stores. The next manager change did not cause any major changes in company policy, but when Roger Lindberg became the managing director of the company, he soon began to look for new, related business opportunities. These included the piano factory and record publishing operations, for example.

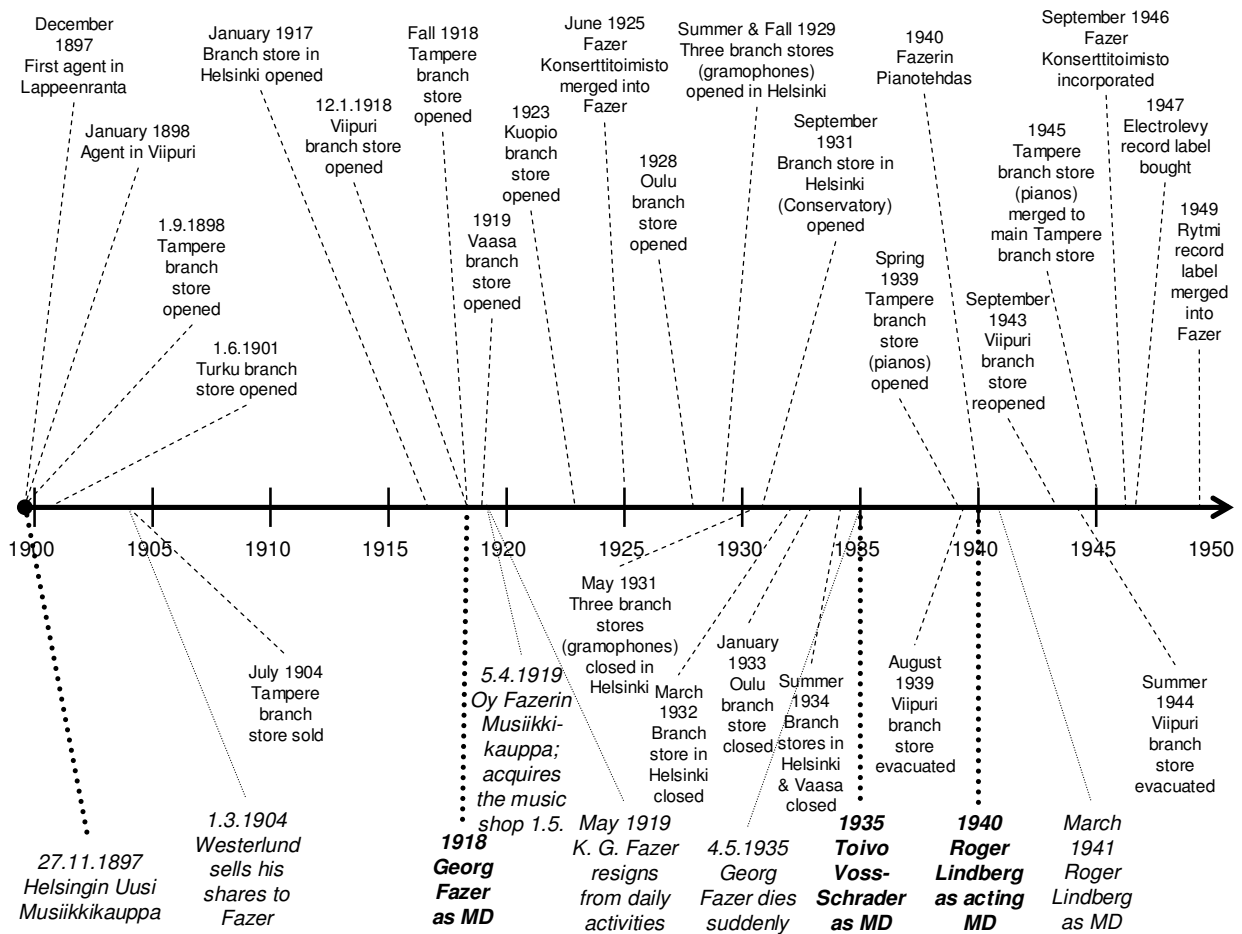


Figure 21. The early evolution of Fazer Music and related companies

Roger Lindberg continued to expand the company in the 1960s, but after he was joined by John Eric Westö, the company's expansion got yet another boost. This time the focus was clearly on the record publishing operations as Fazer now began to actively buy out every available catalog. Nevertheless, in the early 1980s the company had become too fragmented and thus it had to begin focusing its activities. This search for focus was further strengthened after Roger Lindberg had sold his majority shareholding to MF-Invest. However, the downsizings became so significant that the situation called for another manager change and Westö was thus replaced by Harry Söderholm.

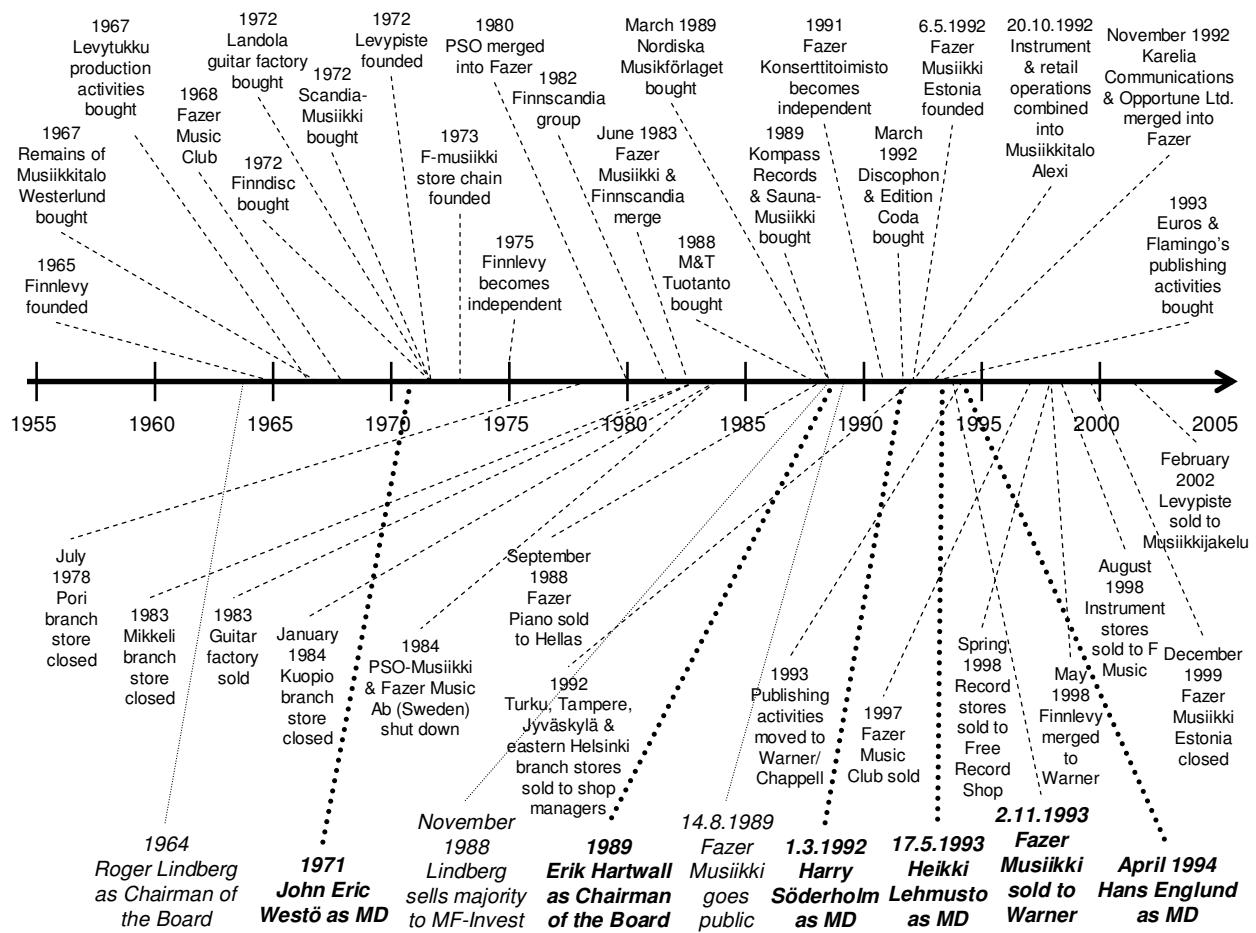


Figure 22. The evolution of Fazer Music and related companies in the latter part of the 20th century

Although Söderholm’s reign was quite short, it paved the way for the following major changes as the company’s costs were cut very significantly. Lehmusto’s reign was not any longer than his predecessor’s, but his activities had even more effect on the company as it was sold to Warner. This ownership change then initiated the break-up of the company as Warner little by little sold the parts of Fazer that did not fit their corporate strategy.

Then again, quite a few environmental factors have also had an influence on the strategy of Fazer over the decades. The most important of these are presented in the following figure, along with the different phases of the company that were depicted earlier in this study.

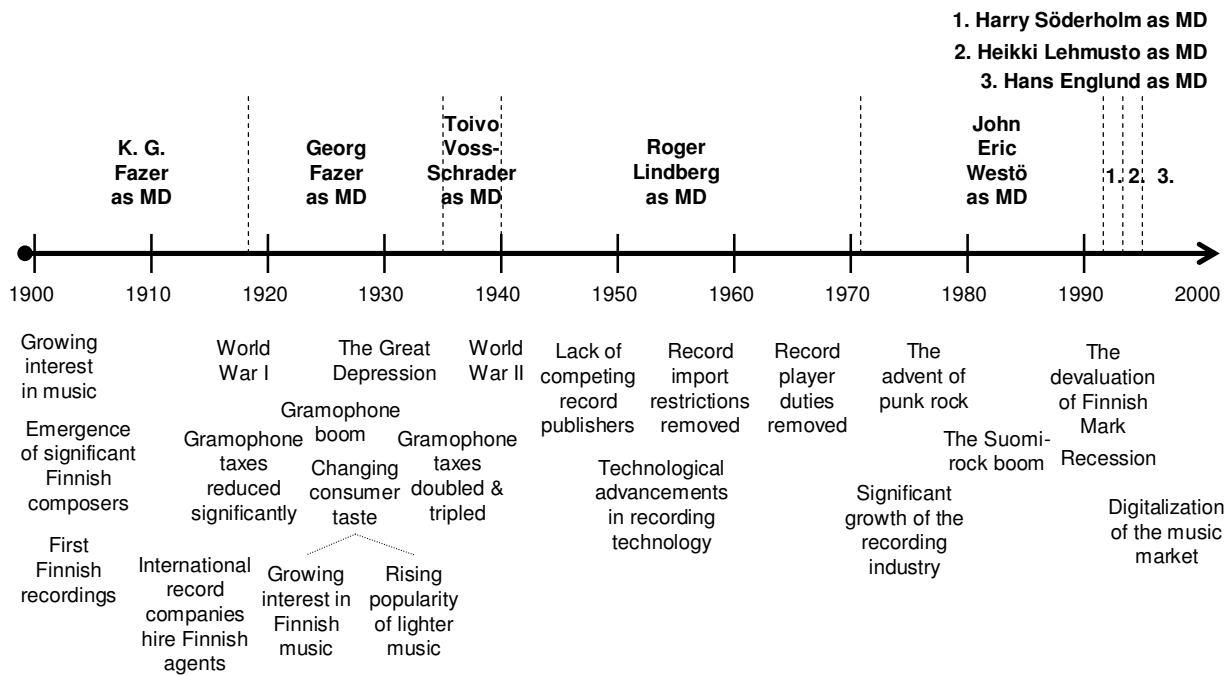


Figure 23. Key environmental factors that have influenced the strategy of Fazer Music

First, we can notice that Fazer Music got started under favorable conditions. Namely, interest in music and especially Finnish music was steadily growing, in addition to which a whole ensemble of significant composers was also beginning their careers. Then, Fazer’s expansion gained even more momentum with the economic boom created by the First World War as well as reduced gramophone duties, but by the 1930s the propitious development of the company suffered a serious setback because of the depression. After the recession, Fazer began to expand again, but this time its plans were delayed by the Second World War.

Fazer’s growth became even more rapid when Roger Lindberg took over the company. He gradually expanded the company’s activities into several new areas, which were still at least somehow related to music. Even so, new international competitors began to challenge Fazer in the 1950s and new popular music styles also brought along domestic competitors. Nevertheless, advances in recording technology increased consumer interest in music while Fazer remained the dominant company in the Finnish music business.

Furthermore, Fazer reacted slowly to the advent of punk rock music in the 1970s and the heyday of Finnish rock music in the 1980s, and so its dominance ebbed to some extent. All the same, Fazer was still the most significant company in the field. However, its profitability had fallen, and



so the company's wide offering had to be narrowed by divesting parts of its operations. Eventually, the internationalization of the whole industry as well as the economic recession were behind the sale of the company to foreign owners.

The strategy logic of Fazer Music experienced a fundamental transformation during the time span of this research as the two concluding illustrations below vividly demonstrate. All in all, the strategy logic of Fazer remained functional throughout the observation period. However, as the company expanded its strategy logic eventually became too fragmented to remain harmonious, which resulted in a return to its roots, at least to some extent. Furthermore, the ownership arrangements weakened the cultural basis of the company and were definitely one of the reasons why the whole corporation ended up in pieces. On the other hand, these ownership arrangements were also the reason why the dominant strategy logic shifted from the managing director to the board.

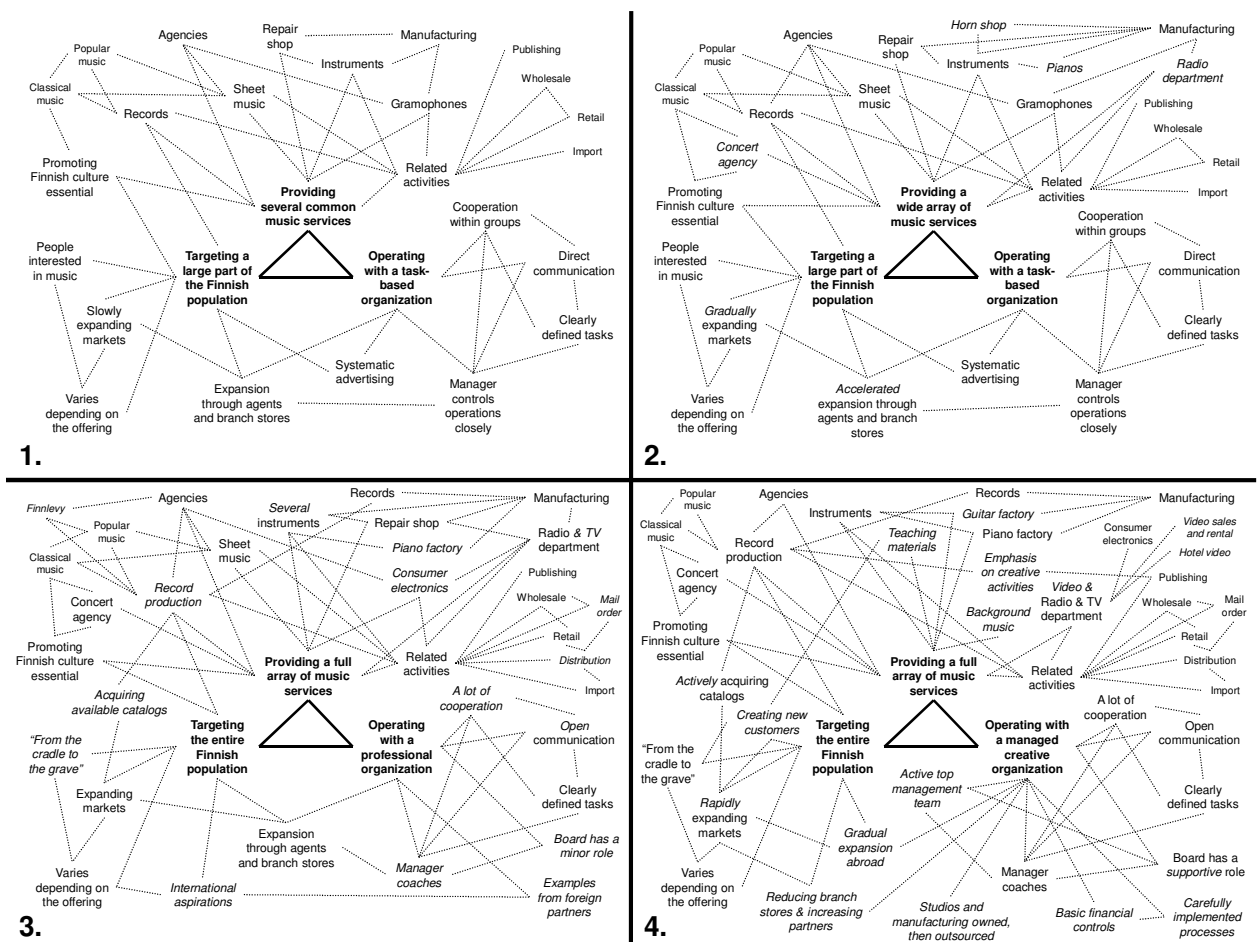


Figure 24. The first four phases of the evolution of Fazer Music's strategy logic

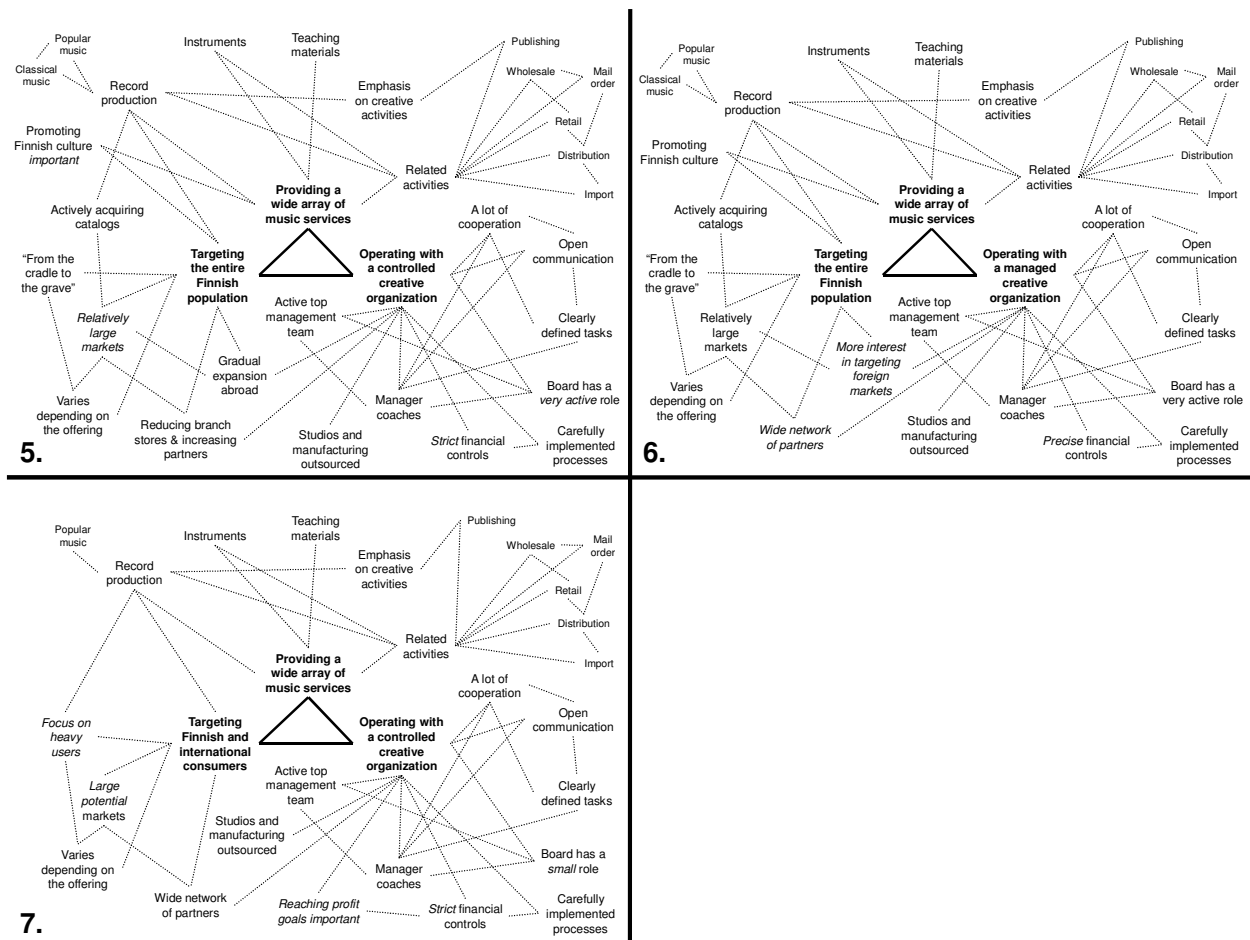


Figure 25. The latter phases of the evolution of Fazer Music's strategy logic

If we look at the number of elements in each strategy logic depiction, we quickly notice that the first four phases were clearly a time for expansion while the latter three continued to reduce these elements. However, this does not tell us that a small number of elements is better than a large number of elements (or vice versa for that matter). Instead it tells us that a strategy logic with a small number of elements is easier to comprehend than a strategy logic with a large number of elements. Naturally the number of elements eventually reaches a level where the whole strategy logic becomes incomprehensible and thus it loses its usefulness in guiding the strategic decisions. On the other hand, a strategy logic that does not include all the essential elements is likewise useless when making strategic decisions.

In conclusion, we must still ask what the essential factors were which created and supported the dominance of Fazer in the whole industry. In fact, this study has brought forth several elements, which are enumerated below.

**The right place at the right time.** The founders of Fazer Music came across a successful music shop that had already created a solid reputation. In addition, the new company also inherited several important agencies from its predecessor. Furthermore, Fazer began its operations at a time when the population was becoming more interested in music, which the forthcoming composers were eager to provide.

**Openness to try out new areas.** The founding owners and their offspring were always ready to try out new businesses that were at least remotely related to music. This brought a wide variety of operations under the company's scope. Even though some of them were not wise expansions in hindsight, most of the moves did in fact become quite successful. Moreover, these expansions supported the core business and helped Fazer to retain its dominant position in the industry.

**Ability to attract and retain artists.** The founders of Fazer Music were music aficionados without a doubt, which helped them in finding talented artists for their company. On the other hand, as their company was not simply a money-making machine but a culturally focused organization, this talent was most often willing to remain in the company. Then again, the earlier successes helped the company to attract more successful artists, as usually happens in this industry.

**More than just a job.** Nevertheless, I believe that one final factor in securing Fazer's success was the fact that it was not merely another workplace. Instead, it was a company with a Mission. This mission was, of course, to promote Finnish music, and it not only generated additional thrust for the whole company, but also helped in creating a coherent organizational culture.

So what do these factors reveal about the strategy logic of Fazer Music? First, being in the right place at the right time relates certainly to the "doing the right things" dimension. It may be just a coincidence or it may be very deliberate, but a successful company needs to have a product that is wanted by its target group. Second, the openness to try out new areas is also linked to the same issue. Namely, the world is constantly changing and thus every company needs to update its offering. If a company is willing to try new things, it may discover a new market area that will eventually become a very significant and profitable one.

Next, the ability to attract and retain artists simply tells us that in order to keep your company going you must take care of your organization, and especially its human resources. Any strategy logic that neglects this area is bound to experience major difficulties sooner or later. Finally, more than just a job is an optimal situation of the “doing things right” dimension. After all, if an organization has a product that creates enthusiasm among the personnel, and, furthermore, if the internal processes keep this enthusiasm alive, the company will most likely have a very devoted workforce.

All in all, these four factors were not the sole reason for the dominance of Fazer Music in the whole Finnish music industry. However, I am convinced that in the absence of these all Fazer Music would most likely have remained just another music shop among various others and would probably never have reached the dimensions it eventually did.

# 5 The Strategic Evolution of Poko Rekords

## 5.1 Backstreets (1972 – 1980)

In the early 1970s Kari “Epe” Helenius realized, like many Finnish music enthusiasts before him, that he could not find all the music he wanted in local record stores. Thus, he began to buy his favorite records by mail order from abroad, mainly from the UK. Gradually he found himself ordering records for his friends, too. So, in September 1972 Helenius did something most people then considered more or less insane: he founded a small record store in Tampere – the kind that he would have wanted to be a customer of. The strange thing about his store was that it did not sell any hardware, which was the usual *modus operandi* back then. Furthermore, Helenius’ store focused only on rock and pop music. The record store was named simply Epe’s Music Shop, although in the beginning it was technically only a profit center of his father’s textile printing company. A few months later Helenius’ record store began its mail order operations, too. At that time there were no mail order record stores in Finland, and even Helenius himself had not originally intended to include mail order in his record store’s operations.

...Mail order began a few months after the foundation then... actually, like out of practical necessity that... when we realized that the business idea was such that... there just were not enough customers for it in a town like Tampere...

However, very soon it became obvious that the mail order business was an essential part of the company’s success as approximately 80% of the company’s sales came from mail orders. One of the main reasons for the success of the mail order business was simply the lack of real competitors anywhere in Finland. On the other hand, the record store’s foundation coincided with the creation of the first significant Finnish music magazine *Musa*, which quickly became the main advertising medium for Helenius’ record store.

Epe's Music Shop was not an immediate success and had it not been formed as a part of a larger and more successful company, the record store would probably have shut down already in 1973. Nevertheless, the record store began to grow slowly and as the value of the British pound plunged in the mid-1970s the company's business began to boom. However, in 1976 Helenius senior sold his textile business to a larger company and the record store needed a new legal form of existence. Luckily, Helenius senior – and a couple of partners – also owned an inactive company named Unitor Oy, which then became the parent company of Epe's Music Shop after the shares of other shareholders had been bought back. In fact, Helenius junior did not become the main owner of the company before the mid-1980s after the estate of the late Helenius senior was partially cleared.

Nonetheless, after five years as a record store manager Helenius had realized that operating a record store could never be very profitable in Finland because the fixed costs tend to grow rapidly as the company expands. A record company, on the other hand, has more value than only the physical record. Helenius had also realized something even more important:

...It was like a music lover's... a kind of an artistic ambition that I wanted to influence personally, like, on that... I saw that I had, like, this knowledge, I was so close to the market that... I believed that I could choose, like... a lot better artists for record publishing than were, like, chosen then... that they were, like, somehow so far from the street level these many record companies...

...The other one was simply a business issue that I, like, realized that in a record company if you build a good catalogue and long careers and kind of everything else... there like... those fixed costs do not rise the same way... you still have something left... there's kind of all the time that what you have published... it stays with you...

Therefore, in the fall of 1977 Helenius founded Poko Rekords as a subsidiary of Unitor. The final thrust came when his friend convinced him that a new group this friend was managing was going to be successful, even though he had not been able to find them a record label elsewhere. Helenius signed this new group called Teddy & the Tigers (the name taken from the movie American Graffiti) without even seeing or hearing them and, to almost everyone's surprise, the rockabilly group's first album became a success.

The second group signed to Poko Rekords did not represent rockabilly at all, but punk rock, which was slowly becoming more popular in Finland, too. The group was called Eppu Normaali

(a translation of Abe Normal from the movie Frankenstein Jr.) and to Helenius it was even more important than the first group as it was the first act he had signed to Poko Rekords himself (Luoto 2000, 54). As Helenius did not have any experience in managing a record company, he “slightly” overestimated the possible sales of Eppu Normaali’s first album and ordered covers for 10 000 albums. In fact the album sold only about 2 000 copies in the year it was released and so the stock of album covers lasted right until 1986. (Luoto 2000, 66.) Even though Eppu Normaali’s first releases were far from triumphant, Helenius stuck by them and today, after more than 1.5 million albums sold, it is obvious that he was right. After signing a heavy metal group as well as another one playing doo wop, Poko Rekords was soon producing almost anything that could be labeled rock music.

...The idea was to build... a rock record company... it kind of got... got started... like... with the punk phenomenon... but it’s like from the very beginning, we didn’t limit ourselves only to... punk records, but there really was this rockabilly and traditional rock...

During his years as a record store manager Helenius had also begun to comprehend that a record company would gain know-how from the record store because the store had a direct connection to the customers. Epe’s Music Shop also had a relatively large market share in the sales of rock music records. Thus, he could bring down the breakeven point of his records because he would not have to use any middlemen when selling through the record store.

In the early days, Poko in fact had practically no overhead costs because the company did not have any employees. Helenius and one employee were working at the record store and operated the record company on the side.

...Poko’s business idea was that the fixed costs of the record company are, like... rather zero... so that you don’t, like, have to... if you find nothing to publish for three months, then you don’t have to publish because there would be a couple of people in the office whose... salaries must be paid...

Nevertheless, even though Helenius had managed his record store for several years, he was not very familiar with the typical weekday operations of a record company manager. Thus, when sales manager Jive Väänänen of the almost-bankrupt Love Records decided to start his own consultancy, Moonshine Oy, with producer Richard Stanley in 1978, Helenius immediately hired their company to operate as Poko’s Helsinki office. These record industry veterans quickly secured Poko a distribution deal with a larger record company named Discophon and took care of

the manufacturing of records as well as other basic operations. This arrangement continued for a couple of years and during that time the veterans taught Helenius all he needed to know about getting started in the record publishing industry.

Discophon was chosen as Poko's distributor mainly because they were willing to sell their distribution services to other companies, too. At that time the only multinationals that had established operations in Finland were CBS and EMI, but they did not really offer their distribution services to others. On the other hand, Finland's leading record company Fazer was ready to offer its distribution services to other companies, but they were not interested in such a small player as Poko.

In the beginning, Helenius did not want to get into the music publishing business simply because the whole area was unfamiliar to him. However, very soon it became evident that his artists had even less expertise in the area and so Jee-Jee Music Oy was formed. In the beginning the main idea was to gain a little support for the marketing of records, but later the business turned out to be profitable even. This publishing company was at first owned by Epe and his wife, two key employees of Epe's, and Moonshine Oy, but during the 1980s the other stockholders' shares were bought back by the company.

## 5.2 Growin' Up (1980 – 1992)

In the late 1970s and early 1980s Poko Rekords began to grow gradually as new groups were signed and older ones found even larger audiences. Especially important was Eppu Normaali's third album that brought in 200 000 Finnish marks, and kept the company afloat despite unsuccessful retail operations at the time.

However, in the fall of 1980 their distributor Discophon was facing more and more financial difficulties while Poko's share of the company's total distribution service had grown close to 30%. Then Poko's accountant noted to Helenius that if Discophon were to go bankrupt, Poko would surely go down with it. So Helenius decided to move Poko's distribution to financially more secure CBS starting from the beginning of 1981. CBS was a simple choice because the



personal contacts had already been created as CBS and Epe's Music Shop had done a lot of cooperation. Poko had also grown sufficiently large to interest a multinational company. In addition Helenius knew that CBS' domestic production was still small enough so that Poko would get an adequate amount of attention from the company's employees. This deal also brought Poko a step closer to professional business operations with, for example, weekly sales discussions.

As the distribution arrangement with Discophon was terminated, so ended also the cooperation with Jive Väänänen and Moonshine Oy, which became an inactive company soon after. Another change that followed the deal with CBS was to begin manufacturing records at CBS' record press in the Netherlands because of substantially cheaper costs. This arrangement did not last for very long, however, as the manager of Finnish MTV's manufacturing operations soon dropped manufacturing prices to the same level as the Dutch and regained Poko, a client that was becoming more and more important.

Besides organic growth, Poko made its first acquisition in 1980, when Helenius' old friend Miettinen – whose first name has remained a secret to most people – contacted him with a proposal Helenius could not resist. Miettinen had operated an underground magazine named Hilse and expanded his business to a small record label also named Hilse. However, eventually Miettinen had realized something:

...According to my logic back then, when punk rock ended as music, so a punk rock record company should also quit...

Miettinen's business had also been financially less than thriving, so he was ready to sell his record label, which basically consisted of a finished master tape of a group called Hassisen Kone. Both men knew that the group was going to be a hit and Helenius did not hesitate to sign the deal, which brought Poko another future mainstay, namely Ismo Alanko.

...Miettinen... then, like, realized... that, like... in a way his hobby had become a real business... and... he didn't a) naturally... he got upset about his debts and b) he didn't want to be involved in the actual record business...

At that time Poko was a financially sound company, but it could not pay Miettinen in cash. So, Helenius offered him a down payment and financed most of the deal with the profits gained from the sales of the album. Even though Helenius was convinced that the group was going to be successful, the deal was still a significant risk as the break-even point of this unknown group's album was around 25 000 albums sold. However, reaching this turned out to be a little less difficult task as the album was certified gold (i.e. 25 000 copies sold) already in the fall of 1980. Even in those days Helenius was interested in creating personal contacts with his artists, rather than simply focusing on the business. This may be one reason why his artists have remained very loyal to Poko.

...When the deal was done, then right away I, like... headed off to Joensuu and, like... went to do... a deal with the band, so that... the band would not feel like they had, like, been sold... like, you know without asking them themselves...

Another dream came true for Helenius in October 1980 when he started a new label called Poko International. At the time he felt that the house was full on the domestic side and, on the other hand, that a "real" record company had both domestic and international releases. Thus, the new label focused on releasing albums Helenius thought should be released in Finland, but were currently not being represented by anyone. Most of the material came from independent labels, and the label's first release was Dead Kennedys' album already in late 1980. During the 1980s the catalogue of Poko International became quite substantial as it included more than a hundred albums.

In 1982 Helenius signed a deal with artist J. Karjalainen, who had become tired of his not-so-professionally managed record company. Karjalainen released his first album for Poko in 1983 as did another future hit group, Yö. After signing these new groups and artists and continuing to release albums by Eppu Normaali and Popeda (also signed in 1978), Poko essentially dominated the production of "Suomi-rock" and Helenius had become known as the Godfather of that phenomenon. Even though Poko managed to sign several successful artists later as well, this basis (and their successes and failures) built in the early 1980s has been its cornerstone through the decades and has also had a notable influence on the whole company's financial results. On the other hand, Poko's first actual employee that had nothing to do with the record store, a communications secretary, was also hired in the early 1980s. Thus, the record company finally began to take shape as its own separate unit.

After losing faith in punk rock, Miettinen felt the need to write his memoirs (Miettinen 1983) at the mature age of 25 as Helenius was willing to publish them. Miettinen had also found other musical interests and ended up establishing another record label, called Ku-Mi-Beat. Again the label was set up after getting started in the magazine business, but this time with a friend, Rami Kuusinen.

...All these actions, record companies... they are such that they don't have any plans, any great ideas behind them... they have all been, like, drifted into... I think Ku-Mi-Beat was just that... we already had a magazine, so we also had to have a record company...

Ku-Mi-Beat had a licensing deal with Poko Rekords, according to which Miettinen produced the master tapes and album covers while Poko handled the actual publishing operations. Miettinen's taste differed from the majority of Finnish consumers, however, and by the mid-1980s the albums' profits no longer covered the publishing costs. Thus, another arrangement was made according to which Poko took care of the company's debts and gained ownership of the master tapes. Helenius had no plans to continue the label, but swiftly shut down its operations except for only a single group that would continue recording under the Poko label.

In the mid-1980s Helenius again saw something happening abroad, which was neglected by other Finnish record companies: CBS began to release its older albums at a reduced price under the title Nice Price. Helenius quickly realized that Poko's older catalog was not selling too well and he could boost sales by starting his own mid-price series. This was quite radical in a country where LPs had traditionally all had the same price tag. Nevertheless, Poko's Kamikaze albums were a huge success and they were soon followed by mid-price series from other companies, too.

A new music format, i.e. the CD, began its conquest in Finland, too, in the latter part of the 1980s. However, Finns were a lot more suspicious of the new format than most other countries and CD sales correspondingly started rather slowly. Even though the first CD in Finland was released by the multinational CBS in 1985, Poko was also in the front line of CD believers and actually released the first Finnish CD single in 1987. In the early days the key problem for a small company was the limited amount of CD manufacturing capacity, which was in most cases fully utilized by the major record companies – not only to release their new hit albums on CD but also as a way of gaining competitive advantage. Nevertheless, Helenius had managed to slip into Poko's distribution contract with CBS a clause that guaranteed Poko 10–15 CDs a year from

CBS' own quota (Luoto 2000, 187). Back then the CDs were definitely not successful business, but Poko wanted to boast a bit as their financial situation was sufficiently secure; consequently they were one of the most active CD releasers.

Miettinen had not lost his interest in music, however, and in 1987 he formed yet another label, named Gaga Goodies, which became a 50/50 joint venture with Helenius three years later. Poko was not the buyer, however. This time Helenius bought the stake for his consultancy Firefox Communications. This company was Helenius' personal consultancy which he had set up in 1983 for business operations that were outside the core businesses of Unitor. At first the company's main business idea was to negotiate sponsorships between Finnish rock groups and businesses. Unfortunately Helenius was 10–15 years ahead of his time and thus the actual operations of Firefox had remained very limited. In the Gaga Goodies joint venture Miettinen's role was – again – simply to find new talent and produce it while Poko licensed finished masters from the company and took care of the venture's actual business operations. However, this label was from the beginning designed to look for markets outside Finland, too.

...Once again it was that... I felt that the situation was such that someone had to do them, those bands were so good... they deserved it...

In the late 1980s Fazer had begun to show a great deal of interest in buying Poko Records. Helenius, however, was not interested in selling a majority of his creation to the corporation. Thus, when his friend Gugi Kokljushkin, then the manager of the financially very affluent record company Sonet (part of a group of companies that included also the not-so-successful Discophon), once again approached Helenius with a distribution proposal, Helenius decided to offer 40% of Poko to the Swedish-based company.

...I had two offers and... the one from Fazer was as a matter of fact better... but... our, like, way of operating has always been so different... they were in a way, like, so big... I felt that even with a 40% share, like... they are in a way too... like, too big a partner for me...

Kokljushkin agreed, and in January 1988 Sonet bought 40% of Poko's parent Unitor and became their sole distributor. At the same time the publishing company Jee-Jee Music was sold to Unitor. The deal between Unitor and Sonet was significant enough to be noted also by the Finnish business press, which was traditionally not so keen on discussing the development of the music

industry (cf. e.g. Kauppalehti 19.1.1988). Besides cooperation between the record companies, Sonet was also interested in Helenius' expertise in the record store business.

...It was pretty much just based on a feeling... my boss and I, we liked Epe and liked that repertoire then and of course... it was the stores and all that which was, like, behind it all...

In addition to cooperation, Helenius was seeking to secure his company's financial basis. After all, Poko was still a very small company with limited economic resources. The deal also made it possible for Helenius to improve his personal financial situation without unreasonable tax consequences, which were a common burden in Finland in the 1980s.

Before the deal with Sonet, Epe's Music Shop had already opened a second record store in Tampere and reserved facilities for a "megastore" in a new shopping complex. Now, with more financial resources behind Uitor, the idea of even more record stores came into being and soon the Mega Epe's chain was established with stores in Turku, Helsinki, and Lahti in addition to the stores in Tampere. The original Epe's Music Shop was not part of the chain, however. The plan was to build massive record stores in central locations to compete with Fazer's own record store chain because both Helenius and Kokljushkin felt that Fazer was favoring their own recordings in their shops. Furthermore, as Fazer's record stores dominated music retailing at the time, they felt that this bias had too big an effect on sales figures in general.

The plan was to build a serious competitor to Fazer... the idea was that... Sonet has the financing... we have the know-how...

At first the business grew rapidly, even though the stores were managed very independently and without any top level control. So, instead of a record store chain, Mega Epe's in fact consisted of four totally independent stores in four towns. After all, the stores were established as independent subsidiaries of Uitor to enable better financial control of the units. However, this plan had its weaknesses, too, and quite soon neither the financing nor the know-how of this project turned out to be adequate.

## 5.3 Independence Day (1992 – 1996)

In the late 1980s Sonet's Swedish parent company had begun a less triumphant expansion project, which quickly led the company into serious financial difficulties. As a result, in 1991 Philips-owned PolyGram (later bought by Seagram and further by Vivendi Universal) acquired Sonet. Suddenly, Helenius found himself doing business with a global music giant instead of a lot smaller Scandinavian company. Already in the first meeting with the new owner's representative it became evident that the harmonious cooperation was over. PolyGram was especially unhappy with the record store chain that had become clearly unprofitable.

...I realized that... this is, like... the end of the road, like, with this company that... he felt that...  
Mister Helenius, you can keep your retail stores, that we don't want anything else than this, like...  
this Poko catalog...

When the cooperation with PolyGram turned sour, Helenius established a new publishing company, Poplandia Music Oy, in 1992 to control his artists' latest publishing rights because he did not want to share any more publishing rights with the conglomerate. Luckily for Helenius, the five-year distribution deal with Sonet was also coming to an end and in late 1992 Helenius bought back Poko's master catalog and all related business operations from Unitor. The original Epe's Music Shop and its mail order operations were also included in the deal as they were determined to be such an integral part of Poko's operations. All other retail operations remained part of Unitor. In this deal Helenius used another company, named Shoeling Oy, which was originally established by Mrs. Helenius for other business operations. After the deal in December 1992, Shoeling also changed its name to Poko Rekords Oy.

Helenius financed the deal with an extraordinarily large advance payment he received from BMG after agreeing to shift Poko's distribution to the corporation. BMG was logically interested in Poko because they had just opened their own office in Helsinki and did not have any domestic production at the time. To Helenius, BMG was this time the only viable option because his only other choice would again have been Fazer.

Nevertheless, the record store business was not doing well because of the recession and Helenius tried to get the record store chain back on its feet with several million Finnish marks support from the record company (i.e. the funds received from the sales of the master catalog). Even so, the

record store business remained unprofitable because the stores were all located on the most expensive sites and financed with foreign currency loans that had grown significantly after the devaluation of the Finnish mark in November 1991.

All the same, Helenius wanted to achieve complete freedom from PolyGram and in late 1992 he finally bought back the 40% of his company's shares from the conglomerate. PolyGram's representative also seemed eager to sell because he clearly did not see the same synergies between Poko and PolyGram that had existed during Sonet's independent period. The only major issue in the negotiations was naturally the price.

...I think that he... had a certain amount of money... to buy these parts and so forth... and he undoubtedly saw that... the money he could get to help a bit was... let's sell off that... peculiar percentage of this firm...

Despite Helenius' best efforts, the record store chain could not be saved and Uutor Oy finally went bankrupt in 1993. After the bankruptcy Helenius acquired the shares of Jee-Jee Music for Poplandia. Furthermore, Helenius decided to limit his future involvement in the record store business to his original Epe's Music Shop, so that he could control the operations more closely. During these financially very difficult years Helenius discussed with EMI and other multinationals about selling 25% of Poko for virtually nothing in exchange for sufficient operating capital. Luckily for Helenius, none of them accepted the plan.

The official market share figures for Poko are available from 1990 onwards (in 1990–1991 the figures are actually for Uutor). The following table presents Poko's market share of the total Finnish music market as well as the market share of domestic production in the early 1990s. Unlike in most other European countries, the Finnish domestic music market comprises approximately 50% of the total music market. In Poko's case the domestic figures are especially important because its own offering has consisted almost completely of domestic production. These figures clearly demonstrate how the breakup of PolyGram and Poko as well as the bankruptcy of Uutor negatively influenced the success of Poko as a company.

Table 8. Market Share of Poko 1990–1994

	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
<b>Total</b>	0.9	3.3	4.0	3.41	3.28
<b>Domestic</b>	1.4	6.2	7.3	5.84	5.15

## 5.4 Two for the Road (1996 – )

The bankruptcy of Uitor had left Helenius and Poko with substantial debts that burdened the company's financial situation well into the 1990s. Poko's financial situation finally improved significantly in the fall of 1996, however, when the company released Eppu Normaali's compilation album *Repullinen hittejä*. The album already sold approximately 170 000 copies the year it was published and later became the company's biggest seller ever and the second best selling album in Finland.

The joint venture Gaga Goodies was operating at least tolerably well, but Miettinen once again felt uncomfortable with the status quo. So in 1998 he once more decided to quit the record business and sold his share of Gaga Goodies to Helenius, who continued to operate the label. However, it took several years before any new groups were signed to this label because Helenius still felt as if it was Miettinen's label. Today, Gaga Goodies offers Helenius a chance to sign groups that do not fit Poko's chosen line of music and all the artists signed to the label make very loud music in English.

On the other hand, very soon after selling his share of Gaga Goodies Miettinen realized he had started not one, but two new labels that operated within his Room Service publishing company. In the beginning his idea was just to release a couple of albums, but once again things eventually got out of hand. Nevertheless, in early 1998 the two labels signed a manufacturing, distribution and promotion deal with Poko and the future was once again looking bright. Even so, by 2000 it became evident that neither of the labels was financially on solid ground as album sales were virtually nonexistent much like their airtime. Moreover, Miettinen had more or less lost his faith in the whole business. So the two friends sat around the kitchen table and once more carved out a



deal whereby Gaga Goodies bought the master catalog of the two labels. This time they also agreed that Miettinen would never again start another record company.

...My time in the record business had gone by... the amount of rock in the rock business shrunk and the amount of business grew and... that again didn't... I just don't know that side at all...

By the late 1990s Poko Rekords had secured its place as a major Finnish record company. Although its operations were mostly focused on the Finnish market, Poko also invested approximately 1 million Finnish marks every year in marketing abroad (Kauppalehti 7.9.2000). The activities of Poko International had, however, been reduced significantly during the late 1990s as its most significant partner MNW started its own operations in each of the Nordic countries and many of Poko's smaller international partners had been sold to larger corporations. The following table illustrates the evolution of Poko's market share in the second half of the 1990s. Based on the figures it is easy to see why any of the multinationals would have been thrilled to acquire Poko. However, most people assumed that Helenius was not ready to sell his life's work.

Table 9. Market share of Poko 1995–1999

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Total</b>	3.56	5.01	3.96	4.67	4.74
<b>Domestic</b>	6.13	9.18	8.47	9.08	8.96

Nevertheless, after the 1999 Emma Gala (the Finnish “Academy Awards” for music) EMI's slightly intoxicated manager Hobo Puhakka approached the also slightly intoxicated Helenius with an acquisition proposal and to Puhakka's surprise Helenius responded positively. A week later Puhakka called Helenius to find out whether he had been serious or not and soon the details of the proposal were being discussed.

...My motive was that... that we must gain... more market share and... Poko does indeed have a mighty... domestic back catalogue...

While Helenius was discussing the sale of his company to EMI, he was also in negotiation with the German company Edel, which was the largest independent alternative available. Even so, Helenius considered Edel only as a second choice because the company did not have any major artists or a substantial catalog. Helenius had been satisfied with Poko's distribution deal with

BMG on the whole and when the agreement was being renewed in 2000, there were also discussions about BMG buying Poko. These discussions remained on a general level, however. Gugi Kokljushkin, now manager of Universal, had sounded out Helenius' interest in selling his company, too, but these talks remained likewise very preliminary in nature.

The discussions between Poko and EMI advanced gradually in 1999, but not as successfully as in Norway where EMI announced its purchase of the country's largest independent record company (EMI press release, 27th October 1999). However, plans for a notably larger deal became public in January 2000 whereby EMI and Warner would merge their music businesses (EMI press release, 24th January 2000). This meant that soon EMI's Scandinavian management no longer had the time to focus on small-scale issues and the acquisition plans with Poko were more or less put on hold.

By October 2000 the planned merger between EMI and Warner seemed destined to be banned by the European Commission, however, and the companies withdrew their plans (EMI press release, 5th October 2000). After that it only took about a month for EMI's Scandinavian regional manager Michael Ritto to contact Helenius again and reopen the negotiations with Poko. By now EMI Finland had found a new general manager, but his views were not very different from those of his predecessor.

...You cannot find a better, like, rock catalogue in Finland... and, like, the history... maybe a bit also the idea somewhere there that... that at some point Epe will probably sell Poko... so better that we buy it than... let someone else buy it...

This time the discussions were more fruitful, and finally in April 2001 – after the deal received the blessing of the EMI head office in London – EMI announced its acquisition of Poko (EMI press release, 2nd April 2001; Kauppalehti 3.4.2001). In addition to Poko, EMI bought the record company operations of Gaga Goodies, which became solely a music publishing company like its sister company Poplandia Music. Thus Helenius sold all his actual record company operations, but kept the publishing operations for himself in order to better honor the deals he had made with his artists. According to the deal, EMI also became Poko's distributor.

One of the main reasons why Helenius finally decided to sell his company was the fact that a record company is naturally more attractive when it is not sold to enable retirement, but the

manager is still committed to managing the company in the near future. Helenius had also realized that the online music business was finally growing more important and online operations would need a lot more resources. At the time, Helenius expected that the online music business would grow in size more rapidly than it actually has done. Helenius' understanding of the online music business' need for large resources is also the reason why Poko has never been directly involved in online music sales and has only supplied its music to such operators.

However, during the negotiations Helenius had insisted that Poko would still retain a relatively large amount of independence and not be merged into EMI's local operations. Thus, most of Poko's operations are still being managed from its headquarters in Tampere, even though some back office operations and the label's distribution are managed centrally at EMI's Helsinki office. Poko's independent status within EMI became really evident when the corporation faced major restructuring in 2002. Despite some proposals from corporate management, the restructuring eventually had no effect on Poko. Currently Poko operates as an independently managed unit in smooth cooperation with EMI, especially regarding Poko's music exports.

The following table shows how Poko's market share developed during and after the acquisition negotiations. Since 2003 Poko's market share has been included in EMI's figures. According to the figures EMI seems to have succeeded in keeping the two companies' market share because its own market share of domestic production was around 12% before the deal and 21.64% in 2003. EMI's total market share also grew from around 13% to over 20% in 2003.

Table 10. Market Share of Poko 2000 – 2002

	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Total</b>	4.39	6.41	4.70
<b>Domestic</b>	8.18	11.63	8.75

## 5.5 Analysis

### 5.5.1 Strategy Logic of Poko Rekords in the Beginning

The following figure outlines the strategy logic of Poko Rekords as it was perceived in the beginning. The figure tells us that, in the beginning, the basic idea of the company was simply to offer rock music to the new “rock generation” with the help of a more or less virtual organization. A closer look at the figure also reveals that the offering was perceived as being of high quality and the kind of music that people actually wanted to hear. So, it included an intangible aspect in addition to its mostly physical side.

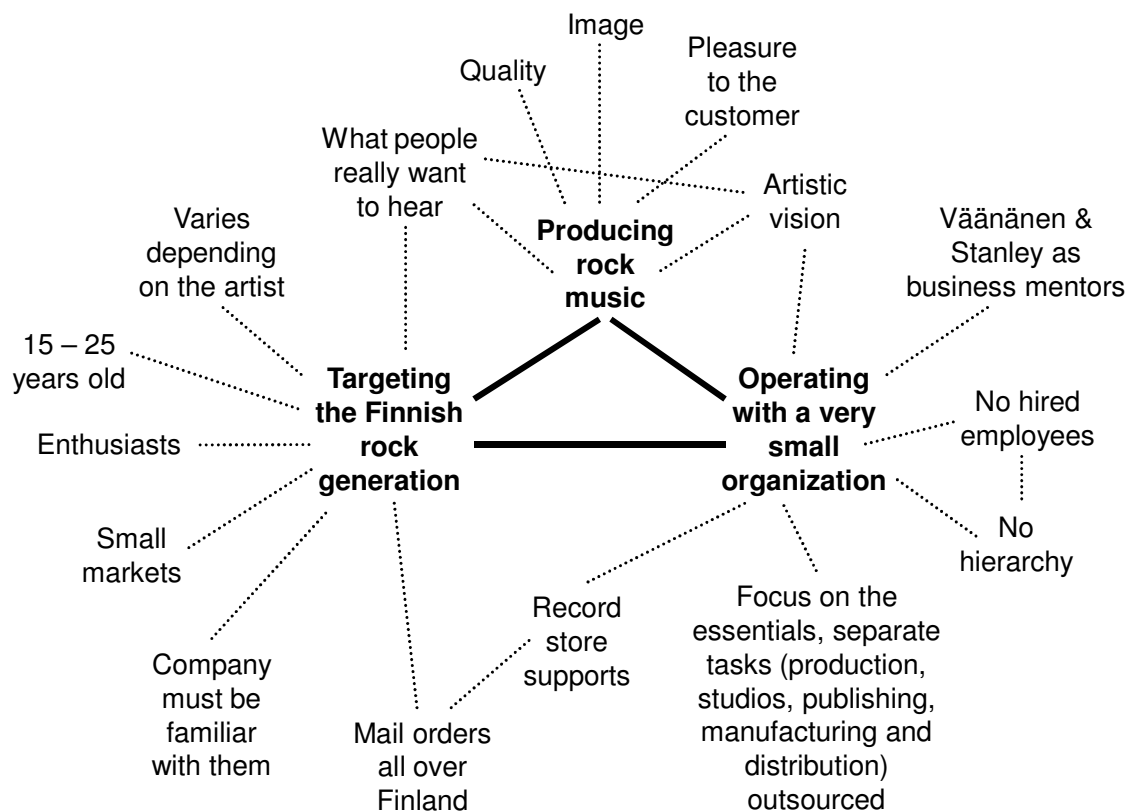


Figure 26. Strategy logic of Poko Rekords in the beginning; “The Hobby Phase”

The audience was seen as more or less consisting of enthusiasts and thus varying depending on the artist, but in any case it was understood that the customer base was very limited. Therefore it was important to employ the resources of the record store in more ways than simply providing the

mail order service. Accordingly the record store also supplied the workforce while the veterans Väänänen and Stanley offered their know-how.

Poko's strategy logic during this phase is probably very closely connected to the environment of its inception. After all, the new wave of Finnish rock music had just energized masses of young people, and a similar enthusiasm had taken over the unofficial employees of Poko Rekords as well. They were undoubtedly true believers in their cause and thus willing to spend a significant amount of their energy in starting up a company whose business prospects were by no means definitely successful. Nevertheless, the strategy logic of Poko Rekords in the beginning was clearly a harmonious one where each side was in balance and supported each other.

### *5.5.2 Strategy Logic of Poko Rekords during its Fastest Growth Stage*

The second phase in Poko Rekords evolution was undisputedly a time for growth as the company expanded its business activities to new areas both physically and operationally. Figure 27 describes the strategy logic of Poko Rekords at its fastest growth stage in the late 1980s.

The figure shows that the key idea of the company had grown to offer rock music to every Finn who was interested in that kind of music, and it planned to do this with a very small organization. In fact the company had just found its first hired employees and did not even have a real organizational structure yet. However, the formation of an actual organization naturally changed Poko's way of operating significantly. Obviously some kind of a hierarchy had to be created, although it was deliberately kept to a minimum. In addition, the role of the manager was kept as informal as possible, so that the employees could use their own judgment in making decisions.

Furthermore, Poko had continuously expanded its musical horizons, which was further emphasized by the addition of the Gaga Goodies label. Namely, this inclusion brought a whole new audience to the company, as its operations were mostly focused on "Suomi-rock", which was definitely not the case with Gaga Goodies. Thus, its offering – high quality rock music – was not the problem, as the company's artists as a whole had succeeded very well, so the artistic vision of management had evidently been accepted widely by the consumers.

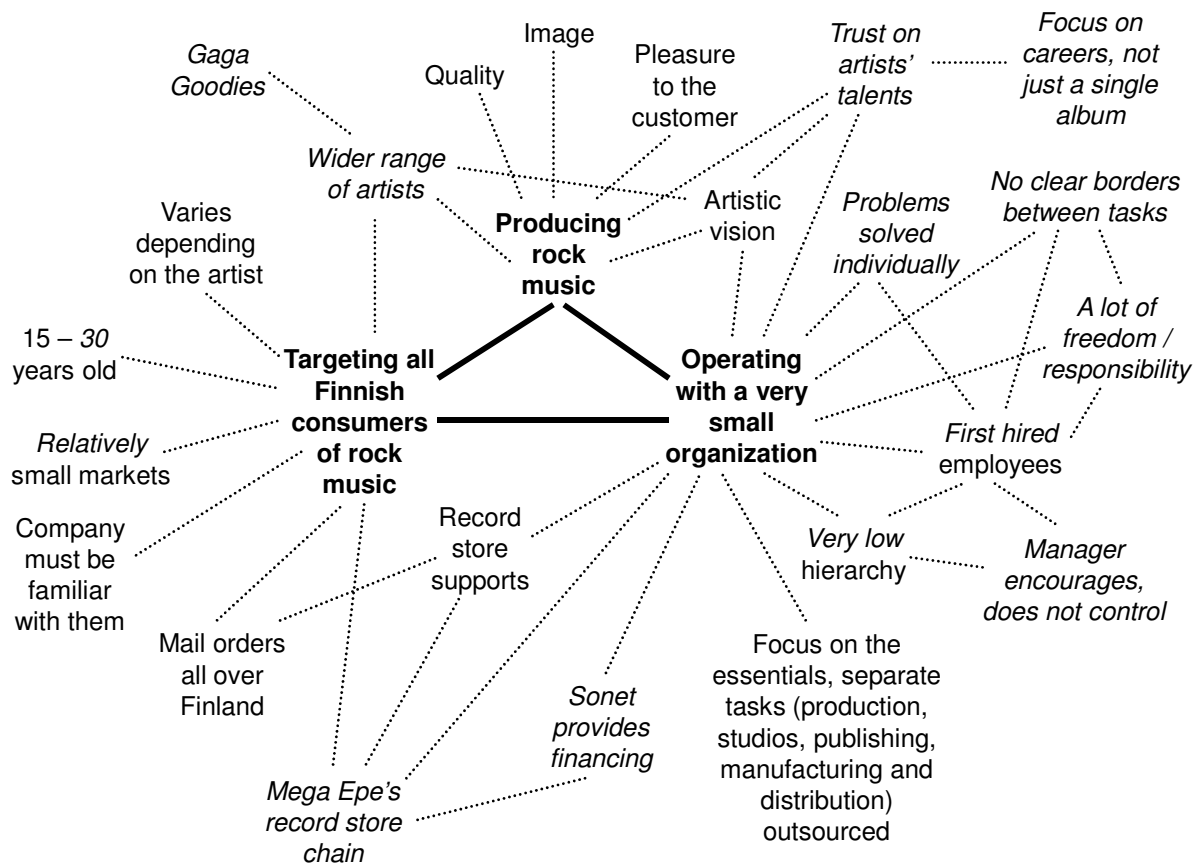


Figure 27. Strategy logic of Poko Rekords in the late 1980s; “The Growth Phase”

Besides the artistic vision, one other key issue was related to both Poko’s offering as well as its modus operandi. Namely, it had become clear to Helenius that a rock group (or an artist) usually needs time to crystallize their know-how in music and so they should also have more than one chance to prove themselves. Furthermore, Helenius had also realized that even his successful artists sometimes needed to release albums that were not at all commercial, so that they could remain creative and continue their careers. Thus, all of Poko’s artists were evaluated over the long term instead of just staring at the sales figures for the latest album.

Nevertheless, the key piece that does not fit this puzzle can be found on the left side of the triangle: the company was aiming to reach all Finnish consumers of rock music physically, i.e. with the help of a nationwide record store chain. Even though the market at the time was still relatively small, it was also very scattered throughout the country. Thus, a number of record stores were needed to cover even the most significant market areas.

Since the company itself was still quite small, it did not have the financial resources needed to accomplish this task. Therefore, it had found a larger partner, but even so, the plans were being implemented with external capital. However, an even bigger obstacle to these plans was the lack of experienced human resources in the company. There simply were not enough people – not to mention expertise – to adequately monitor the record store chain and its operations.

In fact, the problem lies deeper than in the overall strategy logic of Poko Rekords. The key dilemma is the fact that this overall logic includes two key sub-logics that are built on the same basis, even though the businesses based on them are very different, as the following figures show.

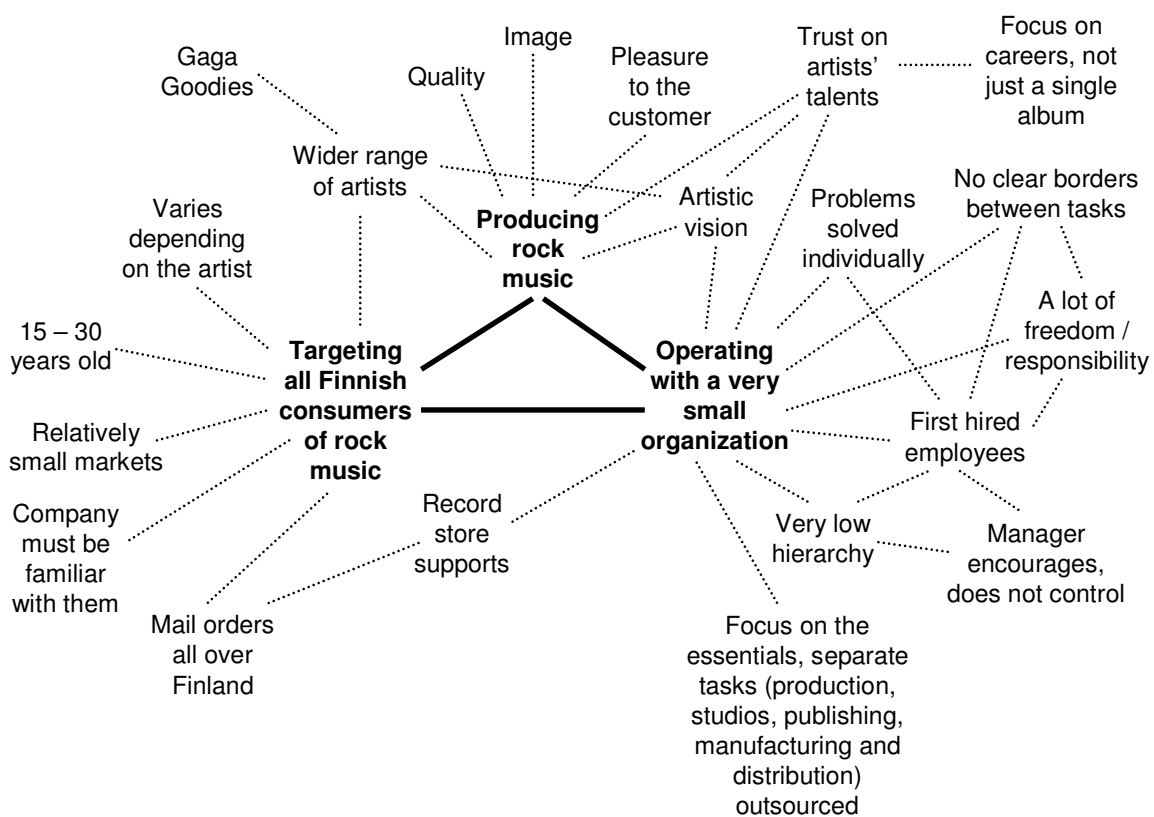


Figure 28. Strategy logic of Poko Rekords as a record company (a sub-logic of the whole company’s strategy logic)

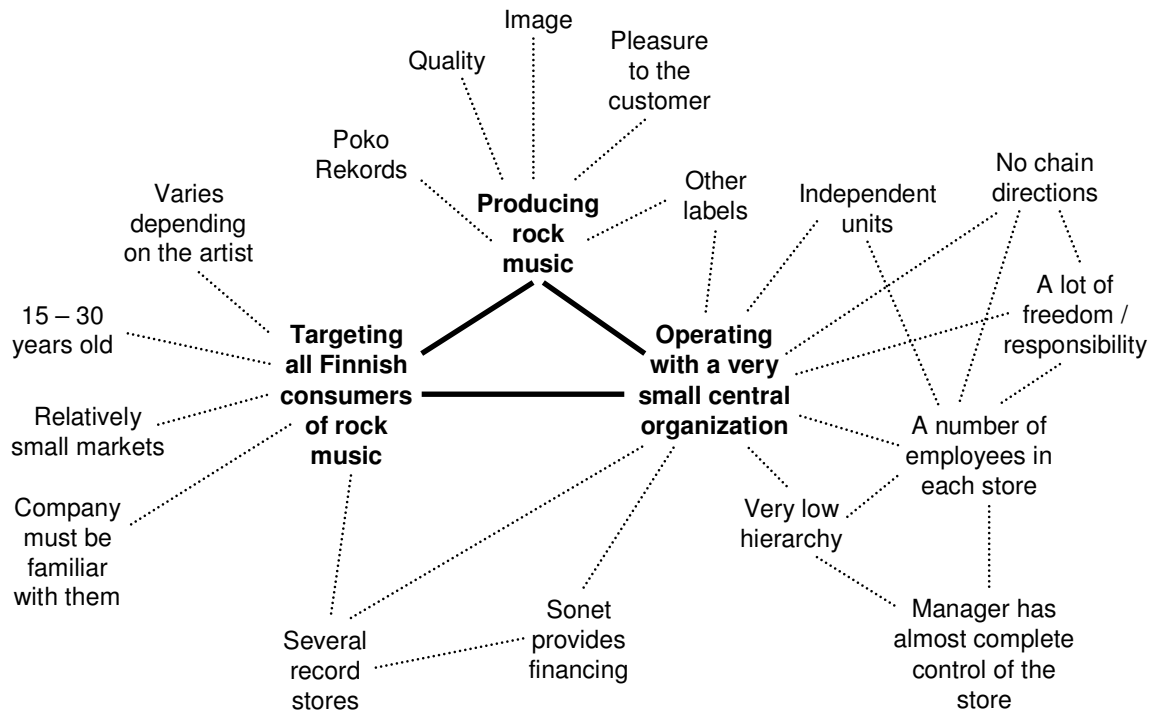


Figure 29. Strategy logic of Mega Epe's record store chain (a sub-logic of the whole company's strategy logic)

Figure 28 presents the strategy logic of Poko Rekords as a record company and it is easy to see that it is almost identical to the strategy logic of the whole company. Then again, as figure 29 illustrates, the strategy logic of the Mega Epe's record store chain is also entirely based on that same logic. It includes basically the same offering and target group as the record company's strategy logic. It also contains notable operational freedom and a very low hierarchy. In addition it emphasizes very independent units where store managers have almost complete control of their stores and practically no chain directions.

In conclusion, figure 29 is precisely at the heart of the problem. Although very loose controls do function well in a record company, they do not fit a record store chain. Some operational freedom is naturally needed in a record store chain as well, but it also calls for considerable chain controls or directions to create a real record store *chain* and not just individual stores with the same name. Thus it is not hard to see in retrospect that this was not a very successful strategy logic.



### 5.5.3 Strategy Logic of Poko Rekords after Refocusing

The next phase in Poko Rekord’s strategic evolution was filled with rationalization. Helenius discontinued the unsuccessful record store chain operations and returned to his roots with a more focused offering. The following figure illustrates the strategy logic of Poko Rekords after the reorganization conducted in the early 1990s.

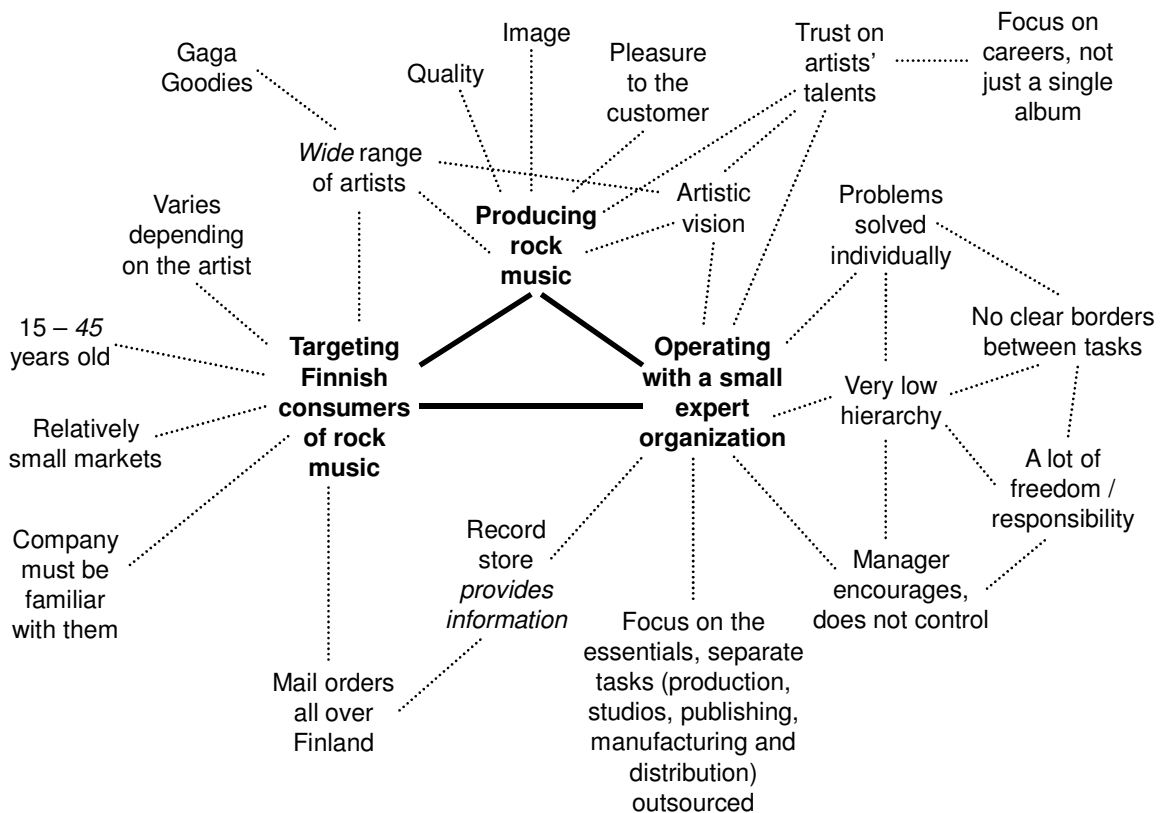


Figure 30. Strategy logic of Poko Rekords in the early 1990s; “The Focus Phase”

It is easy to see that the upper side of the figure has practically remained the same: the business is still based on high quality rock music. Neither has the “operational” side changed very much. The organization has by now grown somewhat larger in numbers but, more importantly, it has grown significantly in expertise. At this point in time, the organization has certainly become an expert organization that still trusts in their artists’ talents – even through harder times – and does not need too much hierarchy.

The key issue that has changed since the 1980s is, again, the nature of the target market. By now Helenius has learned that the company cannot reach all its potential customers physically and has thus returned Poko to its roots by focusing on mail order to serve customers outside the Tampere region. The only remaining record store – the original Epe’s Music Shop – still continues as an important source of market information.

One important issue in the evolution of Poko Rekords’ strategy logic is the age distribution of its target group. In the beginning the target group consisted mostly of young people approximately 15 – 25 years old. This was quite natural, as most of the company’s offering was not enjoyed by very many older consumers back then. However, as Poko Rekords’ grew, so its customers aged as well and by now a 45-year-old rock music fan was by no means a rare phenomenon. Nevertheless, at this stage Poko Rekords’ strategy logic evidently regained its harmonious nature with the reformatted target group.

#### *5.5.4 Strategy Logic of Poko Rekords as a Part of EMI*

Acquisition by a larger company is a common finale in the life of a record company. Often this results in significant changes to the whole acquired company. Interestingly, this has not been the case with Poko. Accordingly, figure 31 shows the strategy logic of Poko Rekords as a part of EMI.

The characteristics of the company’s offering are still today more or less the same as they were already in the 1970s and 80s. The same artistic vision – even though no longer just Helenius’ vision – still guides the production of high quality rock music that is delivered by some of the same artists but naturally also by certain younger ones. The organization is likewise the same expert organization that does not need too much control or task lists.

The deal with EMI did not change the left side of the figure too dramatically, either. Poko still focuses on the consumers of Finnish rock music, but now, with the support of EMI’s global network, they are much better equipped to reach these consumers anywhere in the world. This also means that markets are growing substantially faster than just the Finnish rock music

consumer market – which basically expands as younger generations discover rock music and older generations do not forget it.

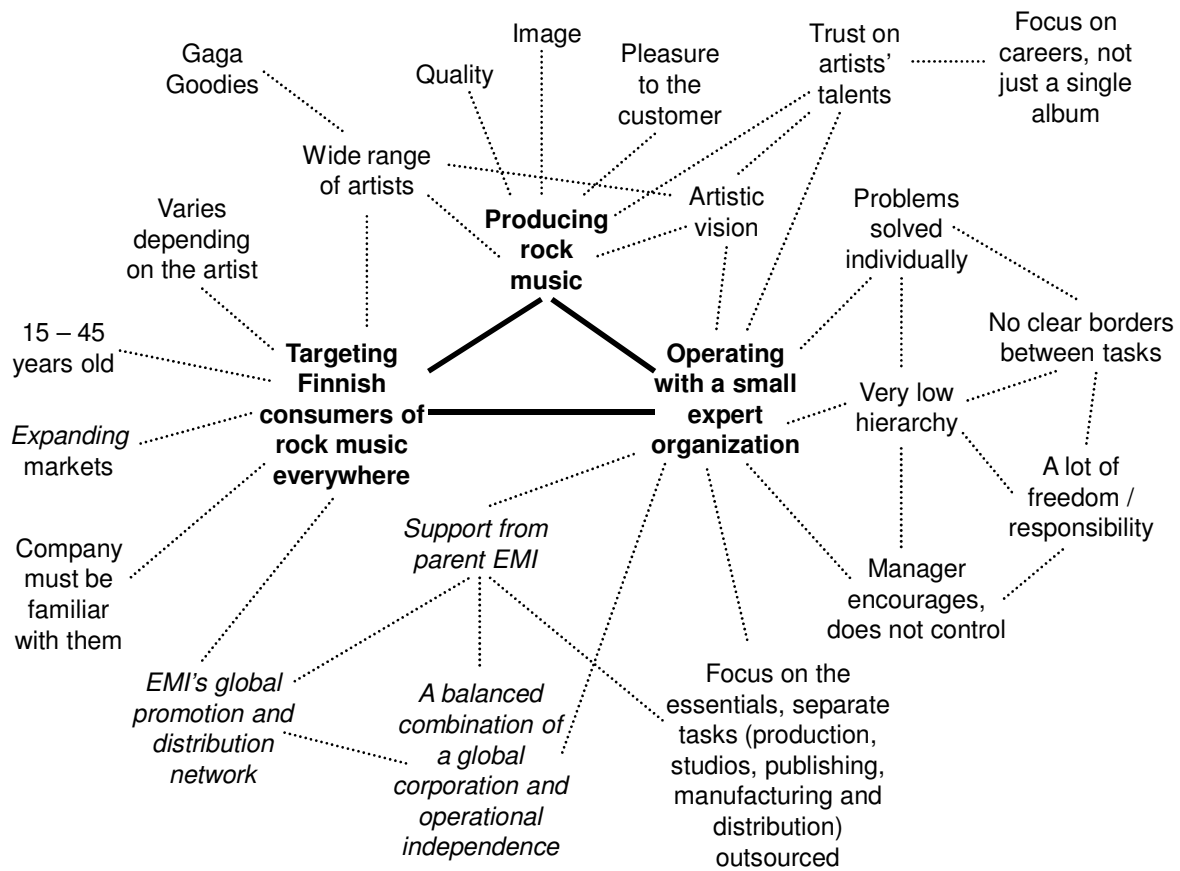


Figure 31. Strategy logic of Poko Rekords as a part of EMI; “The EMI Phase”

The most significant new element in Poko’s strategy logic is precisely the way the company has retained its independence, even as a part of a global corporation. This is especially important in a creative company whose main competitive advantage is the talent of its personnel. After all, it is common knowledge that creative artists may often be inclined to leave a company if they feel that it has shifted in an undesirable direction. All in all, Poko Rekords consists today of a balanced combination of a global corporation and operational independence, which means that Poko has gained many benefits by joining the ranks of EMI without sacrificing its own creative identity. Accordingly, Poko has also managed to retain the basis of its harmonious strategy logic intact, even in its new situation.

## 5.6 Summary

Poko Rekords has often been seen as an artist-friendly record company. This attitude has manifested itself in several ways. Firstly, the company has always tried to be flexible when dealing with its artists and groups, and their concerns have been listened to. Naturally not every wish of a rock star-to-be can be fulfilled, but an artist that has a longer and more successful history with the company can enjoy a significant amount of artistic and financial freedom. One reason why this flexibility has been possible is the fact that practically every contract at Poko has been made orally. Written contracts became more common only after the EMI deal. Oral contracts were naturally based on mutual trust and those who betrayed this trust very soon found themselves looking for a new record company.

Second, Epe and Poko have at all times tried to stand by their artists, even when the artist's most recent album has not been successful. Gradually Epe also realized that even his successful artists sometimes needed to make "therapy" albums in order to maintain their creativity. Therefore Poko has released several albums that were never even expected to become successful. Especially Poko's mainstay artists have had their ups and downs over the years, but they have always come through their difficulties and become even more successful than before. In the case of new artists or groups, the first album is not the one that decides their fate at Poko but instead they generally have a couple of albums' (and sometimes even more) time to prove themselves.

Third, ever since the early days of Poko Rekords, Epe has been ready to try out new things, especially ideas which seem crazy at first. Thus, Helenius has, among other things, simultaneously released solo singles from each member of Eppu Normaali (inspired by the solo albums of KISS members) and, on the other hand, released several books without any prior experience in book publishing.

The following figure summarizes the changes in ownership related to Poko Rekords. It is easy to see that the changes have been dramatic, especially because the first materialization of Poko, i.e. Unitor Oy, finally went bankrupt in 1993. On the other hand, it can also be noted that Helenius has in a way returned to his roots because in 1972 he started a record store and in 2001 the EMI deal forged a new individual company from the record store that used to be a part of the whole Poko entity. The figure also reveals how Helenius' business operations gradually expanded and

became more diverse. At first this diversification happened mostly within the scope of Unitor but since the late 1980s Helenius has increasingly begun to use separate companies to expand the realms of his businesses.

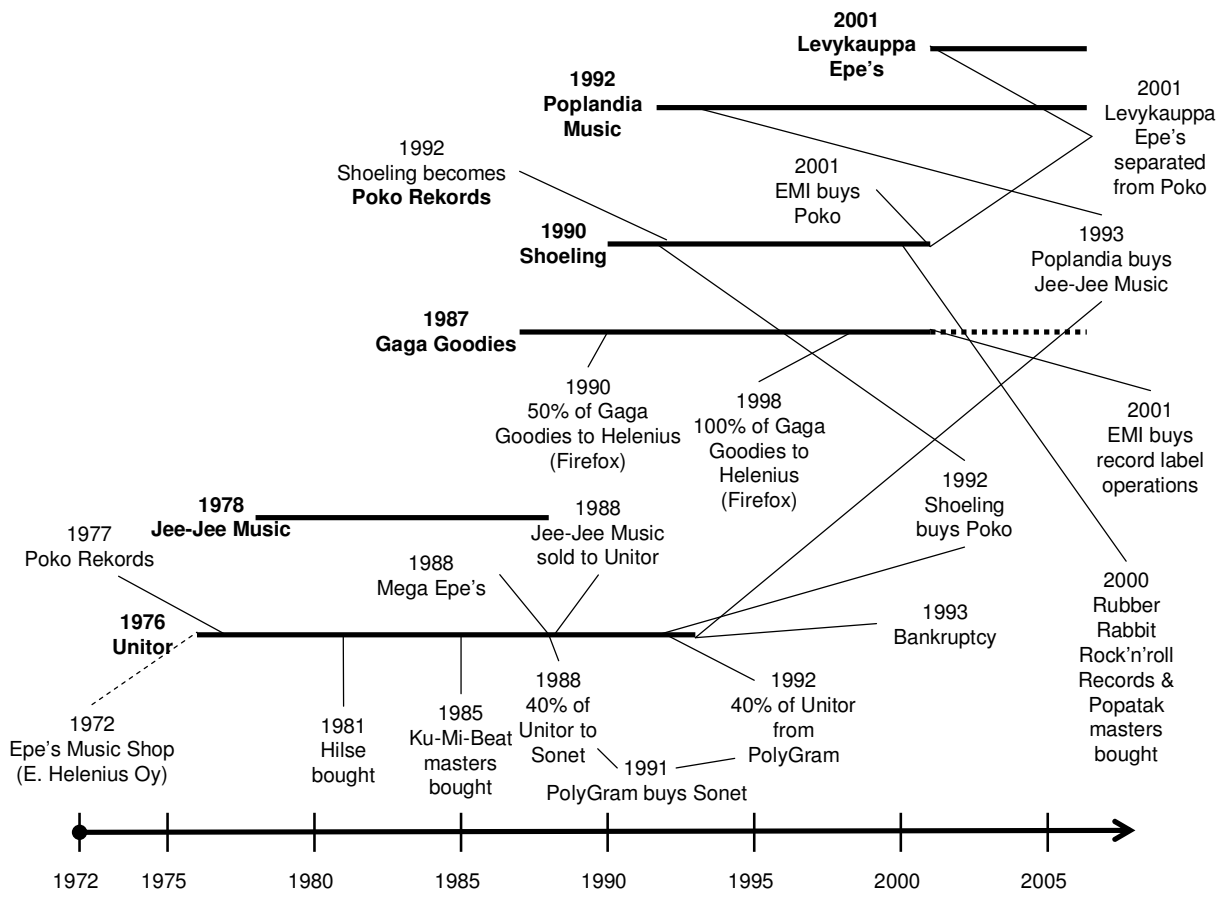


Figure 32. The evolution of Poko Rekords and related companies

On the other hand, we could also look at certain environmental factors that have had an impact on the strategy logic of Poko Rekords. Most important of them are collated in the following figure and combined with the development stages of the company.

Even though Poko Rekords was never just a punk rock record company, it got started with the advent of punk rock music. One of the key issues that helped the company to get started was the fact that Epe's Music Shop was the most important place to buy these albums and its market share of some albums' sales was over 50%. This fact naturally provided Poko with a lot of know-how about exactly what was currently popular, but also enabled a significantly lower break-even point for Poko's own albums. In the early 1980s the company grew without much competition as

there were only two small companies that produced rock music. Only when the market for Finnish rock music exploded in the mid-1980s did the major record companies become interested – and then they were way behind the forerunners.

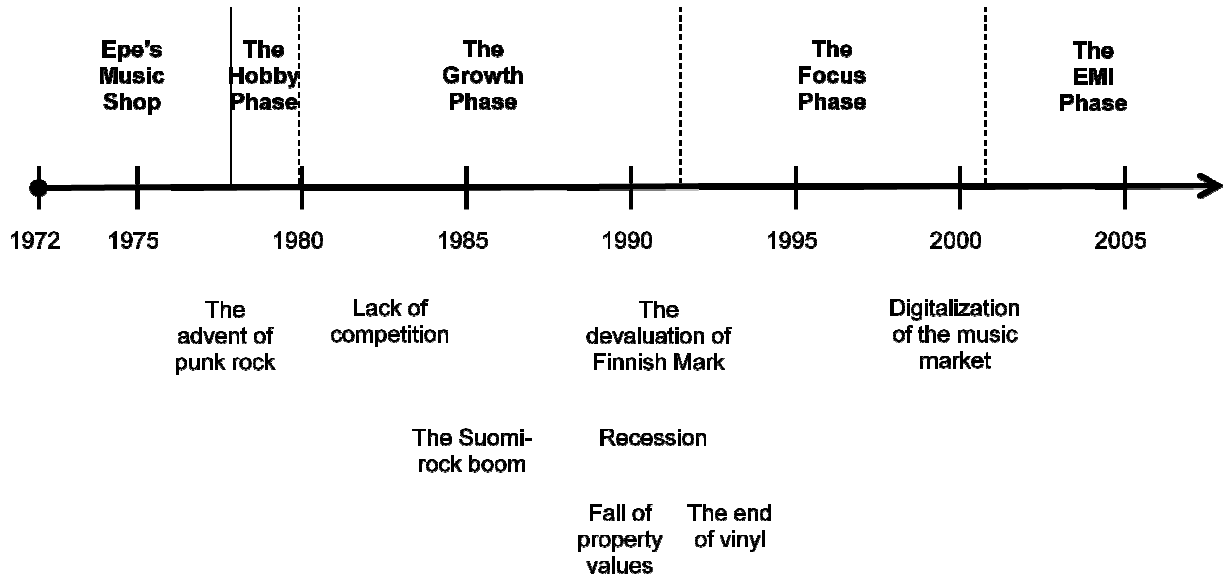


Figure 33. Key environmental factors that have influenced the operations of Poko Records

At the end of the 1980s Finland was facing recession with plummeting property values and extremely high interest rates, which also led to the devaluation of the Finnish Mark. These factors combined with the end of vinyl records, which came too soon for Finnish consumers, had a huge negative impact on the company and eventually demanded substantial changes in the company's operations. They were without a doubt the key factors that created the need to focus on Poko's essential business activities.

Finally, at the turn of the millennium it seemed that the music market was fast heading for digitalization. Even though this did not happen as soon as might have been expected, Helenius believed that a small Finnish independent record company would probably not have a glorious future in the digital world. Thus, he saw it was time to find a larger partner and so Poko Records became a part of EMI.

We can also look at the situation from a different perspective, namely from the success point of view. The following figure illustrates Poko Rekords' market share of the total Finnish music market as well as its share of the domestic music market. The figure starts from 1990 because prior to that there is no official data about Poko's market share.

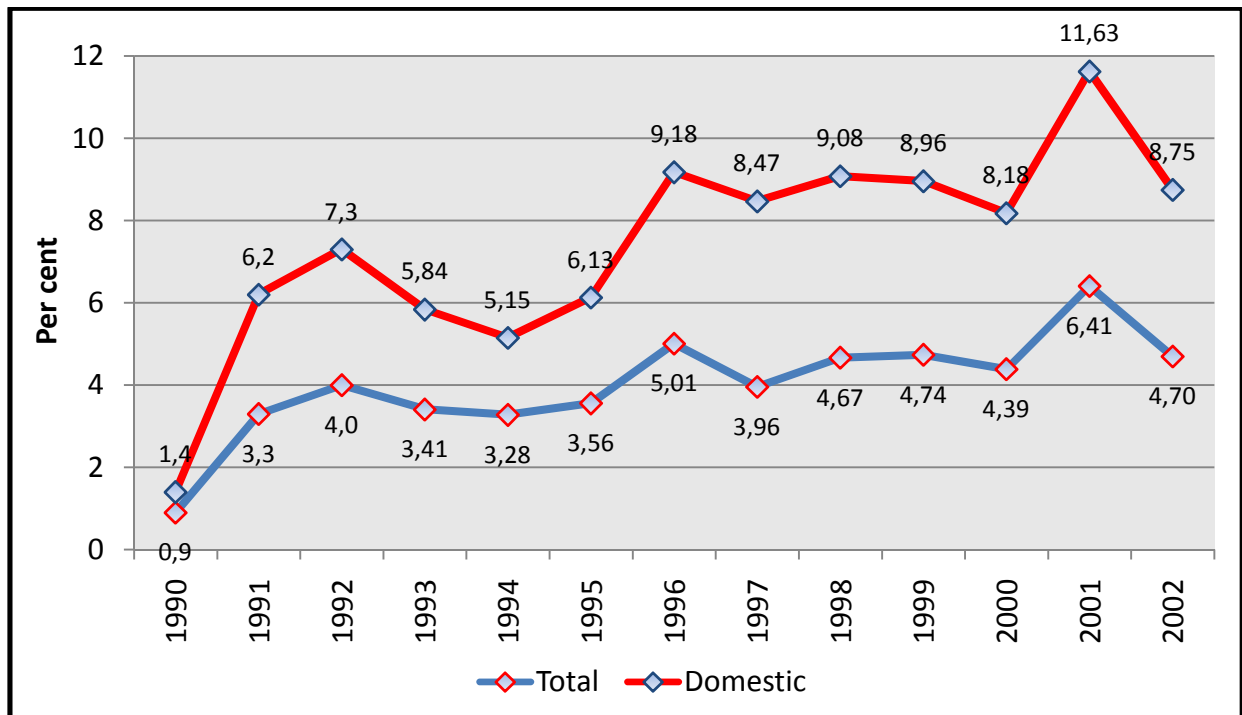


Figure 34. Market share of Poko Rekords

The figure tells us two things. First, it shows how the market share of Poko Rekords has gradually grown and how it eventually became a very significant player in the Finnish music industry. After all, the Finnish music market is dominated by the same global corporations as the global music market, but until the beginning of this millennium this dominance was mostly based on their international repertoire. That is why none of these corporations could overlook a company with a domestic market share of almost 10%.

Second, the figure also illustrates one key thing about the music business in general: the business is indisputably unpredictable. Just like music trends, the success of a single company has its highs and lows, but the success of a record company is even harder to predict because it depends so much on the success of individual artists. Since Poko is still the home of the biggest Suomi-rock artists, its success naturally reflects the slump of the whole genre in the early 1990s and its more

recent rise. On the other hand, even though Poko is a major Finnish record company, it is still a small company. Thus, its success may peak when just one or two of its mainstay artists release a very successful record. Then again, Poko has a broad enough artist roster, which may compensate for the downturn or inactivity of a certain major artist.

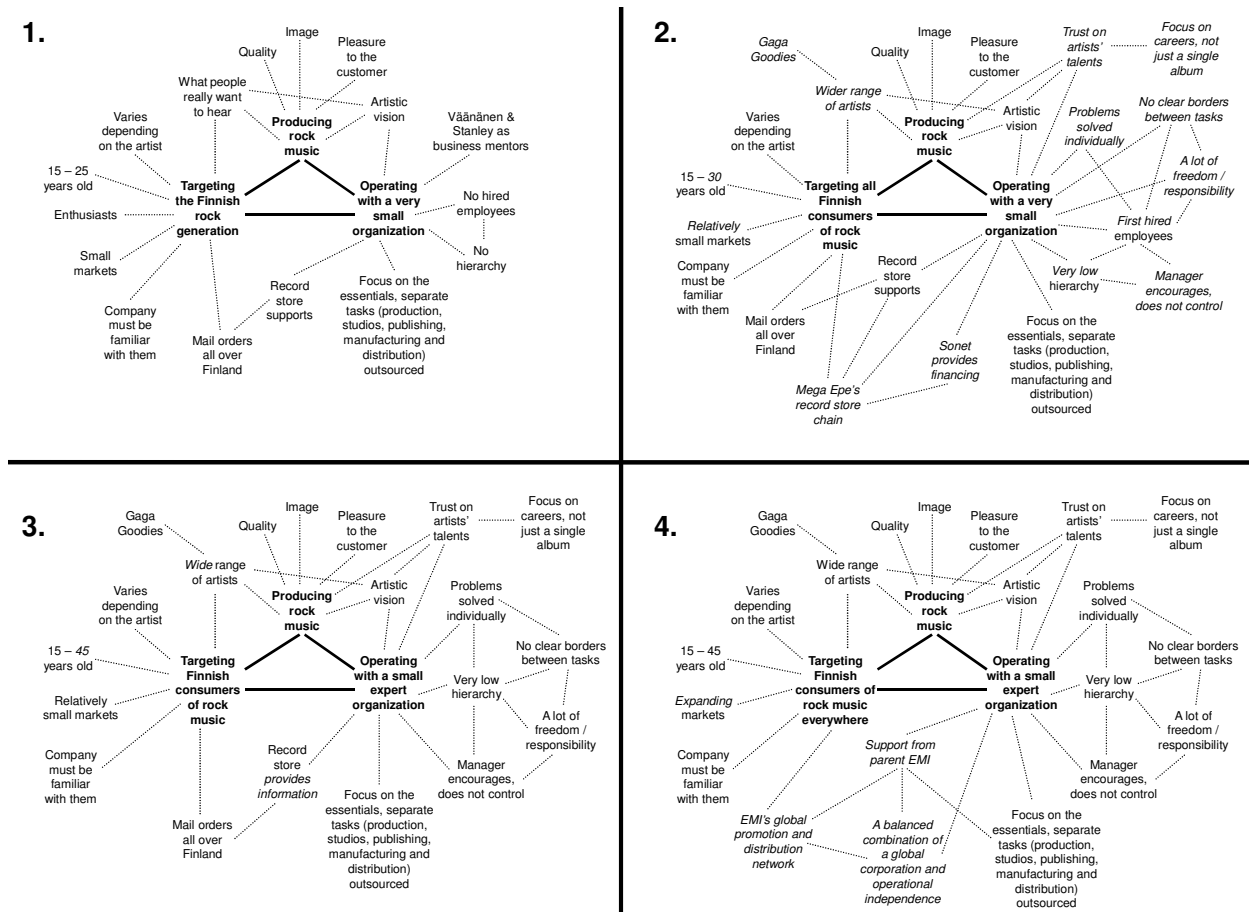


Figure 35. The evolution of the strategy logic of Poko Records

Nevertheless, the changes in Poko Records strategy logic (combined in the figure above) have also had a significant effect on the company's success over the years, so let us now assess these changes a little more thoroughly. In the beginning, the logic behind Poko Records was simply to provide rock music to the enthusiastic Finnish rock generation with a virtually nonexistent organization. This way the company can be seen more or less as a hobby of its founder. All the same, this idea proved to be a successful one and Poko's strategy logic during that period (section 1) demonstrates why. The product (rock music) was targeted at eager consumers and supplied by correspondingly enthusiastic virtual employees supported by a successful record store. So every piece of the puzzle was in place.



However, when the company began to grow, it somehow lost its direction. As can be seen from its evolved strategy logic (section 2), the company was trying to do too much with its limited resource base. The company sought to reach large numbers of consumers through the Mega Epe's record chain, even though its own resources were still very limited. In fact, this was the only time the company has employed more than just a handful of people because the record stores increased the number of staff members to about 50. The rise was not reflected in the number of people coordinating the company's operations, however. In consequence the perfect fit of the early days had been lost.

Therefore, major changes were called for and the company soon began seeking its own focus again. This focus was found in the early 1990s (section 3), after significant restructuring. This time the company was focusing on a larger audience than in its early days, but it no longer tried to reach all of them physically. The company's offering had also become wider, so it naturally attracted a broader audience. In addition, the company's organization had become one consisting of experts. Thus, we can say that the fit had once again been found.

The same fit still exists today in Poko Rekords' strategy logic as a part of EMI (section 4). The company is still offering more or less the same repertoire with more or less the same personnel. However, its target group has grown even wider and as an independent company it could probably never have reached them successfully. With the support of a multinational music conglomerate and its huge resources, this target group can be reached far more easily. Thus we can say that joining EMI did not change the strategy logic of Poko Rekords too significantly and it is still the harmonious one that it was before the takeover.

It is actually quite surprising how little the strategy logic of Poko Rekords has changed over the years, especially considering the extent of the changes the company's operations have gone through. Helenius himself has also realized that the basis of his company has not changed that much from its early days. Therefore, it could be noted that the foundation of Poko Rekords' strategy logic was solid right from the beginning. This basis can thus sustain a great deal of environmental changes, and even more substantial external transformations do not necessitate very significant changes to the strategy logic itself.

In conclusion, we may note that this case has presented an endless chain of strategic changes in the life of a single company. Even though this case has studied a record company operating

mainly in Finland, the issues it has faced are more or less the same in any industry and any country. For example, the relatively small company examined in this case has, throughout its existence, faced pressure from significantly larger companies, as does every small company in this age of corporate mergers and acquisitions.

On the other hand, the strategy observed here has been as much the strategy of Poko Rekords as the strategy of Epe himself. After all, Poko has always been and still is the creation of a single strategist. However, today Helenius has a lot more people to assist him in making these decisions than in the early days. In addition we can note that the manager or strategist observed has directed his company's strategy on many issues more on the basis of feelings than pure numbers. In retrospect, it can be noted that this strategy has also proven successful. Thus, there is still justification to believe that feelings can prevail over numbers, at least in a business which aims to influence people's emotions. After all, no one can really know what is going to be the next big thing on the music scene.

So, finally, what is it that made Poko Rekords so successful in its own area of business? Naturally there are no definitive answers to this question, but this case has identified several factors that have certainly influenced the situation. These factors are presented next.

**Understanding of the environmental situation.** Epe Helenius started his company when punk rock and new wave were just about to burst onto the music scene in Finland. Thus, his own musical preferences were at least to a degree in harmony with the surrounding musical environment. Furthermore, Helenius believed in his product, even though it was not an immediate success.

**Willingness to experiment.** In the beginning, Helenius had no experience of operating a record company. However, this did not stop him from embarking on a career in the industry. Even later in his career he has experimented with new businesses without too much analysis. Following his gut feelings has not always been successful, but still it could be concluded that he has succeeded fairly well.

**Trust in the talents of artists.** Unlike many other record companies, Poko Rekords has not generally dumped their artists after an unsuccessful first album or single. Instead Helenius has given his artists several chances, and in this way has found several mainstay artists. This trust has

also been a key factor in retaining these artists. After all, even successful artists have not often left Poko for another record company.

**More than just a job.** Still, I believe the key element that has driven Poko Rekords through the decades has been the spirit of doing something very important. After all, Poko's employees have typically been very committed to their common cause, i.e. producing the kind of music people really want to hear. Therefore, the company has been a kind of a community where artists and employees have all been part of the same family. This unity has been the strength that has also helped Poko through less good times because everybody has been willing to work hard for a common future.

What do these factors then reveal about the strategy logic of Poko Rekords? Let us begin with understanding of the environmental situation. It is definitely connected to the "doing the right things" dimension. Any successful company needs to have a product that is wanted by its target group. Without understanding of the target group's needs this becomes a very difficult goal to achieve. Then again, the willingness to experiment is also linked to the same issue. Namely, if a company is open to try out new things, it may eventually find itself dominating a new market area that will become the company's main source of income.

Next, trust in the talents of artists simply tells us that a company's human resources are in many cases the key factor that determines its success. This is especially true in businesses that are based on human capital, as most expert operations today are. In creative industries this is even more critical because many creative people are also very sensitive and thus need to be handled with special care. And finally, just like in the first case, more than just a job is an optimal situation of the "doing things right" dimension. Producing something that is not seen just as a way to make money is a sure way to increase personnel motivation. When this motivation is supported by the company's modus operandi, this dimension is definitely functional.

Naturally there were a lot of other factors that influenced the success of Poko Rekords over the years, like the ups and downs of Suomi rock, for example. However, I believe that these four were the key factors in the strategy of Poko Rekords that boosted the company through both the good times as well as the bad. The absence of even one of them would likely have resulted in a very different company whose existence could have ended in a completely different way.

# 6 Discussion and Conclusions

## 6.1 Conclusions

### *6.1.1 Conclusions on the Findings*

This thesis has brought forth several important issues and viewpoints that deserve a few additional comments. I have divided these conclusions into three different sections: conclusions on the findings of the actual cases, conclusions on the theoretical contributions of this thesis, and, finally, conclusions on the managerial implications generated by this research. In the following I shall begin with conclusions on what actually happened during the evolution of these two companies.

Namely, this research has presented the strategic evolution of two very significant Finnish record companies from the perspective of the strategy logic framework. The companies were in many ways very different, after all the first company was founded almost 70 years before the second and the scope of their business operations was quite dissimilar, too. Still, their evolutionary paths also share some similarities.

Namely, *both companies began to expand their horizons rather swiftly*, perhaps not so much as a result of some grand strategy but simply because of their managers' willingness to try out new things. Furthermore, both companies started to grow successfully and eventually became very significant players in their chosen fields. On the other hand, external factors such as economic recession influenced the activities and hindered the growth of the companies considerably (Fazer faced, in fact, several recessions over the decades). Actually, the recession of the early 1990s reshaped the companies very significantly, as it was one of the key reasons for the Fazer – Warner deal, and also the key factor that led to the demise of the first incarnation of Poko Rekords.

In addition, *both Fazer and Poko eventually reached a point where they had to begin evaluating the scope of their activities in a comprehensive manner*. In the case of Fazer, this moment was arrived at in the 1980s when the company had simply become too big and too incoherent, and thus had to begin divesting some of its operations. On the other hand, Poko was in a similar situation a few years later when it had expanded its activities too wide in relation to the capabilities of its organization.

Finally, *both companies eventually ended up as part of multinational entertainment conglomerates*. However, the actions that followed these acquisitions differed very significantly. First, in the case of Fazer, the nationally dominant music industry organization was quite radically chopped up into pieces until all that was left was a record company. Furthermore, the extensive record company operations of Fazer were first adapted to the operating logic of the parent company and soon thereafter completely swallowed by the parent organization. Simultaneously, the long tradition of producing Finnish music lost a lot of its significance as the primary focus shifted to promoting the parent company's international repertoire.

On the other hand, the EMI – Poko deal was of only marginal influence on the creative core of the case company. The acquisition mostly affected back office operations while Poko still continued to operate in its own premises with more or less the same basic principles and personnel. I believe that this difference was one of the key factors behind the dissimilar outcomes of these arrangements. Namely, Fazer quite rapidly lost its remaining dominance in the industry and eventually almost sank into oblivion when Warner focused on promoting its own global brand. On the contrary, Poko and EMI managed to retain their competitive position despite the ownership arrangements. Furthermore, Poko is still commonly considered as an alternative to the “Helsinki scene”, in spite of its new owners.

### *6.1.2 Theoretical Contributions*

Theoretically, this research has illustrated that the strategy logic framework is a valuable tool in analyzing the development of strategies over time. The framework vividly illustrates the incremental changes that dominated the evolution of both case companies' strategy logics. On the

other hand, it also efficiently describes the nature of the revolutionary changes that at times shaped the strategy logics of both companies. In this study, the time span between these revolutionary changes was found to be sometimes even decades. Laine (2000) has similarly discovered that a company may exist for as long as decades without revolutionary changes just by evolving incrementally.

This study also demonstrates that *the framework can be used not only in the analysis of small enterprises, but also in the case of quite diversified corporations*. However, it should be noted that in the latter alternative it might be beneficial to analyze the corporation's activities in smaller segments according to its different businesses. After all, in the case of Fazer in its most diversified phase the strategy logic illustrations include so much information that they are somewhat difficult to piece together very rapidly. Furthermore, when a company consists of so many elements, it naturally evolves through so many steps that using notably shorter analysis periods would be valuable. Nevertheless, the fundamental essence of the analysis is definitely not incomprehensible to the reader who is willing to examine the issues more thoroughly. Moreover, a full-scale examination of all of Fazer Music's businesses using analysis phases of 2–3 years would certainly be beyond the boundaries of any thesis.

In addition, this thesis has indicated that *the number of essential elements in a certain strategy logic is not the key factor that determines the successfulness of a company*. As the two cases have demonstrated, both strategy logics with rather limited number of elements and ones with significantly more elements may be harmonious and contain the same essential fit required for operational success. Naturally, any strategy logic requires a certain number of elements to describe the strategic core of a business sufficiently accurately. Thus, only three elements could hardly be called a functional strategy logic because there would be too many questions left unanswered. Likewise, there is certainly also an upper limit to the number of elements before the strategy logic becomes too blurred to comprehend. However, as these cases have shown, the limit is not fixed, but depends on the case in question.

Furthermore, this thesis has pointed out that *the strategy logic of a company inevitably changes when the manager of the company changes or when power shifts from the manager to the board*, for example. This is caused by the fact that no two people share exactly the same experiences and thus the same mental models. On the other hand, as the latter case also vividly illustrates, the strategy logic of a company evolves in the absence of such changes as well. This is naturally

caused by the changing environment in which the company operates, but also by the simple factor of human mental growth. Namely, every person's own mental models evolve as they grow and gain more experiences. This evolution may be slow or it may include some major turning points depending on the person's own situation.

Finally, this thesis has established that the *basis of a strategy logic does not have to change radically to bring about very significant changes in the actual operations of a company*. Naturally, the removal of any key element of a company's strategy logic will result in a more or less complete reformation of the whole strategy logic as all of the other key elements have to change to some degree as well to regain the former balance. Nevertheless, even a small change in the supportive elements may also manifest itself in substantial operational changes, like the discontinuance of the Mega Epe's record chain in the Poko case, for example.

This thesis has also something to offer to researchers of family business. Namely, Chrisman, Chua, and Shama (2005) have studied the advances and future directions of the developing strategic management theory of the family firm. They have suggested that family firms may indeed have capabilities and competencies that make them better suited to compete in some environments than in others. However, they have added that there are still numerous variables that need to be studied further. Even so, both companies examined in this thesis were more or less family firms for most of their independent existence and also successful ones overall. Thus, the music business, or even the entertainment industry as a whole, could possibly offer a fruitful arena in which to start investigating the strategic management of family business further.

### *6.1.3 Managerial Implications*

In conclusion, it can be noted that the strategy logics of Fazer Music and Poko Rekords were clearly very different, but, on the other hand, eventually both of them proved to be successful through the majority of the era under investigation. According to the analysis presented in earlier chapters, this success could be seen at least partly as a result of the harmonious nature of both these models. This implies that *even very different strategy logics may be successful in the same*

*industry depending on the organization's own characteristics as well as its aspirations and leading principles.*

Nevertheless, one common factor can definitely be discovered in both these cases. Namely, the growth of both companies was not directed by mere “cash register heads” – or “kassapäät” as the phrase was originally yelled out in Finnish. Quite the contrary, both companies were built on some sort of an ideological foundation, although both did also eventually provide comfortable earnings for their owners.

In any case, Fazer was originally set up to secure the well-being of Finnish music culture, whereas Poko was aiming to promote a sort of counter-culture to shake up the prevailing status quo in the music industry. Thus, it is evident that both companies had a common cause which also made it easier for the personnel to commit themselves to the companies' strategic goals. This finding suggests that *personal commitment and willingness to offer your fullest effort to the company is not necessarily achieved by money alone*. Instead accomplishing this requires more emotional-laden incentives that induce a person to create a tighter bond with the workplace. In most cases this also calls for a significant amount of visible trust in the employees from the manager, which is not always so easy to demonstrate.

Gary Hamel (2007) has discussed the same commitment issue, too, although he prefers to use the word passion. Hamel has claimed that passion is in fact “the secret sauce that turns intent into accomplishment.” He further adds that passion is the most important human capability from the perspective of value creation, ahead of creativity, initiative, and intellect, and far above diligence and obedience.

On the other hand, as both cases have shown, *managers must be fully aware of the environment in which they are operating, if they expect to be able to identify possible future business opportunities before their competitors*. Being the first in a new market is not a certain recipe for success, but in many cases the first-movers have been able to reap significant benefits by moving ahead of the competition. Still, this kind of swiftness usually necessitates thorough analyses of the current business environment and its possible future evolution.



However, just *being able to identify new market opportunities is not enough, if it is not followed by a willingness to exploit the possibilities opening up*. History has shown us that even the most advanced market studies cannot provide definitive information on how consumers will behave. Thus, many successful businesses might have never been created if the managers had acted only on the basis of a significant amount of market intelligence. Both of these cases evidently demonstrate that sometimes a company should simply take a chance on a new business opportunity even though the results are far from certain.

In addition, the cases have clearly indicated that a successful strategy logic needs to be a balanced entirety. Therefore, in order to succeed, *it is not enough that a company is doing the right things*, i.e. providing a product or service to the correct market segment where a demand exists for the offering. Instead *it must also do things right*, which means that its modus operandi should match the requirements of the offering being created. Furthermore, management should aim at removing all incompatible elements from the company's strategy logic, since they have an influence on one or more other elements as well.

All things considered, this thesis has demonstrated that strategies can be developed through a comprehensive analytical process or without too much deliberation at all. Both of these paths have proven to be viable options and result in successful operation. On many occasions a strict analytical process is required to thoroughly understand and react to the prevailing business environment and its interdependencies. However, as this thesis has pointed out, this is not always true. In fact, it can be noted that *sometimes strategies built mostly on gut feelings and personal vision can evidently succeed even better than ones created through a heavy analytical process* – at least in a business where success depends on the emotions of the customers.

## 6.2 Discussion

### *6.2.1 Assessment and Limitations of the Research*

This is a study of the evolution of two companies which have focused their operations mostly on a very special area of business. Thus, this study does not even attempt to discover any universal laws about the evolution of companies in general. Naturally, there are loads of other companies, which have faced the same issues as the ones under consideration now. Still, the events and activities explained in this research are not necessarily very familiar to all companies even in the music business.

Therefore, the aim of this study has been to illustrate two very special cases which offer a glimpse into the strategic world of major record companies operating in Finland. The issues faced by these two companies have in many cases been the same, even though they were founded in different centuries. Furthermore, the paths of these companies have often crossed, and the intensity of the competition between them has likewise varied.

Lengthwise this research clearly has an empirical emphasis, which is naturally caused by the quite extensive time period under analysis. After all, the first case analyzes more than a century of strategy-making in an alternately expanding and shrinking multi-business corporation. In addition, the decision to include two case studies in this thesis has likewise required some additional space. However, these rather lengthy descriptive sections were necessary to adequately illustrate the changes in the case companies' activities thus enabling a thorough analysis of their evolving strategy logics. In addition, as the thesis observes the strategic evolution of these companies from the strategy logic perspective its findings are naturally focused on this one perspective. Applying some other framework could possibly reveal issues that were not discovered in his research.

On the other hand, strategy logic is still a developing model as a theory or framework. Even though the term was introduced to academia more than a decade ago, the amount of research done utilizing the approach has remained unfortunately low. Thus, there is no huge library of previous research to evaluate, as in the case of the value chain model, for example. However, this does not mean that strategy logic research should be considered less valuable or less important.

On the contrary, it actually demonstrates an even greater need to explore the dimensions of this framework more thoroughly.

Nevertheless, even though the activities described in this study have been the activities of two individual companies, it does not mean that these issues are limited only to these organizations. On the contrary, most small companies face the same growth challenges and cooperation decisions sooner or later in their evolution. Although this research does not provide any definitive directives on how to function in these situations, it certainly offers some possible alternatives for consideration by other companies as well. Still, this research has not even attempted to discover any universal laws or rules, and so the findings of this research can and should not be considered as such. They may apply in the case of some other company, but just as likely they might not.

### *6.2.2 Future Research Directions*

This study has disclosed several interesting opportunities for further research. First, the scope of this research could be expanded to other record companies operating in Finland, thus providing a more extensive picture of the evolution of the whole industry. Next, a similar study could be carried out in other areas of business, which would illustrate the usefulness of the framework in this type of research more broadly. On the other hand, the strategic evolution of record companies or the whole industry could also be studied by applying completely another framework that has been employed more often in analyzing evolutionary processes. This kind of a study could offer new insights on the actual processes, but it might also help to improve the strategy logic framework by revealing some new aspects to be considered in further research.

Finally, a comparable examination could investigate, for instance, the evolution of record companies in other countries or perhaps even globally. This kind of investigation would probably reveal very fascinating similarities and differences between various countries, and would thus be especially useful for managers who are considering expanding their operations abroad. It could be expected that in the 1960s Finnish record companies were clearly behind their British or American counterparts, for example. However, it would be very interesting to see what the situation is like today.

On the other hand, it was noted already earlier that the whole strategy logic approach is still a research framework that has been employed fairly seldom in the scientific arena. Thus, it would surely benefit from more studies done from various perspectives. Further research could investigate, for example, whether the framework could be applied in quantitative studies as well. It would be especially interesting to combine both qualitative and quantitative methods in studying various different strategy logics and their characteristics.

Then again, another area that needs more work is how the strategy logic framework could better express the continuously evolving nature of strategy logics of companies operating in today's turbulent environments. In this thesis an attempt has been made to describe the evolving nature of strategy logic by using several snapshots from different moments in time. However, further research could reveal an even more adaptive way to describe these changes.

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## List of Interviewees

Erik Hartwall, former Chairman of the Board, Fazer Music, 3.8.2007

Kari "Epe" Helenius, founder & Managing Director, Poko Rekords, 17.6.1999; 26.11.1999; 20.11.2003; 22.7.2004; 22.3.2006; 4.7.2007

Jaakko Karilainen, manager, Fazer Records, 1.6.1999; 26.11.1999

Wemppa Koivumäki, Managing Director, EMI Finland, 5.4.2004

Gugi Kokljuschkin, Managing Director, Universal Music Oy, 5.4.2004

Heikki Lehmusto, former Managing Director, Fazer Music, 1.8.2007

Kimmo Miettinen, founder, Hilse, Ku-Mi-Beat, Gaga Goodies, Rubber Rabbit Rock'n'roll Records & Popatak, 2.6.2004

Hobo Puhakka, former Managing Director, EMI Finland, 10.6.2004

Erik Stenros, former Deputy Managing Director, Fazer Music, 29.6.2006; 21.9.2007

Harry Söderholm, former Managing Director, Fazer Music, 20.9.2007

John Eric Westö, former Managing Director, Fazer Music, 28.6.2006; 1.8.2007

# Appendix. List of Themes Discussed in the Interviews

- The chain of events (what happened and when), including environmental changes
- 
- The evolution of products and services offered by the company
- 
- The evolution of the company's market segment
- 
- The evolution of the company's resources and organizational structures
- 
- Motives for each of the strategic choices made over the course of the company's evolution
- 
- Possible alternative modes of action and reasons for not pursuing them