

POKO REKORDS A TALE OF A MAJOR FINNISH RECORD COMPANY

Manu Aunola, Tampere University of Technology
manu.aunola@tut.fi

ABSTRACT

This paper presents the main points of an analysis of the entire successful lifespan of one of the largest Finnish-owned record companies from its creation to its present existence as a part of the multinational EMI group. The strategic evolution of Poko Rekords is analyzed in this paper through the strategy logic perspective. The analysis shows how the strategy logic of Poko Rekords evolved as the company transformed from a hobby to a serious player in the Finnish music industry. The paper also strives to discover why some of the changes in Poko's strategy have been more successful than others. Eventually this paper endeavors to reveal what were Poko's competitive advantages that made it an interesting acquisition object for all of the multinational record companies operating in Finland.

INTRODUCTION

Finnish record industry has never been a common research topic among academics, mostly because of its relatively small size compared to, for example, the Finnish forest industry. Especially strategy-focused research has so far been virtually nonexistent. However, this ground-breaking study is meant to be an important first step in filling this research gap as it covers the entire successful lifespan of one of the largest Finnish-owned record companies, namely Poko Rekords, from its creation to its present existence as a part of the multinational EMI group.

The strategic evolution of Poko Rekords is analyzed in this paper through the strategy logic perspective, which has previously been utilized in both longitudinal (cf. e.g. Näsi, Laine & Laine, 1996) and cross-sectional (cf. e.g. Sokeila, Mäkinen & Näsi, 2003) studies. The segments of this paper describing the major events in the evolution of Poko Rekords are based on interviews of several people involved in making these decisions (list of interviewees below) as well as the history of Poko Rekords (Kontiainen, 2004) and other publicly available sources.

STRATEGY LOGIC PERSPECTIVE

Scholars have classified strategy concepts into different schools of thought leaning on different arguments (cf. e.g. Mintzberg, Ahlstrand & Lampel, 1998). Näsi (1999) has provided us with one such classification by dividing strategy concepts into three basic types: norm concepts, humane concepts and logic concepts. Logic concepts include, for example, frameworks such as the business idea, value chain, dominant logic, paradigm, industry recipe and industrial wisdom.

One specific framework that belongs to this school of thought is, as its name suggests, the strategy logic concept. It describes the dominating 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 – showing the method and framework to create a strategy – as well as a substance logic, now deciding what in the firm will be done. In this instance logic is seen simply as a line of argument that is shaped around several basic ideas or principles (Gilbert, Hartman, Mauriel, & Freeman, 1988). 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.

The Scandinavian business idea concept first introduced by Normann (1975) and later refined by Iiro Jahnukainen (e.g. Jahnukainen, Junnelius & Sonkin, 1980) can be seen as an early strategy logic concept (Seppä, 2000). My own interpretation of strategy logic is also based significantly on the business idea framework, which is why the strategy logic concept is in this paper seen as consisting of three basic elements: the product system, niche or market segment and the organizational resources and structures needed in the process. 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 being performed. (Jahnukainen et al., 1980). Nevertheless, the most important aspect of this concept is the fit between its three elements. All of its parts should fit together and combined create a harmonious whole (Normann, 1975).

THE CREATION OF POKO REKORDS

In September 1972 Kari "Epe" Helenius did something most people then considered more or less insane and founded a small record store in Tampere. Furthermore, his 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 company. A few months later Helenius' record store began its mail order operations, too. This was not planned originally, but 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. 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 owned also an inactive company named Unitor Oy, which then became the parent company for Epe's Music Shop.

Nevertheless, after five years as a record store manager Helenius became convinced that the major record companies then operating in Finland had lost touch of what kind of music the consumers really wanted to hear. In addition, he had formed a certain kind of an artistic vision of what kind of music he wanted to have produced in Finland. Furthermore, he had realized that operating a record store could never be very profitable in Finland, whereas a record company still had something valuable left after the physical record had been sold.

Therefore, in the fall of 1977 Helenius founded Poko Rekords. 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. Helenius signed this new group and, to almost everyone's surprise, the rockabilly group's first album became a success. The second group signed to Poko Rekords was not rockabilly at all, but punk rock, which was slowly becoming more popular in Finland, too. Even though this group's first releases were far from triumphant it later became the most successful rock group in Finland, which it still is today. After signing a heavy metal group as well as another playing doo wop, Poko Rekords was soon producing almost anything that could be labeled rock music.

In the early days, Poko 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. 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 with producer Richard Stanley in 1978, Helenius 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 Discophon and took care of the manufacturing of records as well as

other basic operations. This arrangement continued for a couple of years and in that time the veterans taught Helenius all he needed to know about running a record company.

FROM A SMALL PLAYER TO THE MAJOR LEAGUE

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. However, in late 1980 their distributor Discophon was facing more and more financial difficulties and Helenius decided to move Poko's distribution to financially more secure CBS starting from the beginning of 1981. 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 form as its own separate unit.

In the late 1980s Finland's leading record company Fazer had begun to show a great deal of interest in buying Poko Rekords. Helenius, however, was not interested in selling a majority of his creation to the company. Thus, when his friend Gugi Kokljushkin, then the manager of financially very affluent record company Sonet (part of a group of companies that included also the not-so-successful Discophon), approached Helenius with a distribution proposal, Helenius decided to offer 40% of Poko to the Swedish-based company. Kokljushkin agreed, and in January 1988 Sonet bought 40% of Poko's parent Unitor and became their sole distributor. With more financial resources behind Unitor, the idea of more record stores came into being and soon Mega Epe's chain was established. The idea was to build massive record stores in central locations to compete with Fazer's own record store chain.

In the meantime Sonet's Swedish parent company had begun a less triumphant expansion project, which quickly led the company to serious financial difficulties. As a result, in 1991 Philips-owned PolyGram acquired Sonet as well a related Scandinavian record company Polar. Suddenly, Helenius found himself doing business with a global music giant instead of a lot smaller Scandinavian company. After that it did not take Helenius very long to realize that the interests of Poko were not at all a top priority at PolyGram and by the end of 1992 Helenius bought back the 40% of his company's shares. Helenius financed the deal with a notably large advance payment he received from BMG after agreeing to shift Poko's distribution to the corporation.

By 1990 Helenius had realized the need to separate the record store business from the record company, so that their profitability would be easier to monitor. Consequently the two businesses were turned into subsidiaries of Unitor, which owned also the publishing company Jee-Jee Music Oy. The Mega Epe's record chain was founded as yet another subsidiary of Unitor. When the cooperation with PolyGram turned sour, Helenius established a new publishing company Poplandia Music Oy to control his artists' latest publishing rights. Helenius also set up another company, named Shoeling Oy, for other business operations, but it was later used to buy the older master catalog from Unitor and finally also PolyGram's share of Unitor. Nevertheless, the record store business was not doing well because of the recession, and despite Helenius' serious efforts Unitor Oy finally went bankrupt in 1993. After the bankruptcy Helenius bought the shares of Jee-Jee Music for Poplandia. Also in 1993 Shoeling changed its name to Poko Rekords Oy. 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.

JOINING FORCES WITH A MUSIC CONGLOMERATE

By the late 1990s Poko Rekords had secured its place as a major Finnish record company. Even though its total share of the Finnish market was generally around 5%, its share of the domestic music market (which in Finland comprises roughly 50% of the total market) was twice that. So it was no secret that any of the multinationals would have been thrilled to acquire Poko, but most

people assumed that Helenius was not ready to sell his life's work. Nevertheless, after the 1999 Emma Gala (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. However, a notably larger deal was being planned in 1999 where EMI and Warner would have merged their music businesses. This meant that very soon EMI's Scandinavian management no longer had the time to focus on any smaller issues and the acquisition plans with Poko were more or less put on hold.

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' interests to sell his company, too, but these talks remained likewise very preliminary.

On the other hand, when the planned merger between EMI and Warner was not allowed by the EU, it only took about a month for EMI's Scandinavian regional manager Michael Ritto to reopen the negotiations with Poko. This time the discussions were more fruitful, and in 2001 EMI announced its acquisition of Poko. However, during the negotiations Helenius had insisted that Poko would still maintain 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 operated 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.

CONCLUSIONS

In the beginning, the logic behind Poko Rekords was simply to provide rock music to the enthusiastic Finnish rock generation with a virtually nonexistent organization. This way the company can be seen as a hobby of its founder. This idea proved to be a successful one and Poko's strategy logic during that period demonstrates why. The product (rock music) was targeted to eager consumers and supplied by likewise excited virtual employees supported by a successful record store. So every piece of the puzzle was there. However, when the company began to grow, it somehow lost its direction. Now the company was trying to reach large crowds of consumers with the Mega Epe's record chain, even though its own resources were still very limited. So the perfect fit of the early days had been lost. Therefore, major changes were evident and the company soon began seeking its own focus again. This focus was found in the early 1990s, 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 them physically. The company's offering had also become wider, so it naturally attracted a wider 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 exists in Poko Rekords' strategy logic as a part of EMI. 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 probably could never reach them successfully. With the support of a multinational music conglomerate and its huge resources, this target group can far easily be reached. So, we can say that the strategy logic of Poko Rekords today is still the harmonious one that it was before the acquisition.

This paper 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. The rather small company examined in this paper has throughout its existence faced pressure from notably larger companies, like every small company in this age of corporate mergers and acquisitions do. On the other hand, the observed manager has directed his company's strategy on many issues based more on feelings than pure numbers. In conclusion, it can be noted that this strategy has also proven to be a successful one. Thus, we can still believe that the numbers are not everything, at least not in the music business.

REFERENCES

- Gilbert, D. R. Jr., Hartman, E., Mauriel, J. J. & Freeman, E. (1988). *A Logic for Strategy*. Cambridge, Massachusetts: Ballinger Publishing Company.
- Jahnukainen, I., Junnelius, C. & Sonkin, L. (1980). *Liiketoiminnan kehittäminen liikeidean pohjalta*. Espoo: Weilin + Göös.
- Konttinen, V. (2004). *Aitoa Suomirokkia – Poko Rekordsin historia*. Keuruu: Like.
- Mintzberg, H., Ahlstrand, B. & Lampel, J. (1998). *Strategy Safari. A Guided Tour Through the Wilds of Strategic Management*. New York: The Free Press.
- Normann, R. (1975). *Management for Growth*. Chichester: Wiley.
- Näsi, J. (1999). Logic concepts in Strategic Thinking. In *Proceedings of the Academy of Strategic and Organizational Leadership*, Volume 4, Number 2, pp. 28 – 33.
- Näsi, J., Laine, P. & Laine, J. (1996). *Strategy Logic in a Megaleader Company*. University of Jyväskylä, Department of Economics and Management, Reprint Series No. 43/1996.
- Seppä, M. (2000). *Strategy Logic of the Venture Capitalist. Understanding venture capitalism – the businesses within – by exploring linkages between ownership and strategy of venture capital companies, over time, in America and Europe*. Dissertation, Jyväskylä Studies in Business and Economics 3, University of Jyväskylä.
- Sokeila, I., Mäkinen, S. & Näsi, J. (2003). The Strategy Logic of Personnel in a Knowledge-Intensive Organisation. *FeBR 2003 – Frontiers of e-Business Research 2003*, conference proceedings of the e-Business Research Forum eBRF 2003, edited by Mika Hannula, Anne-Mari Järvelin and Marko Seppä. Tampere: Tampere University of Technology & University of Tampere.

LIST OF INTERVIEWEES

- Kari "Epe" Helenius, founder & Managing Director, Poko Rekords, 20.11.2003; 29.3.2004; 22.7.2004
- Gugi Kokljuschkin, Managing Director, Universal Music Oy, 5.4.2004
- Wemppa Koivumäki, Managing Director, EMI Finland, 5.4.2004
- Kimmo Miettinen, founder, Hulse, 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