



LEGO STRATEGY ANALYSIS

EXAM PAPER

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BRIEF COMPANY PRESENTATION

LEGO® Group is a family business that started in 1932 making wooden toys in the city of Billund, Denmark. Only in 1958, Godtfred Kirk Christiansen, son of the company founder, created the LEGO® brick, later praised “Toy of the Century”, by both Fortune Magazine and the British Association of Toy Retailers [1], [2].

Today LEGO is the 4th largest toy manufacturer in sales volume, after Mattel, Bandai-Namco and Hasbro, with a turnover of 2,511M€ in 2011 (originally 18,731 MDKK) and employing more than 9,000 worldwide. Besides toys, the company has a diverse portfolio of products and services including games, video games, apparel and theme parks.

Among its most relevant creations are the LEGO brick, the motorized trains, the minifigures, LEGO Technic, LEGO MINDSTORMS and Ninjago.



FIGURE 1 – SELECT LEGO CREATIONS



The company puts a strong emphasis on building toys that enrich children’s life preparing them to be better adults and on the high quality of its products.

TOY INDUSTRY ANALYSIS

The global toy industry has been growing at CAGR of 2.9% from 2008 to 2011 (data for 2011 is estimated) [3], while the global economy has grown only 2.6% over the same period [4], as shown in Figure 2.

The industry is not equally divided neither by region, neither by country, as one can observe in Figure 3 (data from 2010).

While some emerging countries are experiencing relevant growth, such as Australia, Brazil and China, others are reducing their market sizes, like the USA and Canada.

Interestingly, a few developed countries are facing relevant growth rates, like France, Germany and Japan, the later due to a new game console release in 2010.

Sales in the toy and games industry is highly influenced by the general economic situation, as it’s not a primary need item, and by the environment surrounding the Christmas season, as approximately 60% of the annual purchases are done in that time of the year.

FIGURE 2 – WORLD TOY MARKET IN RECENT YEARS

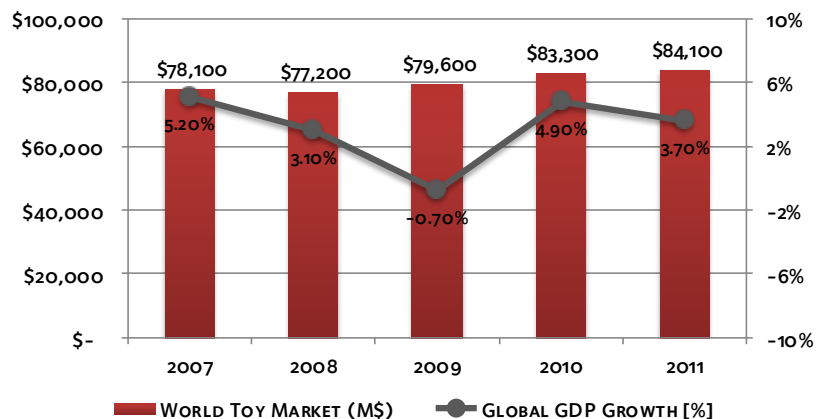


FIGURE 3 – TOP10 MARKETS FOR TOYS

COUNTRY	SHARE	GROWTH	KIDS POPUL. [MILLIONS]	SPEND/KID	% > 15 YRS
UNITED STATES	26.3%	-2.0%	62.4	\$284	19%
JAPAN	7.5%	18.4%	16.9	\$312	16%
CHINA	6.7%	15.8%	238.3	\$23	2%
UK	5.4%	3.0%	10.8	\$365	12%
FRANCE	4.9%	5.0%	12	\$307	10%
GERMANY	4.0%	7.0%	11	\$247	19%
BRAZIL	3.9%	15.0%	53.3	\$59	4%
AUSTRALIA	2.8%	21.3%	4	\$486	17%
INDIA	2.7%	2.4%	352.8	\$6	0%
CANADA	2.5%	-6.5%	5.4	\$317	17%
TOTAL	66.7%				



MACRO ENVIRONMENT

To better understand the industry, a PEST analysis is presented below.

FIGURE 4 – PEST ANALYSIS

CONTEXT	TRENDS	POSITIVE IMPACT	NEGATIVE IMPACT
POLITICAL	National regulations to promote safer toys for children High import taxes in developing economies	Ban/taxes in product imports from other regions	Costs increase Need to produce locally
ECONOMIC	Global economy slow down High growth of middle-class in emerging countries	New middle-class families with share of wallet for toys	Market decrease in developed countries
SOCIO-CULTURAL	Pressure to use environment friendly toys Pressure to use educational toys Digitally educated children	Leverage on company culture Perfect for LEGO toys Opportunity to sell LEGO games	Costs increase Competition from games
TECHNOLOGICAL	Internet availability Smart mobile devices usage New 3D printing technology	Be close to consumer Opportunity to create new market space	Difficult to protect intellectual property

COMPETITORS

LEGO ranks number 3 in sales revenues among its direct competitors on toy manufacturing. In Figure 5 a simple description of the Top5 toy manufacturers is presented (data from 2011).

FIGURE 5 – MAIN COMPETITORS

COMPANY	SALES	EMPLOYEES	OI/ASSETS ⁽²⁾	COUNTRY	CORE BRANDS
MATTEL	6,266M\$	28,000	18.4%	USA	Barbie, Polly Pocket, Hot Wheels, Matchbox, Speed Racer, Power Wheels, Disney Classics, High School Musical, CARS, Batman, Fisher-Price, Little People, BabyGear, View-Master, Sesame Street, Dora the Explorer, Go-Diego-Go!, Mickey Mouse, Winnie the Pooh, Handy Manny
BANDAI-NAMCO	5.53M\$	7,013	10.1%	JP	Gundam, PRETTY CURE!, POWER RANGERS, Tamagotchi, Baby Labo, Little Battle eXperience, Games, Arcade machines, Movies, Amusement stores and parks
HASBRO	4.29M\$	5,900	14.4%	USA	Playskool, Transformers, My Little Pony, Littlest Pet Shop, Tonka, GI Joe, Super Soaker, Milton Bradley, Parker Brothers, Tiger, Wizards of the Coast
LEGO	3.56M\$ ⁽¹⁾	9,374	43.9%	DK	LEGO toys, games, video games, apparel, amusement parks
TOMY-TAKARA	2.42M\$	2,294	7.8%	JP	Tomica, Plarail, Licca-chan, Koeda-chan, Licensee of Transformers, Disney and other brands

Notes: (1) Converted at a 0.19 rate – average for 2011; (2) Operating Income /Total Assets



From these indicators one can conclude that LEGO is quite a profitable business, when compared with its direct competitors.

Besides the traditional competitors, the company should also consider the producers of game consoles, such as Microsoft, Nintendo and Sony, and the producers of on-line and for mobile games, such as Zynga, Rovio and Valv^E, which are competing for the share of wallet and time spent playing.

SUPPLIERS

Suppliers don't have much bargain power, as the plastic molding and injection technologies became wide spread and tend to be treated as commodities. The differentiation is the quality of materials and finishing, again commoditized attributes.

CUSTOMER SEGMENTS

Based on data analysis made by the Toy Industry Association demand of toys is driven by the growth in the population of children age 12 and younger, where children age 5 and under are responsible for about half of retail toy sales. From the Entertainment Software Association it was possible to find that the reported average age of a video game buyer is 35 years old.

For the analysis, market is therefore divided into 4 segments, as shown in Figure 6.

SEGMENT	PRE-SCHOOL	PRE-TEEN	TEENAGERS	ADULTS
WHO	Parents, Family	Parents, Family	Parents, Family, himself/herself	Himself, herself
WHAT	Dolls, Figures, Plush, Action Figures	Activity, Construction, Electronic Toys, Vehicles, Games, Puzzles	Outdoor, Sports, Video Game	Video Game, Electronic Toys
WHOM	<5 yrs	6-12 yrs	13-18 yrs	>18 yrs
WHEN	Special occasions, Christmas season			Anytime
WHERE	Specialized stores, hypermarket	Specialized stores, hypermarket	Specialized stores	Specialized stores, hypermarket, on-line

FIGURE 6 – MARKET SEGMENTS

ATTRACTIVENESS

The following table summarizes the market segments attractiveness, where the margin was calculated based on Porter's 5 Forces model (in Appendix).

SEGMENT	PRE-SCHOOL	PRE-TEEN	TEENAGERS	ADULTS
VALUE	■ [5]	■ [3]	■ [3]	■ [2]
GROWTH	↑ [5]	↗ [4]	→ [3]	→ [3]
MARGIN	◆◆◆ [3.6]	◆◆ [3.5]	◆◆◆ [3.6]	◆◆◆◆ [4.0]
RISK	〰 [3]	〰 [2]	〰 [3]	〰 [4]
ATTRACTIVENESS	4.15	3.13	3.15	3.25

FIGURE 7 – ATTRACTIVENESS



The most attractive segment is that from pre-schoolers, because of the high value and high-growth especially in emerging economies.

STRUCTURE

Due to its nature, to the chosen market segmentation, to introduction of electronics in toys and to rise of video games, this industry might not follow exactly the typical pattern of the industry cycle.

However, with the data available, each segment is plotted regarding its life cycle current status in Figure 8.

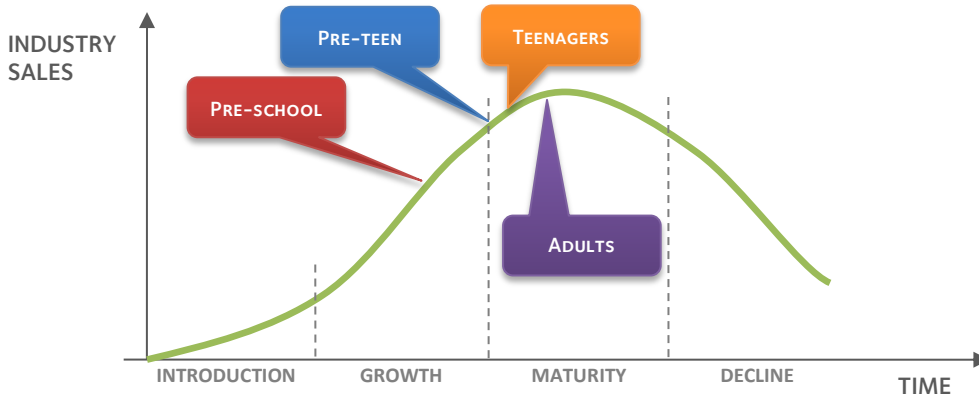


FIGURE 8 – INDUSTRY LIFE CYCLE

KEY SUCCESS FACTORS

As said before, because toys are not primary need goods, their demand depends on personal income availability. On the other hand, it's most of the times a gift for children, and therefore a purchase decision made with strong personal emotions.

Innovation is key, being this one of the most dynamic markets segments in the retail business, with the majority of sales concentrated in few weeks at the end of the year. Moreover, because the target consumer gets naturally older, a toy provider may miss a sale for their entire life and marketing plays a very important role.

FIGURE 9 – KEY SUCCESS FACTORS

SEGMENT	PRE-SCHOOL	PRE-TEEN	TEENAGERS	ADULTS
KEY BUYING FACTORS	Quality Safety Reputation Certifications Visual aspect, Stimulation capability	Consumer trends Learning capabilities Appearance	Consumer trends Challenge Connect with friends	Longevity of toy, game Connect with friends Quality
COMPETING FACTORS	Distribution Packaging Advertising	Distribution Advertising Evolution	Price Advertising Connection w/ devices	Platform availability Price Integration
KEY SUCCESS FACTORS	Brand Quality Variety Retail Availability	Brand Innovation Collectibles Retail Availability	Brand Innovation Upgradeability Range of accessories Retail Availability	Brand Product evolution Quality



ORGANIZATIONAL ANALYSIS

Given the information from the LEGO case study [5] and broad information available on-line, in this section the core competencies are analyzed from the identified resources, and selected those that constitute core competencies.

RESOURCES

FIGURE 10 – LEGO RESOURCES

TYPE	RESOURCE	POTENTIAL FOR ECONOMIES		
		SCALE	EXPERIENCE	SCOPE
TANGIBLE	Large installed production facilities	+	+	+
INTANGIBLE	Brand name	+		+
	Innovation			+
	Focus on high quality standards	+	+	+
	Raw materials knowledge (resins)	+	+	+
	Product design creativity			+
ORGANIZATIONAL	Management organization and leadership	+		+
	Involvement of operational teams in turnaround	+		+
	Efficient supply chain	+	+	+

STRENGTHS & CORE COMPETENCIES

To determine the major strengths and core competencies, the resources were evaluated alongside LEGO competitors to identify its advantages. The results are summarized in Figure 11.

FIGURE 11 – LEGO STRENGTHS AND CORE COMPETENCIES

STRENGTHS	VALUE TO CUSTOMER	DIFFERENTIATION FROM COMPETITION	EXPANDABLE TO NEW MARKETS	CORE COMPETENCY
LARGE INSTALLED PRODUCTION FACILITIES		+	+	
BRAND NAME	+	+	+	+
INNOVATION	+		+	
FOCUS ON HIGH QUALITY STANDARDS	+	+	+	+
RAW MATERIALS KNOWLEDGE (RESINS)	+	+	+	+
PRODUCT DESIGN CREATIVITY	+	+	+	+
MANAGEMENT ORGANIZATION AND LEADERSHIP			+	
EFFICIENT SUPPLY CHAIN	+	+	+	+



STRATEGIC FIT

To understand the strategic fit of each market segment Figure 12 is presented scoring each LEGO core competence with the specific segment Key Success Factors.

FIGURE 12 – LEGO STRATEGIC FIT

SEGMENTS & KSF		BRAND NAME	QUALITY	RAW MATERIALS CONTROL	DESIGN CREATIVITY	EFFICIENT SUPPLY CHAIN	STRATEGIC FIT [1-5]
PRE-SCHOOL	BRAND	5					4.67
	QUALITY		5	4			
	VARIETY			4	5		
	RETAIL AVAILABILITY					5	
PRE-TEEN	BRAND	5					4.17
	INNOVATION			3	4		
	COLLECTIBLES			4	4		
	RETAIL AVAILABILITY					5	
TEENAGERS	BRAND	4					3.86
	INNOVATION			3	4		
	UPGRADEABILITY				4		
	RANGE OF ACCESSORIES			3	4		
	RETAIL AVAILABILITY					5	
ADULTS	BRAND	4					4.00
	PRODUCT EVOLUTION			3	4		
	QUALITY		5	4			

From this analysis, the most interesting segments for LEGO, or the ones where its core competences have the best fit, are the traditional from the company, Pre-School and Pre-Teen (children under 12 years old).



STRATEGY ANALYSIS

In this section, select components of the new LEGO strategy will be presented.

PRODUCTS-MARKETS

FIGURE 13 – LEGO PRODUCT LINE

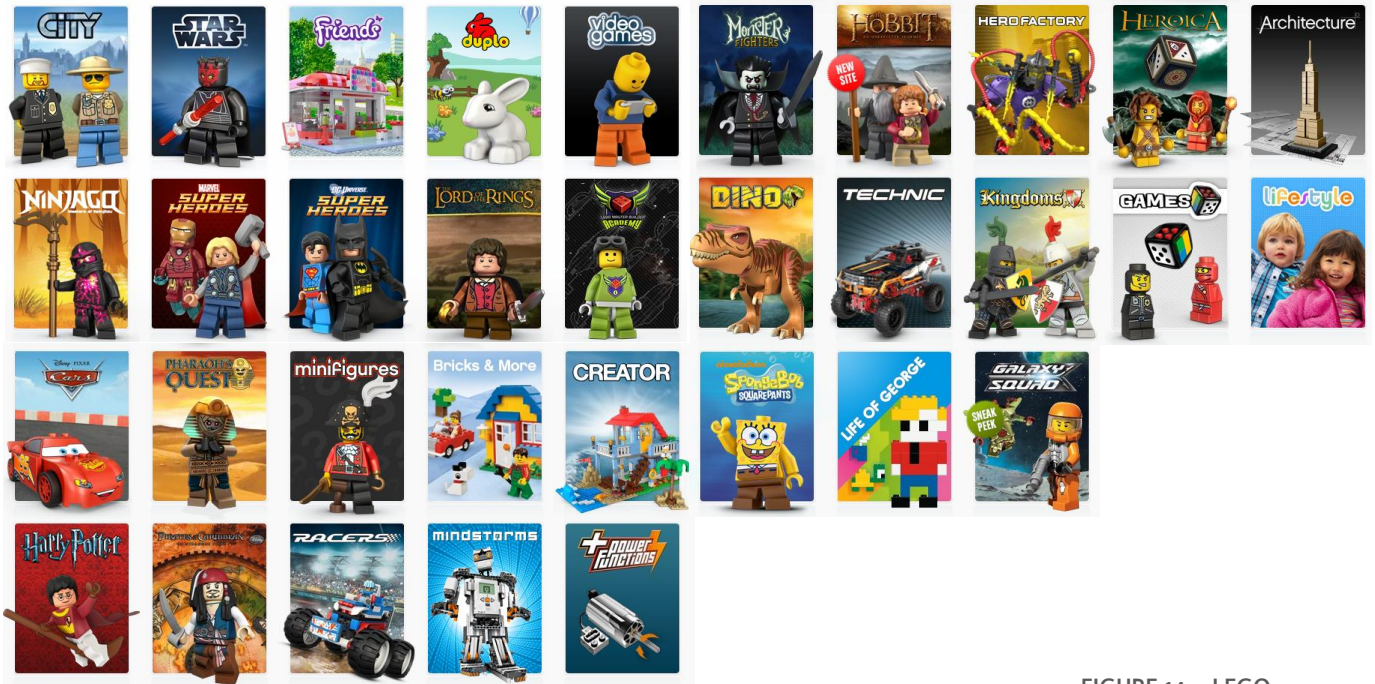


FIGURE 14 – LEGO PRODUCTS-MARKETS MATRIX

The LEGO products above were grouped in the following Products-Markets matrix.

	CONSTRUCTION	ADVANCED CONSTRUCTION	LICENSED SETS	GAMES	VIDEO GAMES	APPAREL	TV/MOVIES	THEME PARKS
PRE-SCHOOL	5.0					3.0	2.0	2.0
	5.0							
	Diff					Diff	Diff	Diff
PRE-TEENS	3.0	5.0	5.0	4.0	3.0	3.0	3.0	4.0
	5.0	5.0	4.0	3.0				
	Diff	Diff	Diff	Diff	Diff	Diff	Diff	Diff
TEENAGERS	1.0	4.0	4.0	4.0	4.0		2.0	3.0
	3.0	5.0	3.0	3.0	2.0			
	Diff	Diff	Diff	Diff	Diff		Diff	Diff
ADULTS	4.0	5.0	4.0					1.0
	3.0	3.0	3.0					
	Diff	Diff	Diff	Diff	Diff	Diff	Diff	Diff

LEGEND

Notes: Construction includes basic building blocks, Advanced Construction includes Technic, Mindstorms, and similar, Licensed sets include movie or TV series based products.

ATTRACTIVENESS	3.0	1.5
SEGMENT PRESENCE	1	1.5
COMPET. ADVANTAGE	Diff	Differentiation

From the Products-Markets matrix one can observe that LEGO is strong in its core products, while the other product lines have a less significance. Sometimes these product lines are even unknown from the consumers.



VERTICAL INTEGRATION

After the turnaround started in 2004, LEGO value chain change slightly and it's represented in Figure 15.

FIGURE 15 – LEGO VALUE CHAIN



LEGO adopted different vertical integration decisions for different parts of its value chain:

- Supplies: Bought in the market from 2,200 suppliers;
- Design: The great majority of Design is made by LEGO, with the exception of Mindstorms that is designed in partnership with MIT and some specific products that might come from customer feedback;
- Production: Again, the great majority of Production is made by LEGO with some simple parts being outsourced;
- Distribution: One of the major results from the turnaround was to fully outsource the distribution process to a single provider (DHL) at a centralized location (Czech Republic);
- Marketing: An activity done entirely by LEGO to keep its brand image, one of the company core competences;
- Sales: Although the company decided to have direct stores, they are mainly for image and branding purposes, thus a marketing operation, LEGO sales are made through large and small retailers to end consumers.

INTERNATIONALIZATION

LEGO has currently offices in 29 countries [6]. Because its products don't need local adaptation the company reduced its office base to benefit from the globalization, make it a Global company.

		LOCAL ADAPTATION	
		LOW	HIGH
GLOBAL INTEGRATION	HIGH		
	LOW		

FIGURE 16 – LEGO INTERNATIONAL INTEGRATION

The company simply needs to accommodate the products to local law, which can be done initially for each product line and centralized.

From the production viewpoint, LEGO moved several production sites to international locations, searching for lower costs. This was the case of the Czech Republic and Mexico plants, as well the production outsource to Flextronics in Poland instead of in China.



ORGANIZATIONAL DEVELOPMENT

LEGO was founded as family business and it stays the same until today. Eventually that might have been the main reason for the crisis before 2004, because while guided by the company culture of craftsmanship, employees were disregarding the costs of innovation.

Through the entire turnaround process, there was plenty of communication and a strong sense of fairness, including all possible employees from operations. While the management team developed the new strategy, other representatives coordinated the execution of changes at the operational level.

With this approach LEGO employees developed new competencies, not needing to bring new people to the team or establish partnerships to run its core business.

The exception was the Theme Park business, where LEGO sold a relevant stake to Merlin Entertainment, a company with proven experience in the field [7]. With this strategic alliance, LEGO brings new competencies to improve this specific product line.



FIGURE 17 – LEGOLAND BILLUND RESORT



DIVERSIFICATION

To conclude LEGO new strategy analysis, 3 Blue Ocean strategies will be presented, which fulfill its characteristics:

- Don't use the competition as a benchmark;
- Create a value leap, by reducing costs and increasing value.

CUSTOM PIECES

Architects around the world build small scale 3D models every day to show their work. This is a very precise and labor intensive job, most of the time creating pieces from scratch.

The product line would be a mixture of standard pieces to build most common buildings, landscapes, among others, and service to create custom 3D pieces based on 3D printer technology [8] now available at reasonable prices.

This way, the traditional production process wouldn't be affected and LEGO would create a new market space that can provide both revenue and recognition.

FIGURE 18 – 3D PRINTED LEGO BRICKS

3D PRINTERS

Still with the 3D printer technology, but targeting a different set of customers, LEGO could sell 3D printer kits so customers could "print" their own bricks at home.

Although it might be difficult control intellectual property rights, LEGO could make money selling the raw material in the strong colors it controls very well.

This could lead to the usage of LEGO bricks in all sorts of application, providing even more positive "noise" around the brand.



HOUSE TO POOR PEOPLE

By using exactly the same principle of bricks connecting together and produce at a high-volume and low cost, LEGO could provide home to poor people in remote areas of the planet.

The supply chain core competence of LEGO can surely be leveraged to setup such a process, and a partnership with a NGO would provide insights about the needs and problems associated with deploying pieces to remote locations.

Typically these are hot climate countries where a plastic tile would do the job, with the advantage that the owner could disassemble and reassembly the house in other locations.



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APPENDIX

Porter's 5 Forces model to evaluate margin of each market segment.

SEGMENT	PRE-SCHOOL	PRE-TEEN	TEENAGERS	ADULTS
SUPPLIERS POWER	Low switching costs Presence of substitutes COGS low compared to Marketing & Logistics Forward integration risk Result: 5 (Very High)			
BUYERS POWER	Major customers are limited and represent high revenues Consumers have low switching costs Result: 2 (Low)	Major customers are limited and represent high revenues Consumers have low switching costs Result: 2 (Low)	Major customers are limited and represent high revenues Consumers have high switching costs Result: 4 (High)	Customer buy on-line Consumers have high switching costs Result: 5 (High)
NEW ENTRANTS	Economies of scale, mainly at distribution are relevant Brand identity Capital requirements are high Result: 4 (High)			Product differentiation for niche segments Result: 3 (Average)
SUBSTITUTES	Huge range of substitutes available: toys and other entertainment options Result: 2 (Low)			
RIVALRY	Brand identity High growth (emergent) Result: 5 (Very high)	High availability of products Brand identity High growth (emergent) Differentiation Result: 4 (High)	High availability of products Brand identity Differentiation Result: 3 (Average)	Brand identity Differentiation Result: 5 (Very high)
MARGIN	3.6	3.5	3.6	4.0

