LEGO Group Case Study
# Table of Contents

1. Identifying, analysing and assessing the Features of External Environment Influencing Strategy Development of LEGO Group

   1.1 PESTEL Analysis

      1.1.1 Political Factors

      1.1.2 Economic Factors

      1.1.3 Socio-cultural Factors

      1.1.4 Technological Factors

      1.1.5 Environmental Factors

   1.2 Porter’s Five Forces Analysis

      1.2.1 Threat of Entry

      1.2.2 Bargaining Power of Suppliers

      1.2.3 Bargaining Power of Buyers

      1.2.4 Threat of Substitutes

      1.2.5 Competitive Rivalry

   1.3 Strategic Groups

2. Resources and Competencies of LEGO Group

   2.1 Redundant and Dynamic Capabilities

   2.2 Threshold and Distinctive

   2.3 VRIO Analysis

   2.4 SWOT Analysis of LEGO Group

   2.5 Value Chain Analysis of LEGO Group

   2.5.1 Primary Activities

3. Alternative Strategies Available for LEGO Group in 2004

   3.1 Organization, Management and Expectations

   3.2 Focussed on Core business and Improvement of Capital Structure

   3.3 Focus Shifted to Distribution

   3.4 Focus on Supply chain and Cost

   3.5 Innovation and End-Users

   3.6 Playing in ‘New Media or Digital’ Age

4. Extent to which LEGO is Strategy-Oriented Organization

   4.1 Key Strategic Decisions Faced by LEGO Currently

   4.2 Strategy Definition and Strategic Drift
1. Identifying, analysing and assessing the Features of External Environment Influencing Strategy Development of LEGO Group

1.1 PESTEL Analysis
In order to understand the organization in better manner the factors which will impact it externally are mentioned below:

1.1.1 Political Factors
LEGO being international organization gets affected by the political situations in the countries wherever it has its presence. They are already present in Denmark and planning to build a factory in China too, which will be ready for production by 2017 (Ritzau, 2013). Since to be distributing its products in more than 130 nations therefore the local political decisions of these nations will also impact it (LEGO: About Us, 2013). Some nations like US have regulations for promoting safer toys for kids, while some countries are against the biased advertising and marketing of LEGO toys as just for boys which are gender biased (Miller and Gray, 2012). Corporate taxes in Denmark are supposed to be reduced by 1% every year till 2016, so that the new tax to be 22% (Matzen, 2013). Developing economies levy high import taxes.

1.1.2 Economic Factors
Latest projection given by International Monetary Fund states that the general world economy will see a growth in 2013 in both developed as well as developing economies. This will create more public wealth and increased spending by public on toys and games thus boosting LEGO sales (International Monetary Fund, 2013). However the EURO area the major market for LEGO are still under debt crisis which can have negative impact on LEGO sales. There is higher growth in the emerging economies middle-class as predicted by OECD that the middle-class will increase from 1.8 billion in 2009 to 3.2 billion in 2020 (Pezzini, 2012).

1.1.3 Socio-cultural Factors
Lower fertility rates across the nations due to more involvement of women in the labour markets, increased standard of living and education has resulted in delayed pregnancies, which in turn increases the spending power of families on educational toys (Riising, 2013).
1.1.4 Technological Factors
Technology and new product development are of significant importance for LEGO. Moreover the threat is from high access to Internet across the world, and smart mobile technology which is very much popular in Smartphones and used by kids. The new 3D printing technology used by LEGO can be easily imitated by its competitors (The Economist, 2012).

1.1.5 Environmental Factors
LEGO has always emphasised on corporate social responsibility and has implemented several CSR initiatives to be ranked with the topmost companies regarding renewable energy and work safety (Progress Report, 2012). LEGO products being made of plastic it has immense pressure to make environment friendly toys.

1.2 Porter’s Five Forces Analysis
By using Five Forces Framework the competitive Forces in the market would be understood and the origins of the profitability in industry can be found. This framework will also help in anticipating and handling competition in future.

1.2.1 Threat of Entry
Since new toys are continuously entering the market with biog brand like Wal-Mart and Target etc., therefore the threat of entry is higher. But LEGO being very famous international brand it is tough for new entrants to imitate it in short-term.

1.2.2 Bargaining Power of Suppliers
The primary suppliers of LEGO are the Chinese subcontractors and there are huge numbers of these Chinese suppliers which supply to various other industries too. Therefore the dependence level of LEGO is low. Moreover LEGO has most of its production in-house, supply needs are not highly differentiated and potential suppliers are easily available thus the switching cost for suppliers is low as well.

1.2.3 Bargaining Power of Buyers
Since the products offered by LEGO are unique and cannot be exchanged by the retailers with similar products and the buyers therefore cannot backward integrate the production of LEGO toys. Due to differentiated products LEGO enjoys good market position amongst the
buyers therefore the bargaining power of buyers is moderate because LEGO has good relationship with the retailers also.

1.2.4 Threat of Substitutes
Since kids have started spending more time with digital products, but still LEGO has been defying the trend and its sales are rising. LEGO has incorporated technology in some of its products, therefore although the threat of substitutes is higher for the industry but for LEGO it is comparatively lower.

1.2.5 Competitive Rivalry
The major competitors for Lego are Mattel, Bandai NAMCO, Takara Tomy, Hasbro, but the two main competitors of LEGO are Mattel and Hasbro. LEGO is way ahead them but in near future they might catch its share in operating margins and beat it therefore internal rivalry is high for LEGO.

<table>
<thead>
<tr>
<th></th>
<th>Sign</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Braining Power of Buyer</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Bargaining Power of supplier</td>
<td>Low</td>
<td>Positive</td>
</tr>
<tr>
<td>Threat of Substitutes</td>
<td>High</td>
<td>Negative</td>
</tr>
<tr>
<td>Threat of New Entrants</td>
<td>High</td>
<td>Negative</td>
</tr>
<tr>
<td>Internal Rivalry</td>
<td>High</td>
<td>Negative</td>
</tr>
</tbody>
</table>

Table 1: Impact and Sign of Porter’s Five Forces

1.3 Strategic Groups
Strategic Group Analysis helps in identification of various groups of competitors which have similar strategic characters.

Some of the major competitors of LEGO are Mega Bloks Inc., which is largest toymaker in Canada and exports toys in more than 100 countries. Tyco Toys another major competitor has been acquired by Mattel and it ranked first in 2004. Considering product diversification Mattel produces more diversified products than LEGO.
2. Resources and Competencies of LEGO Group

2.1 Redundant and Dynamic Capabilities
Dynamic Capabilities Theory helps in analysing the manner in which the organization acquires as well as deploys its resources so as to meet the market demands in better manner as per the market environment. Therefore dynamic capability of Lego can be defined as the capacity of the firm to purposefully create, as well as extend and modify its resource base (Helfat, 2007).

The redundant Capabilities of LEGO because of which it announced a 7 year process of rebranding starting from 2004 (Lauwaert, 2009). Thus LEGO decided to sell off LEGOLAND parks so as to get more financial support to save the company (Annual Report LEGO Group, 2004). Other redundant assets of the firm which did not go along to the roots of the strategy were also sold (Gerzema and Lebar, 2008).
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The dynamic capability of LEGO is that it has flexible backbone model as an organization which is a hybrid approach offering low-cost messaging as well as support to some of its customers while deeper sense of collaboration and precise tailoring offers to other customers (Court, French and Knudsen, 2006) and these capabilities help it in education, logistics, new product development, augmentation and technical support (Tuli, Kohli and Bharadwaj, 2007).

2.2 Threshold and Distinctive

The threshold and distinctive competencies of Lego which helps it in achieving competitive advantage are: large capacities of installed production facilities; innovation and creativity; Raw materials knowledge extensive; creativity in product designing; efficient supply chain; reputed brand name across globe; focus on high quality standards; and efficient management organization and leadership. It can be analysed from Table 2 shown below and these factors helped LEGO to regain Successful Position in Toy Market.
Table 2: Core Competencies and Strengths of LEGO

2.3 VRIO Analysis

VRIO Framework helps in conducting internal analysis of Lego and finding the core competencies. First tangible resources would be analysed under which the financial resources are valuable for Lego and rare too which provides it with competitive parity and competitive advantage. Lego has modern plants and facilities and location is valuable as it has moved its production to count tries which have cheaper production and located close to markets but this resource is easily imitable and easily available. Lego’s trademark offers Lego name a valuable resource and its innovative process are rare, valuable and very costly to imitate, therefore Lego’s innovative production process offer it sustained competitive advantage. The organizational resources offer its “shared vision” and under efficient management of JVK all the processes are organised properly and leads to sustained competitive advantage.

Its intangible resources like skilled managers e.g. JVK is very costly to imitate. Lego has always emphasised on innovative capacities and these resources of innovation and creativity
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is very rare and valuable. The brand name offers Lego a world-class reputation as can be seen that it ranks 10th in the world as the strongest brands.

The VRIO Framework for Lego can be seen from Table 3 shown below:

<table>
<thead>
<tr>
<th>Resource</th>
<th>Valuable?</th>
<th>Rare?</th>
<th>Costly to imitate?</th>
<th>Exploited?</th>
<th>Competitive Implication</th>
<th>Economic Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Yes</td>
<td>To an extent</td>
<td>Yes</td>
<td>Yes</td>
<td>Competitive Parity</td>
<td>Normal</td>
</tr>
<tr>
<td>Physical</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Competitive Advantage</td>
<td>Above Normal</td>
</tr>
<tr>
<td>Technological</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Competitive advantage</td>
<td>Above Normal</td>
</tr>
<tr>
<td>Organizational</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Competitive advantage</td>
<td>Above Normal</td>
</tr>
<tr>
<td>Human</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Competitive Parity</td>
<td>Normal</td>
</tr>
<tr>
<td>Innovation and Creativity</td>
<td>Yes</td>
<td>Yes</td>
<td>To an extent</td>
<td>Yes</td>
<td>Competitive Advantage</td>
<td>Above Normal</td>
</tr>
<tr>
<td>Reputation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Competitive advantage</td>
<td>Above Normal</td>
</tr>
<tr>
<td>Organizational</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained Competitive Advantage</td>
<td>Above Normal</td>
</tr>
</tbody>
</table>

2.4 SWOT Analysis of LEGO Group

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Brand is highly emotionally appealing</td>
<td>• Losing identity</td>
</tr>
</tbody>
</table>
2.5 Value Chain Analysis of LEGO Group

Value Chain Analysis is a vital tool which uncovers and highlights the manner in which the firm adds value to their products with the help of manufacturing processes (Whittington, Scholes and Johnson, 2011).

2.5.1 Primary Activities

2.5.1.1 Inbound Logistics
Since the raw materials are supplied by Lanxess, German Company and Lego has standard commodities, thus it doesn’t face any bottleneck situation hampering their future production. Future raw material pricing can be influenced due to 3D printing given that same raw materials would be used in production of Lego bricks (Heathcote and Roux, 2012).

2.5.1.2 Operations
Lego projects the future demand very accurately using analytical approach and sophisticated software (Madsen, 2012). All Lego products adhere to the European CE-labelling, ensuring
that products and production method are as per the legislations of European Union (Sikkerhedsstyrrelsen, 2010). Being member of several Toy Industry organizations it promotes safety and quality standards in its toys (Jensen, 2012).

2.5.1.3 Outbound Logistics
Lego uses several large hub centres which are located closer to retailers for controlling inventory in better manner and creating fewer stock shortages. Discounts were offered to small retailers who placed orders earlier. No cartons which are full are shipped and work very closely with retailers for forecasting and inventory management.

2.5.1.4 Marketing & Sales
Lego follows a portfolio consisting of themes and licenses which are highly successful. It entered into strategic partnership with Warner Bros and Lucas Arts whose Star Wars and Harry Potter became saviours for Lego during crisis (Sielen, 2013). Lego adheres to the pricing strategy of “only the best is good enough”, but its competitors like Mega Bloks, Mattel etc. offer blocks at lesser price (Hansegard, 2013).

2.5.1.5 Service
It has customer retention scheme available online through website where customer gets ‘VIP’ points for online purchases which gives reductions in future purchases in form of online currency. Lego clubs are established worldwide which host annual events and community blogs are also maintained (Community Team Blog, 2012).

3. Alternative Strategies Available for LEGO Group in 2004

Kjeld Christensen in the start of 2004 identified several internal as well as external factors which resulted in certain issues like there were too few and very weak products launched before 2004. Year 2004 acted as a turning point for Lego as there were major strategic developments which Lego Group witnessed.

3.1 Organization, Management and Expectations
After many shifting periods, layoffs, and senior management changes, Kjeld reinforced his responsibilities as CEO signifying that the family was still behind the company. Some other strategies adopted were:

- Write-offs on Legoland Parks and other redundant assets
- Modest objective for sales in 2004 set at 1998 level
- CEO position handed over to Jorgen Vig Knudstorp

3.2 Focussed on Core business and Improvement of Capital Structure

Heavier losses financially caused weak capital structure, so the company was supported by a loan, corporate structure was simplified and LEGOLAND Parks were sold-off.

3.3 Focus Shifted to Distribution

Since the major portion of Lego sales takes place through big retailers like Wal-Mart and Kmart etc., which wanted more innovation and shorter delivery times therefore Lego emphasised and got closer to retailers to understand sales to the end customer chain.

3.4 Focus on Supply chain and Cost

Cost cutting was major step and thus the entire procurement process of Lego was reviewed and the number of suppliers was reduced in significant manner which resulted in costs reduced in highly significant manner and gave DKK 1 billion savings annually to Lego.

Then it started outsourcing which means 20% products were manufactured by Flextronics and rest outsourced to cheaper locations. Moreover the sales of Lego products is very seasonal and order horizons are shorter, the supply chain required flexibility, so it ended its association with Flextronics and Lego started managing its own global manufacturing operations in much more effective manner and thus the layoffs were also cancelled.

3.5 Innovation and End-Users
The users of Lego products are highly enthusiastic as bricks attract people all across the world, but the concept needs up gradation regularly which should reflect classic play themes along with topical play themes or various other driving forces. Therefore new products as well as concepts which are based upon the Lego Bricks are very important to keep Lego Group ahead and grow as well as survive for long term. Therefore Lego lets the end users or customers participate in new product development because Lego knows the importance of customer responsiveness and it is the users who know very well what would attract them.

3.6 Playing in ‘New Media or Digital’ Age

Lego has created a new digital strategy where it plans to develop an online game which can be played by multiple players and is known as “Lego Universe”. This new internet game is was set to launch in 2010. New growth arenas opened for it by cooperating with gaming industry as well as licensing partners present in movie industry.

Although the above strategic decisions taken by Lego Group have been successful as can be seen from the results and sales it has achieved in 2008 and 2009. It achieved the highest growth rate since 1981 and there has been a steady progress since 2005. There have been structural changes in the organization which can be seen from the fact that the profits in year 2008 was three times more than that of 2002 and with the same level of sales. In the year 2009 also both sales as well as profits of the company also improved. Based upon the global turnover Lego ranked fifth worldwide based upon NPD figures. Thus the strategies adopted by Jorgen have been very successful and effective for Lego Group but it still needs better strategies for future competition to be handled and to ensure future success for Lego Group.

4. Extent to which LEGO is Strategy-Oriented Organization

4.1 Key Strategic Decisions Faced by LEGO Currently

LEGO is an organization which portrays the best example of not just managerial complexity but also organizational dynamics which helped it in developing a worldwide or global brand-LEGO. The framework which includes the branding efforts included the initial focus on
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marketing as well as company-wide reorganization which covered many change management programs, along with an initiative to manage as well as create global brand coherence.

4.2 Strategy Definition and Strategic Drift

Definition of Strategy

According to Henry Mintzberg Strategy is commonly used as a plan for achieving goals, it is a pattern of actions used overtime. It is the position which reflects the decision to offer specific products or services in specific target markets and it is also the perspective associated with particular direction and vision (Mintzberg, 1994). Porter has argued that competitive strategy is about being different, which means choosing a totally unique as well as different set of activities in deliberate manner so as to deliver a unique mix of values to customers (Porter, 1996). Thus strategy is a competitive position which helps the firm to get differentiated in the eyes of the target customers (Nickols, 2012). LEGO adopts both growth strategy and innovative strategy to gain competitive advantage in the market.

Strategic Drift

Strategic Drift can be defined as a situation which occurs when a company, which is very successful, responds very slowly to the external environment and still continues with the same strategy which once served it very well in the past. Such organizations persevere with their successful business models, even when the business model turns out to be highly inappropriate according to the future trends. One of the main cause which has been found for strategic drifts occurring is changes in the technological environment. But there are some internal dimensions also which are source of strategic drift, like when leadership of the organization continues and sticks with the obsolete or becomes highly redundant. LEGO can assess whether it is undergoing strategic drift or not by constantly monitoring its internal as well as external environment (McDermott, 2014).

Lego’s external environment has changed due to faster child development at rapid pace, growth in the digital world, higher dependence on global brands and changing fashion trends in the toy industry. To avoid strategic drift Lego responded to these changes by combining both innovation and market adaptation. They regularly introduced digital toys and also created virtual communities for cross-selling and supporting the users. The firm also
formed new business units like LEGO Interactive and LEGO Direct, expanded into lifestyle products and also collaborated with many global brands like Microsoft, Warner Bros, Disney and Lucas Films (Schultz and Hatch, 2003).

4.3 Mission and Vision of LEGO

Mission of LEGO Group

The mission is “inspire and develop the builders of tomorrow”. However it changed its mission statement which expresses its corporate values too: “To nurture the child in each of us”.

Vision of LEGO Group

“Inventing the future of play”

To accomplish its mission and vision Lego uses both an innovation strategy as well as a growth strategy.

4.4. Deliberate and Emergent Strategy

Deliberate Strategy is similar to strategic planning as it is top-down approach which is required for coordinating actions in specific conditions like when management wants to implement change. For a pure deliberate strategy the firm needs to have pure intentions along with relative as well as solid level of details are required. The planned strategies are required to be implemented as intended (Mintzberg and Waters, 1985). Lego has been successful because it efficiently translated its deliberate strategies into action.

Emergent strategies can be defined as responses towards unexpected problems as well as opportunities. They are mainly developed at the location where the business-level strategies are being implemented, which means they are implemented at the business units and not at the corporate headquarters. Therefore the pure emergent strategies are devoid of intentions (McGee, Thomas and Wilson, 2005).

4.5 Strategy Lenses and Strategy Horizons
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Strategy Lenses are the various ways in which the strategic issues are looked upon in different manner so as to generate many insights. These strategic lenses help in looking at the strategic problems in various ways which results in raising many new issues as well as provides new solutions too. There are four kinds of strategy lenses based upon design, variety, experience and discourse. LEGO adopts the strategic lens where strategy is seen as variety and therefore it adopts higher innovative strategy.

The three strategic horizons are:

**Horizon 1: Extend as well as defend the core business**

**Horizon 2: Build the merging businesses**

**Horizon 3: Creating options which are viable**

Adapting the strategic horizons Lego needs to extend as well as defend its core business developing strategy based upon ideas arising from variety of people present in and around the organizations. Emerging business can be build when top management acts as coaches, creators of context as well as pattern recognisers (Johnson, Whittington and Scholes, 2011).

### 4.6 Corporate and Business Strategy

Corporate Level Strategy is related to an overall scope as well as purpose of any organization and the manner in which value can be added to its business units.

Business level strategy is related to the manner in which the business seeks to compete successfully in the specific market.

### 4.7 TOWS Analysis

TOWS analysis is an effective tool which helps in combining the internal strengths with the external threats as well as opportunities on one hand, while combining internal weaknesses with external opportunities and threats to develop a successful strategy.
### LEGO Group

<table>
<thead>
<tr>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Famous brand name</td>
<td>- Brand perception as blocks toys</td>
</tr>
<tr>
<td>- Existing customer base</td>
<td>- High pricing</td>
</tr>
<tr>
<td>- Existing distribution network</td>
<td>- Higher diversification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities (O)</th>
<th>SO Strategies</th>
<th>WO Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>- New emerging markets</td>
<td>Leveraging its strengths for maximising its opportunities</td>
<td>Counter its weaknesses by exploiting its opportunities</td>
</tr>
<tr>
<td>- Cross-selling opportunities</td>
<td>ATTACKING STRATEGY</td>
<td>BUILD STRENGTHS for ATTACKING STRATEGY</td>
</tr>
<tr>
<td>- Alliances-co-branding</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- New products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Threats (T)</th>
<th>ST Strategies</th>
<th>WT Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>- New Entrants</td>
<td>Leverage its strengths for minimising the threats</td>
<td>Counter its weaknesses with threats</td>
</tr>
<tr>
<td>- Digitally advanced and competitive products</td>
<td>DEFENSIVE STRATEGY</td>
<td>BUILD STRENGTHS for DEFENSIVE STRATEGY</td>
</tr>
<tr>
<td>- Changing customer choices</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 4: TOWS Matrix for LEGO

#### 4.8 Scenario Planning

Scenario planning is an essential tool which is used for innovation and it is also related to top strategy as it is a hedge against crisis management. LEGO adopts innovation for growth as scenario planning and it is all about the combination of strategy with innovation and not research and development. Scenario planning helps in avoiding two failures of over predicting or under predicting. The article in Forbes about “Can Lego snap together a future in Asia” (Girard, 20132) doubts the effectiveness of scenario planning in making strategic decisions. Lego tackles uncertainty through scenario planning by actively identifying and
then trying to analyse various ways in which this uncertainty can be tackled in successful manner. Since LEGO does not have any data for future, this approach helps it in active forecasting as well as engagement which provides best insight to the organization about the scenario that what might happen (Rasmus, 2013).
Bibliography


