

The Lego Case Study

A case study in corporate strategy - teaching notes

1. Introduction

The case study deals with the progress of LEGO in the period 2000 - 2013. In the financial year 2013, revenues had increased by 10% to 25.4 billion danish krona. Profits before tax were 8.2 billion DKK. The company had once again delivered an impressive operating margin of 33% before tax.

In US dollars, the company had achieved \$4.5 billion of revenues and profits of \$1.5 billion. Revenues had increased from just over \$1 billion some seven years earlier. LEGO® had replaced Hasbro to become the largest toy company in the world second only to Mattel.

In just eight years, revenues at the Danish toy manufacturer had tripled. The company had turned around a loss of 2.5 billion krona in the financial years 2003 and 2004 to an operating margin the envy of high tech stocks around the world.

The transition had boosted prices and gross margins from 56% to over 70%, slashed operating costs from 70% to 37% of turnover and doubled sales per employee.

The future had not always looked so promising. In presenting his report to management in June 2003, Jørgen Vig Knudstorp, then head of strategic development had pulled no punches, "We are on a burning platform, losing money with negative cash flow and a real risk of debt default which could lead to a break up of the company".

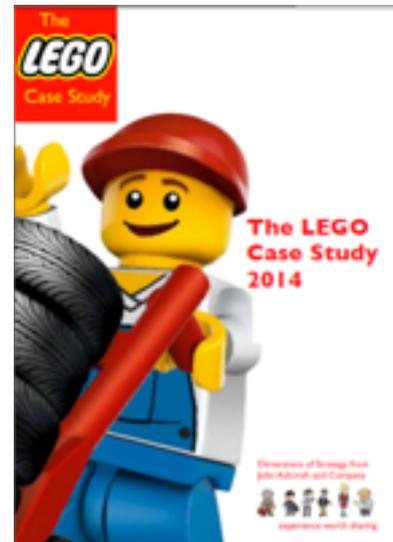
How had the remarkable transition been achieved? In this case study we analyse the performance of the company using our corporate strategy framework of analysis. We apply the same techniques to Apple [2012] and Amazon [2014].

2. Position of the Case

The case study is concerned with corporate strategy and the management of corporate strategy.

3. Learning Objectives

The case is designed to help students and executives understand the corporate strategy process and the management of strategy in a dynamic environment. The LEGO story offers an insight into turn around management and the development of strategy in a difficult financial situation. Action before strategy became the mantra in the early stage



“The Lego case study is another great study in corporate strategy from the authors of the Apple Case Study”

Lessons in strategy

4. Teaching Scheme

The LEGO case study is most likely to be used as a basis for plenary discussion but can also be used for small work groups such as the wealth of topics included. The case study is available with financial information in excel format and presentation slides. Video clips are also available from the web site.

5. Questions for discussion

5.1 Market Analysis and Segmentation., Gender, Age and activity. How did Lego identify the differentiation amongst users groups by gender, age, activity and interests? Consider the use of focus groups and the emergence of AFOLs the Adult Fans of Lego.

5.2 Three dimensional analysis : relative market strength, relative market share and relative financial strength.

How did the position of Lego compare with Mattel and Hasbro plus the emergence of the “me-too” products.

5.3 Understanding Critical or Key Factors for success. The CSFs and KSFs.

5.4 First Mover and First Mover advantage - Do you consider Lego to be a first mover in the market? How would we define that “market”. Did first mover advantage work for Lego.

5.5 Managing the Innovation Process, a holistic approach from out to in.

5.6 Technology Push versus market pull.

5.7 Product or Process Innovation

5.8 Pricing Strategy,

5.9 Product Extension as a strategic marketing tool. Defending all sectors.

5.10 Distribution Strategy - Multi Channel marketing, own retail, online, theme parks..

5.11 Diffusion, the S curve and the tipping point. Product life cycles in the Lego range?

5.12 Kaizen and KSFs - constant improvement driving the Key Success Factors.

5.13 Porter’s five forces - or as we term it CBS News. Understanding the significance of **Competitors, Buyers, Suppliers, New Products, New Players.**

5.14 The Experience curve - production and economies of scale v product proliferation.

5.15 The Resource Based view of the firm - the Lego success - resource based or market driven?

6 Case Analysis

6.1 Market Analysis and Segmentation

The Lego product offer can be rationalised as a multi brand offer with socio demographic targets based on gender, age and stage of life. To what extent can we distinguish between products as toys and toys as learning tools. End use identification is realised into architecture, design, hi tech and “Super Star” themes such as Star Wars.

6.2 Three dimensional strategic analysis.

Relative market strength, relative market share and relative financial strength. The toy market is a huge world wide market with over \$80 billion. The three largest brands have less than 20% of total sales. It is a relatively fragmented market. Consider the Herfindahl–Hirschman Index, or HHI assessment of the data as available.

6.3 Understanding Key or Critical Factors for success. The KSFs or CSFs.



How well did Lego understand the KSFs of the product offer. What would you consider those to be in the Lego sector of the toy market? Price? Design? Simplicity? the Brick? Continuity.

6.4 First Mover and First Mover advantage

First mover advantage or fast second intervention. First mover advantage provided the framework for growth in the Lego building brick concept market. To what extent did this underpin the foundations of growth in the Lego business? How quickly did Lego react to new product

developments including on line software and app development? Or the use of high tech elements as aids to construction.

6.5 Managing the Innovation Process

In the Apple case study, Steve Jobs is identified as the product champion within Apple. Design was an integrated process. “Design from out to in”. A continuous process, products don’t pass from team to team, as in technology, design and marketing. Product development was seamless without sequential and discrete development stages. Products were worked on, in parallel by all departments at the same time. Jobs didn’t invent the iPod but enabled the organisational environment and framework which made it possible. Kaizan (constant improvement) was a mantra for new product development.

Within Lego, who was the “Product Champion”. The founder had maintained the reputation for quality at onset. But in later stages as the business development, the role of product champion became a little more blurred. Product development teams were often isolated, working in “pods”, losing sight of the overall plan, leading to product proliferation and component part indigestion.

Draw the comparisons between Apple Product Development and the interim phase for Lego when the central themes were lost amongst the product development groups.

6.6 Technology push versus market pull

Technology push versus market pull, managing the balance between the extremes. Steve Jobs as a technological innovator working within a marketing framework determined by relative market attraction, relative market and relative financial strength. The iPod was an example of market pull pushing the technology.

To what extent can we draw the same parallels with Lego. New technologies, were introduced into the product range. To what extent did the introductions push the product offer away from the core “Building Brick” Offer.

6.7 Product or Process innovation

The Lego brand contained a wide number of brands and sub brands catering for specific consumer groups. Male v Female, early learners versus AFOLs. To what extent do we consider the brand to be both the product and the process for the Lego business?

6.8 Pricing Strategy

Apple utilised a premium price strategy to test market reaction and sales volumes before moving to a more competitive price platform. In the main Apple introduced a premium price product to determine market reaction, establish volume of demand and supply satisfaction before moving to a more amenable pricing model. In the second phase of product development, premium price is followed by a plethora of price points. The iPod shuffle at \$49 to the iTouch at £399. A price point for every pocket.

How would you categorise the Lego pricing strategy. Market based or cost plus? Premium priced or competitor modelling? The Knudstorp strategy included a Return on Sales Target of 13.5%. To what extent is this a cost plus or market based pricing strategy?

6.9 Sustaining competitive advantage

How did Lego sustain competitive advantage? Back to basics, stick to the knitting, simplification, the brick based strategy on the one hand. Product differentiation, multi brand strategy on the other. Pressure on logistics as in manufacturing economies of scale, parts management, stock control, depot management, delivery efficiencies all formed part of the sustained competitive advantage programme.

6.10 Distribution Strategy - Multi Channel marketing

By 2011 Apple had developed a multi channel strategy with over 360 own retail stores a strong online store and the incredibly successful iTunes store and Apps stores.

TO what extent did Lego develop a multi channel strategy. Online offer? Own stores development. The Lego plans for own store, soon came under pressure from the large US retailers. The theme park developments became expensive in terms of absorption of investment capital and management time and were hived off as losses accelerated.

6.11 Diffusion, the S curve, tipping point

Understanding the diffusion process, the tipping point to tripping point. Understanding the pace of diffusion, tipping point to tripping point examples from the Walkman and the iPod. Understanding the diffusion process. Plotting the S curve for the iPod. To what extent, by the introduction of the iPod touch and the iPhone did Apple generate a tripping point for the iPod? The product development programme led to the cannibalisation of own sales and pushed the iPod into the end phase of the product life cycle.

TO what extent can we identify product life cycles within the Lego product offer. Information on sales by product is difficult to discern/ Many products had short life cycles of two to three years. Which were the Short run brands and which were the keepers>

6.12 Kaizen and KSFs

Constant improvement driving the Key Success Factors is a clear factor in corporate success. To what extent can we discern the process in the Lego Case Study.

6.13 Porter's five forces

We can best remember Porter's 5 as CBS News, competitors, buyers and suppliers, new products and new players. But what happens when your major competitors become your major suppliers as

with Samsung and the iPad? Or what happens when new players identify the main Lego brick product as a “Go for” product area?

6.14 The Experience curve

BCG, the Boston Consulting Group made much of the experience curve as market share created advantage - volumes led to bigger returns to scale and lower unit costs, creating competitive advantage.

In the Apple case study, we consider to what extent does the move from supply integration to supply syndication undermine the true returns to scale, the experience curve and competitive advantage?

In the Lego case study, product proliferation led to great diffusion of components and number of products within the business. A rationalisation of products and components assisted the drive to higher profits. Is this a validation of the economics of scale in manufacturing and the experience curve concept.

6.15 The Resource Based view of the firm

Is the Lego success - resource based or market driven?

7 Conclusions

The Lego Case Study is part of the Dimensions of Strategy Case Study Series developed by John Ashcroft and Company, experts in economics, strategy and social media.

Check out the information on the web sites for more information

- John Ashcroft and Company
- Dimensions of Strategy
- The Apple Case Study
- The Twitter Case Study
- The Lego Case Study
- The Amazon Case Study [2015]
- The Google Case Study [2015]

8 Feedback

Let us know what you think! How have you used the teaching notes? Why not share your experience with others? We welcome feedback on the teaching notes and ideas you may have to improve the case study series.

Thanks for your interest,

John Ashcroft

