



CASE 16-3

LEGO

The **LEGO** Company is a \$4 billion global business built out of the humblest of materials: interlocking plastic toy bricks. From its base in Denmark, the family-owned **LEGO** empire extends around the world and has at times included theme parks, clothing, and computer-controlled toys. Each year, the company produces about 15 billion molded plastic blocks as well as tiny human figures to populate towns and operate gizmos that spring from the imaginations of young people. **LEGO** products, which are especially popular with boys, are available in more than 130 countries; in the key North American market, the company's overall share of the construction-toy market has been as high as 85 percent.

Kjeld Kirk Kristiansen, the grandson of the company's founder as well as the main shareholder, served as CEO from 1979 until 2004. Kristiansen says that **LEGO** products stand for "exuberance, spontaneity, self-expression, concern for others, and innovation." (The company's name comes from the Danish phrase *leg godt*, which means "play well.") Kristiansen also attributes his company's success to the esteem the brand enjoys among parents. "Parents consider **LEGO** not as just a toy company but as providing products that help learning and developing new skills," he says.

LEGO has always been an innovator. For example, Mybots was a \$70 toy set that included blocks with computer chips embedded to provide lights and sound. A \$200 Mindstorms Robotics Invention System allows users to build computer-controlled creatures. To further leverage the **LEGO** brand, the company also formed alliances with Walt Disney

advantage—creativity, innovation, and superior quality—were also sources of weakness. The company had become overly complex, with 12,500 stock-keeping units (SKUs), a palette of 100 different block colors, and 11,000 suppliers.

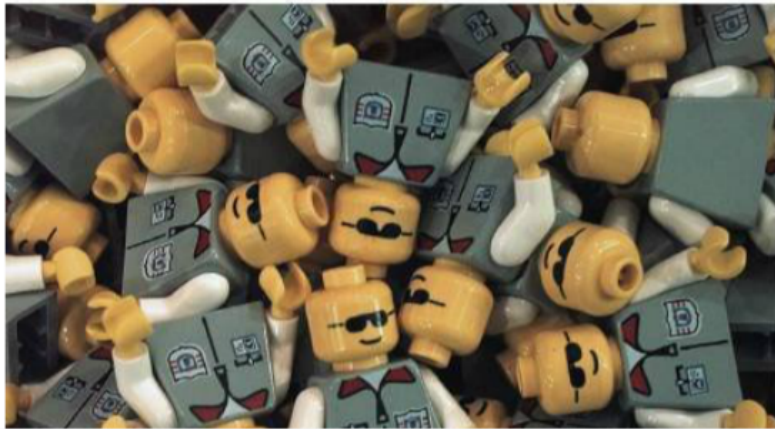
Acknowledging that the company's forays into theme parks, children's clothing, and software games had been the wrong strategy, Knudstorp launched a restructuring initiative known as "Shared Vision." Within a few months, cross-functional teams collaborated to reduce the number of SKUs to 6,500; the number of color options was slashed by 50 percent. Production was outsourced to a Singaporean company with production facilities in Mexico and the Czech Republic, resulting in the elimination of more than 2,000 jobs.

Knudstorp also decided to focus on the company's retail customers, which include Toys 'R' Us, Metro, Karstadt, and Galeria. After surveying these customers, Knudstorp and his task force learned that the customers do not require express product deliveries. This insight prompted a change to once-weekly deliveries of orders that are placed in advance. The result: Improved customer service and lower costs. In the 3-year period from 2005 to 2008, on-time deliveries increased by 62 percent to 92 percent. **LEGO** also logged improvements in other key performance indicators, such as package quality and quantity. In 2008, **LEGO** was awarded the European Supply Chain Excellence Award in the category "Logistics and Fulfillment."

Company and Lucasfilms, creator of the popular *Star Wars* series. For several years, sales of licensed merchandise relating to the popular *Harry Potter* and *Star Wars* movie franchises sold extremely well.

After a disappointing Christmas 2003 season, **LEGO** was left with millions of dollars worth of unsold goods. The difficult retail situation was compounded by the dollar's weakness relative to the Danish krone; **LEGO** posted a record loss of \$166 million for 2003. The company then unveiled a number of new initiatives aimed at restoring profitability. A new line, Quattro, consisting of large, soft bricks, is targeted directly at the preschool market. Clikits is a line of pastel-colored bricks targeted at young girls who want to create jewelry.

In 2004, after **LEGO** had posted several years of losses, Jørgen Vig Knudstorp succeeded Kristiansen as **LEGO**'s chief executive. Knudstorp convened a task force consisting of company executives and outside consultants to review the company's operations and business model. The task force discovered that **LEGO**'s sources of competitive



In terms of competitive advantage, Knudstorp has noted, "A bucket of bricks is the core of the core." Still, he adds, "There's more to being a global successful company than being able to build a plastic brick." Evidence of the company's magic touch can be found in **LEGO** Friends, a new theme targeting girls that has sold extremely well. Moreover, the company's forays into video games such as *LEGO Batman 2*, children's books such as *The LEGO Ideas Book*, and TV series on the Cartoon Network have proven to be successful as well.

Discussion Questions

- 16-17. Jørgen Vig Knudstorp became CEO in 2004. Assess the key strategic decisions he has made, including outsourcing and divesting the theme parks.
- 16-18. **LEGO**'s movie-themed products, keyed to popular film franchises such as *Harry Potter*, *Lord of the Rings*, and *Spider-Man*, include detailed construction plans. Do you think this is the right strategy?
- 16-19. Using Porter's generic strategies framework, assess **LEGO** in terms of the company's pursuit of competitive advantage.
- 16-20. What risk, if any, is posed by **LEGO**'s movement into multimedia categories such as video games and television?

Sources: Jens Hansegard, "What It Takes to Build a **LEGO** Hobbit (and Gollum and More)," *The Wall Street Journal* (December 20, 2012), p. D1; Matt Richtel and Jesse McKinley, "Has **LEGO** Sold Out?" *The New York Times* (December 23, 2012), p. SR4; Carlos Cordon, Ralf Seifert, and Edwin Wellian, "Case Study: **LEGO**," *Financial Times* (November 24, 2010); Kim Hjelmgaard, "**LEGO**, Refocusing on Bricks, Builds an Image," *The Wall Street Journal* (December 24, 2009); David Robertson and Per Hjuljer, "Innovating a Turnaround at **LEGO**," *Harvard Business Review* (September 2009); John Tagliabue, "Taking Their Blocks and Playing Toymaker Elsewhere," *The New York Times* (November 20, 2006), p. A4; Lawrence Foster and David Wilson, "Climbing the Robot