

**BUSINESS 478**

**Section D 100**

**SYNOPSIS FOR:  
THE LEGO GROUP**



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## INTRODUCTION

### **Background in Brief**

The LEGO Group began in 1932, when Danish joiner and carpenter, Ole Kirk Kristiansen, began making wooden toys. He and his 12 year old son, Godtfred, began the company with no name. It was two years later, in 1934, that the name LEGO was established. The name was derived from the Danish words “LEg GOdt”, which means “play well”, and it was later found out that it also translates to “I put together” in Latin (The LEGO Group, 2013d).

Since its inception, LEGO has undergone many changes and experienced explosive growth. From the single father and son establishment, an international player in the toy manufacturing industry was born. Rather than continue with wooden toys, the LEGO Group expanded into multiple companies that developed plastic building blocks, plastic toys, movies, games, and even amusement parks (Funding Universe, 2001).

Out of all of the years that the LEGO Group has been in business, it has only experienced a few years of deficit, all in the last twenty or so years. In general, the Group has been successful and is continuing to expand (The LEGO Group, 2013a).

### **Current Situation**

According to LEGO’s 2012 Progress Report, the Group has expanded to over 130 countries and has employed approximately 10,000 employees (The LEGO Group, 2013b). It is headquartered in Billund, Denmark and is now the second largest manufacturer of play material, behind one of its competitors Mattel (BBC, 2013). The LEGO Group’s financial statements indicate that it has experienced its eighth consecutive year of growth as of the year ended December 31, 2012 (The LEGO Group, 2013a).

### **Success and Proliferation**

While the Group’s flagship product is still the interlocking plastic blocks, it has grown to harbour a large subculture and has gone on to inspiring games, movies, and even amusement parks—the most recent being Legoland Florida. While the level of success the Group has had with producing and selling its toy blocks can be conveyed through financial statements and figures, this neat fact also provides a

demonstration: according to Alexander (2013), Lego has produced over 560 billion pieces since 1958, which is when the design for the block was finalized. Assuming there are seven billion people in the world, this means that there are 80 pieces of LEGO for every human being alive today.

Aside from the original blocks, new product lines are developed every year, and much of the Group's success can be attributed to its focus on innovation. While some of these new product lines derive from classic themes, such as castles and space, others use licensed material to have specialized themes, such as Star Wars. Ultimately, it is the Group's willingness to attempt these new avenues while keeping quality a priority that has lead it into being a major global player in the toy industry.

### Financial Growth

Financially, the Group is faring very well. According to its interim financial statements for 2013, Lego's net profit for the first two quarters of 2013 has increased 18.1% from the same period in 2012 . Much of this growth is attributed to the great success that the new LEGO Legends of Chima line has had in Asia, as well as the fact that the inventory of LEGO products on retailer shelves was low at the end of 2012 (The LEGO Group, 2013c). This meant that much ordering and producing occurred in the beginning of 2013 to replenish retailers' stock.

LEGO's most recent 2013 numbers continue a trend of successful financial performance. During 2012, LEGO's sales increased 25.0% from the previous year, rising to DDK 23,405 million; these sales translated into profits of about DKK 5,613 million (The LEGO Group, 2013a). Going even further back than that, LEGO's past financial statements show that the Group has had eight consecutive years of financial growth. Consequently, LEGO has continued to develop internationally and garner market share in a difficult industry.

### Areas of Development

This strong and consistent profit over the years is allowing LEGO to focus on growth; in particular, production and intellectual property are two areas that are being further developed. The current plan is to invest more property, plant, and equipment in the Group's production lines in the Czech Republic, Hungary, China, and Denmark (The LEGO Group, 2013c).

## EXTERNAL ANALYSIS

### General Environment

The toy industry is a slow to moderate growth market. Toys have been around long enough that they can be considered mature goods. At the same time, tastes and trends change constantly in this market, and therefore it is imperative that innovation continues in order to match the changing demands. (Toy Industries of Europe, 2013)

#### Global Segment:

The global market share that the LEGO Group has of the industry is currently 8.8% and has been increasing for several years (BBC, 2013). Also, with the opening of many new offices in various countries, it is clear that the LEGO group has goals of expanding globally.

#### Demographic Segment:

The age structure of LEGO's market consumers is fairly wide. Since LEGO produces and sells toys, its major market is that of young children aged roughly from 3 to 16. For the younger end of this demographic, LEGO released Duplo, which has similar designs as regular LEGO blocks, but is bigger to allow easier handling for small children's hands. As for the older end, there is LEGO Technic, which expands on the original blocks' buildability by adding in more complicated components such as pulleys and gears. LEGO Duplo, LEGO Technic, and regular LEGO blocks can be combined so that children may continue amassing their collection as they progress through their years. Aside from the main target age of 3 to 16 years, there is also a small market for adult collectors (Lego A/S History, 2001).

Locations at which LEGO is being sold is increasing as LEGO is aiming to expand globally. The country where LEGO is sold most is Germany, but Canada, the USA, and Japan are also well established market; there has been major growth in LEGO's presence in China recently, and the Group plans to target new market in Europe and Asia as well (The LEGO Group, 2013a).

When it comes to targeted gender, one of the Kristiansen family's original criteria for their products was they would appeal to both boys and girls (Diaz, 2008). To this day, although there are

LEGO themes that may specifically appeal to either gender, most LEGO products are gender neutral, and focus more on creativity and buildability.

*Political/Legal Segment:*

Attention must be paid to regulations. National toy safety regulations exist to help promote safer toys for children; they set standards in regards to safe toy design and materials to ensure that consumers can reliably enjoy the products. LEGO and its competitors must ensure they adhere to such specifications lest they be forced to have a product recall, which is costly in terms of both resources and reputation.

Taxes also have an effect. High import taxes exist in developing economies. These can potentially inhibit offshore competitors from entering into developing economies (some of which LEGO has already established roots). After all, not all of the players in the toy industry have resources to produce toys locally in each major market area.

Patents and their expiry play a large role as well. Because its original patents expired in the 1980s, LEGO does not have legal ground to sue competitors who sell similarly designed blocks. Since the expiration of the last standing LEGO block patent, a number of companies have produced interlocking blocks that are similar to LEGO's. The toy company Tyco Toys produced such blocks for a time; other competitors that do the same include Mega Bloks and Coko. These competitor products are typically compatible with LEGO blocks, and are marketed at a lower cost than LEGO sets.

*Economic Segment:*

Middle class has grown as previously underdeveloped countries are making progress. This means that there is a larger portion of the population that has disposable income. As more families are able to afford toys, the toy industry benefits and experiences growth. For example, from 2008 to 2011, the global toy industry grew 2.9% (ICTI and The NPD Group, Inc., 2011).

*Sociocultural Segment:*

Environmental awareness has increased around the globe. As environmentalists such as David Suzuki make their way into the public's eye, the population is becoming more aware about the harm that can come from waste and non-biodegradable materials such as plastic. To mitigate the negative stigma

that comes from producing billions of plastic blocks, LEGO has publicly stated on its website that it recycles rejected pieces and donates boxes of blocks that meet safety standards but are otherwise somehow defective (The LEGO Group, 2013b). Such effort to show environmental friendliness is being put forth by the majority of the toy industry players.

A digital movement is also taking place. The new generation of children is more digitally inclined, which creates a need to factor in digital complementary goods and services. For example, there are now LEGO 3D Augmented Reality Kiosks located in select Lego stores. These allow children to view a 3D model of selected LEGO sets. Other competitors also have product lines that use online codes to bring consumers to a virtual facet of the product. This can be seen as an opportunity for LEGO to sell their alternative complementary products such as their video game line and board game line.

Technological Segment:

New technological trends include increased internet accessibility, integration of smart phone use and compatibility, and introduction of more VIP cards and 3D possibilities, all of which may serve as complimentary services to LEGO's businesses. This positively allows LEGO's consumers to have access to product information in a more convenient and visually appealing way. It also allows for more business-to-consumer intimacy through consumer contact.

## STRATEGY

### Strategic Challenges

With operations running internationally in a challenging market, the LEGO Group faces a multitude of strategic challenges. It must face potential issues with professional department and creative solutions in order to maintain its success. The following have been identified as some of the most pressing strategic challenges that LEGO faces today.

#### Decreasing CO<sub>2</sub> emissions

The LEGO Group prides itself in taking its environmental impact into account and pursuing actions to reduce its carbon footprint. However, its increase in production has been at the expense of growing CO<sub>2</sub> emission. This does not coincide with its planet promise to leave a positive impact in the world, so steps should be taken to address this discrepancy; an example is research into using new raw materials that are more environmentally friendly (The LEGO Group, 2013b).

#### Maintaining Differentiation

With no patents to protect the LEGO block design, there is no legal method to keep competitors from entering the toy market with a nearly identical product. Therefore, LEGO must continue to seek the highest standards in terms of quality in production. It is through operating under such standards that LEGO can justify its higher prices relative to other construction toy competitors. For example, the Group spent four years documenting that more than 100,000 labour hours to test and document that its products meet the world's strictest requirements (Trangbæk, R. R., 2013). It is through such efforts that LEGO manages to hold its strong reputation and customer loyalty.

#### Keeping up with Trends

The toy industry is constantly and rapidly changing in terms of consumers' interests. In order for the LEGO group to maintain its market share and expansion in product lines, it must be in tune with the current trends. According to its Progress Report (2013b), the LEGO group will innovate by "involv[ing] children and other stakeholders in relevant processes, such as the product development" (p.6).

Furthermore, Lego is working to capture a larger audience by diversifying its system sets into already well-established brands, including the recent Marvel and DC Super Heroes line in 2012, to accommodate the growing interest in things such as super hero movies. Furthermore, Lego will be introducing its Disney Princesses product line in 2014, also as a strategic move to capture female audiences. While striving to profit from mainstream trends, Lego still tries to offer non-mainstream sets which focuses on its core emphasis of creativity and building, such as its original Lego Master Builders Academy product line introduction in 2011.

#### *Expanding Market Presence*

By diversifying into other product areas, such as video games and pioneering their first full-length movie to be released in 2014, it is clear that the LEGO group is attempting to enter into a new market. There have been previous films and documentaries made about the LEGO group, but this is the first planned official movie with characters done in the style of LEGO.

#### *Ensuring Supply Chain Adheres to Company Morals*

To promote sustainable supply chains, LEGO requires all suppliers and business partners to sign its Code of Conduct. The Code of Conduct covers human rights, labor rights, health and safety, anti-corruption, and environment (Vestberg, 2013). However, in December of 2011, LEGO was notified that in one of its Chinese suppliers' factories, employees worked up to 140 hours of overtime a month. In addition, employees had to work with dangerous tools and machines without training or safety measures (Chamberlain, 2011). As LEGO has joined the Danish Initiative for Ethical Trade with the goal of increasing our human right leverage long term (Vestberg, 2013), LEGO needs to figure out a way to deal with partners that violate the Code of Conduct in this manner.



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