

CASE STUDY

Lego

Lego is one of the world's best known toy brands, yet things have not been going well. For 70 years Lego, the leading European toymaker, has prospered, promoting learning and development through play by explaining that play is 'nutrition for the soul'. Lego sells its colourful bricks in 130 countries, claiming that on average everyone on earth has 52 bricks.

However, in 1998 it made its first loss and in 2004, following six years of declining sales and profits it made a huge loss of US\$240 million, and rumours circulated that it would be taken over by Mattel, America's biggest toy maker. Lego was still owned by the family of Ole Kirk Christiansen, the Danish carpenter who founded the company in 1932. The family decided to stand by the company, injected their own money and appointed Jorgen Vig Knudstorp, a former management consultant for McKinsey, as the new CEO.

Lego had years of unbroken sales growth and for 50 years the plastic bricks faced little competition. Today children are growing up more quickly. Although Lego recognised this, some commentators felt they had lost their way in trying to address the problem. After the company posted its first losses in 1998 it negotiated lucrative tie-ins with Disney, the Harry Potter and Star Wars movies. More than one million Hogwarts Castle lego sets were sold when the first two Harry Potter films came out, helping the firm back into profits in 2001 and 2002, but the company became too dependent on these licensing agreements and sales slumped again when no blockbuster Harry Potter films were released.

Other brand extension strategies failed to deliver the desired growth, when products such as Galidor, a cartoon-related series of Lego figures, was criticised because it lacked the open-ended imaginative play that the Lego brand was known for, and Lego music builder, aimed at pre-school children, under performed. Lego phased out the Duplo brand, established in 1969, and replaced it with Lego Explore but parents thought Lego no longer made larger sized bricks for children aged 18 months to 5 years and Lego's revenues in the pre-school market halved. Poor forecasting in the US of what its best sellers in its popular Bionicle range would be resulted in being overstocked in some products and out of stock in some successful products, and there were worldwide complaints that colours did not match.



With the aim of becoming a lifestyle brand, Lego had diversified into clothes, watches and video games. Lego had also tried to attract more girls. However it had neglected its core customer segment of boys aged 5–9. Knudstorp believed that Lego had become arrogant and had stopped listening, so he went around to talk to the retailers. They told him that Lego should not change the core brand and the company should stick to what it had always been good at.

The traditional toy market was slimming down due to low-cost copies, hi-tech competitors and falling birth rates in developed countries. The turnaround plan, begun in March 2004, was painful as 3500 of the firm's 8000 workers lost their jobs. Half the 2400 jobs in Billund, the home of Lego, were due to be phased out. Factories in Switzerland and the US were closed and production moved to Eastern Europe and Mexico. Major stakes in the four Legoland theme parks and other assets in America, South Korea and Australia were sold off.

The management structure was simplified and a more commercial culture was fostered through a performance-based pay scheme and frank discussions about the financial position of the company took place between the management and employees, who had never before been used to talking about money. By 2006, having placed greater emphasis on the core business, the company had returned to profit and was increasing sales.

Although much of its diversification was stopped some parts were paying off well. Its Bionicle range, based on Polynesian mythology, was expanded and further new toys based on tie-ins with films such as Star Wars and Harry Potter were developed under licence. The Lego Star Wars video game in which Lego figures enact Star Wars was a best seller.

QUESTIONS

- 1 Critically evaluate the branding strategy that Lego pursued in its effort to re-establish itself in the global market since 1998, identifying its future options.
- 2 Develop an outline international marketing strategy for Lego based on your preferred strategic option.