Innovation at the Lego Group – Adapted from Jick and Peiperl, (2010). *Managing Change: Cases and Concepts*. McGraw-Hill Irwin, New York.

In 2004 Lego Group was not performing well as a company and decided to appoint a new CEO – Jorgen Vig Knudstrop. The toy industry was experiencing a rise in competition and the way in which the industry was developing was not in favour of the Lego Group with the company on the verge of bankruptcy (see– Revenues and Net Income of the Lego Group). New CEO, Knudstrop felt that the company had lost its way and had no clear idea of who it was or the products that it should offer. It was clear to all that changes were needed.

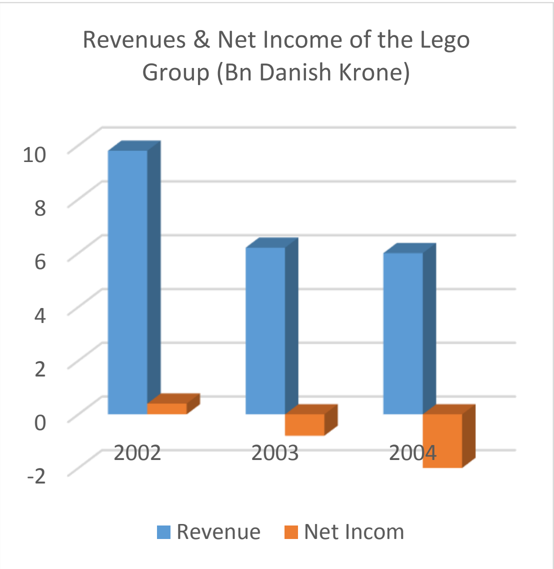
In order to provide survival and stability to Lego Group, Knudstrop and his colleagues developed a three step plan to ensuring Lego's future.

1 – Improve cash flow and eliminate debt by selling off non-core assets, simplifying and outsourcing elements of manufacturing.

2 – Increase profit margins by redeveloping product lines for increased attraction.

3 – Organic growth in order to add value and develop new products and offerings.

In 2005, Lego had achieved its first milestone and was setting about reinventing how the company innovated in order to achieve its second and third objectives.



Lego was founded in 1932 by Ole Kirk Christiansen. The company first produced toys from wooden bricks in Denmark. In 1947, Christiansen turned to advances in technology to move Lego from a wooden based toy to using injection moulded plastic, the iconic Lego brick was born and patented in 1958. Over the next 20 years, the company grew slowly and steadily until reaching a value of 1 billion Danish Kroner in 1978. Children used Lego bricks to build structures and worlds of their own choice with "building blocks".

Growth increased on a global scale to 1998 where the company sales topped 5 billion Danish Krone. In 2000, the company experienced unprecedented levels of growth through licensed products, most notably to tie in with the launch of Star Wars: Episode 1. Around this time the company had seen mass expansion in to areas such as computer games, clothing lines, theme parks and movies. This period of expansion saw the increase in the numbers of designers hired by Lego Group in order to produce some of the most elaborate kits ever seen in the form of the new Star Wars™ toys. This model of licensing products to blockbuster films continued with the development of a range of Harry Potter™ and Pirates of the Caribbean™ sets.

In 2004 the company experienced its biggest losses as consumers turned to electronics, consoles and mobile devices in place of traditional toys. With retailers placing greater 'shelf space priority' on the new dawn of medium to high value electronics, traditional toy manufacturers fought for space and saw margins decline. Retailers vied for exclusive contracts to sell products, ever squeezing the manufacturer. With the peaks and troughs associated with licensing products to blockbuster movie releases, by 2003 Lego Group lost nearly 1 billion Danish Krone and saw its cash flow hit dangerously low levels. Many predicted bankruptcy in 2004…

Steadying The Ship: Jørgen Vig Knudstorp had been appointed as Director of Strategic Development in 2001 and as Lego Group slid in to its darkest times, Knudstorp and colleagues started to plan and develop a rescue mission. In 2004 – 2005 the company focussed on returning its cash flows by reducing its costs and eliminating its debt. The majority of brick manufacturing was outsourced to external suppliers and Lego factories were relocated to low cost countries in an effort that reduced the workforce by 50%. By 2006, 80% of Lego manufacturing had been outsourced to low cost countries such as Mexico and countries within Eastern Europe. To further boost cash flows, a 70% share of the four LEGOLANDS was sold to Blackstone Group for a fee of $456 million dollars.

Through 2006 – 2007 the company aimed to improve profitability and growth by redeveloping its product lines and transforming the business through the outsourcing of much of the manufacturing and further developing the IT infrastructure. In 2008 – 2009 the company was now focussed on achieving the vision it had set out and was focussed on developing innovative and new ways for children to play and interact with Lego products.

Consider for Class

What are the impacts of the "rescue mission" mounted by Knudstorp and his colleagues?

What has Lego done in order to remain competitive as a toy manufacturer?

What are the future challenges that Lego need to think about and be aware of since returning its company to stability in 2009?