Overall question:
The year is 2011. The toy maker Lego, having enjoyed immense popularity among children and parents for several decades, is now considering a new product launch – maybe a construction game app – to combat the threat to play time from devices and screens. Is this a good idea? Should they do it?

To answer this question, address the questions below and then analyze whether the new construction game app is a good idea based on the strategy, industry context, financial situation, operational strategy, marketing strategy and organizational culture of the Lego Group. If you think it is a good idea, explain why. If you think it is not a good idea, explain why.

Strategy:

1. What is the strategy/positioning in the landscape of the Lego Group? Given the industry forces, do you think the strategy of the Lego Group is a good fit?

The toy industry in 2010 booked wholesale revenues of $83.3 billion and the retail market had been growing at 4% per year. However, the market could easily rise or fall on fad trends. Additionally, children in recent years had tended to be overscheduled with after-school activities, rather than play time with other kids. Moreover, children's interests had shifted toward technology – videogames as well as online activities.

While there were many thousand toy manufacturing companies, a few companies – Mattel and Hasbro mainly – dominated the market with several well-known and well-loved brands such as Barbie, Hot Wheels, Play-Doh, Monopoly, etc. Toy manufacturers regularly introduced new products, cut whole sale prices, sponsored ads with retailers, advertised directly to consumers, and also provided in-store support. They also often partnered with media companies such as Disney and Pixar, to license popular characters.

Most firms had moved manufacturing to Asia, where labor was inexpensive, relative to the US and Europe, where the main markets existed. Toys were sold through independent toy stores, chain store, discount store, department stores, as well as the online channel. The business was largely seasonal, with the majority of the sales occurring in the holiday season.

The Lego Group started in rural Denmark in 1916, as a wood furniture workshop, but the owner/carpenter started making wooden toys in 1932. In 1947, the firm added plastic toys to its portfolio, including the brick that was to become the well-known Lego brick today. In 1960 the toy production of wooden toys was discontinued and the firm focused on the classic, interlocking Lego brick, believing that it inspired and challenged a child's imagination and creativity, because it could be combined with other bricks in nearly endless variations By 1967, the company produced bricks in 218 shapes, even though the standardized spacing between studs ensured that all bricks were compatible with one another. The firm also introduced the large DUPLO bricks for children less than 5 years old.

The firm grew steadily and profitably, becoming one of the top 10 global toy companies by 1992. It made up 80% of the "construction toy" market, an undisputed leader in the sector. As a result, the firm continued to aim for steady, even slow growth, believing that their market position and their strategy to only produce the best toys, protected them and also required them to slow down.

Financial Accounting (DKK – Danish Kroner):

2. Do these figures give you confidence in the performance of the firm? Which ones do you feel good about? Which ones cause you discomfort? What do you feel about the ratios? Given that you don't have industry ratios for comparison, focus on the trends – are the trends good or bad? What are the areas of concern?

All figures are in DKK million -sign indicates negative values	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues	9467	9000	9601	6792	6315	7050	7798	8027	9526	11661	16014
Expenses	10145	8142	8795	7902	6252	6582	6393	6556	7522	8659	10899
Profit before Income tax	-1070	521	617	-1498	-1237	456	1281	1414	1852	2887	4889
Net profit	-831	366	326	-935	-1931	505	1290	1028	1352	2204	3718
Total Assets	12280	14093	12560	10049	8089	7689	6907	6009	6496	7788	10972

Labilities	6014	7868	6082	5157	5141	4100	5716	4330	4430	4497	5499
Financial Ratios in %											
Gross margin	N/A	65	70	61	58	58	65	65	67	70	72
Operating Margin	N/A	8	8	-23	-18	6	17	18	22	25	31
Net profit margin	-8.8	4	3	-14	-31	7	16	13	14	19	23
Return on Equity	-13.3	7	5	-17	-47	18	147	72	72	82	85
# of full-time employees	7669	7658	8316	8298	7345	6643	4908	4199	5388	7286	8365

After a turnaround, the company posted a profit of DKK 505 Million on a sales of DKK 7050 Million, even though the overall toy market had seen low growth. The profit was not just due to higher sales but also due to higher cost savings. Further, the firm gained through asset sales (some theme parks), and in 2006, profit tripled to DKK 1430 Million and sales grew to DKK 7823 Million. This was due to increased sales of re-launched classis products like DUPLO™and MINDSTORM™and an improved gross margin and improved operations.

Marketing:

3. Describe and analyze the 4Ps in the marketing mix of the firm. How is the fit among these, and between these and the 4Cs? You can discuss 'Price' in general terms – is it high or low, etc., rather than looking at a specific number. What do you think of the new products the firm introduced – do they fit with the overall strategy of the firm and were they good ideas?

Consumer insights were used as design-driving parameters for new product design, development, and launch. Consumer panels were used for testing ideas, concepts, prototypes, products, etc. Product concepts were co-created with children and parents.

In the 1990s, their fortune turned, as the industry itself became less profitable as mass retailers and chain stores began to dominate the market. Moreover, their competitors had shifted manufacturing to Asia by then, while Lego continued to manufacture in Denmark. This caused the firm's management to change its approach: they began to develop videogame software related to its products; Lego Media was launched to develop media content – movies, TV shows, books; children's clothing and watches; and the Lego Mindstorm^{TM} robotic bricks.

Direct-to-consumer sales channels (Lego stores and online sales) were initiated in order to work with the consumers in places where the brand image could be controlled.

The product line continued to grow, especially with partnerships with movies (such as the Star Wars toy). The DUPLO^{TM}line was redesigned to focus it more on learning than on playing.

While the Star Wars toys were successful, consumers were not happy with the DUPLO^{TM}repositioning. While, the firm still saw a return to profitability in 1999 but returned to losses in 2003.

By 2009, the group tapped into its strong community online of grown-ups, who were extremely loyal fans.

Operations:

4. Analyze the structural and infrastructural decisions the Lego Group has taken with regard to physical, intellectual, and ecosystem resources that are the inputs for the processes of production. You will analyze human resources in the next question. Do you think the decisions they have taken are good and suited to the overall firm, it's strategy, and the context?

All operations planning started with a demand review.

Design responsibilities were entirely carried out at global centers for product development in places like Milan, London, and San Francisco, which were cities that had a reputation for creativity and design. Lego dealt with 11000 suppliers, as product designers often worked with their own suppliers, and costs skyrocketed as designers created new sets without considering costs of production.

Each plastic injection molding machine could product every piece/shape with just a change of mold, leading to high downtime and retooling costs. The product design operation and new products with non-standardized components created complexities in the production system as each component required a separate/new plastic injection mold, and not all the components were standardized and interlocking any more. For example, the top of a car did not easily combine with other bricks. The belief among production employees was that the cost of making an additional mold was low. However, every additional mold affected design, manufacturing, retail, managing inventory, and forecasting. It led to stock outs – if even a single piece was out of stock. The company had more than 3000 different shapes and bricks, and each shape required a new mold. The major stores were frustrated by the stock-outs and the fact that the inventory moved slowly.

There was also a high cost of distribution operations because shippers were in a multi-level distribution network. This created a backlog of orders and inefficiencies in inventory management.

Smaller independent stores that represented 1/3 of revenues took up the same amount of time in their servicing and added extra costs in shipping and inventory management and caused losses.

In 2007-2008, the company moved most of its production back in-house, to sites in E Europe, and Denmark, cancelling its contracts with Flextronics, an Asian manufacturer. They now started to only outsource when they lacked in-house manufacturing capabilities, such as with electronics components.

Org Behavior:

5. What do you think of the organizational culture and the human resource management in the firm? Is this a firm where employees will be motivated and committed to take initiative and perhaps go above and beyond their formally-defined responsibilities to help the firm succeed?

In 1999, a new CFO made many changes to the organizational structure, announcing a plan to cut costs and lay off 10% of the employees.

1. 60 of the top 100 executives were asked to leave
2. A ‘Rotation’ program was initiated – managers were moved around rapidly, staying in one position for only 6-12 months, before moving on to the next job.
3. Good working relationships, collaboration and trust were built and maintained. A psychoanalyst and organizational behaviorist was brought in to train the management team. Meetings would start with people saying how they felt.
4. A family-like atmosphere was maintained.
5. The management tried to create an environment in which people could thrive.

6. There were regular inter-department meetings.
7. The incentives of salespeople were tied to whether their sales exceeded forecasts.