

# Good case study on lego

[Business](#), [Company](#)



## **Executive Summary**

Lego Corporation is one of the oldest toy companies in the world. Its history can be traced back to as early as 1916. It has been largely known for its Lego Bricks, one of the most popular and profitable toys that company has ever released. Recently, however, the company has started to show signs of deterioration, mainly because of laggard growth in the industry and poor sales from its frequently diversified toy products. The objective of this paper is to discuss the different points of analysis applicable to Lego Group's toy division and some alternative options or steps that the company can consider in order to turn things around.

## **Statement of the Problem**

Lego Corporation or simply Lego, the toy division of the larger parent company named Lego Group of companies, has recently appointed a relatively young corporate leader named Jergen Vig Knudstorp as its new chief executive officer (CEO). It is believed that he, considering his young age, has been chosen as the company's next CEO because of his management skills and his potential to introduce new, bright, and potentially revolutionary ideas to Lego Group's toy division which by the way has been experiencing dramatic declines in the past years both in terms of sales volume and revenues from core business operations which most likely involves the manufacture, distribution, and sales of various toy products. Perhaps Lego's most popular product is the Lego brick, a set of plastic bricks under the brand name Lego which are often sold in sets. This toy product captured the attention of a lot of kids which is the company's main market

and has been popular for a considerable number of years. After the Lego brick's undeniable success in the industry, Lego has decided to diversify its portfolio of products and decided to introduce new products into the market. In summary, their new products deviated too much away from its classic identity, the Lego bricks.

Fast forward to today, it can be said that not a lot of their customers—the same ones who liked and religiously bought their Lego bricks, were not pleased by the product portfolio diversification strategy. In the past few years, Lego's financial statement suggests that the company could be in deep trouble if the corporate leaders fail to do something to turn the situation over the next few years. The division's sales and revenues are dwindling and most of the new products they released have been unprofitable. This paper examines the different possible options and chooses some of the best ones that Lego's toy division's management can take in order to save the company from extinction. The process of choosing the options and alternatives will be based on different forms of analysis with SWOT, PEST, and VRIO analysis being one of them.

## **SWOT Analysis**

One of the greatest strengths of the Lego Group's toy manufacturing division is its heritage. For the entire toy industry, including the market consumers, Lego is one of the earliest companies that set the benchmark definition of a toy or what a toy should look like and how it is supposed to be played. Its history in the toy industry can be traced back to 1916. Because of this alone, it can already be considered as a pioneer in the industry and pioneers are often considered as trend setters, that is, if the new trends that they will set,

would be patronized by the market because otherwise, the investments they placed into the process of making those trends work would be useless and unprofitable.

Based on the recent performance of Lego Group, this can be considered as one of their major weaknesses—they are failing to convert their investments, innovation, and diversification efforts into profits and success.

This can, in fact, be considered as a threat—a threat to the existence of the company, as well because if its grim financial outlook continues, there's no telling how soon the company would have to file for a bankruptcy protection or any other drastic measures just to save their assets and not harm the institutional investors and the unnecessary liquidation of a company that is practically almost a hundred years old.

The best opportunity that the company can easily seize is the 4% growth of the worldwide toy industry per year . The fact that the industry where the company operates is still growing at a decent, albeit not at a fast and highly attractive (investment-wise) rate, compared to industry sectors and industries, means that the company still has a chance to turn things around. If they can take advantage of this consistent but small and still significant growth in the toy industry, then the future can still be bright for the company.

## **Financial Analysis**

Reviewing a company's financial statement (includes both the income and the expenses statements) is one of the most accurate and reliable ways to check a company's health financial and investment decisions-wise. Based on Lego Group's financial statement from fiscal year 1995 to 2007, their net

income before taxes and interests has been on a continuous rise from 1995 till 2009. Their 1999 net income which was recorded at approximately 9.8 billion USD appears to be their highest recorded income in the past ten years. Another important thing that should not get past the financial analyst's eyes would be the gradual although non-linear decline in the group's toy division's income from 1999 (the same year it achieved its record high in profits) up to 2004 with the largest declines happening in 2003. The company's profit margin has mostly stayed in the positive territory from 1995 to 2002. It was in 2003 and 2004 that the company posted double digit losses in profit margins. All of the financial indicators we discussed for the financial analysis part of this paper point to the fact that the company is deteriorating sales and financial health-wise.

## **PEST Analysis**

### - Political

Lego Group's corporate headquarters is situated in Denmark. Denmark is a European country that has embraced capitalism when it joined the European Union along with other European country. The Danish government rarely intervenes in the affairs of businesses. However, it makes sense to assume that the government may intervene if a corporation that is too big to fail announces that they are on the brink of bankruptcy. In this aspect, Lego Group should not expect to encounter a lot of problems.

### - Economic

The Lego Group toy division should be more concerned with the macroeconomics of the toy industry. On average, it is expected to grow by 4% year on year, a not so low and a not so high rate. If things continue this

way, the company may still be able to improve its earnings, provided that it will be able to shape up its product lineup based on a new and hopefully a working strategy.

#### - Social

The demographic of the social composition of the PEST analysis is what the company should be most concerned at. This is because the toy industry mainly services a specific segment of the world population only. Mainly, toy companies' earnings are subject to the whims of kids.

#### - Technological

The company should not be too concerned about the technology especially if they are planning to revitalize their old school classic Lego brick toy concept as what other business analysts suggest they do. Moreover, Lego is not really a tech company to begin with and so they should focus more on their core products rather than diversifying in this aspect of their business.

## **VRIO Analysis**

#### - Value

Considering the current market trend which shows consumers leaning towards the tech-based choices when it comes to buying toys, Lego Group's products do not offer much of a value. From a collector and an avid fan of old school toys' perspective, on the other hand, the company's products may still be considered valuable.

#### - Rarity

Lego's products are registered under their name or trademark. In a way, this works like a patent wherein the owner of the brand is the only entity allowed to manufacture and market that particular product. This can be considered

as a plus for the company when it comes to the question of rarity in VRIO analysis.

#### - Imitability

Lego's toy products are not that easy to imitate. This is mainly because of the fact that their toys are hardly technological. In fact, their toy products can be considered old school which is the main factor that makes very easy for startup toy companies to imitate.

#### - Organization

Considering that based on the case, the company has just recently appointed its new CEO, his performance, both market share and financial health of the company-wise would be difficult to evaluate because there are no basis yet. In general, however, Lego Group appears to be a company that has solid fundamentals, which is one of the best indicators that can be used in evaluating the level of organization within the company.

### **Strategic Alternatives**

Option 1: Continue to Invest on New Toy Products and Go with the Market

Trend heading towards more technologically advanced toys

Option 2: Go back to the basics, start downsizing, and start focusing on the products that really helped the company make it to the top of the toy industry (i. e. the Lego Bricks, etc.)

**Option 3: Acquire promising startup toy companies, invest in their products, and make a profit on their core operations.**

Recommendations

Based on the analysis we made and the 3 strategic alternatives we

mentioned, our most recommended option would be option number two because this is the one that offers the least amount of risk with the highest upside potential. Additionally, the company still has not tried this approach. In the past decade, we could actually see the company shifting excessively away from the core products that made it go up to the top; it got too focused on product line diversification.

## **Works Cited**

Rivein, J., S. Thomee and D. Reyersdorfer. "LEGO (A): The Crisis." Harvard Business School (2013).