

The survival of lego in changing environment



This essay aims to provide an insight into LEGO's performance in the UK market and the strategies adopted by LEGO to be acclaimed today as UK's 3rd largest toy seller. Accordingly, a better understanding will be attained from a consumer's perspective in the Toys industry. LEGO a brand which was in shambles in late 2006 stepped up to perform tremendously well during recession - How did LEGO manage to reach where they are today? In the following chapters, a detailed description will be provided on how LEGO set an example for many global brands to follow in a touch economic situation.

2. 0 Company Overview

It all started with one man's vision. A man who believed that good play enriches a child's development - Ole Kirk Christiansen, a carpenter from Billund. He shifted his production from making wooden furniture for local farmers to children's toys, owing to the great depression in the 1930's. 'LEGO' originated from the Danish words leg and godt, which means 'play well'. (Tidd and Bessant, 2009). defines LEGO as "The core product is a rectangular plastic brick, hollow on the inside except for one or more tubes, with rows of studs on the top emblazoned with the tiny LEGO LEGO". (Wiencekk, 1987)

LEGO has a very powerful vision statement of 'Inventing the future of play'. This vision indicates that LEGO is finding new ways of developing games and moving from being just a simple block of 'brick'. They are aware of the changing requirements and attitudes of consumers in a globalised sense. As it claims "It is not just about products, it is about realising the human possibility." (LEGO Group, 2010)

Over the years, the LEGO Group has developed several products under its umbrella extending its products to the digital world as well. LEGO has always known that the Toys and Children's entertainment industry is a difficult business to sustain oneself in as it is constantly faced with new innovations, technological advancements and market entrants. To face this constantly evolving industry, LEGO has invested much of its understanding their consumer's needs and desires. They have studied playing habits, family patterns and housing conditions to gain a deeper knowledge of this market. Another differentiating factor is the belief that has been passed on by generations that have embraced LEGO. The belief that LEGO will remain relevant to children of all ages and all generations. The belief to create a world where children have the freedom to build anything that can never be replaced with cyber experiences. (LEGO Group, 2009)

By the late 90's, LEGO's sales began decreasing. They were challenged by 'low cost good enough' competitors like Megablok, a Canadian Company. Other reason was their prime target audience were shifting to computer games. LEGO was also operating in a high cost economic environment - Denmark- where the supply chains were expensive. Another problem LEGO faced was increasing complex product development - with so many product ranges and different permutations and combinations; manufacturing economically became nearly impossible. All these reasons, led to LEGO running into a \$ 240 million loss. In order to revive LEGO from this situation, the LEGO family invested \$ 178 million and appointed of a new CEO, Jorgen Vig Knudstorp. Under Knudstorp's leadership, LEGO saw a successful transition. In order to correct the situation, LEGO improved their supply

chain, factory locations and enhanced their overall product development strategy. (Tidd and Bessant, 2009)

2. 1 LEGO Financial Overview

Since its foundation in 1932, The Danish Company has great achievements added to its name. However, in 2006, rumours had it that toy industry giant Mattel were going to buy LEGO since it had faced huge losses. But restructuring in management and change in strategy helped LEGO pick up their sales in spite of the recession. In August 2008, LEGO's international sales were reportedly up by 20% in comparison to the year before. In the UK alone, 2007 witnessed a 24% rise in sales as compared to 2006. (MINTEL, 2008)

The latest report that appeared on November 2010 in 'The Times' London edition states that LEGO's sales have picked up by 50 per cent this Christmas season keeping both parents and children happy. (Vine, 2010)

"According to the Guardian, in 2009 the total sales at the UK division based primarily in Slough, Berkshire, leapt 35% – a performance that took LEGO to a record UK market share of 4.1%, up from 3.2% a year ago." (Wood, 2009)

The pre-tax profits rose 68%, which is approximately up by £171.97 million in the first half of 2010. LEGO posts strong sales (The Times, 2010)

LEGO's financial performance during recession was commendable while other Toy industry competitors like Mattel, that reportedly faced a 19% fall in second-quarter sales in spite of housing big brand names like Barbie. (Wood, 2009)

3. 0 Consumer Behaviour theories applied to LEGO

From the above, it is clear that LEGO has had a successful track record during recession. In this section, a deeper understanding will be attained on how LEGO was immune to the recession by placing their consumers in the heart of their business and understanding their requirements. To achieve this, three theories have been shortlisted they are namely

Buying Decision Making Process

Attitude Formation and Change

Consumer Identity and Reference Groups

3. 1 Buying Decision Making Process

In order to understand, how LEGO survived through the economic downturn, it is important to interpret the buying behaviour of consumers in the Toys industry. By understanding the dynamics of buying behaviour, successful insights can be drawn to help identify the gap between the consumer and company.

In complex decision making process where one is faced with other competitors, there are 6 stages to the decision making process. The 6 stages are namely:

3. 1. 1 Problem Recognition (awareness of need)

Problem Recognition is the difference between the actual state of mind and the desired state of mind (Solomon, 2009). In other words, it is the process of recognising the need or desire to own a particular product. Given below

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are some reasons why consumers felt the need for LEGO over other products.

Need for learning though play

Parents being one of the prime target audiences in this industry also play a major role in the buying behavior process. LEGO appeals to this market as it has the element of 'creative play' and parents are assured that it is not a waste of time as compared to watching television or spending time on Facebook. Parents therefore would choose to buy LEGO as they want their children to learn while they play. Something that most other toys or video games have failed to achieve (MINTEL, 2008).

Need for retro products during recession

Another interesting point to note is how consumers chose retro products during times of crisis due to its established legacy. During recession, parents actually found the need to invest in products that are of high quality and are long lasting in nature as opposed to just purchasing a cheap toy. Gerrick Johnson, toy-industry analyst at BMO Capital Markets made a comment stating that "In tough economic times, you'll often see retro products come back. Parents spend money on stuff they know works. Rather than going to Disney World or on a trip, you get a \$30 LEGO set." (Faris, 2010)

Need for up-to date toys and gadgets

During a time when their prime target audience were more inclined towards computer games, LEGO constantly kept innovating and updating their offerings to suit the needs of this market that is faced by such rapid growth and evolution.

The company steadily launched new products which resulted in three-quarters of its yearly sales. In 2000, the British Association of Toy Retailers along with Fortune magazine voted LEGO as “ the toy of the century.” (Oliver et al., 2007)

Recognizing the need to enter the video game market, LEGO created its own software group providing children the opportunity to create their own animation for PC and gaming consoles (R. Duane Ireland, 2009). Therefore people chose LEGO as it had extended its offerings to a medium where most of its consumers lived - the virtual world.

3. 1. 2 Information search

When it comes to seeking information on which toys you would prefer your children to play with, there are several factors that play a role. From an internal search perspective, memory and nostalgia could be key determinants whereas word of mouth, friends, relatives etc. could be external search factors that dominate your purchase decision (Soloman, 2009)

The market for children’s toys and games is a substantial one -A £2. 1 billion market for children’s toys and games, this is a lucrative industry with several competitors. In such a case, information search becomes even more complex (MINTEL, 2008).

What adds on to the complexity is the ranging age groups and diversity in toys from simple board games to more sophisticated toys for older kids up to adulthood. LEGO belongs to the range of ‘ Activity Toys’ which incorporates certain level of creativity and makes playing an enriching experience. Other

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toys in this range are Meccano and magnetic building kits as well as arts and crafts products (MINTEL, 2008).

3. 1. 3. Evaluation of Alternatives

At this stage, consumers evaluate the alternatives that have been shortlisted after their information search. Rankings, personal preferences, listings, word of mouth to name a few, are determinants while evaluating alternatives.

Today LEGO is the fourth-largest toy manufacturer after Mattel, Bandai-Namco, Hasbro and the fifth position held by TOMY-Takara (LEGO Group, 2009). In the case of activity toys like LEGO, consumers would potentially ask these questions. Does the product benefit my child learning ability? Is the product safe and of supreme quality?

Mc Donalds's once used LEGO in the USA as a part of one their sales promotion campaign. 37 billion bricks were distributed over four weeks out of which only a dozen complaints were received (Harris and McDonald, 2004). These sorts of cases help a consumer who is looking for top quality decide that he/she wants to purchase LEGO over other toys.

3. 1. 4 Purchase decision

In order to achieve competitive advantage and take the final purchase decision, LEGO pays a lot of attention to their product, packaging, online store etc. In a Danish newspaper – Jyllands- Posten, an article was published on the safety of LEGO. Each individual block has a hole to ensure that if a child swallows a brick, the child would not choke as air could still pass though (Harris and McDonald, 2004). Therefore a consumer, who has safety

as criteria, would decide to buy LEGO as the makers have taken care of this aspect.

3. 1. 5 Purchase

This decision is based upon the time lapse and product availability. In 2004, LEGO sales began dropping massively. Poor customer service and unavailability of products were additions to their dilemma. During this time, customers were faced with many other alternatives. LEGO could not afford to lose out on customers in the big-box world. LEGO then improved on their supply-chain management and aimed to align its innovation capability. It also started online sales where customised products could be designed and purchased too (Oliver et al., 2007).

3. 1. 6 Post-Purchase Evaluation:

When LEGO was voted as Marketer of the Year in 2009, one of the comments by a user from Dallas commented “ I have to vote LEGO-for continuing to provide a top-quality product in line with their brand, staying relevant and using new technologies to create new customer experiences in a kids’ toy market that’s moving away from brands with a “ low-tech” heritage. This is a company that inspires others to a higher standard. Who can vote for a company that continues to drive quality down to get to a cheaper price? (Creamer, 2009). These testimonials prove that consumers overall have been happy after purchasing the product.

3. 2 Attitude formation and change

One of the aspects involved in the psychological factor of the decision making process, is attitudes. These attitudes are either formed on

experience or interaction with other people. An attitude of a consumer towards a firm and its products tends to have a great influence in the firm's marketing strategy (Soloman, 2009).

3. 2. 1 Efforts made by LEGO to track attitudes

For strategic decision making that is driven by insights, it is essential to track attitudes. It could be tracking changes in different age groups, scenarios about future, identify emerging trends etc (Soloman, 2009). LEGO has realised the importance of tracking changing attitudes and the following findings can be drawn in this regard:

Scenarios about future

One of the most significant changes that LEGO has taken up this decade is that it has begun listening to its consumers and their changing attitudes. In today's social networking era, it is highly essential to monitor behaviour and attitudes. It was through the efforts made by LEGO on social media, that they realised their fan base was not just limited to children but adults too. Courtesy the 'AFOL' community - Adult Fans of LEGO - LEGO now has some specialist ambassadors who communicate with them and provide feedback. LEGO also involves these ambassadors in their product development. They began monitoring blogs and got a deeper understanding on culture, desires of both potential and existing consumers and changed their strategy accordingly. It was through this initiative that LEGO decided to make sets based on movies like 'Star Wars' or 'Indiana Jones' and now these deals make up more than half of their sales (Advertising Age, 2009).

By doing so LEGO gets inputs from probably the most loyal customer base and thus address unhappy customers or fill any gaps in the market place. These insights drove their strategy and helped them survive in an atmosphere where the only words heard off were lay-offs and losses. LEGO is one such example of a brand that has benefitted by working in partnership with their consumers and predicting the future (Garfield, 2007).

Changes in different age groups

LEGO has a very ambitious mission statement of 'each and every child in the world to own one cubic metre of LEGO bricks'. (Harris and McDonald, 2004) Children globally are treated the same by marketers no matter which culture they belong to. However, even if they are treated the same their attitudes may differ due to their upbringing and external environment. Though most of the concept and product development occurs in the Billund headquarters, LEGO has trends watching department in their offices in Munich, Los Angeles and Tokyo. Infact, to ensure that LEGO is an international product that suits ever child needs, the creative team is composed of 120 designers - 15 different nationalities (LEGO Group, 2009).

3. 2. 3 Star Power: Celebrities as Communications Sources

The source of the message - the celebrity in this case can have a huge impact on the image of a brand and its sales. Messages tend to have a greater effect when there is a relation between the celebrity and product. Human beings tend to pay more attention when they see familiar faces as opposed to ordinary faces, thereby interpreting and processing the information more effectively (Soloman, 2009).

People tend to associate characteristics of a person's personality, social status, and gender, to that of the brand. When David Beckham confessed in an interview that if he wasn't a footballer his dream pastime would be building with LEGO blocks, it set the LEGO sales roaring. In just one day of business, the father of three inspired the sales of 5, 922- Taj Mahal set (The Sun, 2010). Parents formulate the core buyers of this segment - six in ten have bought from five or more of the listed categories of toys or games in the past 12 months (MINTEL, 2008). After all, if a star figure like Beckham has spoken, why wouldn't parents try mantling Taj Mahal together.

3. 3 Consumer Identity and Reference Groups

Any individual or group that acts a point of comparison of values, opinions, attitude or behaviour towards a product is a reference group (Soloman, 2009). In case of LEGO, there are several reference groups. LEGO has a combination of logic and creativity that enhances a child's learning and ability to solve problems. Owing to this factor, LEGO has been popularly used as creative play tool in institutions and schools i. e; formal reference groups (LEGO Group, 2009).

3. 3. 1 Effect of Gender on Consumer Behaviour

Gender is a crucial element in consumer behaviour. A boy may perceive different things from a girl. This can be proven with an example of how LEGO researched playing habits amongst boys and. The findings were that girls were more likely to build living areas while boys built cars. LEGO introduced a new version of its product for girls called ' Paradise' which emphasized around " socially oriented structures" such as homes, pools etc (Soloman, 2009).

3. 3. 2 Baby Boomers and the role of nostalgia in buying decision making process

Baby Boomers are those who are above the age of 29 and have a significant influence on demands for housing, child care etc (Soloman, 2010). LEGO has evolved from a box of bricks that baby boomers grew up to a more diverse product. However, the positive feeling attached with having played with LEGO has passed on through at least three generations. (Oliver et al., 2007)

Therefore, one may ask how much role does nostalgia play in triggering what baby boomers and generation X buy as toys for their children? Retro favourites are gaining popularity owing to the fact that they have provided real quality and value over time, and one of the reasons all these new fans have emerged is through nostalgia. According to the (Telegraph, 2010), LEGO has performed well in recession as parents due to nostalgia have shifted to trusted brands. Parents don't intend to buy toys that their children would throw aside in months, instead they would rather invest in toys that children of all generations would go back to.

3. 3. 3 Children Pester power v/s parent power

Pester Power is a term used to define a child's influence over the parent in the buying process (Turner et al, 2006). According to Turner, children can be easily influenced by advertising and marketers use this as a medium to entice children to nag and purchase the product of their desire.

“ The key factors that influences a child's pestering behaviour is the family type, family communication pattern, the person accompanying the child to shopping, intent of going for shopping and advertising.” (Venkatesh and

Ghai, 2010). According to the report by Mintel, 2008, “ Although adults are the primary purchasers, kids are the ultimate arbiters of success and failure across much of the market – nearly four in ten parents cannot say no to their kids.

LEGO partnered with Kellogg’s in 2007 to create LEGO brick shaped candy called ‘ Fun Snacks’. This created hype amongst parents as they had spent valuable amount of their time telling their children not to swallow LEGO bricks. LEGO went on to the extent of advertising in between children’s TV shows, placing the product at the bottom of the shelf spaces in order to make it accessible for children; thereby making children nag for ‘ Fun Snacks’ (Franziska_NDT, 2010)

4. 0 Conclusion

On the whole, LEGO has adopted the right measures to ‘ immune’ itself to the market, no matter how the economic situation is. Given below are few recommendations and discussions with regards to LEGO.

Discussion/ Recommendations:

1. With LEGO factory – LEGO’s online design portal- is a gateway to 300, 000 designers worldwide. By doing so, LEGO can get critical reviews on their products and help improve their offerings (Tidd and Bessant, 2009). LEGO could conduct an annual conference or workshop, whereby all these designers meet up and brain storm with key designers and managers on how to improve LEGO and keep up with changing trends.

2. Christmas accounts for around half of the year’s sales for LEGO. Keeping this in mind, LEGO should launch their new products or special Christmas

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edition toys as nearly seven in ten consumers buy toys and games for Christmas. (MINTEL. 2008) And after all, who would refuse the latest Christmas edition of LEGO?

3. An emerging trend is gifting new born toys - up from 13% in 2003 to 26% now. Considering this trend, LEGO could launch its own collection of 'teether' toys meant for new born. This could range from a simple brick soft chewy toy to its very own Harry potter collection for newborns.

4. Phone applications seem to be the next big trend that is picking up. LEGO already has its own Star Wars LEGO I phone game version. LEGO must continue entering markets where gaming is a hype.

5. LEGO should push the product more using the 'scientific' connection. According to (Turkle and Smith, 2009) playing with LEGO helps children enhance their problem solving and discovery skills. This makes a child think in a scientific, problem recognition and solving approach that most engineers, scientist and designers use. Turkle claims that the toys that children play with have a great impact on their future careers. Some children may try and create unrealistic structures, while some may follow instructions, some keep their constructed sets as awards while some just break them; different children behave differently with LEGO. However, each role play is good to identify traits about your children and which direction they are progressing towards.

6 Most of LEGO consumers are not price sensitive. They buy LEGO because of the brand and the quality. As a consumer, you can either buy the simple bricks or a special version of LEGO to add it to your collection. Therefore,

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LEGO can afford to release a premium end version of the toys that are suitable to kids that belong to rich households.

8. LEGO for grey market- Research has shown that playing with LEGO for an hour or two can help old people fight memory loss and problems that occur due to degeneration like dementia and Alzheimer's disease. It makes your mind active, while your fingers are still moving.

9. The idea of having Brand Ambassadors who use their network pool to get insights and inputs from consumers is one of LEGO's strongest strategies. LEGO fans discuss, review and suggest new ideas for LEGO on the AFOL community which helps LEGO look into the future and improve their capabilities.

“ LEGO has managed to create a consumer experience that combines technology, mass customization and community — to enhance and build relevance for its classic toy offering.” (Tidd and Bessant, 2009). Indeed, LEGO has managed to keep up its legacy and set a great example for many international and global companies.