

# Lego faces increasing competition marketing essay



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We used many methods in this research and all of them can be taken in the university and the lecturers lesson, which were quite popular. The most important thing that we used is analysis the market. It was very important to understand about business environment of the firm. Our tools include 5 FORCES, PEST, and SWOT. In addition, we used many books, journal articles and material from lectures Learning Resource of Bedfordshire University to gain more knowledge and theories of strategic management. Moreover, we also used some sources on the internet to find news about LEGO and information that relevant to case study. All of them will supply in reference part in this report.

### **Limitation:**

### **LEGO company:**

### **General information about LEGO group:**

The company LEGO is one of the most famous corporations in the world when it engages towards children's toys and has developed since 1932. The LEGO Group is headquartered in Billund, Denmark and it was owned by Kirk Kristiansen family. And it focuses on a key element in growth, development of children's creativity via playing and learning by assembling LEGO brick. Nowadays, the company provides their products in more than 130 countries with approximately 10, 000 employees worldwide. In 1949, their brick has taken an adventure. Over the years, the LEGO brick became more perfect and then it was adjusted a little bit in shape, design and color. Today's brick has 2, 400 different types and have multitude of ways to combine them together so it's not only attractive, creative and fun for children but also becoming a challenge for adults.

**Current trends:**

Over the last 70 years, LEGO have had an evolution process, keeping step with the market's demands and the consumer's desires. The traditional toys are the constructions brick, creative building by unlocking LEGO brick which were developed in 1958. In 1977, gears, gearbox and many kind of stuffs were added for children to develop vehicles or other complex machines. After this era, LEGO had a big jump on developing their toys by combining between classic toys with robot technology, so children can able make for themselves an intelligent LEGO model.

And now, The LEGO group's core activities are innovation, development, marketing and sell play materials. According to Annual report of LEGO group (2011), the sales of traditional toys in USA have a little bit decrease. In Southern Europe, market sales decrease sharply while Asia and the rest of Europe also have higher growth rates. Generally, many people prefer modern products to traditional products. So the sales of traditional toys decreased in 2011 in total.

The latest product line of LEGO group is LEGO Ninjago. It is a combination of classic toys and so-called spinners were established at the beginning of 2011, beyond expectation s and become the biggest product in company history. Besides, other LEGO toys are also on the best-selling list such as: LEGO City, LEGO Star Wars and so son. In sum, " It is a highly satisfactory result reflecting a solid growth in profit. Growth in the North American market continued undiminished, and also in most European and Asian markets we were able to report double digit increases in sales," (2011) says Jorgen Vig Knudstorp, LEGO Group CEO.

## **PEST and SWOT analyses:**

### **PEST analysis:**

### **SWOT analysis:**

Lego - 5 Forces:

Threat of new entrants:

+ Strong and large distribution network required. If the company does not have a strong distribution networks enough, they will have to pay a lot of money to transport and move their product around, and in some cases their product will not get to the end customers or the stores.

+ High Capital: In order to enter the market, there are the requirements for substantial high level of investment. LEGO - The Company has to spend a lot of money in order to compete when they come to the market in the first time.

+ The Brand name of the LEGO Company is very important, this is one way to compete when the company is entering the market, then other competitors in the market will also have to improve the brand value in order to compete effectively.

+ Advanced technologies: This is one of the barriers that bring many difficulties to new entrants and competitors when they come into the market. All technologies have to be developed, and then the company will have opportunities to compete with others in the market.

+ Geographic factor: Existing competitors already have good place and location to allocate their factory and stores within the market. This is really a challenge for new comers and entrants, they will have a competitive disadvantage and they will have to compete with each other to have a really good place to have their store, department or factory in order to run the business and compete.

Threat of substitutes:

+ The pressure will very high, Substitutes come from the entire toy industry. Substitutes are everything, such as computer games or traditional toys, even outdoors sports. Children will get bored very fast, so they com switch to substitute.

+ A lower quality product will be the reason why customers don't like to switch from LEGO to another product.

Level of rivalry:

+ LEGO company occupies a strong position in the large Toy industries with a few rivals. The company has a strong brand loyalty and brand name among customers; the company also provide high quality of product and charge it in premium price. Lego also has advantages with parents because parents will allow their children play with traditional toy instead of spend their children's playtime with video games or watching TVs.

- Power of buyers:

+ The pressure of the customers is very high, with switching cost between alternative traditional toys and other substitutes such as computer games or TVs.

+ The Toy products will be very important to customers, if it is in good quality and acceptable price such as LEGO toys, the customer will be loyal to the company and willing to spend money.

- Power of suppliers:

+ Most of the LEGO products are making from plastic, then there will be a diverse distribution, the company will not have to base on one supplier.

<http://www.oxbridgewriters.com/essays/estate-management/lego-strategic-analysis.php>

- Opportunities:

+ Many new types of materials and factors such as from movies and films to improve Lego toys. For example: Toys can base on famous movies in the world such as Star War, the Avengers, Spiderman and so on.

+ LEGO main markets are Europe and USA, however the company has chance to open in many new market all over the world, for example Asia, South America and also some countries in Africa.

- Threats:

+ Nowadays, modern technologies are improving and developing very fast, some children are likely prefer watching TVs or playing computer games with

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colourful and imaginative scene rather than play traditional toys like LEGO bricks. The substitutes of modern technologies in toy industries are very strong and will affect the company business.

+Some countries are very poor, and then almost people cannot handle and will not spend too much money to buy a toy. For example: some countries in Africa.

<http://www.retailgazette.co.uk/articles/00040-lego-uk-retail-sales-up-48>

PESTEL Analysis :

- POLITICAL :

In order to enter the market easily and without any problems, Lego company has to be aware of the political situation and other issues related to the political sector. There will be many advantages if the political environment change the rule that relate to the Lego company's operations.

- Economic :

The Toy educational industry is developing and can be seen to be economically stable in the past few years. The economy is improving well so the LEGO company also improve their products to gain the best for their customers. The LEGO company not only improve economic of the domestic market but also the external market in all over the world. For example, the US market has big opportunities to LEGO and other toy companies.

- Social :

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LEGO company is trying to develop and launch the products to the market and make sure that their products will be accepted by the community and public. The company also want their services are in good relationship with many kind of customers in some factors of the society.

- Technological:

This is one important force in the Toy industry. In order to have new innovations and good product, LEGO Company also has and improving new technologies, also this is the way to compete with many other strong competitors in the market. LEGO Company makes sure they are updated to what happening in case to adjust the changes.

- Legal:

In order not to lose the customers welfare and the company name, LEGO company doesn't want to risk by breaking the laws in local or international markets. Then, all LEGO companies are making sure that they follow all the rules and laws of the market where their transactions are operating in.

Environmental :

Lego company is trying to make their products that they sell are proven to cause minimal problems to the environment. The company also introduced some strategies that aim to decline pollutants and create a good environment. The company also invested a huge amount of money in waste system to protect the environment near company's factories.



## **Defining problems:**

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#### LEGO Faces Increasing Competition

Although of the LEGO Company's successes, analysts realized that the company's environment would change, and in the past 15 years it has some challenges due to:

Increasing of the Digital World: growth in electronic games, digital toys and much software make competition harder

Faster Child Development: Nowadays children grow up faster, it make the global market for construction toys is restricted because of their changing play patterns.

Fashion Trends in the Toy Industry: fashions of toys go out and in more rapidly and sometime a few products can make or break annual turnover of the company.

Dependence on Famous Global Mega-Brands: In response to fashion trends, toy manufacturers design offerings based on a concept or story (e. g., Star Wars) and several companies offer all toys related to the similar concept (Harry Potter, Spiderman).

Downturns in country's economies can lead to a reduction in sales of LEGO products.

The reaction of Lego Company to these changes is combining innovation with market adaptation. They released new digital toys (e. g., LEGO

MINDSTORMS™, LEGO SPYBOTICS™). It created virtual communities to support users and cross-sell to them. They divide their business into each unit, including LEGO Interactive (computer-based play materials) and LEGO Direct (catalogue sales). They concentrated expanded into life-style products, opened new theme parks (in the U. S., UK, and Germany), and cooperated with other famous global brands such as Lucas Films, Disney, Microsoft, and Warner Brothers to develop new product concepts.

Compare and contrast with main competitor < Mega Bloks >

Using Porter's strategies framework, we can see that Mega Bloks is a cost leader because they have increased profits through reducing cost by using different quality of materials to make their products, while Lego uses a much higher quality resources to make toys, This act is a reason why Lego cost of products much higher than Mega Bloks, It lead to Mega Bloks gains more market share and take many profits.

By researching, Mega Bloks had found new segmentation, which now is number one seller

in the preschool market.

In the past, products of Lego are focused on narrow scope because the target customer mainly from 7 to 12 years old.

By changing, now Lego more focuses on differentiation on a broad scope by targeting more than one market. Lego needs to concentrate in long term innovative products, this way still take its competitive advantage in the market as being the creator of toys that help develop new skills and learning.

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Like the first edition, Lego bricks make children more creative thinking and imagination. It was critical for the management team to identify where to expand Lego's product channels and business operations, in order to develop a competitive strategy to continue the organization's financial success and dominance in the building toy market in the future

## **Solutions:**

After face with many problems in market Lego should have clear strategy

+Strategy with social communication online:

Having a strong community is very important for Lego company so Lego company should research more initiatives, both offline and online, to increase react with children and their parent. Children like Lego toys however their parent are person who will pay for all of this. While children can pay \$70 a years for Lego, adults may spend more than \$900 per years. So how to persuade and make them reliable our product also a task for Lego.

Use an online database for parents where they can react with other family and its make a community of parents who appreciate the value of creative, endless ideas, or how to learning fun and effective. In there (web, forum, site...) Lego can provide information, knowledge how to develop children's creative, imagine through their game by professors and analyst. Passionate parents may be provided much useful content or lesson from this and it make Lego become regular topic in family.

+ Strategy with investment and capital:

To make different with another competitors and reliable for customer also demonstrate Lego's reputation, Lego can open restaurant with the main theme is Lego world. In some countries, there are few opportunities for kids and their parent approach Lego game, so restaurant can be the way to introduce products also make more profits from other services, not only from sale toys. Restaurant provides new trend, innovation point for customers. Brands value, creative are sent to potential customer by a chain of systems connect with restaurant's unique such as new concept theme, dining area, kids play area , rooms with decoration are toy's style, small museum ...All of those are new experience for customers who are fans or not.

To attractive more attention and reduce competitive, Lego can use cuckoo strategy. The strategy of the cuckoo allows developing its business by pressing it on that of an iconic leader. Many company used this strategy before. Lego should corporate with famous brands in game industry like Nintendo, EA to expand range of customer and market share and may be Lego can receive capital from this industry to also introduce their products in Lego's markets.

Invest more in line of products. Always change style, concept to suitable with customer in each country. Find cheaper material to produce and avoid bad effect to environment. Research how to combine new technology and toys .

## **Conclusion:**