

A case study of lego



**ASSIGN
BUSTER**

Introduction

Lego is the sixth largest toy manufacturer for children. Its main product consists of colourful interlocking plastic bricks which can be assembled to construct objects such as vehicles, building etc.

The concept of LEGO was engineered by Ole Kirk Christensen a carpenter from Denmark, who began making wooden toys.

- In 1934, the companies name LEGO was established
- In 1940 LEGO started producing plastic toys.
- LEGO in Danish means “ Play Well”.
- LEGO’s mission statement is “ Only the best is good enough”.

LEGO (2008) states “ It is LEGO philosophy that “ good play” enriches a child’s life – and its subsequent adulthood. With this in mind, the LEGO Group has developed and marketed a wide range of products, all founded on the same basic philosophy of learning and developing – through play.”

The LEGO Brick pieces that were made in 1958 will still interlock with the bricks that are made today. LEGO estimate’s that it has sold over 400 billion LEGO Bricks since its start.

This case study analysis looks at The LEGO Groups strategic direction and the battle of the block makers in particular Mega Bloks. The case study has been summarised for clear understanding of the issues raised.

Summary

LEGO is one of the top toy manufacturers' in the world. Its interlocking plastic bricks have made the company a sensation for the world's most innovative toy creators through learning and developing while playing.

Each year LEGO produces 14 Billion plastic bricks to distribute around the world for children to play with. Until Mega Bloks arrival LEGO had a competitive advantage as the only toy maker of interlocking plastic bricks. Mega Blocks as its major competitor challenged this by introducing similar products as LEGO.

Mega Bloks who are based in Montreal, Canada makes interlocking plastic bricks that cost less than LEGO products. LEGO however, believes that the high quality of its product justifies its prices, because it uses a higher quality of resin which is found in paints and vanishes. Mega Blok however uses commodity-grade resin.

LEGO is still the most popular plastic brick toys with the 7 to 12 year old segment of the market, however Mega Bloks is gaining its market share through the preschool market. The Mega Blok toys are larger and softer compared to the Lego products, users of the toys think Mega Bloks toys are easier for younger children to play with. In response to this, LEGO introduced the Duplo Line of oversized blocks made from the same material as its original design.

Mega Blok also introduced a new line called Micro which is aimed at 7 to 12 year olds or immediate school set. This new line is interchangeable with the LEGO line. LEGO took Mega Blok to Court in Canada over the issue that Mega

Block had copied its brick design, however the Court ruled that the brick design is functional and entitled to trademark protection.

Mega Bloks sales doubled between 2000 to 2003. Lego reported its first loss ever of \$44 million in 1988. LEGO was at serious risk of losing its core brick market to Mega Bloks if it did not come up with a strategy to deal with the problem of how to regain the market share it was losing to Mega Blok. LEGO chose to call for new sources of growth beyond the core block category. This solution gave them a new line of original robot action figures known as “Bionicles”. The Bionicles were LEGO’s best seller in 2003 which led to a direct to DVD animated feature which was released by Miramax. Lego also formed alliances with Walt Disney Company and Lucasfilms, the creator of Star Wars. LEGO had its own Harry Potter play sets which in 2003 LEGO were left with millions of dollars of unsold products. This was relatively blamed on the retail situation and the dollar’s weakness compared to the Danish Krone. In 2003 LEGO posted a loss of 166 million. LEGO, in a desperate aim to regain profits, unveiled a wide range of new products aiming at the preschool market and a new range aimed at young girls.

Questions

What is the most important decision currently facing Kjeld Kirk Kirstiansen?

Ole Kirk Christiansen created LEGO which was popular in 1934 when there was no other product similar available. However LEGO did not recognise the changing environment and the changes to the needs and wants of consumers. One of the most important decisions facing Lego/ Kjeld Kirk Kirstiansen is deciding who its main market is and how to target that market,

using data to conduct a segmentation of the different needs and wants of that market and become the leading toy seller again.

In 2004, LEGO continued its entertainment promotional and product tie-ins with the new Harry Potter and Spiderman movies. Do you think this was the right strategy?

With LEGO reporting a loss in 2003 and with evidence that the sales of Harry Potter play sets going down, this was not the right strategic decision. Harry Potter movies go in and out of fashion, they are only popular while the movies are popular. Choosing to stick to a product that is popular all season would have been the better option for LEGO. This reflects the need to have a strategy that will be successful in the long term, which will be a competitive advantage, rather than fill its temporary demand.

An example is LEGO's Mindstorms Robotics Invention system which allows users to build computer-controlled creatures. This fulfils LEGO's philosophy that the users of its product play while learning because the users are controlling the creature they creative, which uses the child's creative thinking rather having a action figure that has already been created and has limited use in regards to improving the creative thinking of the child in terms of building and making the product.

Mega Bloks is a cost leader because they have increased profits through reducing cost by using different quality of materials to make their products then LEGO, who uses a much higher quality resources to make its products, which in turn will increase their cost, making their products much higher in price than Mega Bloks. Therefore Mega Bloks gains a bigger market share.

<https://assignbuster.com/a-case-study-of-lego/>

Mega Bloks through research had found a niche, in which it is now the number one seller, in the preschool market. They developed bricks that are larger and softer which makes them easier and safer to play with according to parents. Mega Bloks introduced new line of bricks for 7 to 12 years of age which can be interchanged with LEGO bricks.

LEGO before Mega Bloks arrived was more differentiation focused on the narrow scope because it mainly targeted one market. 7 to 12 year old.

LEGO now focuses on differentiation on a broad scope by targeting more than one market. For example the preschool market.

LEGO is trying to be popular through having movie action figures for example Harry Potter play sets which sales for this went down whereas the Harry Potter movie was still popular. LEGO needs to focus more on long term innovative products that way it can still keep its competitive advantage in the market place as being the creator of toys that help develop learning and new skills. As the original LEGO bricks did where children would make objects with the bricks which involves using the children's creative thinking and imagination.

Conclusion

Lego was founded by Ole Kirk Christiansen who a carpenter began making wooden toys. In 1934, the companies name LEGO was established. Lego is the sixth largest toy manufacturer for children. Its main product consists of colourful interlocking plastic bricks which can be assembled to construct objects such as vehicles, building etc.

LEGO (2008) states “ It is LEGO philosophy that “ good play” enriches a child’s life - and its subsequent adulthood. With this in mind, the LEGO Group has developed and marketed a wide range of products, all founded on the same basic philosophy of learning and developing - through play.”

Mega Bloks challenged LEGO brick market by having similar products as LEGO but targeting a new market, the preschool market.

Mega Bloks products are also cheaper to purchase then LEGO because Mega Blok uses commodity grade resin where LEGO uses a much higher quality resin which is why LEGO is more expensive then Mega Bloks.

Through many ups and down of LEGO, it had to make strategic decisions on what it wanted for its future and where they wanted to see themselves in the toy market.

The solution varied but what it needs to do is keep in mind their philosophy and make innovated products that will help the children learn and develop new skills while playing.