

Improvising, Adapting, Overcoming

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Name: Andria Atalla

As children, physical toys were the only option available for us. And of course, those toys include the Lego blocks that we built our childhood from. As we were playing with those bricks, Lego has been building its own sets of strategies to present us with its best sets. In 1993, it was the first time that Lego started generating constant revenue until 1998, the year when it went through its first loss. Lego started going back on track by “thinking around the box”, which started by implementing “disruptive innovation” by totally diverting from bricks. As a result of this being a dysfunctional strategy, Lego’s end was becoming more approachable according to its executive vice president<sup>[5]</sup>. But as we see today, Lego didn’t reach this point. On the other hand, it has stressed on its expansion world-wide while introducing newer themes. This recovery wouldn’t have been possible without innovation.

## **What is Lego?**

In 1932, Ole Kirk Kristiansen, who was the owner of a small carpentry that failed in providing wooden supplies, transitioned to making wooden toys. After succeeding in the selling of the toys, Ole bought an injection-molding machine and started to create plastic toys, which were successful too. It wasn’t until 1958 when Lego started selling brick toys. The company was named ‘Lego’ as an abbreviation for the Danish words ‘leg godt’ meaning “play well” and meaning “I put together” in Latin.

<b>Mission</b>	Inspire and develop the builders of tomorrow	
<b>Aspiration</b>	Globalize and innovate the LEGO System in Play	
<b>Promises</b>	<b>Play Promise</b> Joy of building, Pride of Creation	<b>Partner Promise</b> Mutual value creation
	<b>Planet Promise</b> Positive impact	<b>People Promise</b> Succeed together
<b>Spirit</b>	Only the best is good enough	
<b>Values</b>	Imagination - Creativity - Fun - Learning - Caring - Quality	

Picture from: <https://www.lego.com>

A list of attributes that Lego believes that plant in their customers.

However, those aren’t only words. Lego’s ‘spirit’ statement has been proven throughout the ups and downs that it encountered. Not only did Lego succeed bringing fun to its products, but Lego has been successful in embedding its products in creativity fields such as robotics and interior design.

## **Lego’s Ups and Downs.**

Lego’s profit has been flourishing since it started producing its plastic bricks: its profit has been on a constant increase. This came to an end in 1993, when the company’s profit margin remained like that of the previous year. Lego was seeing that as a problem until 1998, when the company

reported its first ever loss by £23 million. This has led to the layoff of 1000 employees. Unfortunately, Lego's strategies to overcome the obstacles weren't leading to any better. The company's revenue was still in downfall until 2004.

Lego, like many other companies, focuses on increasing its revenue. In 1993, the company reached its natural growth cycle. To keep the company growing, Lego decided to triple its production rate, which also implies that its cost increases. The main issue that Lego wasn't conscious of was that the sales weren't increasing. In 1998, Lego recorded its first ever loss.

Since 1998 and until 2004, Lego was innovating by "thinking outside the box", which eventually led to higher loss for Lego. The most infamous product of this type of innovation was Galidor, which was based on the diversion from the Lego's main brick-on-brick matter and adopting the videogame and TV shows style. This not only has cost Lego money, but time in which it could have invested in overcoming their problem. The company later moved on to "innovating inside the brick", which is when Lego decided to include well-known themes in their sets. The most common of those sets were Lego Star Wars which was introduced in 1999 and Lego Harry Potter which was introduced in 2000.

Although innovating inside the brick by including those common themes helped save the company from sinking, it wasn't solving the company's problem: consumers were just buying the products because of interest in the movies and not the Lego concept itself. Additionally, once a movie grew old, the interest in the set dropped. The company started regaining its profits since introducing those themes. But later in 2003, the company went back to generating loss again, but at a higher scale this time. In 2004, Lego recorded a loss of £174 million<sup>[5]</sup> which was the greatest loss it ever recorded. CEO Kjeld Kirk Kristiansen decided to step down to a company's new president, mentioning, "Maybe I'm not the right person to lead this company in the next generation." Poul Plougmann came in as the new president of the company and decided that it was time to study the market and its consumers.

Plougmann saw that more powerful competitors have been entering the market, including Toys "R" Us and Walmart. Additionally, he saw that companies have moved their production to China in order to decrease manufacturing costs. And since 2004, Lego has been manufacturing in Mexico. Plougmann also realized that children became smarter to pick their toys. Lego didn't only stop by lowering its costs but moved on and implemented a plan to increase their revenue: "innovating around the box". Innovating around the box mainly consists of keeping the same concept but adding more to it. In the case of Lego, they returned to the old brick themes and how old sets would add to new ones and form a collection. As much as this seemed to be simple, it was what the consumers wanted.

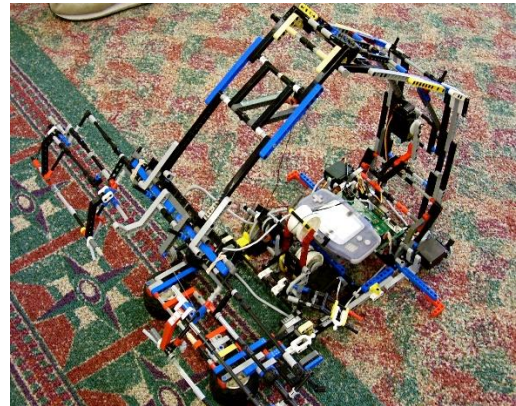
Lego's innovation around the box didn't stop there. Not only were there brick sets, but Lego moved on to create a series of digital platforms to target a wider range of interests. Those applications include a social-networking platform where users can share their experiences with Lego sets and play on mobile and online space. Another example would be crowdsourcing design, where users could come out with designs that the company could use to increase its innovation. Last but not the least was the incorporation of coding in the Lego sets for children to

bring their creations to life. The latter has not only been successful for children through Lego Boost, but Lego Technic has been a well-known theme for creating large robots with advanced features. One of the most popular competitions world-wide for robotics, known as Botball, inspires Lego Technic and uses Lego as material for building their robots.



Picture from:  
<https://www.cnet.com/videos/you-can-actually-drive-this-full-size-lego-car/>

An example of how Lego “thinking outside the box”



Picture from:  
<http://web.mit.edu/johnrom/www/design/botball/>

A Botball robot

## **Where is Lego Now?**

After Lego jumped out of its crisis in 2006, they reached a revenue of £717 million, which was an 11% increase relative to the previous year. And 11 years later, the company reached a revenue of £4.45 billion. During those 11 years, Lego’s revenue has been in a constant increase, earning the title of highest revenue-earning toy company after Mattel<sup>[6]</sup>. But in 2017, the company’s revenue dropped and consequently, Lego let go of 1400 of its employees.

According to the CEO of Lego Niels B. Christiansen, the company is now trying to become “more imaginative and innovative”. Sales in Europe and North America had been declining, while likes of China and North Africa had been increasing. Additionally, Lego’s CEO explicitly stressed that Lego is now trying to “marry the digital world”, which had been clear through implementing Lego Dimensions.

## **Analysis:**

Since 1932, Lego has been going through a series of product and process innovations. The first innovation that Lego took was when they transitioned from the use of wood to the use of plastic. This is an example process innovation, where Lego kept the concept of toys, but changed it from wood to plastic. This has been successful, since plastic could handle more heat and force than wood.

Another innovation is when Lego started to create bricks. It wasn't until 5 years later when the bricks were produced as the right material wasn't found yet (i.e. ABS polymer).<sup>[4]</sup> Therefore, this is considered a product innovation, as Lego completely transitioned from normal plastic toys to bricks. The following two innovations had been the most significant in Lego's history, because until this day, they are used.

Between the end of the 90s and today, Lego has been mostly concerned with innovation for the sake of maintaining the company's survival. The first is when Lego completely made a radical product innovation to remove the 'brick concept' and make toys such as Galidor. Not only there were no bricks, but TV shows and video games were developed. This has made a loss for Lego, and therefore, deemed as unsuccessful strategies. But once again, Lego decided to include themes such as Star Wars and Harry Potter. This process innovation has been temporarily successful, as it only lasts until the movies became old.

When Kjeld Kirk Kristiansen resigned, and Plougmann came in lead, Lego decided to think around the box, which is a process innovation again. They brought back their old themes and created new sets to add to the previous ones. Apparently, this is what the customers have been looking for, and has deemed to be successful with the £717 million increase in revenue.

Today, it has been clear that Lego is doing more product innovation when they are trying to root themselves in the movie and videogame industry. The value of such innovations is yet to be determined, as the world is transitioning to the digital industry.

Information systems has allowed Lego to keep track of the revenues and costs. In addition to its financial matters, information systems could be used to anticipate Lego's profits in the coming years based on its natural growth cycles.

## **Lego = Apple of toys?**

There are many aspects that a company could be compared to Apple to: market share wise, innovation wise, revenue wise, quality wise, reputation wise, etc. According to the financial report in 2017, Lego's brand value is more worth than the sum of the next 9 toy companies<sup>[7]</sup>. This reminds us of the trillion-dollar company Apple. Additionally, Lego's reputation has been the best recently, as it generates the highest revenue between toy companies since 2012. Lego's has done its best, to present its people with high quality and design brick sets: something Apple doesn't fail at doing when it comes to product quality.

Innovation is the one difference between Apple and Lego. Apple has been known for implementing incremental innovation on its products (except for the iPod since it was discontinued). Starting from the first Macintosh, Apple still produces them until to this day. On the other hand, with the first obstacle that Lego hit, they demolished the idea of the brick and moved to other techniques to provide toys. Although this is a point of difference between Lego and Apple, they both have a similarity of "thinking around the box". For example, Apple had reached a point where every new iPhone model has a very minor difference to the one before it. Same thing with Lego, brick sets now has been almost identical to previous ones with minor

extra touches. On the other hand, Lego is going through a phase where radical innovation is possible since trying to “marry the digital world”. This could not be as successful, as many expressed bittersweet feelings about its newest movie (i.e. The Lego Movie 2)

## **Conclusion**

Throughout the years, Lego has been successful in achieving its mission, especially with the car and robot creations. Through ups and downs they have been through, but innovation has always been the key to bringing them up again. Today, Lego remains on top of the list when it comes to the most innovative companies in the world. Not only is Lego strong when it comes to innovation, but Lego has been almost the only company that produces brick toys world-wide. This leaves customers to have no choice but appeal for it when it comes to improving child creativity and the creation of mega structures. If toy companies are to learn one thing from Lego, it is the ability to make your product different and special from other competitors. This could be done by doing the market research like Plougmann did in order to see what the customers are looking for.

Now, Lego is going back to focus on digital development like they did in the early 2000s. Unfortunately, all what children are looking for today is the digital market. So, if Lego wants to survive, they need to adapt to this reality. One of the ways that Lego could adapt to that is joining the virtual reality world. This is a strong idea, since the toy market has been falling, which include one of the largest retailers Toys ‘R’ Us.

If it is one thing that Lego should be known for after its toys, it will be its journey improvising adapting and overcoming...

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