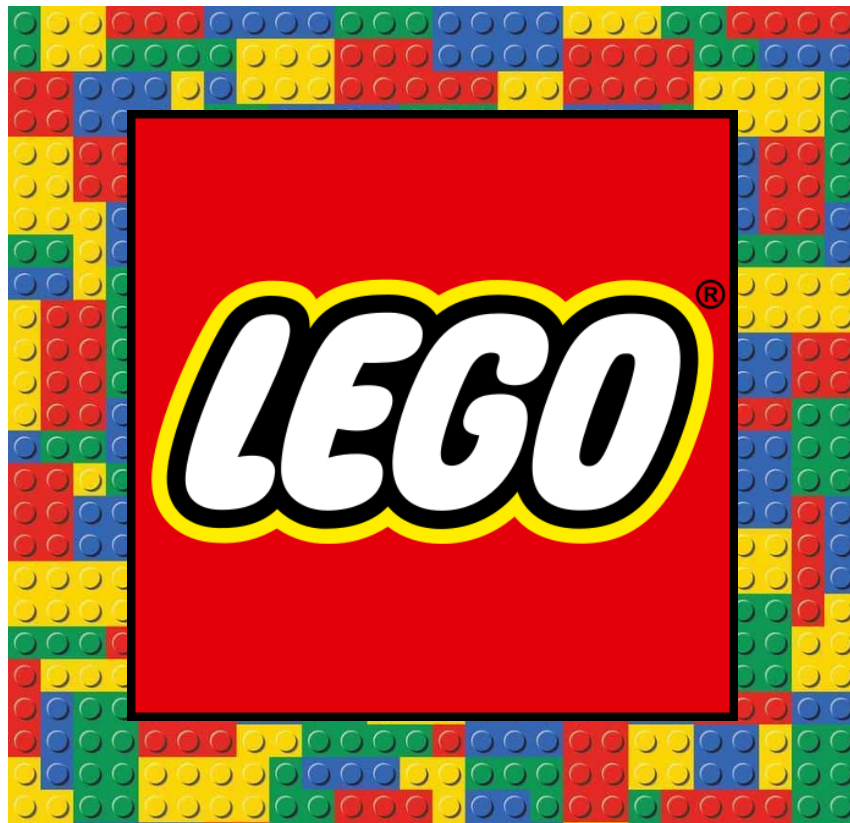


**2022**

# **LEGO: A Strategic Analysis**



**PRESENTED BY:  
LUKE KLIMENT**

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# Connection to LEGO

Like individuals all over the world, LEGO toys played a meaningful and memorable part of my childhood. From birthdays to Christmas to anything in between, many fond memories from childhood involve the little, interlocking Danish bricks.

Come adulthood, I have found LEGO as a mindless pastime, distracting from the commotion of day-to-day life in a world consumed by technology and social media. More specifically, as I have continued my journey through the Kelley School of Business, I have been intrigued by the opportunities to apply course-related topics – be it in finance, accounting, management, etc. – to my favorite, real-life company: LEGO.

## My Audience

My goal is to ultimately share this report with my fellow members of Brickset.com! At the very least, I plan on sharing my work with site founder, Mr. Huw Millington, along with a great acquaintance I had the pleasure to meet through the site (and with whom I have conducted many LEGO transactions!), Mr. Menard of New York.

Additionally, I will be sending my final report to my first boss, Mr. H.R. Anderson of the Chicago suburbs. It was under his tutelage that I was reintroduced to LEGO – this time from a collector's perspective – through buying, selling, and trading LEGO as my first job at his local collectibles shop when I just 16 years old.



# Background and Overview of LEGO

With humble beginnings as a wooden toy manufacturer in 1930s Denmark, LEGO has grown to become the world's largest toy producer<sup>2</sup>, known for its iconic plastic interlocking stud and tube system, aka the LEGO brick. Since its inception, LEGO has strived to serve not just as a toy, but as an educational tool to improve the lives of children all over the world. Over the years, LEGO has extended its customer reach by acquiring rights to 3rd party licenses – such as Star Wars, Indiana Jones, Harry Potter, and Marvel. In addition to its iconic plastic bricks, LEGO has diversified its product portfolio with offerings like video games, movies, magazines, and robotic elements.

## LEGO Values



### Imagination

Answering "Why?" and "What if?" to make dreams a reality



### Learning

Promoting the continuous education of children by way of fostering new ways of thinking



### Creativity

Discovering new, innovative ideas



### Caring

Creating a positive impact on the lives of children



### Fun

Being active and entertained while striving to achieve your best



### Quality

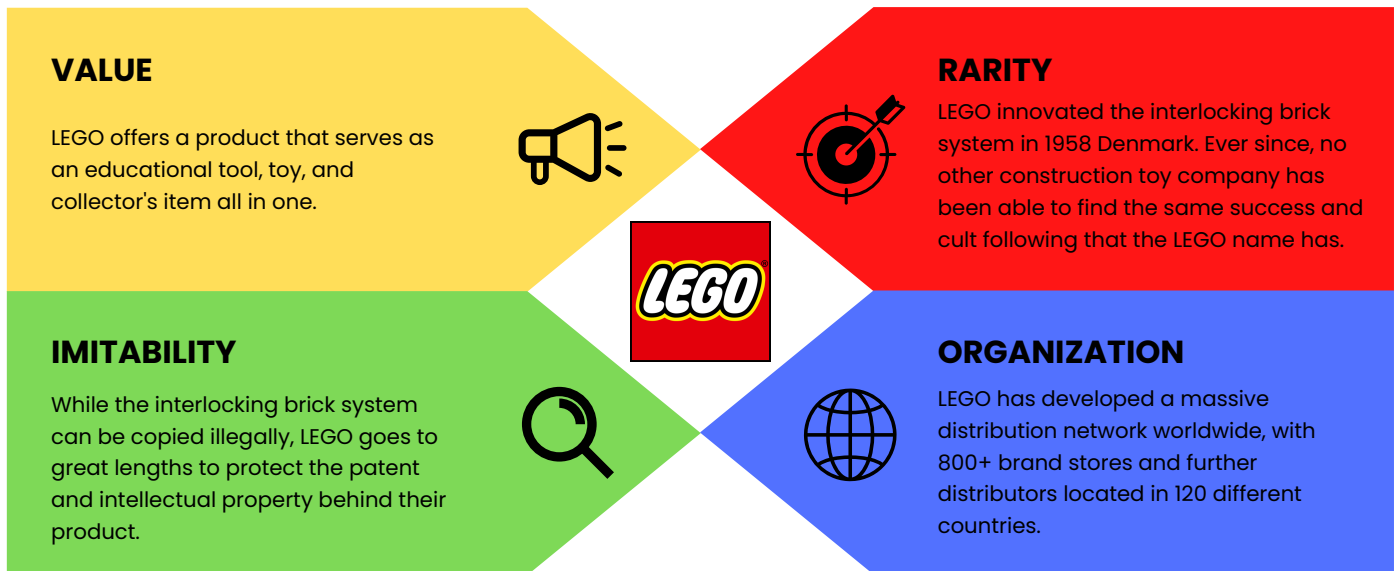
Providing the absolute best products and experiences to children



<sup>2</sup> - "LEGO becomes world's biggest toymaker." A. Petroff, CNN, 4 Sep 2014. <https://money.cnn.com/2014/09/04/news/companies/lego-biggest-toymaker/index.html>

<sup>3</sup> - "The LEGO Brand Values." <https://www.lego.com/en-us/aboutus/lego-group/the-lego-brand>

# VRIO AUDIT



- **Value:** While LEGO is not exactly known for decreasing prices (quite the contrary actually), its product remains multi-faceted and multipurpose. Not only does LEGO appeal to children, but thanks in large part to the element of childhood nostalgia, LEGO has been able to roll out \$500+ priced sets aimed at adult collectors looking to expand on their childhood passion, further increasing the brand's perceived value.
- **Rarity:** LEGO has been, and continues to be, copied by other brands, but the name "LEGO" carries great weight with it – a weight which no copycat firm can match. As a matter of fact, in 2017 LEGO was named by Business Insider as the most powerful brand in the world, ahead of firms including Google, Apple, and Ferrari<sup>4</sup>.
- **Imitability:** As prior mentioned, the concept that LEGO developed with its interlocking plastic brick system is frequently copied by outside firms. However, imitating LEGO as a brand is very costly, as LEGO has proven they will take no prisoners when it comes to firms copying their set designs or infringing on its trademarks (i.e. minifigures)<sup>5</sup>. In other words, while the actual brick *design* may not be costly to imitate, the *laws* protecting LEGO as a brand make it very costly to imitate.
- **Organized to Capture Value:** Along with an extremely powerful brand name, LEGO has developed a massive distribution network extending well over half the globe. Similarly, LEGO controls a sprawling manufacturing network, with factories in Denmark, the Czech Republic, Hungary, Mexico, China, and Vietnam, and construction currently underway for a seventh factory in Chesterfield County, Virginia<sup>6</sup>.



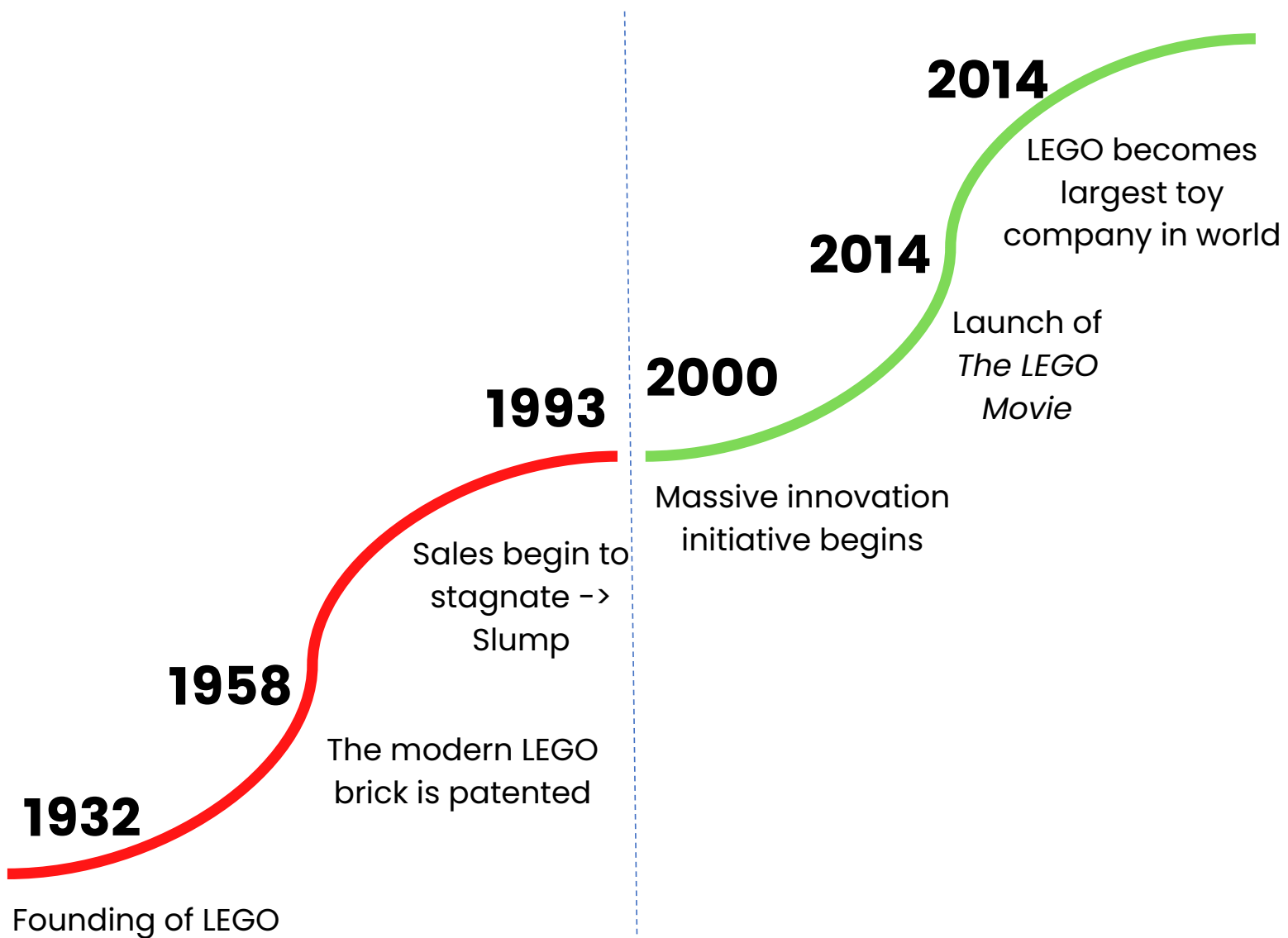
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<sup>4</sup> - "The 10 most powerful brands in the world." J. Rath, Business Insider, 25 Feb 2017. <https://www.businessinsider.com/the-worlds-10-most-powerful-brands-2017-2>

<sup>5</sup> - "The LEGO Group wins final decisions in..." The LEGO Group, 19 Jan 2020. <https://www.lego.com/en-us/aboutus/news/2020/january/lepin-case>

<sup>6</sup> - "The LEGO Group to build..." The LEGO Group, 15 Jun 2022. <https://www.lego.com/en-il/aboutus/news/2022/june/the-lego-group-to-build-us-1-billion-carbon-neutral-run-factory-in-virginia-usa>

# S-CURVES



While it could be argued that LEGO has undergone many small S-Curves in its life, the firm's 90 year history can be broadly defined by 2 major S-Curves. Following its founding by Ole Kirk Kristiansen as a wooden toy brand in 1932, LEGO bricks as we know them today – with their interlocking, modular style – were patented in late January 1958<sup>7</sup>. By 1993 however, sales began to slump, prompting LEGO to undergo a massive innovation overhaul by 2000<sup>5</sup>. Following a period of financial hardships (and near bankruptcy in 2003), LEGO revamped their cost structure, improved funding sources, and ultimately learned to capitalize off its strongest segments<sup>8</sup>. With the launch of *The LEGO Movie* in 2014, the LEGO Group received a revived interest from both children and adults alike, eventually becoming the largest toymaker in the world by September 2014<sup>2</sup>. The firm has yet to look back, as LEGO has continued to expand its product portfolio, embracing technological advances through its app development and robotics implementation, in addition to new product lines targeted specifically at adults.



<sup>7</sup> - "The LEGO Group History." <https://www.lego.com/en-us/history/>

<sup>8</sup> - "Innovation Almost Bankrupted LEGO – Until It Rebuilt with a Better Blueprint." Knowledge at Wharton, 18 Jul 2012.

<https://knowledge.wharton.upenn.edu/article/innovation-almost-bankrupted-lego-until-it-rebuilt-with-a-better-blueprint/>

# Value Stick

## Willingness to Pay



As it continues to grow its brand and portfolio offerings, LEGO has created a massive willingness to pay. Not only do LEGO sets, parts, and minifigures command impressive prices at retail, but their aftermarket value has made them a significant store of value for many, increasing consumers' willingness to cough up big dollar amounts for the plastic toys when they are still available in stores. Similarly, LEGO has begun consciously targeting the excess income of adults, introducing notably sleeker, more mature box art and 18+ labels for its display-oriented products. LEGO has also continued to recognize the value of its licensed products, further increasing the audience it can appeal to by acquiring new IPs.

## Price



In 2007, LEGO released its first \$500 USD set with 10179 Ultimate Collectors Series *Millennium Falcon*. In 2022 alone, 4 different sets equaled or surpassed that \$500 threshold<sup>9</sup>! Is this due strictly to inflation? No – the sets themselves are becoming increasingly larger (dimensions- and piece count-wise) while the price-per-piece (PPP) has remained relatively stable<sup>10</sup>. By rolling out more exclusive sets with higher price tags, LEGO has found a solid pattern of revenues through its higher-end sets, while at the same time maintaining its North Star focused on – above all else – children.

## Cost



Even with its impressive supply chain, LEGO still relies on the input of raw materials to produce its plastic bricks and other products. So, as issues in the supply chain increase (raw material prices, freight costs, energy, etc.), LEGO's costs increase as well. However, the firm has been able to utilize its free cash flows and revenues to offset the change in prices<sup>11</sup>.

## Willingness to Sell

Given the extreme popularity of LEGO and the resulting sales it attracts, the willingness to sell of suppliers remains low as they recognize the long-term benefits of maintaining LEGO as a strategic partner and buyer.



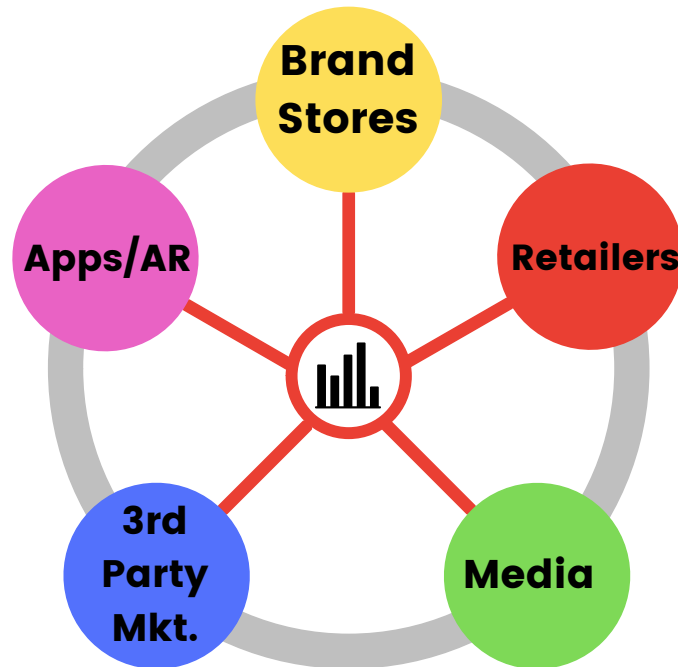
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<sup>9</sup> - "Most Expensive LEGO Sets." Brick Economy. <https://www.brickeconomy.com/sets/top/most-expensive-lego-sets>

<sup>10</sup> - "Has LEGO become more expensive?" H. Millington, Brickset, 12 Aug 2022. <https://brickset.com/article/80205/has-lego-become-more-expensive>

<sup>11</sup> - "The LEGO Group delivers top line growth..." The LEGO Group, 28 Sep 2022 <https://www.lego.com/en-gb/aboutus/news/2022/september/the-lego-group-delivers-top-line-growth-in-h1-2022-while-accelerating-strategic-growth-initiatives>

# Strategic Omnichannel



As the brand name and reputation of LEGO has grown over the years, the firm has steadily integrated its products into cross-platform channels, through both internal and external parties.



**Brand Stores:** Located in almost 50 countries, LEGO surpassed 800 brand stores total during the first half of 2022 with the opening of 66 new flagship stores<sup>12</sup>.

**Retailers:** Being offered in countless storefronts across the globe, LEGO has licensed distributors, the biggest of which (in the United States) include Target, Walmart, Amazon, and Barnes and Noble.

**Media:** While the massive success of 2014's *The LEGO Movie* has brought LEGO films and TV shows into a new era and magnitude, short films and Direct-to-Video movies were one facet of LEGO's dramatic business model overhaul beginning in 2000 with the 2001 release of *Jack Stone* (although the Jack Stone line's failure itself is widely considered by fans as one of the contemporaneous harbingers of LEGO's near bankruptcy in 2003).

**Third Party Marketplaces:** In 2019, LEGO acquired Bricklink – the largest third party marketplace of new and used LEGO<sup>12</sup>. This move indicates an acknowledgement by LEGO on the value to be captured in the aftermarket for its products.

**Apps / Augmented Reality:** Another major omnichannel LEGO has broken into is the blending of its physical products with virtual platforms. In 2019, LEGO introduced its "Hidden Side" line, which used Augmented Reality to seamlessly add to the physical, hands-on experience of children playing with the sets. Furthermore, LEGO retired its longstanding robotics theme, "Mindstorms," in favor of a greater emphasis on its more recently unveiled line, "SPIKE Prime" in late 2022<sup>13</sup>.



<sup>12</sup> - "The LEGO Group acquires BrickLink..." The LEGO Group, 25 Nov 2019. <https://www.lego.com/en-us/aboutus/news/2019/november/lego-bricklink>

<sup>13</sup> - "LEGO Mindstorms to be discontinued." H. Millington, Brickset, 26 Oct 2022. <https://brickset.com/article/84219/lego-mindstorms-to-be-discontinued>



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### Note:

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