

Strategic Analysis of LEGO

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1. Introduction

LEGO is a Danish company founded 87 years ago in 1932 and is owned by Ole Kirk Christiansen and has headquarters in Billund, Denmark (Lego, 2020; Forbes, 2019). The word “LEGO” has been derived from the Danish word “LEg GOdt” which means “play well”. The company produces toys that mostly include interlocking toy bricks (Lego, 2020). The LEGO company became the world’s biggest toy company by revenue in the first half of the year 2015 (Wang, 2017). The company has 42 offices as of 2017 (Wang, 2017) and has a revenue of 36.4 billion, a net income of 8.1 billion as of 2018 and has 17,534 employees currently working as of 2019 (Forbes, 2019). The LEGO Group has also build parks worldwide and has discovery centers known as Legoland and a LEGO Foundation (Lego, 2020).

2. Porter’s Five Forces

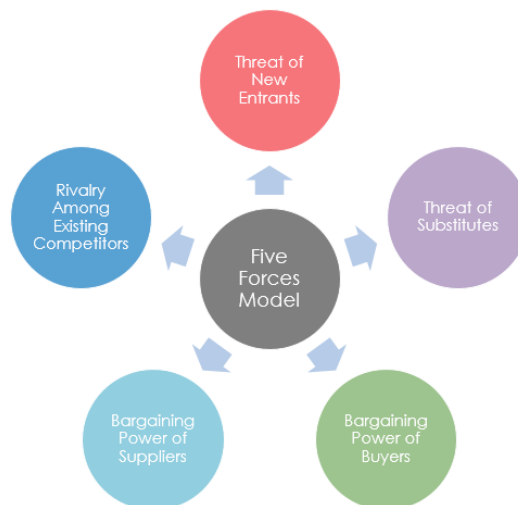


Figure 1. (Visual-paradigm, 2020)

2.1 Threat of New Entrants

The external macro factors that influence the threat of entry are socio-cultural, economic and technological factors since the entrance of new, innovated and advanced technological toys into the market by Walmart, Target and Toy “R” Us posit a threat to LEGO and have impacted the economy of LEGO in the past (Logue, 2014). Therefore, the threat of entry is greater for LEGO (Logue, 2014). Moreover, piracy is an issue since replicas of LEGO’s products have been sold at low cost by small firms which is an additional threat (Constantinou, 2018). Moreover, innovation and trends in the media industry are advancing on a daily basis. Home entertainments have impacted the company as it affected the company’s marketing, distribution cost, licensing cost and legal cost. Due to these factors and the production of repetitive products, the choice of consumers changed which resulted in the form of loss and a decrease in sales in 2017 (Scribner, 2018). The company has been following an innovative approach in order to fight its competitors and gain competitive advantage. Innovation is the major factor that causes and drives the environmental changes in the company (Prakash, Dingus and Siddiq, 2017). The company is in a state of flux as innovation is not a constant factor as other factors such as low price products, high tech products also posit threat to an organisation.

2.2 Bargaining Power of Suppliers

The Chinese subcontractors are the primary suppliers of LEGO and they supply to other industries as well which lowers their dependence on LEGO (Mellone et al., 2018). Moreover, Bayer AG is another supplier of LEGO which provides LEGO with the plastic meanwhile, ABS is also considered as the primary ingredient for the LEGO (Constantinou, L., 2018). Therefore, the suppliers drive the changes in prices in the company as the prices of raw materials and changes in

oil prices can impact the profitability of LEGO which are economic factors of the company. Therefore, it can be deduced that supplier bargaining power is high and can become a threat to LEGO as suppliers can also change their focus from LEGO to its rivals anytime (Mellone et al., 2018). The change in prices demanded by suppliers is maintained by LEGO to retain the suppliers' product quality and the budget as well (Logue, 2014). LEGO is in a state of flux as the demand for suppliers keeps changing from time to time.

2.3 Bargaining Power of Buyers

The repetitive production of the same type of bricks impacted the bargaining power of buyers which impacted the economic factor of LEGO to greater extent (BBC News, 2018). Moreover, LEGO uses different retailers as its major distributors for its products which makes these distributors the main buyer of its products. Retailers have changed the prices and delivery times which influenced the company in the past (Logue, 2014). Therefore, the bargaining power of buyers has impacted the profitability of the company (Mellone et al., 2018). To minimise this threat, the company has changed its pricing policies for maintaining reasonable prices and for retaining customers. Moreover, the company has changed its promotional strategies to restrict its customers from buying from its rivals. The company decides its prices with each region and according to statistical, currency exchange rate costs, transportation costs. Taxes and local laws being the legal forces also impact the prices for each region set by the company. The company has no influence over these services and hence the prices keep changing (Lego, 2020)

2.4 Threat of Substitutes

The socio-cultural and technological factors also impact the substitution factor as kids now have started using digital gadgets more which has impacted the sales of the company (Constantinou, 2018). The company has now started using technology is producing technologically advanced products which are the causes of driving technological change in the company (Prakash, Dingus and Siddiq, 2017). However, the threat of substitutes always exists as standard technology to manufacture quality products will keep changing. Moreover, substitutes can be in the form of sports and extracurricular activities. Therefore, it can be asserted that threats of substitutes can stay moderate and does not incline too high if the organisation approach is also inclined towards continuous development and technology.

2.5 Rivalry among Existing Competitors

The major competitors for LEGO are Mattel, Bandai NAMCO, Hasbro and Takra Tomy which can impact the economical factor of LEGO due to low switching cost and producing more choices for consumers to select from a wide range of products (Constantinou, 2018). Moreover, Sony and Nintendo are digital competitors for the company. These are the factors that became the causes and drive changes in LEGO which resulted in a low threat of competitors for LEGO as the company established a loyal consumer base and changed its pricing policy (Mellone et al., 2018). Moreover, the company has identified its value generation through competition (Constantinou, 2018).

After analysing Porter's five forces, the lack of innovation is the most critical factor that has impacted the core activities of LEGO in the past. Therefore it can also be identified as the key issue of the company and has also resulted in a major drop in sales due to lack of innovation and

production of repetitive products. As a result of the lack of innovation, the company had to fire its 8% employees and shed 1400 jobs after facing a drop major drop in revenue in 2017 i.e. for the first time 13 years. The revenue fell by 5% in the first half of the year 2017. The revenue years (the US \$2.4 billion) DKK 37.9 billion from 2007 to 2016. The signs were emerging since the year 2015 as the revenue slowed from 25% in the same year to 6% in 2016 (Knowledge@Wharton, 2017). This innovation factor requires greater attention from LEGO over other issues as it has impacted the sales and profitability of the company in the past and can impact in the coming years.

3. Evaluation of LEGO's ability to Sustain Advantage

LEGO is considered as a global brand that has developed itself over the long term and is universally well-known (Andersen and Ross, 2016). However, the overproduction of products and downsizing of employees has limited LEGO in gaining competitive advantage in the toy market (El Sawy et al., 2016). Furthermore, LEGO can gain a competitive advantage in the toy market by creating innovative and elaborated products adhering to the current taste of children. Similarly, with the implementation of cost-saving restructuring in the organisation, LEGO still possesses a wide range of LEGO brick colours and shapes which are made available to the consumers. Furthermore, LEGO also has special machines that manufacture a certain type of LEGO bricks which enables the organisation to decrease the amount of cost and time required and increase the overall capacity of production (Wang, 2017). Therefore, the use of good quality raw materials and specialised equipment would enable LEGO to provide a variety of needs and demands of the consumers. By analysing the significant resources, history, and brand prestige of LEGO it can be identified that the company is ahead of its competitors (Ringen, 2015). Therefore, being an experienced organisation in the toy industry and having an established position as a sustainable

corporation has allowed LEGO to gain an advantage by acquiring consumers and a wide range of customer base (Roos and Victor, 2018). Therefore, to analyse the ability of LEGO in sustaining advantage the study applied the framework of value chain analysis and VRIO analysis.

4. Value Chain Analysis of LEGO

The study applied the use of the value of the chain because it identifies the internal activities in which the firm is engaged during the transformation of inputs into outputs. According to the study of Zamora (2016) the value chain analysis is known as a process in which an organisation is encouraged to recognise and classify its support and primary activities which provides value to the final product. Similarly, as per the study of Narvadez, Sarahadi and Sobrevega (2017) the value chain analysis analyses the primary activities for the reduction of cost or to escalate differentiation. Furthermore, the study of Purcell et al. (2017) also states that the value chain analysis is an effective strategic tool that can be used to identify and analyse the internal activities of the organisation. Therefore, the study applied the use of value chain analysis to identify the most valuable and improved activities of LEGO to gain competitive advantage. Furthermore, the value chain analysis is effective in analysing the competitive advantages and disadvantages of the organisation. Similarly, the study of Rosales et al. (2017) highlights that the organisations competing with differentiation and cost advantage are more likely to perform their activities better than their competitors.

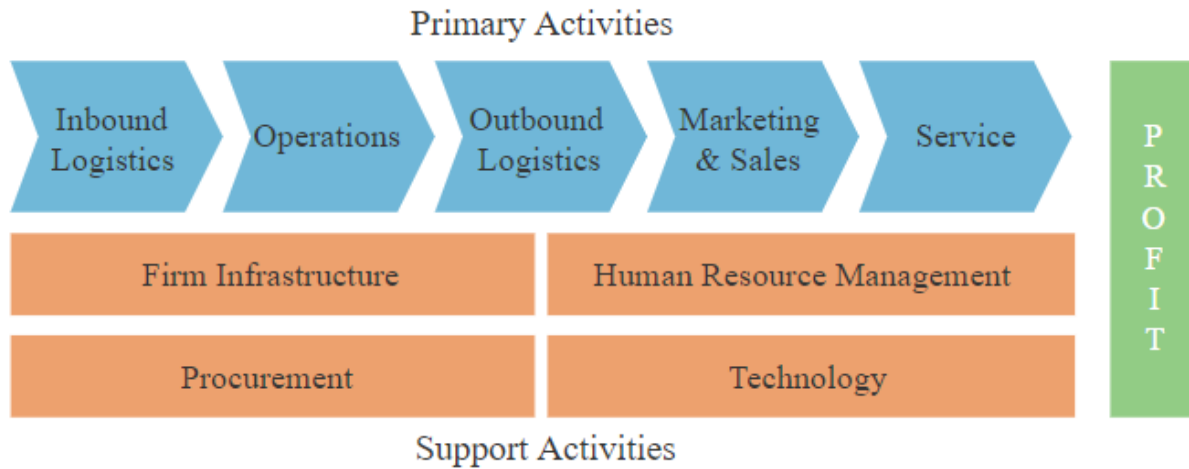


Figure 2. Porter's Value Chain Analysis (Source: strategicmanagementinsight.com)

Primary Activities	Competitive Implication	Affected By crisis	Secondary Activities	Competitive Implication	Affected by crisis
Inbound Logistics	High	No	Firm Infrastructure	Normal	Yes
Operations	High	Yes	Human Resource Development	Normal	Yes
Outbound Logistics	High	No	Technology Development	High	No
Marketing and Sales	High	Yes	Procurement	Normal	No
Service	High	No			

4.1 Primary Activities

4.1.1 Inbound Logistics

The inbound logistics of LEGO are not expected to suffer from any blockage which might obstruct their process of production. Furthermore, the raw materials of LEGO are also supplied by Bayer AG a German chemical company that provides quality material to the organisation. Furthermore, future raw material can also be influenced because LEGO is planning to use environmentally friendly products to ensure environmental sustainability (Elsted Hansen, 2016).

4.1.2 Operations

LEGO was having trouble meeting the demands with their production capabilities causing difficulties in their operations. Therefore, to ensure smooth operations LEGO ensured to use the analytical approach from advanced IT and software packages. Furthermore, the company also adheres to the legislations of the European Union which ensures credibility to LEGO in maintaining its market position. Safety and quality standards are also a core focus in the operations of LEGO (Botoric, 2015).

4.1.3 Outbound Logistics

The outbound logistics of LEGO uses the large hub centres which are situated closer to the retailers that appropriately control inventory and create lesser shortages of stock. The retailers who placed their orders earlier are also provided with discounts from LEGO. Furthermore, the LEGO works closely with its retailers for its management of inventory (Cerezo-Narváez et al., 2019).

4.1.4 Marketing and Sales

The marketing and sales of LEGO were affected because of the issues with the innovation which lead to a decline in sales. However, the strategic partnership of LEGO with Warner Bros and Lucas Films provided assistance and key marketing to LEGO during the sales crisis. LEGO also uses the pricing strategy of selling the best goods at higher prices. However, the competitors of LEGO offer products at a much cheaper price (Elsted Hansen, 2016).

4.1.5 Service

LEGO provides various services to individuals and children across the globe by offering local community engagement in which the employees of LEGO volunteer to support the needy children. LEGO also hosts initiatives such as build the change and RE: code to children for an interactive learning experience. LEGO has also partnered with UNICEF for the empowerment of children through creativity and learning (Lego, 2020).

4.2 Secondary Activities

4.2.1 Firm Infrastructure

Due to the lower levels of innovation in the organisation the infrastructure of LEGO was damaged. The organisation reduced 10% of its employees because of decreased sales and production of lesser innovative products. However, the effective management of the infrastructure activities allowed LEGO to regain competitive positioning in the market (Dobrynskaya and Kishilova, 2018).

4.2.2 Human Resource Management

Effective human resource management allowed LEGO to improve the motivation, skills, and commitment levels of its workforce. The human resource department of LEGO was affected the most due to the issue caused in the company because the organisation is dependent on the talent of its workforce (Dobrynskaya and Kishilova, 2018).

4.2.3 Technology Development

The crisis on LEGO caused the development and improvement of technology in the organisation. LEGO utilises effective technology for its research and development to initiate innovation (Dobrynskaya and Kishilova, 2018).

4.2.4 Procurement

The procurement process of LEGO remained unaffected because of its partnership with different suppliers of raw materials which optimised the inbound and outbound activities of the firm (Dobrynskaya and Kishilova, 2018).

5. VRIO Analysis of LEGO

The VRIO analysis is known as a tool of strategic planning used by the firms which enable them to make effective business decisions. According to the study of Knott (2015), the VRIO analysis is integral in determining the information regarding the competitive advantage of the organisation. Furthermore, the study of Song and Sung (2015) also identifies that the VRIO is also effective because of internal analysis which is used to recognise and assess the resources present

in an organisation. Furthermore, the VRIO analysis was effective for the study to evaluate the competitive advantage of LEGO.

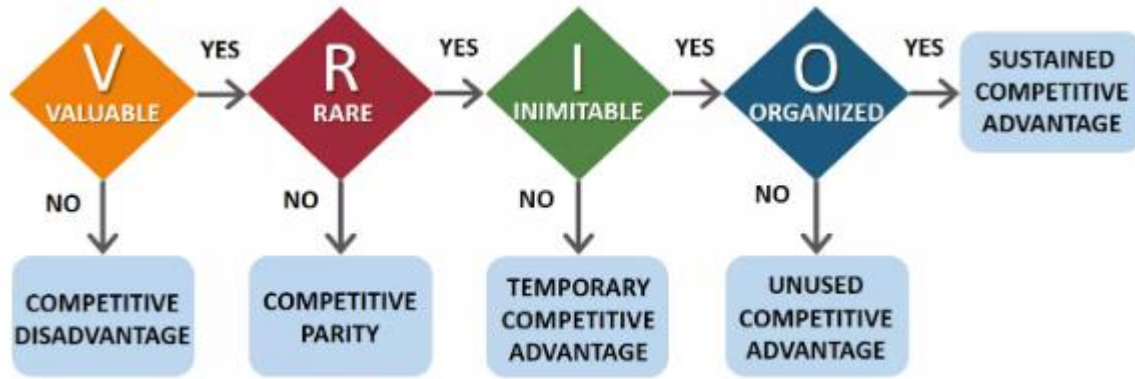


Figure 3. VRIO Analysis (Source: business-to-you.com)

Resource	Valuable	Rare	Imitable	Organisation	Competitive Implication	Economic Implication
Financial	Yes	To an extent	No	Yes	Competitive Parity	Normal
Physical	Yes	Yes	No	Yes	Competitive Advantage	Above Normal
Technological	Yes	Yes	Yes	Yes	Sustained Competitive Advantage	Above Normal
Organisational	Yes	Yes	Yes	Yes	Sustained Competitive Advantage	Above Normal

Human	Yes	No		Yes	Competitive Parity	Normal
Innovation	Yes	Yes	To an extent	Yes	Competitive Advantage	Above Normal
Reputation	Yes	Yes	Yes	Yes	Sustained Competitive Advantage	Above Normal

By analysing the table above it is considered that the financial resources of LEGO are valuable and rare which provides a competitive advantage to the organisation. Furthermore, LEGO also has a sufficient number of world-class facilities that are located near the retailers which provide cheap production and value for the organisation. However, the modern facilities of LEGO are not difficult to imitate and reduce the chances of competitive advantage. Furthermore, the trademark of LEGO serves as a valuable resource to the organisation and is costly to imitate which provides LEGO a competitive advantage in the market. The organisational resources of LEGO are effectively managed which provides a distinct competitive advantage. The human resources such as employees and management of LEGO are the most important assets of the organisation and are valuable for LEGO. The innovation and creativity in LEGO have faced challenges in the past and has made necessary steps to improve their process of creativity. Furthermore, the brand image of LEGO has a world-class reputation which is costly to imitate and provides LEGO with a distinct competitive advantage.

6. SWOT/TWOS Analysis

External elements Internal elements	Organizational strengths	Organizational Weaknesses
Strategic options		
Environmental opportunities (and risks)	S-O: Strengths can be used to capitalize or build upon existing or emerging opportunities	W-O: The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	S-T: Strengths in the organization can be used to minimize existing or emerging threats	W-T: The strategies pursued must minimize or overcome weaknesses and, as far as possible, cope with threats

Figure 4. (Mintz, 2014)

External / Internal	Strengths	Weaknesses
	Brand image (Karmark, 2010). Loyal consumer base (Mellone et al., 2018). Large distribution network (Handley, 2018).	Block toys (BBC News, 2018) Changing pricing policy (Bolton and Shankar, 2018) Advancement in technology (Tuomi, Tussyadiah and Stienmetz, 2019).
Opportunities	S-O strategies	W-O strategies

<p>Innovation (Prakash, Dingus and Siddiq, 2017)</p> <p>New products (Xinhua, 2019)</p> <p>Emerging markets (Xinhua, 2019)</p>	<p>Strengths of brand image, large distribution network (Handley, 2018) and loyal consumer base can be utilised to build upon emerging markets, new products (Xinhua, 2019) and innovation (Prakash, Dingus and Siddiq, 2017).</p>	<p>Setting a standard pricing policy for each region is an effective strategy that can overcome the changing pricing policy (Mellone et al., 2018) if opportunities of innovation, emerging markets and new products (Xinhua, 2019) are to be exploited.</p>
<p>Threats</p>	<p>S-T strategies</p>	<p>W-T strategies</p>
<p>Demands of suppliers and buyers (Mellone et al., 2018)</p> <p>New entrants (Logue, 2014)</p> <p>Competitive and advanced products and firms (Constantinou, 2018)</p> <p>Change in buying behaviours if consumers (Scribner, 2018)</p>	<p>The strengths of brand image and loyal consumer base (Mellone et al., 2018) can minimise the threat of new entrants, and changes in buying behaviours of consumers (Scribner, 2018).</p> <p>The strengths of large distribution network (Handley, 2018) can minimise the threat of increasing demands from suppliers and consumers and competitive</p>	<p>Strategies for maintaining budget and product quality (Logue, 2014) can overcome block toys and minimise demands of suppliers and products (Mellone et al., 2018), new entrants (Logue, 2014), change in buying behaviour of customers (Scribner, 2018) and competitive and advanced products (Constantinou, 2018).</p>

	and advanced firms and products (Constantinou, 2018)	
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7. Conclusion

This study is based on the strategic analysis of LEGO and identifies the problem which caused a decline in the sales of the LEGO products. Therefore, the study conducts Porter's five analysis which identified the key problem which caused a crisis in the sales of LEGO. Furthermore, Porter's Five also analysed the factors of PESTEL for the classification of problems which caused downfall towards the sales of LEGO. Moreover, Porter's Five Analysis also identifies the issues which have the most impact on the organisation's strategy. Similarly, the study evaluates LEGO's ability to sustain advantage by using the value chain analysis and VRIO analysis. Therefore, this section categorises the effects of the crisis on the activities of LEGO. Similarly, the study also applies the SWOT/TOWS for the identification of different strategies, strengths, weaknesses, opportunities, and threats of LEGO.

The LEGO Company adopted effective pricing policy strategy, maintained its budget and improved the quality of its products to deal with the lack of innovation in the company. Moreover, the company improved its operations, logistics (inbound and outbound), marketing and services in order to increase its sales and profitability which were majorly impacted due to lack of innovation and for sustaining competitive advantage. Furthermore, the LEGO Company has the resources such as financial, physical, technological, organisational, human, innovation and reputation to sustain and gain more competitive advantage in the competitive marketing environment.

If the management of LEGO wants to effectively implement change and innovation, it requires pure intentions along with solid and relative level of details about its competitors. Planned strategies should be implemented and responses towards unexpected issues and challenges should be effectively handled. Strategies for identifying strategic issues should be looked upon in a variety of manner so as to get detailed insights into the strategic issues. The detailed analysis will provide a clear view of strategic issues in a variety of ways which will provide solutions in order to adopt higher innovative strategy. Moreover, it can improve the overall mission, vision, scope, purpose and value of the company and compete successfully in the market.

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