The LEGO Group: Envisioning Risks in Asia

Connor Campbell
Yu-Huai Chang
Shanoah Maine
Raj Oak
Kegan Sims

BA 569 – Section 100, Team 1
Monday, November 18, 2019
Planning Assumptions

PESTEL
Political - (Neutral) Varies worldwide not particularly strong impact.
Economic - (Positive) Growing market, expansion/access to chinese market a big contributor. Growing interest in educational segment.
Social - (Positive) Toys are at the core of childhood in most cultures.
Technology - (Positive) Advances along the value chain in tech decrease production costs.
Environmental - (Neutral) Some concern with packaging but not more than other industries.
Legal - (Negative) - Safety regulations and fierce legal battles over IP can be challenging.

Competitive Structure
Oligopoly: A few large firms dominate market share. Differentiated products and some price competition.

Five Forces
New Entry - Moderate
Supplier Power - Low
Buyer Power - Moderate
Substitutes - Low
Rivalry - High

VRIO: Business Architecture
Valuable - 2004-2010 revenue increase by XX
Rare - Unique organizational design developed by human capital.
Not Easily Imitated - Would require complete restructuring of org design and business processes.
Organized - Entire company is tethered and aligned through the architecture.

Additional Assumptions
● Educational toys are part of this industry.
● As of 2012 smartphone games are not as strong of a threat (substitute).
● Entertainment brands (Marvel) are booming in China.

Additional Assumptions
● Educational toys are part of this industry.
● As of 2012 smartphone games are not as strong of a threat (substitute).
● Entertainment brands (Marvel) are booming in China.
Bricks are just a commodity

Brand is king

Legoland Forever!
Characteristics
• Increasing Sales
• Increasing Competition
• Differentiated Market
Key Success Factors
• Meet increase demand
• Leverage Brand Equity
• Invest in Marketing

Lego My Market Share
Characteristics
• Few large firms
• Decreased demand, lower sales
• High price competition
Key Success Factors
• Brand superiority
• Enter new markets
• Efficient Supply Chain

Booming Bricks
Characteristics
• Many new entrants
• Price wars
• Undifferentiated market
Key Success Factors
• Win price war (outlast)
• Supply chain innovation
• Product innovation

Hitting the Brick Wall
Characteristics
• Decreasing sales
• Lower competition
• Undifferentiated market
Key Success Factors
• Business process innovation
• Win price war
• Enter new markets

Bricks are just a commodity
Most Plausible Scenario
Legoland Forever!

Base on Exhibit 9 Traditional Toys and Games market size is increasing.

Chinese sales of educational toys and construction toys had grown 20% between 2009 and 2010.

Based on Exhibit 3 Revenue is increasing.

Assumptions:
Entertainment brands are booming in China

• The most plausible scenario is an increasing toy market and strong brand affinity.
• Legoland is the best case for LEGO Group
Strategic Recommendations

Pursue International Strategy: Sell same product internationally and domestically, first step into Asian market

Legoland Forever, Priority:

1. Partner with local/regional distribution centers in Japan, South Korea, Taiwan, China (based on Exhibit 8a) - 5 year contracts
2. Build a local packing facility to serve regional distribution, allows adaptation for trends and safety compliance - avoid specialized equipment and space
3. Do not build a local production factory in the next 5-7 years
   a. Re-evaluate based on performance (move to different global strategy position)

Our recommendations are intentionally flexible to allow Lego the ability to adjust rapidly over the next few years. As such we would not change strategy if what we thought the most plausible didn’t happen.

Backup Plan:

- Pull back without pulling out
- Look to renegotiate partner contracts
- Sublet packing facility if possible
Lessons Learned

- It is much easier to be proactive instead of reactive and Scenario Planning helps you do that
  - Compared to other strategy tools which are not adaptive

- Under Scenario Planning you are able to plan for an almost endless number of future possibilities by identify a handful of likely key factors/characteristics
  - Compared to Capital Budgeting tools, which offer a snapshot of a single point in time

- Must be careful of over analyzing

- We can all find ways to use Scenario Planning in our varied career paths