

# The LEGO Group: Envisioning Risks in Asia

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# 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.

## 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.

## 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.

= Sustained competitive advantage



**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

**Increasing  
toy market**

**Decreasing  
toy market**

**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.

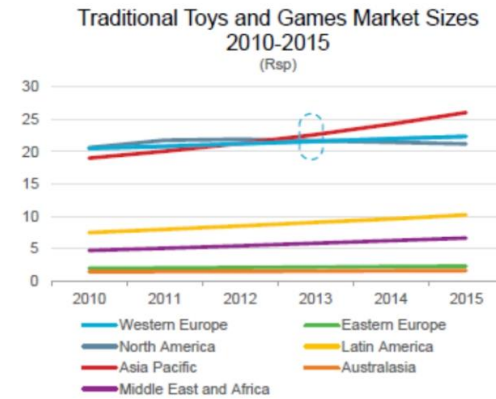
Chinese sales of educational toys and construction toys had grown 20% between 2009 and 2010.

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

Exhibit 9a Traditional Toys and Games Value Sales, Projected



Source: Passport GMID, Euromonitor International, accessed August 23, 2012.

Note: The forecasts are based on a 15-year trend analysis and surveys of industry insiders.

Exhibit 9b Largest Markets for Construction Toys in 2010 and 2015



Source: Passport GMID, Euromonitor International, accessed August 23, 2012.

Note: The forecasts are based on a 15-year trend analysis and surveys of industry insiders.



# 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

