Resource\textit{casestudy}

\textbf{Lego: another brick in the wall}

The ubiquitous toy brick producer tried to take on the computer console giants at their own game in the late 1990s. It lost. Refocusing on its core values put the company back together again.

Founded in 1932 by a Danish entrepreneur, Ole Kirk Kristiansen, Lego became an international success story in the post-war years. Its famous plastic bricks were first sold in Denmark in 1947 and then quickly rolled out across Europe and North America. Gradually the basic bricks gave way to more complex model sets, then a range of related products including Duplo, Lego Technics and Lego figures for girls. By the late 1980s, Lego was one of the biggest toy brands in the world.

Lego remained family owned and was built around four core values: creativity; play; learning; and development. The word Lego was formed from the Danish words leg godt (play well).

\textbf{The threat}

In the early 1990s the toy market changed dramatically with the introduction of Nintendo's N64/ Game Boy and Sony's Playstation. Children were no longer content with self-guided play. They quickly embraced the interactive offerings from the electronics industry. And rather than playing for the sake of playing, they began playing for the sake of winning. Traditional toys were still selling but the growth was in the electronics segment.

\textbf{Lego's response}

Lego's initial reaction to the threat of electronic toys was to do nothing. Game consoles were anathema to the values of the company – they were not creative and they did not help the child develop. Lego had also experimented with combining bricks with electronics (Lego Dacta) in the 1980s without much success.

But faced with the continuing growth of electronic toys, in 1996 Kjeld Kristiansen, CEO and grandson of the founder, created a new division, Lego Media, to develop software, music and videos. Three interactive software products were developed on CD-ROM: Lego Creator, Lego Chess and Lego Loco. A new programmable “intelligent brick” product called Mindstorms was launched at the top end of the market. And Lego developed its online offerings with a range of games, kids clubs and merchandising opportunities.

But despite (or because of) all this, Lego found itself in difficulties. It posted its first-ever loss in 1998. The following year was profitable, largely because of its enormously successful \textit{Star Wars} product range. In 2000 there was a deeper loss.

\textbf{The lesson}

Why the bad results? Lego suffered all the classic problems companies face when entering new markets. Nintendo and Sony were established competitors and were not prepared to give up ground to Lego without a fight. The multimedia industry was immature and all players, including Lego, struggled to make money out of it. And in addition, Lego moved beyond its proven areas of capability. As Paul Plougman, executive vice-president, said in 2000: “We lost focus. We will now refocus on our core business, which is materials for open-ended play for children”. Lego has now scaled back many of its multimedia operations and is focusing on those that fit with its core values and capabilities. With cost-cutting measures in place, 2001 was once again profitable.

Case prepared by Julian Birkinshaw