**Global Corporate Strategy: LEGO case study**

**Abstract**

The specific assignment emphasizes upon Lego, which is one of the leading Toy manufacturing companies in the competitive market. The organisation emphasizes towards production of building blocks as they always prefer the youngsters to learn during their time of play. Primarily, the company suffered loss in regards to sales figures, but it gradually made consistent innovative efforts to enhance their consumer base and become one of the market leaders in the modern era. The company faces stiff competition from its rival brands Hasbro and Mattel. Gamification of employees turned out to be a significant effort in retaining the quality employees. The company also made considerable contribution in regards to the CSR activities which indeed allowed them to establish strong branding. As a strategic initiative, the company will aim to launch green toys. Lego could also form a merger with either Hasbro or Mattel for attaining competitive edge. Collaboration with fashion and apparel brands could also ensure success of Lego in the competitive market.

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# Introduction

Kirk Kristiansen, a Danish entrepreneur established the company Lego in the year 1932. The company produced wooden toys in smaller entities at the starting of their business. Within the course of time, the maker of Lego realised that manufacturing wooden toys is not the most productive option for the company. After 15 years of conducting business, plastic is more suitable for manufacturing of the toys. Being a family oriented business, the company takes active participation in employing near about 12500 tasks across the globe. Lego group accounts for the second place as a toy manufacturing unit and in terms of sales. Since the starting of the year 1958, Lego bricks are gaining supremacy in the competitive market (Lego, 2019). The company takes the initiative of exporting products in 130 countries across the globe.

The report will emphasise on evaluation of the competitive landscape experienced by LEGO amongst the rival brands. The assignment will seek a deep insight towards sustainable and disruptive innovation by critically analysing and comparing the innovation strategies initiated by the CEO’s of Lego Group. It will also highlight the constraints experienced during the recruitment and retention of the skilled workforce. A comparative analysis of the CSR strategies initiated by Mattel and Lego will be illustrated in the study. The study will also emphasize on proposing of certain strategic recommendations for Lego for gaining supremacy in the competitive market.

**2.1 Competitiveness of Toy Industry**

## 2.1.1 Dynamics of the toy industry

There is intense competition within the manufacturing industries of toy due to the dynamic and volatile nature of the business. The ever-changing attributes of games, advancement of technologies and pricing of toys makes it difficult for other companies producing games to prosper in a constant manner. In early days, very few options were available to the children. Over the years, the wooden toys started transforming itself into electronic entertainment devices and the availability of options also started to increase from the perspective of the child (Geeks.media, 2019). The application of Smart Toy made the competition further intense for Lego. These days, the toys take active participation in boasting its own intelligence software through infused electronics. Due to the enhancement of smart games, children started paying less attention to traditional toys. With the enhancement of purchase power of parents across the globe, the fascinating games gained interest amongst the children of the high class society. In accordance to the NPD group it could be estimated that the sales of the toy industry acquired $18.4 billion during the first half of 2018, marking an enhancement of 4% from the year 2017 (Pymnts.com, 2019). The reports of NPD further suggested that the enhancement of toy purchasing can be experienced from the year 2012. In order to attract the interest of the consumers, the company comprises of several interlocked plastic bricks which accompanies wide array of the figures known as minifigures (Howrath, 2017). There could be assembling of Lego pieces for constructing several objects such as vehicles and robots. Such products can be reused for constructing new objects again.

## 2.1.2 Major Players in the Industry

Lego has always enjoyed a superior position in the toy manufacturing industry due to its strong branding, strong base of the consumers and innovation of ideas. The company faces intense competition from rival brands Mattel and Hasbro (Lego, 2019). The products of Mattel comprise of the much popular Barbie and pocket dolls, match box toys, hot wheels etc. Likewise, Hasbro comprises of .I Joe, transformers and power ranger toys. The US based companies acquire a supreme position within the toy manufacturing industries. Bandai Namco is another popular brand which takes the initiative of makes animated gaming products and gives stiff competition to Lego. For surviving in the competitive market, the company should start adding new products to their already popular product categories.

## 2.1.3 Effect of Porter’s five forces on Lego performance

The Porter’s five forces serve as a framework for assessing the industry and comprehending the profitability forces within a specific sector.

**Threat of new entrants:** There is huge requirement of capital in this specific sector, thus making it slightly difficult for new comers for entering the gaming manufacturing industry. However, the distribution channels could be easily set up by the new comers (Forbes, 2013). The authorities of government are also strict regarding the policies of licensing. Lego takes the benefits of the capital requirement and policies of the government for restricting the entry of the newcomers.

**Bargaining power of the suppliers:** Since there are considerable vendors supplying the products, the bargaining power is relatively on the weaker side. The company could handle such challenge through purchase of raw materials from several vendors within the supply chain. Rivalry amongst the vendors will assist Lego in purchasing quality raw materials.

**Rivalry amongst existing organisations:** The toy manufacturing industry where Lego survives comprise of some renowned conglomerates such as Hasbro and Mattel as well. While the company faces stiff competition from the above-mentioned brands, Lego initiates strategic tactics which is mitigating the growth of the small scale firms.

**Bargaining power of the buyers:** Lego emphasizes on differentiation and high quality mantainence for their products. The strong consumer base ensures the fact the company is successful in meeting the altering needs and demands of consumers, thus making them the loyal patrons of the respective brand.

However, there are several brands which produced similar products such as Lego. The company added a little innovation by adding certain pins within the bottom which took active participation in allowing the blocks for fitting well and providing enhanced quality. While other rival brands starts producing similar blocks, the company bought further innovation in their products by adding bright colours in their bricks, while other companies were only producing basic colour building blocks (UX Collective, 2019). In coming years, the company will look forward to create further magic for creating competitive supremacy.

**Threat of Substitution**

Lego is facing increasing competition from alternatives such as digital toys. In this context, the company should keep revolutionising the brands for gaining supremacy in the competitive market.

# 2.2 Innovation and Knowledge Management

##  2.2.1 Plougmann versus Knudstorp strategies at work

The term innovation is a process of creating something unique and new; it can be merchandises, concept or services. The sustaining innovation do not create new and existing values or a new market segments, rather it improves the superior ones with present ones. This aids the company to involve in the same business to strive against each other striving strategies (Khajeheian, 2018).

The term Disruptive strategies crave to create a new value network and a new market area to the organization profile. This strategies initiates by craving the latest market scenario and bring forward an entire new model for new and as well as existing consumers. The best part of disruptive strategies is that its conglomerates do not compete with the existing company. As they continue to bring the different product in the market segmentation the rate of competition automatically decreases.

Poul Plougmann was severely appointed to increase the sale of the company. He initiated and reinvented the strategy of a game and thus approached the disruptive innovation strategy to attract new and existing customers. Poul Plougmann made a new game by creating a macho creator known as Jack Stone. It has introduced a fire struck that did not look like LEGO toy at all. Though, the rate of sale initially comes to crashing down.

Jorgen Vig Knudstorp has adopted a new concept of sustaining innovation strategy to change the base of sale. Jorgen Vig Knudstorp has approached towards the issue was quite the opposite of Plougmann. Similarly, rather than retrenching employees, Jorgen Vig Knudstorp focused on managing flow of cash very diligently; minimize the gaming complexities associated with the products and later concentrated on inventing the existing core products of the company (Schneider, 2016). In addition to these, he gave more focus on rebuilding the customer base by reconnecting with the clients, who may passed for the LEGO loyalty to the next generation.

## 2.2.2 Approaches LEGO used for employing trained staff

The organizations are encountering challenges in the form of retaining well and qualified employees and keeping them engaged and focus. Due to a certain fall of profit in LEGO, the workers are becoming unstable. With the invention of new and advanced technologies, the employees are becoming more reluctant and it has becoming too challenging for LEGO to hold the situation of skilled employees. Being an innovation company, LEGO turned towards the power of a game to attract the new and the talented pool and keep them aligned and focused over the jobs. Introduction of gamification by LEGO turned out to be the most important tools for recruiting the right person for the right job via virtual world of games.



Figure 1: Effect of gamification

(Source: Robson et al. 2016)

The basic principle behind this invention was to access the success through the game performance. LEGO further introduced technological modification for high qualified skilled employees through gamified recruitment schedule. According to the study, LEGO offers jobs for every skilled worker for their wish. This relieves them a better flexibility at work, but it also proper space to invent and develop the creative ideas. The employees are given Mac to work on. Some of the recruitment is done directly from institutes and colleges, and LEGO fan club. LEGO also offers every employee to work on Mac which improves its reliability and productivity towards the work.

# 2.3 Corporate Social Responsibility

The terms Corporate Social Responsibility inspire the conglomerates to client welfares, environment, shareholders and employees. It takes sorely consideration of the business outcome activities over the ecological and climatic situation. According to the situation, it has been stated that a point of intersection is a good common society and a present business strategy. It is very important to align the core practices of business with Corporate Social Responsibility work (Ali, Frynas and Mahmood, 2017). Furthermore, the practices of Corporate Social Responsibility practices will lead the industry an effective cost cutting. For example, for minimizing the rate of food waste by the organization employees will definitely fit the core business fit for the company. Last but not the least, the habits of Corporate Social Responsibility will pave the way for generation of new and advance ideas.

It is a very prevalent belief that the undertaking of Corporate Social Responsibility varies in different parts of the world primarily due to social, cultural and political differences. Mattel and LEGO belong to two different countries. Mattel is from US whereas LEGO is from Denmark. Any type of Corporate Social Responsibility activities focuses on sustainable development and growth, consumer accountability, drastically involved in the community involvement. Both the business activities hub belongs to the same sectors of industry. According to the research, it has been indicated that both the conglomerates though belong to two different countries, yet applies similar Corporate Social Responsibility methodology while integrating social considerations and ecological considerations (Crowther and Seifi, 2018). Though, the practices of Corporate Social Responsibility may varies from country to country, nonetheless the two establishment follow a general global attitude.



Figure 2: Effect of gamification

(Source: Ali, Frynas and Mahmood, 2017)

LEGO group always communicate their Corporate Social Responsibility events extensively. It also specifies the details comprehensively over digital platforms and the website. It can be noted that the style of communication by both are ideally not the same (Ali, Frynas and Mahmood, 2017). Mattel always decide onto to share the Corporate Social Responsibility reports and occasions. He provided a precise and short report on the related website. LEGO not only provide the action details but also; he uploaded links for every Corporate Social Responsibility topics.

Mattel propagated the philanthropic actions over online quite expensively unlike LEGO. This Mattel action reflected the national proceeding of business in US. It has also indicated the philanthropy of US Corporate Social Responsibility because of the little participation of the country in major social concerns. According to the report, it summarizes that LEGO and Mattel follow the international approach while communicating the Corporate Social Responsibility strategies in the international market that are affected by the national situation where they had started their national operations.



**Figure 3 Three overlapping contexts that affect CSR activity**

**(Source: Larsen, 2010)**

## 2.3.1 The National Business Structures for CSR in Billund and US

The size and the role played by the government authorities in US and in Billund are very different. The structure of government body has severely affected the Corporate Social Responsibility programs in the respected countries. The government bodies enjoy more power in the countries like Denmark as compared to US government (Branson, 2018). The Denmark authorities have involved in different cultural activities and in state activities than in US administration; due to European historic background. It is the government body that largely decides the Corporate Social Responsibility functions and regulations.

The American society functions are quite diverse from the above mentioned situation. The US citizens generally believes that the expressions and the belief allowing them to frame their own regulations. Thus, Matten had larger control over the actions of Corporate Social Responsibility than in the LEGO group.

The education system of both the state is also a part of the Corporate Social Responsibility activities (Johnson, Scholes and Whittington, 2005). In Billund, the government bears all the education responsibilities. However, in US it is totally under Corporate Social Responsibility project (Ali, Frynas and Mahmood, 2017). Therefore, Mattel had to invest in the development of the education in the given area.

# 2.4 Expansion Strategies and Global Competiveness

The parents have an inclination towards the purchasing of the educational toys as it assists in the cognitive development of the offspring. The specific trend is fuelling the growth of the toy production industries at a fast rate. While introducing the cult characters in various movies and children related programs is creating increasing demand for games which are propelling the usage of modern toys (The Big Game Hunter, 2019). This could be evidential from the fact that the company took active participation in launching motion pictures such as Lego Batman as well as Lego Ninjago.

The customisation of the toy box by Lego, Hasbro and Mattel is revolutionising the toy industry in a successful manner. The specific feature allows the consumers for selecting the toy of their choice within the subscription box which could curate the specific requirement of children (Shellshear, 2018). Hasbro and Mattel are global conglomerates and often compete with each other for gaining the superior position. At a certain point of time, the competitor brands decided to form a merger and take hold of Lego. However, till date such a merger is not into the charts. In this context, both the organisations face competition from Lego. Over the years, the sales of both the companies have dipped, thus leaving an option for Lego to form a merger with any of the competitor brands for gaining competitive supremacy.

Lego took active participation in following strategies of unique expansion at the global stage for gaining competitive advantages. The company took the initiative of identifying the increasing preference of the consumers towards the production of green toys. Parents show more interests for buying eco-friendly toys to keep their children immune from certain hazards and betterment of the environment (Handley, 2018). If Lego does not start considering the altering needs and demands of the consumers, it will further slip from its second position which the company is holding right now. Understanding the demand specifications the company is willing to take active participation in producing eco-friendly toy products by the year 2030. There were certain criticisms regarding the long waiting of the biodegradable products for the children. If the company could bring the changes dew years early, then it could gain supremacy in the competitive market.

The company should prioritise the segmentation of the market based on certain age groups, so that the; launching of the product could be initiated through application of a focused strategy. The demographic segmentation of the target market will allow the company to get a better understanding of individual consumer needs. The products which will be designed for the children aging between 4 to 12 years will mainly comprise of the puzzles, Pictionary, building of bricks and different types of construction toys. Children above 12 years of age will be subjected to more educational games, war games, etc. Segmentation of the consumer based on gender will also allow the company to reflect upon various types of product categories ((De Wit, and Meyer, 2014). As per the psychology of children, boys have more preference for toys of war portrayal, as they like fighting sequences and winning of the good over the evil. Likewise, girls have more liking towards cooking games, Barbie’s and mini dolls.

Lego took active participation in disrupting the shops selling their own products; instead they started selling Lego brands. It created huge demands in the mind of the consumers for acquiring Lego toys, thus enhancing the overall productivity of the organisation. However, Lego should start producing customised products as per the needs and preference of the consumers. The charge of such products will vary depending on consumer choice and preference. The marketers should keep themselves consistently updated with the preference level of children (De Wit, and Meyer, 2010). Association of Lego products with fashion brands could further enhance the productivity of the organisation in competitive product. Supposedly, the latest release Avenger Endgame is creating huge buzz amongst the young generation. For instance, availability of Avengers merchandise upon shopping of fashion brands pricing 70$, the expensive merchandise could be purchased for just 0.99 dollars. By aligning itself with apparel brands, the company could connect to more consumers in the competitive market.

# Conclusion

While concluding it could be stated that, Lego is one of the leading toy manufacturing companies with a huge consumer base. While the company faces stiff competition from Hasbro and Mattel, it keeps revolutionising its product category with new offerings. While the company faces little competition from new comers, it is yet to gain the number one spot within the toy manufacturing industry. Gamification could serve as an effective measure of retaining talented employees. The comparative analysis of the CSR strategies gave an overview regarding the public image of the brand in the competitive market. Lastly, the company is look forward to execute several strategic initiatives for expanding their business across the globe.