

# LEGO to build on movie success, tackle globalisation challenge

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Joergen Vig Knudstorp, CEO of LEGO attends a press conference on February 27, 2014 in London

With record sales and a hit movie expected to propel them further, Lego could be expected to bask in its successful turnaround, but the Danish

maker of colourful toy blocks is pressing ahead to face the challenges of globalisation.

Last month, the world's second largest toymaker reported a nine percent rise in annual net profit to 6.12 billion kroner (820 million euros, \$1.12 billion). The 10-percent increase in sales to 25.38 billion kroner marked a quadrupling in just 10 years.

By contrast, the traditional toy market is expected to grow marginally or not at all as it loses sales to video games.

The performance is even more remarkable since just a decade ago the company was on the ropes, posting massive losses and laying off thousands of workers.

When Joergen Vig Knudstorp took the helm in 2004, vulture capitalists were circling the ailing company, into which Lego heir Kjeld Kirk Kristiansen had just injected 800 million kroner of his own money.

"There was an emphasis on stretching the brand and moving into adjacent businesses. Apparel, theme parks, a lot of consumer electronics and so on," Vig Knudstorp told AFP in an interview.

The ideas weren't necessarily bad—sales were rising—but they weren't a good match with Lego, which failed to make them profitable. It also lost focus on the original toy operation, where revenues plunged.

In addition to spreading itself too thin, Lego had failed to adapt to consumers' shift away from local "mom and pop" stores to big-box retailers like Wal-Mart and Toys'R'Us.

The first chief executive from outside the founding Kirk Christiansen family overhauled the supply chain and withdrew from high-cost

manufacturing locations such as Switzerland in favour of "mid-cost" countries like Hungary and the Czech Republic.

The Legoland [theme parks](#) were spun off and merged with Merlin Entertainment, the private-equity backed owner of Madame Tussauds.

"We decided to only do the core business and leave these adjacent businesses to other operators and earn a licensing income," Knudstorp said.

## **On the silver screen**

"The Lego Movie", a smash-hit animated film that has won over both audiences and critics, is a case in point of how the group is profiting from letting other companies use its brand.



US actor Morgan Freeman at the premiere of "The Lego Movie" at the Westwood Village Theatre in Los Angeles on February 1, 2014

A Warner Brothers team spent five years immersing itself in the company's culture before the movie hit the screens.

"We gave (Warner Brothers) very broad artistic degrees of freedom because we think it's so crucial that when you take a risk you also be able to make decisions," said Knudstorp.

Many Lego fans still build "freestyle" and post video clips of their creations on YouTube, where the company boasts 7.5 billion viewings,

99 percent of which are user generated and, according to the group, putting it in the top three of all brands on the video sharing site.

But over the years, Lego has gone from being a purveyor of simple plastic bricks to selling toys that come with pre-written storylines, such as the Harry Potter theme released in 2001 and last year's megahit "Legends of Chima", where animal tribes battle for world dominance.

The new product ranges now account for 60 percent of sales.

"If you look at who is successful in this not-so-successful traditional toy industry it is those (with) big stories," said Knudstorp.

Although the company likes to emphasise that the appeal of its bricks is universal, it recognises there are significant cultural differences between how children in different countries react to themed collections that come with a storyline.

"We're very aware of how kids in China, South Korea, Japan, the US and Germany for instance, react to these types of themes," Knudstorp said.

Successful marketing campaigns also tend to require international talent, he added.

This makes attracting the right talent crucial, but Lego's management is still for the most part in Billund, a 3-hour journey by train and bus from Copenhagen.

The company has had trouble recruiting the staff it seeks given the remoteness of the town, and the fact with a population of just 6,200 it has few professional opportunities for spouses.



Joergen Vig Knudstorp, CEO of LEGO, speaks at a press conference on February 27, 2014 in London

While the company isn't abandoning its hometown, it plans to set up new management hubs in London, Singapore and Shanghai as well as at an existing facility in Connecticut in the United States.

Lego hopes this will help it tap into greater talent pools and bring it closer to developing economies where future growth will come from. The company expects 600 million people to join China's urban middle class within a decade.

## **Toys, apps 'can co-exist'**

While many voices in the industry saying that the future of toys is

digital, the company is confident it can continue to see off the challenge.

The company has let partners develop video games for various consoles for the themed Lego toys.

Traditional Lego toys and digital applications "can co-exist, that's my strong belief," Vig Knudstorp said, drawing an analogy to football.

"It's great to play soccer on the computer," he said.

"But put a ball in front of a bunch of kids at school, green field of grass, moving around, passing the ball along—they can't help themselves," he added.

"And that is exactly what we see with the bricks. You roll out all those bricks in front of kids in a school, they start building. They can't help themselves."

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