CHAPTER 2

CORPORATE REBRANDING STRATEGY: THE CASE OF LEGO GROUP

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1. INTRODUCTION

In an ever-changing market, corporate rebranding is a vital part of business growth and development. A successful rebranding strategy can revitalize a company's image, attract new customers, and ultimately drive revenue growth. Yet, managers have to face many internal and external challenges when formulating their strategies, especially in a highly competitive environment. At the beginning of the 21th centuries, the companies operating in the toy industry undertook a significant rebranding effort to transform its business to adapt the environmental changes.

As the playing habits of the public changed dramatically following the millennium, the companies in the toy industry have struggled to maintain their market position. Toy companies had to deal with many challenges due to its traditional toy production. One of the well-known toy brands, LEGO, announced £125 million loss with the decrease in sales by more than quarter (LEGO Group, 2004). Yet, through open innovation and accomplished strategy formulation, the company has been able to recreate its own brand successfully (Robertson & Breen, 2014; Frigo, & Læssøe, 2012). On one hand, the company creates various communication channels for adult customers in order to co-creation of its colourful bricks (Avasilcăi & Rusu, 2015); on the other hand, they designed a management structure which enables them to adapt any changes in the market quickly such as capturing new trends in the market. In this respect, the current one explores the LEGO Group's corporate rebranding strategy, examining the challenges it faced, the steps it took, and the outcomes of its efforts.

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2. THE KEY FEATURES OF THE LEGO GROUP STRATEGIC MANAGEMENT

The LEGO Group started their journey with producing wooden toys in 1932 and in 1947 the company moved from wooden toys into plastics, launching its first version of the now famous Automatic Binding Bricks in 1949 (El Sawy et al., 2016). The LEGO Company started exporting in 1953 and quickly gained international awareness. To date, the LEGO Company has sold 320 billion LEGO bricks; the equivalent of 52 bricks per capita worldwide (Hatch & Schultz, 2003). Despite a history, which is full of successful stories, the company faced financial problems at the beginning of the millennium (Lauwaert, 2008). The threats were directly related to growth in electronic toy sales and changing in playing habits. The LEGO Company responded to these changes by combining *market adaptation* with *innovation*. The company decided to produce existing Lego product based on current themes such as Ninja GO and Lego Star Wars (Landay, 2014; Graupp, Jakobsen & Vellema, 2014). In addition, they introduced new digital toys and created virtual communities to support users and cross-sell to them (Konzack, 2014; Andersen, Kragh & Lettl, 2013). Besides, the company decided to restructure their management pattern towards more *decentralisation* for future initiatives. In this way, the group aimed to accomplish their overall objective, which is becoming the best-known toy brands among the children and their parent.

There are many different *stakeholders* who are involved the Lego Group strategy formulation process. For instance, the company not only targeted children but also adults as their main customers and when the group decided to prepare a new portfolio of products, the company drew on input from customer communities (Liu, Moultrie & Ye, 2019; Sloan Management Review Association, 2019). On the other hand, other competitors and retailers can be seen as other key stakeholders. In order to reach market information and capture the trends at the initial stage, toy producers extremely dependent on big retail stores. In this respect, bargaining power of buyers is high in this industry unless they have their own stores. *Figure 1* classified different stakeholders according to interest and power they have (Johnson and Scholes, 1999). Meanwhile, the group did some several strategic mistakes that might have been costly for them such as outsourcing production during the crisis years. In parallel with, the company faced to lose its flexibility about responding changes quickly and encountered quality problem of the products. Additionally, the group's online game was a disappointment and was later withdrawn. However, despite several mistakes that are mentioned above, company successfully managed to gain the competitive advantage by the help of new corporate rebranding strategy.

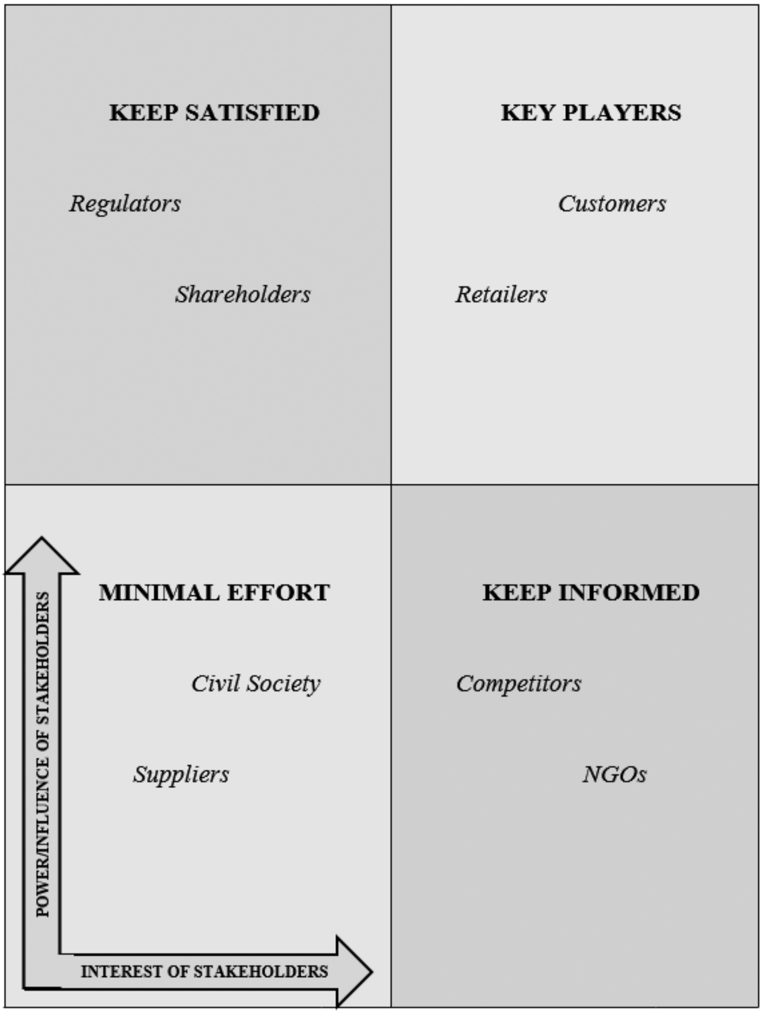

Figure 1. The Power/Interest Matrix (Stakeholder Mapping)

3. THE EVALUATION OF THE LEGO GROUP STRATEGY

The Lego Group mainly focuses on *differentiation strategy* along with adding some additional value to its own products such as producing traditional Lego bricks based on current concepts (Fonseca, 2019). It can be argued that this strategy was successful in terms of both consolidations of their adult customers as well as children (Johnson, 2019). Yet, the differentiation strategy itself may not be seen as the only criteria for the company success. Lego support this innovation processes with creating a flexible management structure and collaboration with customers, communities and its employees (crowdsourcing) (Botoric, 2015; Schlagwein & Bjorn-Andersen, 2014). Perhaps, losing control of costs and being imitated was the potential risks associated with involving differentiation strategy. For the case of the Lego Group, being imitated by competitors has a greater risk than a cost problem. Particularly, inferior imitations of Lego bricks rather than direct imitation by competitors can be seen the main challenge for the company. Due to unsuccessful virtual game initiatives, the company also acquired *retrenchment strategy* that refers to concentrating on the most valuable segments and products within their existing business (Morrow, Johnson & Busenitz, 2004). The group focus on capital investments that include opening existing and new LEGOLANDS across the world. The company also preferred *forward vertical integration* through online selling and opening their own stores in some countries in order to reduce dependency to big retail stores.

On the other side, the organisation strives to expand globally in order to create a strong global brand. In order to maintain the main principle of their new strategy, which is creating newness but also having natural recognition, the group acquired *market development strategy* along with internationalisation process. There are several benefits of global expansion such as gaining new markets, acquiring local knowledge and increasing profit. However, uncertainty about the global market and lack of local knowledge pose some threats for the Lego Group in different geographical regions. The question arises whether the company has strategic capabilities in order to overcome those threats and meet critical success factors of new markets. The financial performance of the group suggests that the company has successfully managed its operations across the world that is illustrated in *Table 1* (LEGO Group, 2015).

Table 1. The LEGO Group Consolidated Income Statements
(mDKK) 2015 2014 2013 2012 2011
Consolidated Income Statement
Revenue *35,780 28,578 25,294 23,095 18,731*
Expenses *(23,536) (18,881) (16,958) (15,489) (13,065)*
Operating profit *12,244 9,697 8,336 7,606 5,666*
Financial income and exp. *(96) (206) (97) (84) (124)*
Profit before income tax *12,148 9,491 8,239 7,522 5,542*
Net profit for the year *9,174 7,025 6,119 5,613 4,1*

3.1. External Analysis

The Lego group primarily operates and compete in the toy industry. The value of the industry increased by 5% in 2014 and reached a value of $92,185.9 million (Orbis, 2015). However, this industry is mature and stagnant. There are many different segments in terms of both geographically such as Europe, Asia-Pacific, United States and also in terms of production such as activity toys, infant/preschool toys, dolls, outdoor sports toys and game & puzzling. In order to understand the attractiveness level of any industry, Porter (2008) suggests five competitive forces which can influence an industry as a whole and determine whether an industry is attractive or not. In the case of the toy industry; first of all, *bargaining power of buyers* is moderate, on one hand the lack of switching costs and the tendency to switch between whoever provides the best deal contributes to buyer power, on the other hand, high degree of differentiation reduces the power of the buyers as toy shops set their products regardless of price being aware there is a market for their products.

Due to the fact that manufacturers operate with non-specialist inputs and there is a small possibility of suppliers' vertical integration, therefore *bargaining power of suppliers* between low and moderate. Low switching costs for buyers and the relative ease of access to both buyers and suppliers makes market entry easier. However, establishing a business in this industry is quite difficult in terms of competing effectively with long-established brands and retailers of considerable size who benefit from economies of scale. Therefore, there is a moderate to high threat of new entrants. Computer-based games have become one of the most important substitutes of toys and there is a noticeable increase in the number of these kinds of games that are being produced. Digital games, game consoles and mobile phones pose serious threats for the industry, therefore, threats of substitutes can be weighted as moderate to high. The presence of many various sizes of competitors (some of them vertically integrated) makes the competition fierce. However, fragmentation of the industry reduces the existing rivalry. Therefore, it can be claimed that *rivalry between existing competitors* is moderate.

From the macro environment perspective, regulations are mainly strict, as toys must pass certain safety tests in order to be sold (Misra & Gupta, 2015). Products that have been considered unsafe after the sale are often recalled which could affect heavily on manufacturer revenues and brand reputation (Ni, Flynn & Jacobs, 2016). However, the Lego Group has not faced any problem related to safety. In fact, the company has been regarded as the leader in the non-poisonous toy market (Jensen, 2013). On the other hand, the group must consider social changes in order to maintain the strong position in the market such as changing in playing habits, new trends and fashions. Lastly, promoting Lego bricks for educational purposes can be seen as a vital opportunity for the group (Peabody, 2015). Nevertheless, operating in different regions with different cultures and with different local regulations could be considered the main barrier to selling the Lego bricks for educational purposes.

3.2. Internal Analysis

In today's business, having the right resources and capabilities is essential for organizations to overcome external challenges. The Lego Group has many of those resources and capabilities, which then allow them to gain the competitive advantage among the rivalry. First of all, they have a *strong brand name* that can be assessed as a unique intangible asset. The organisations use this resource to collaborative innovation process for their brand along with creating communities (*open- innovation*) and it then turns into a distinctive capability which their competitors cannot easily imitate (Antorini et al, 2012).

On the other hand, the company change their *management structure* through decentralisation. By doing that, the firm creates an environment, which enables them the flexibility to further initiatives. This adjustment also can be seen as a distinctive capability and it is likely to contribute to long-term competitive advantage. Besides, the knowledge of producing non-poisonous and high-quality products can be considered a core competency of the group (*brand reputation*). The capability mentioned is sustainable, which means that it cannot be directly imitated, although similar inferior products pose a risk.

Apart from those distinctive capabilities, having good relations with big retail stores can be considered as a threshold capability in this particular industry. Even if the company has their own stores in several regions, the Lego Group needs these big stores in order to quick respond any changes in the market. *Table 2* summarizes resources and capabilities more broadly and which of them contribute to the Lego Group as a competitive advantage according to *VRIO* framework (Barney, 1991). On the other hand, the company has several weaknesses, which may inhibit their expansion process. First of all, the organisation is a family business and therefore they should fund their expansion strategy without any public funds. On the other hand, the question arises whether the firm has enough global experience that allows them to set their business confidently such as local knowledge of different markets or cultures.

Table 2. VRIO Analysis for the LEGO Group					
Resources & Capabilities	**Value**	**Rarity**	**Inimitability**	**Organisational Support**	**Competitive Advantage**
Global Brand Recognition *The company become one of the well-known toy brands in terms of both classic toys and toys with current themes. The company is not only known by children but also known by many adult fan groups of Lego bricks.*	*YES*	*YES*	*YES*	*YES*	*Sustainable Competitive Advantage*
Management structure and Organisational Culture *The company acquired a flexible management structure in order to support further initiatives. Besides, people who do not support the new strategy left the company, therefore, the organisation culture of the company become an important capability.*	*YES*	*YES*	*YES*	*YES*	*Sustainable Competitive Advantage*

Table 2. VRIO Analysis for the LEGO Group

Resources & Capabilities	Value	Rarity	Inimitability	Organisational Support	Competitive Advantage
Human Resources *Alongside inside human capital, the company has benefited from outside communities. Incorporating communities to contribute the current innovation process also provide synergy to the firm.*	*YES*	*YES*	*YES*	*YES*	*Sustainable Competitive Advantage*
Corporate Social Responsibility *They produce non-poisonous products and therefore they can be assessed one of the market leaders about producing socially responsible products. However, strict laws and regulations force to other competitors to follow rules as well.*	*YES*	*NO*	*NO*	*YES*	*Temporary Competitive Advantage*
Customer Loyalty *The company provide many workshops to Lego fan communities in order to strengthen customer loyalty. Besides, the company created "VIP membership" for their customers and provide special opportunities for them.*	*YES*	*NO*	*NO*	*YES*	*Temporary Competitive Advantage*

3.3. Strategy Implementation

Strategic planning is not a static process in fact; it requires many implementations continually and some adjustments if necessary (Poister, 2010). This process consists of a number of interdependent stages which start with setting mission, vision and objectives then adjusting management structure, corporate culture and values in the way that assist ultimate organisational objectives and then execution of the plan. Besides organisations should monitor the process and intervene the process if required. The LEGO Group has a clear mission, which is; "*Create inspired toys in order to develop children creativity*" and their vision is; "*invent the future of play*" (LEGO Group, 2015). In this sense, the company's ultimate objective becomes one of the well-known global toy producers. Right after the company set their new strategy, they adjust their management structure through in order to support the new strategy.

To understand the Lego Group's strategy implementation process, it is important to understand Johnson's and his colleagues' study (2011) on '*strategy lenses*'. They conceptualized a variety of strategy lenses; design lens, experience lens, variety lens and the discourse lens and different types of lenses refers to way of strategy implementation of any organisation. The Lego Group acquired *variety lens*, which refers to encouraging the variety of people in and out of an organisation to contribute their ideas about current implementation process. This lens requires highly organic organisation structure and the Lego Group set their structure according to this strategy lens and enables a bottom-up innovation process. Although, this strategy lens helps the company to assist their innovation process Johnson et al. (2011) pointed out possible drawbacks of this point of view; '*Too many connections may lead to an over-complex system*'. There is also a danger that organisational structures become too established such that the relationship between individuals become too predictable and ordered; rather, novel ideas tend to be generated more where there are '*weak ties*' based on less established relationships (Kim & Fernandez, 2023).

4. CONCLUSION

This study has considered the Lego Group's new strategy right after financial difficulties that they faced. In general, the company has successfully managed the recovery process and reduce the negative external impact via setting effective strategies (Sommer, 2019) and support these strategies with *crowdsourcing* and *decentralised management structure* (Schlagwein & Bjorn-Andersen, 2014).

Although the company has many various resource and capabilities that allow them the competitive advantage among the rivalry, they should be aware of trends in this industry and adapt them these trends as quickly as possible (Émilie, Gandia & Brion, 2021). Hence, the company need to establish good relations with retail stores. In addition, the company should consider digitalization and adjust their strategy if necessary (Andersen & Ross, 2016). Lastly, the Lego Group's expansion strategy requires different resource and capabilities such as new marketing style and local knowledge. Therefore, the company may choose partnership way in order to overcome threats that are posed by the local environment such as liability of foreignness which refers to '*the additional costs that a firm operating in a market overseas incurs compared to a local firm*' (Zaheer, 1995).

The LEGO Group successfully rebranded by focusing on their core values of creativity, imagination, and play. They embraced digital marketing and social media to reach new audiences (Andersen & Ross, 2016), and expanded their product offerings to include licensed merchandise and collaborations with popular franchises (Black, Tomlinson & Korobkova, 2016). They also streamlined their product lines and improved their supply chain management to reduce costs and improve efficiency. These efforts helped the company recover from financial difficulties in the early 2000s and become one of the most successful toy companies in the world.

Overall, the LEGO Group has been able to adapt to changing market conditions and consumer preferences. For example, the company has successfully expanded into new markets, such as China and India, and has leveraged digital technology to create new products and engage with customers. The Group's strategic success can be seen in its strong financial performance and continued growth. As of 2022, the company's revenue had reached $7.9 billion, up from $5.5 billion in 2015 (LEGO Group, 2022). With a solid strategy in place and a commitment to innovation and customer satisfaction, the LEGO Group is well positioned for continued success in the years ahead.

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