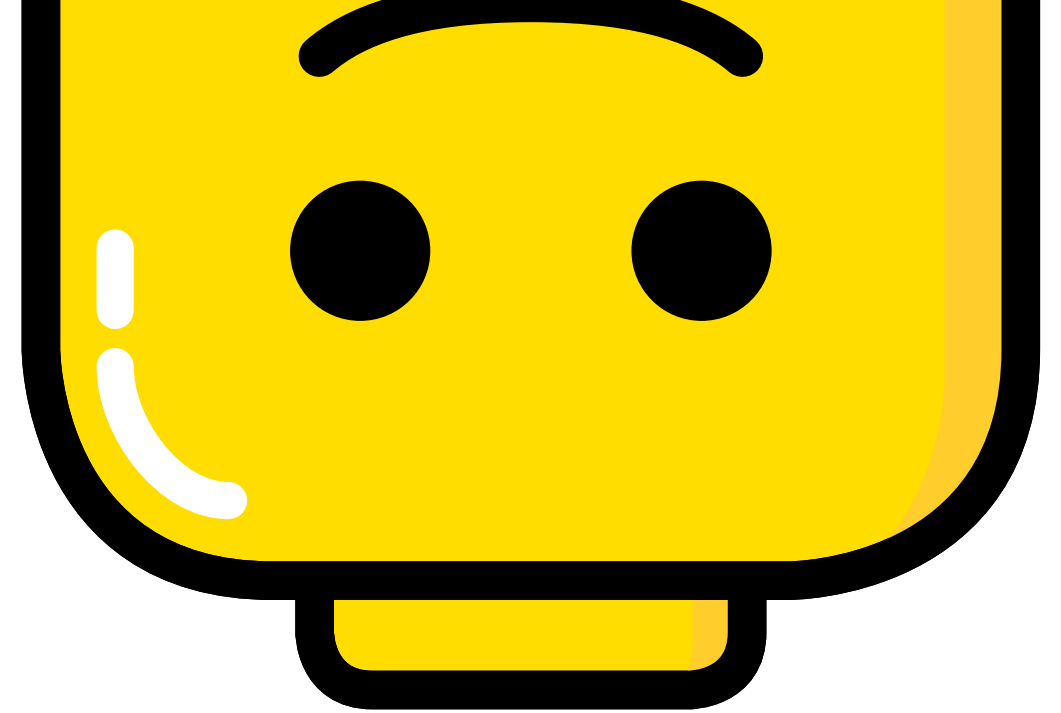
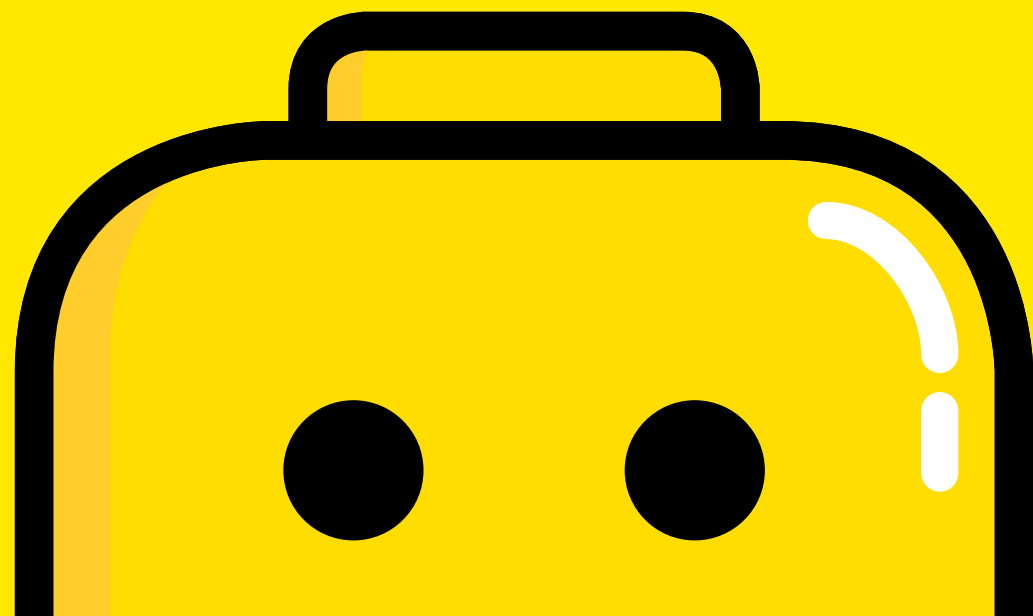


How Lego came back from near bankruptcy
to become the biggest toy company in the
world... and why that's awesome

Rebuilding



Lego



Now the company is in a good position, they are set to open a new Lego house, next year in Billund. The 12,000m2 building will be a hands-on minds-on experience centre where fans of all ages can come and experiment with Lego bricks, share stories, express their imagination and creativity, and be challenged as Lego builders by meeting other builders from all over the world. Lego say that the house is not a commercial venture for them, but expect it to attract around 250,000 visitors each year. It will also have curriculum-based learning so that Danish schools can visit and use Lego for learning.

The story of Lego's rise, near bankruptcy and spectacular comeback is one worth knowing, because the lessons they learned to return from the brink are ones that apply to a business in any field. But also, it's a story about a company that does something special. Few corporations in the history of humanity do as much to fuel creativity as Lego and contribute so much to millions of children. The founders of, for example, Google have said that it was Lego that shaped their young minds, while a survey of more than 260 British architects found that 99 per cent of them had enjoyed building with Lego as children. The fact that Lego survived and is still with us, currently in good health, is something we should be celebrating. And learning from.

Billund is a small town in Jutland, Denmark, about three hours' drive from the capital, Copenhagen. Its population is just over 6,000 and there's not a lot here, but it has the second-largest airport in the country. The reason is, Billund is the home of Lego's headquarters and of the original Legoland – and from this tiny town the global toy empire is run.

"I can always tell how old people are by which Lego set gets the big reaction," says my guide as he takes *Portfolio* around the private collection at the Lego Idea House in Billund, through room after room of fully-built Lego models, all of which chart the evolution of the product though the decades and, by extension, the company.



Fire Station from 1981 on display at The Idea House

For me, the set that gave away my age was the Lego Fire Station, [6382] released in 1981 (pictured above). People have been known to shed tears upon seeing their favourite childhood Lego set for the first time in decades. There were no tears here, just a big smile and sharp intake of breath. "Ahh, there we go... I'll give you a minute," he says sympathetically.

The Idea House is built on the site of where the first brick was created. Lego's roots are back

in 1932 when a carpenter, Ole Kirk Christiansen, was struggling to sell his usual furniture during the Great Depression, so started making wooden toys as well. It proved popular, but his toy business really took off after the Second World War, when he spotted the potential of injection-moulded plastic.

Ole Kirk invested in the new technology – which then was a small hand-operated machine – to make plastic toys. In 1949, he released his Automatic Binding Bricks, the forerunner of the Lego brick, but they were hollow underneath meaning that stacking was fine but they weren't stable. In 1955, Ole Kirk's son, Godtfred, came up with the interlocking stud-and-tube design that made the company its fortune and a household name. They had created the now famous Lego "system of play".

Godtfred re-examined what the company was making and saw that 90 per cent of it didn't fall into that system of play, where one set is compatible with another and expands the possibilities for building and creativity. It was then they decided to focus on the plastic brick. The business took off and that system still works today.

In 1963 they switched material to the shiny, hard ABS plastic that makes them so durable – and painful if you stand on one in bare feet. That strength, however, is what made them so enduring. A brick from an early set will fit with one from a set made this morning, and still be in usable condition.

The company just grew. Every year it seemed to be getting bigger and making more money. After introducing Space and Town Lego in the late '70s it went through a huge period of growth and doubled in size every five years for 15 years. Production was huge and there are now 84 Lego bricks for every person on the planet.

Even when they made a wrong decision, it often turned out alright. After noticing that children often leave Lego aged nine or 10 they brought in Lego Technics to attract teenagers. It failed to attract teens and instead was being bought by men aged 25 to 50. It still is today with adult fans of Lego (AFOLs), of which there are 460,000 registered worldwide.

So why did Lego end up in a situation where it was nearly bankrupt?

In the late 1990s the company was beginning to struggle. It was believed that children were leaving traditional toys earlier than ever and moving on to video games, so to try and get themselves out of the slump Lego went through a programme of innovation. But that innovation nearly killed them and in 2003 they were close to going out of business.

In 1998 Lego posted its first ever loss, at \$47.8 million, but the following year they were back in



The counting machine at the processing facility in Billund, Denmark

"In 2004 they posted the biggest loss in the company's history: \$374 million"



profit. It was just a blip, right? In 2000 there was a loss, but in 2001 and 2002 there were back in profit once more, if only just. Part of the problem was, only three of their lines were making money – Lego Star Wars, Lego Harry Potter and Bionicles. The first two only made money when there was a film out. If there was no film that year it was a big issue and there were no new movies from either franchise in 2003 or the first half of 2004.

By 2003 sales had fallen 29 per cent worldwide, and in 2004 they posted the biggest loss in the company's history: \$374 million. Jørgen Vig Knudstorp was internally appointed as CEO – the first non-family member to hold the position. His memo to the board said: "We're on a burning platform."

By this point the brand had moved away from what they were known for and were expanding into non-brick fields including publishing, clothing and more theme parks. As Knudstorp put it at the

FROM FANS TO EMPLOYEES



PIERRE NORMANDIN (40)

The Canadian has been at Lego for eight years. He graduated with a geography degree and was working for the government in Canada but was part of the adult fan of Lego (AFOL) community. He was displaying one of his models at a fan convention in Washington DC and was spotted by a Lego employee who asked if he'd ever thought about being a designer for Lego. He now works on the team made designs the Lego City range.



MILAN REINDL (36)

The Russian and English languages teacher from the Czech Republic was a fan of Lego as a child but then got back into Lego at the age of 25. After three attempts he landed a job as a designer, largely based on the Lego Technics models that he had been creating for himself as a hobby. He now works full time in Billund as a designer in the Lego Technics group.



Above: Production machines at the Lego factory. **Right:** Workplace of Lego designers, including staff slide. **Bottom:** Rows of spare parts at Lego Innovation House where new products are designed



time: “Companies don’t die from starvation, they die from indigestion. You can only build something adjacent to your core business every three to five years because it’s such a major undertaking. It nearly killed us. And then people lose focus on their core business.”

“The money we were losing every day was crazy, we were one year from going under,” Jan Christensen, communication manager at Lego, tells us. “The decision was made that the company will be whatever the brick business will be. Even if we have to go back to being a small European company again, then so be it. We got back to basics – we got back to brick.”

“Lego will be whatever the brick business will be. We got back to basics – we got back to brick”



Ulrich Dano is the senior vice president of product marketing and development and is also clear about what the company was doing wrong at the end of last century. He tells *Portfolio*: “There are two main things we learned: We lost touch with our consumers and started developing products that

we didn’t test with the same rigor and we became disconnected with what our consumers wanted. And we were not close enough to our retailers to understand the needs that they have.”

One of the things that Lego did in the late ’90s was to try and appeal to four and five year olds by making many of their toy sets simpler to build, eliminating many of the smaller parts and reducing the number of bricks. But it didn’t work.

“We encountered two difficulties,” says Dano. “It didn’t look like what it should be, and it was too pre-determined.” Things like the fire engine no longer looked like the fire engine that children might see in real life and so it lost appeal and with fewer pieces, and more of what they refer to as ‘quick-start’ elements, it made the set easier to construct, but also reduced the creative possibilities.”

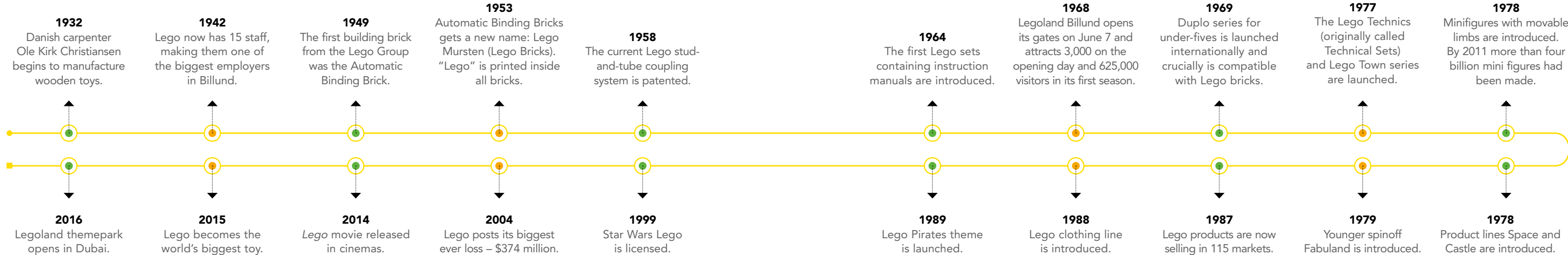
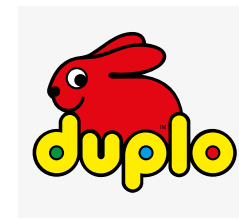
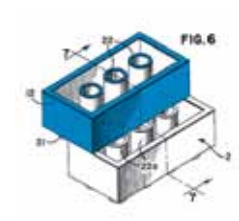
Those children who didn’t want to build something would buy a different toy car anyhow and those that did want to build and appreciated Lego didn’t find these new designs interesting or challenging.



“It’s important that whatever new element [individual piece of Lego] we provide gives an opportunity for building. We’re a lot stricter now than we used to be. We want to make sure that when Lego is in a child’s playroom it’s not difficult to be creative with. We provide inspiration. Through the instructions that come with the sets we teach kids how to build and how to be able to build interlocking in a way that things don’t fall apart, but it’s important for us that the end page of the building instruction is not the end of play. It might be the end of making this model, but it’s only the start of being creative.”

They had to get back to what the company was about when they started making building bricks. Lego looked to the words of the second generation CEO Godtfred Kirk Christiansen who said in 1955 that “our idea has been to create a toy that prepares the child for life – appealing to its imagination and developing the creative urge and joy or creation that are the driving force in every human being”. This was a man who said his mission was to “inspire the

TIMELINE

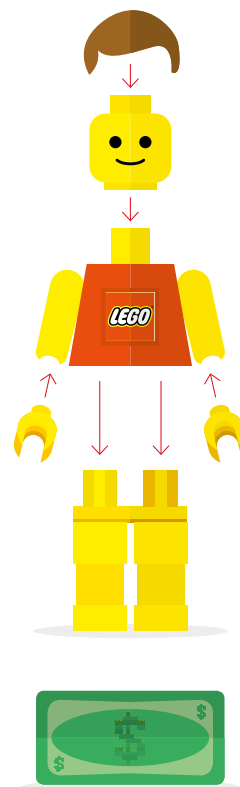


builders of tomorrow”, so the company focused on its key lines: Lego City, Lego Technic, Lego Creator, and basic Lego sets. In 2004 they brought back Duplo, dubbed “the bigger brick for smaller hands” that targeted children aged up to five years and did what good brands should be doing – listening to their customers. Even if they were toddlers.

Elizabeth Kahl-Baches is the creative lead in Duplo and explains the science behind its success. “All the models we make need to look like a child’s drawing – simple and iconic,” she says. “Just look at the Duplo house, it looks like a child’s drawing of a house.”

The team had product-testing sessions once a week with children in kindergartens. “We look for smiles and laughs as they can’t say much at two years old, but they confirm what works.”

Through developing repetitive play (“windows opening and closing, simple movements”) young children can interact and then the team adds “play triggers” like a slide or something that can help tell a story. It also shows them what doesn’t work. “We first had a number on the Duplo house but the context confused them – this wasn’t a numbers thing, it was a house thing. But putting numbers on the toy train worked because they go in sequence.”



Sets like the numbers train (with one to nine on each carriage), she explains, also give parents an entry point to ask children about something and encourage them to read out loud, but always ensuring it’s a toy first and a learning tool second.

They release around 20 new models each year for parents who are looking for something new and each is thoroughly tested. Much in the same way that over many years *Sesame Street* perfected how best to present information for numbers and learning, so Lego has perfected play triggers. Perhaps the most interesting thing, however, is the team found that what works in Europe, also works everywhere else in the world. “It’s only the parents that are different,” Kahl-Baches explains. “We found that the cultures are the same with the children, but society has affected the parent.”

This view is echoed by Dano, who confirms: “We have not seen a child anywhere in the world rejecting the Lego system. It might not be accessible to some kids around the world for many reasons but it is relevant globally. There are some children that just love construction while for others the building is not the centre, they need a story to inspire them, but all have liked it.”

A similar principle works for the Lego City range, which is largely targeted at five to nine year

olds. Ricco Rejnholdt Krog is the design director for Lego City and explains the philosophy behind what they create. “You make the product as universal as possible,” he says. “And we don’t tell people how to play or how the story should evolve.”

The thinking with Lego City is rooting it in things a child can meet on the walk home from school – fire engines, police car, petrol stations, and so on. No aliens or monsters – City is rooted in realism. “We travelled the world with these toys and models and asked five to nine year olds what they think and found that children are children – China or Hamburg the results are the same, so we design globally,” he adds.

Lego also operate with a code that means conflict is only there as a play trigger. “Police and crooks is as far as we go, and they are not smart crooks and nobody has weapons, but the police Lego sets always sell well,” Krog says.

The sets in the late ’70s were covered in Shell Oil logos, but since the ’90s (aside from a few promotional items) they have used Octan, a brand made up by Lego themselves. Rejnholdt Krog insists there is no current temptation to sell sponsored branding on Lego sets, despite the money it could bring in. “We really don’t need

brands or corporation to put their logos on our toys and we wouldn’t take a lot of money from Starbucks to have their logos on the coffee shop because who does that benefit? Does it enhance the child’s play? If not, then the answer is no.”

For the Friends range, which is largely aimed at young girls, play patterns were based on what they know to be relatable (“friendship and harmony”) and they ensured that the main colours are purple and pastel shades. “We made no new pink bricks,” *Portfolio* is told. Just like the yellow smiling Lego heads, they are trying to remain as gender/race neutral as possible.

It all seems to have worked.

In the first half of 2015 Lego overtook Mattel (makers of toys like Barbie) to become the world’s biggest toy company in terms of revenue, with takings of over \$2.1 billion. In business terms it’s one of the great comebacks. Between 2007 and 2010 sales were growing at 25 per cent per year and profits at 50 per cent per year. And last year the top-five selling lines of Lego were City, Ninjago, Friends, Duplo and Star Wars – all bar the latter being Lego’s own intellectual property.

Although they are now refocused on the core of the business, the parks are still doing well and another has just opened in Dubai. “Well,

“Even in a crisis we’re discussing, more, ‘How do we treat people?’ rather than how we could save a penny. People are not just resources”



LEGO GROUP FINANCIAL PERFORMANCE 2014

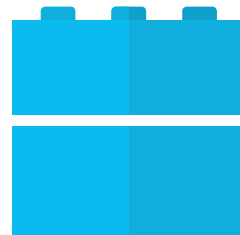
2015 represented the 11th straight year of growth



Revenue increased by 19% to \$5.2 billion



Net profit was \$1.3 billion



GLOBALISING LEGO PLAY



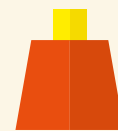
Children reached via Lego play experiences **85,000,000**



Children reached via the Lego Foundation **400,000**



Children reached via Lego education **10,000,000**



Consumer service contacts more than **1,700,000**



18,000,000
Average monthly unique visitors to lego.com



10,300,000
Facebook fans



492,000,000
YouTube channel views

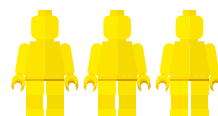


5,000,000
Lego Club members

LEGO FACTS



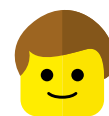
More than **60,000,000,000**
Lego elements manufactured



Lego minifigures produced **500,000,000**



More than **650,000,000**
Lego tyres produced



Number of active Lego element shapes **3,500**



Lego Group HQ in Billund, Denmark

our ultimate purpose it to reach more children,” Dano says. “To reach more children we need to enter new markets, so of course a Legoland park in a new market is helping – it’s about synergies between selling toys and experiences.”

The Lego factory is now working to near full capacity with 120 tonnes of granulate being delivered each day to be heated up and injection moulded to make Lego parts. The factory churns out two million different pieces every hour – about 36,000 a minute – but they cut the range of different elements from 13,000 down to 6,500.

Through their “return to brick” policy one thing really stands out – they ensured the levels of quality remained high and staff were encouraged and motivated. “Good products are the key,” Rejnholdt Krog insists to *Portfolio*. “Make a good product and the money comes, because the customer will decide if it’s a success or not.”

“We are a premium brand and yes, we’re expensive, but every time there has been a financial crisis the sales of Lego have grown the most,” Christensen says, before explaining that they are now entering the key point in 2016. “Every year there’s a new Christmas wish list so the last two months of each year is where we make 50 per cent of our sales – our aim is to be on that list every year. Competition comes from everywhere. For example, we thought we’d sell the kid a Lego set but Paul Pogba joins Manchester United and he wants a new football shirt instead.”

Interestingly though, Lego use Key Performance Indicators – KPI – and Financial is only one of them. They also look at whether the retail stores are happy, what the feedback is from the customers and what they refer to as the employee pulse – are the staff motivated or burned out?

“Only 10 per cent of my bonus is tied into the company making a profit and we have quarterly sit down talks with our bosses,” Christensen says. “It’s important.” After all, when was the last time someone from senior management recognised the work you’re putting in, the late nights and weekends, and acknowledged that? Or just came over and pointed to something you’d worked hard on and said, “Good job”?

A former CEO Mads Nipper told *The Telegraph* newspaper in 2009: “Even in a life-threatening crisis we were discussing, more, ‘How do we treat people?’ rather than how we could save the last penny. People are not just resources.” Recently the 18,000 employees worldwide had a play day where they stopped working and just played. It was to remind them of what the company was about – Lego was naturally involved – but also “for fun”.

Lego say their culture is based on openness, trust and the core values: Creativity, Imagination, Fun, Learning, Quality and Care – which should be reflected in everything they do. It defines why people should choose and commit the best of themselves to the organisation, clarifies the “give” and the “get” of the employee relationship and provides a common point of reference for employee management. At a time when companies are cutting budgets, cutting corners and expecting staff to do more with less, it’s notable that Lego came back from tough times to become the biggest in their field by ensuring quality was maintained, not sacrificed.

It seems what works with staff also works with the target audience. “We want them to build whatever they can imagine, we just provide the best possible tools and inspiration for them,” Dano says. It’s the kind of thinking we see in successful Silicon Valley companies, but Lego had been doing it decades before. They have a cult following among adults, much the same as Apple, but while Apple fans worshipped at the temple of Steve Jobs, so the Lego devotees are simply about the bricks and creativity. It’s an innovation culture that hires diverse and creative people. They’re just lost focus, but Dano insists they’re really listening now.

“When we look at the portfolio for next year we look at what’s been successful in the past and what kids say about the products. Every individual product we get feedback about through a net promoted score which tells us how much people like each product. We get 1.8 million calls and e-mails to our consumer service and respond to all of them, it’s a source of inspiration.”

Or as Lego design director Rejnholdt Krog puts it, “We’re back on track and have a lot more planned... it’s going to be awesome.”

