

Alternatives

Alternative 2

- Focus on existing products
- "Fitnesz Program" becomes "Re-assembling LEGO"
- Implement ERP system
- Streamline production - reduce complexity and no. of distinct components
- Refocus organization layers
- Re-capture attention of retailers
- Improve fill-rate
- When profit margin has stabilized, search new market opportunities



Alternative 3

- Differentiate product line
- Combine LEGO bricks with technology
- Robotic interactions
- Re-capture consumers interest
- Find partners for licensed products
- Launch a lighter version of "Re-assemble LEGO" Program



Alternative 1

- Reduce inventory cost
- Outsource production
- Implement better forecast system (EDI/RFID)
- Focus on fill rate
- Increase profit margins



Arght! What can we do?



Ahh, So what do we do?



Solution

Alternative #2 - Why?

- Evidence, essential to improve financial position (loss of 1.9 Billion DKK and margin -30,6%)
- LEGO has lost track of its traditional strategic vision - business outside their core competencies
- Need to align mission with core competencies and restore culture - sell excessive business areas
- Need to improve debt-to-equity ratio by improving profit margin / reducing debt / reducing expenses, (stop making new products - expensive moulds).
- When profit margin has stabilized, we act on the industry's driving forces, where technology interacts more with toys.

Execution

2004-2005	2006	2007
<p>2004-2005</p> <p>With a clear focus on financial performance, LEGO's strategy was to reduce costs and improve efficiency. This was achieved through a combination of measures, including streamlining production, reducing inventory, and improving the supply chain. The result was a significant improvement in profitability, with a return to positive margins in 2005.</p>	<p>2006</p> <p>LEGO continued its focus on financial performance, with a further emphasis on cost reduction and efficiency. The company also began to explore new market opportunities, particularly in the area of licensed products. This led to a diversification of the product line and a new source of revenue.</p>	<p>2007</p> <p>LEGO's financial performance remained strong, with continued cost reduction and efficiency improvements. The company also successfully launched several new licensed products, which contributed to a further increase in profitability. The overall strategy of focusing on core competencies and restoring the company's traditional strategic vision was clearly evident.</p>

Let's do it!



Challenge

Late 2004, from Jørgen Knudsen to the Board of Directors

- Absence of mission with confused vision
- Objectives do not support core values
- There is a lack of accountability
- Increasingly complex products
- Systems do not deliver efficient value chain management
- Expansions in markets where core competencies do not lie
- Unstable finances in past 5 years
- High cost, low profit margins
- Relationship with dealers and customers strained
- Fill rate from 5% to 10%
- Profit margin at -30.6% in 2004
- Debt to equity ratio from 1.74 in 2004



LEGO: The Crisis

TheCasesolutions.com

Challenge

Late 2004, from Jørgen Knudstrup to the Board of Directors

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- Systems do not deliver efficient value chain management
- Expansion in markets where core competencies do not lie
- Unstable finances in past 5 years
- High cost, low profit margin
- Relationship with debtors and customers strained
- Fill rate from 9% to 70%
- Profit margin at -35,6% in 2004
- Debt-to-equity ratio from 1,74 in 2004



Alternative 1

- Reduce inventory cost
- Outsource production
- Implement better forecast system (EDI/RFID)
- Focus on fill rate
- Increase profit margins




Alternative 2

- Focus on existing products
- "Fitness Program" becomes "Re-assembling LEGO"
- Implement ERP system
- Streamline production - reduce complexity and no. of distinct components
- Reduce organization layers
- Re-capture attention of retailers
- Improve fill rate
- When profit margin has stabilized, search new market opportunities



Alternative 3

- Differentiate product line
- Combine LEGO bricks with technology
- Reboot interactions
- Re-capture consumers interest
- Launch a lighter version of "Re-assemble LEGO" Program




Execution

2005	2006	2007
<p>Revenue 2005: 10,1 billion DKK</p> <p>EBITDA 2005: 1,1 billion DKK</p> <p>EBIT 2005: 0,8 billion DKK</p> <p>Net Income 2005: 0,5 billion DKK</p> <p>Operating Margin 2005: 10,0%</p> <p>EBITDA Margin 2005: 10,9%</p> <p>EBIT Margin 2005: 7,9%</p> <p>Net Income Margin 2005: 5,0%</p>	<p>Revenue 2006: 10,5 billion DKK</p> <p>EBITDA 2006: 1,2 billion DKK</p> <p>EBIT 2006: 0,9 billion DKK</p> <p>Net Income 2006: 0,6 billion DKK</p> <p>Operating Margin 2006: 11,4%</p> <p>EBITDA Margin 2006: 11,4%</p> <p>EBIT Margin 2006: 8,6%</p> <p>Net Income Margin 2006: 5,7%</p>	<p>Revenue 2007: 11,0 billion DKK</p> <p>EBITDA 2007: 1,3 billion DKK</p> <p>EBIT 2007: 1,0 billion DKK</p> <p>Net Income 2007: 0,7 billion DKK</p> <p>Operating Margin 2007: 12,7%</p> <p>EBITDA Margin 2007: 11,8%</p> <p>EBIT Margin 2007: 9,1%</p> <p>Net Income Margin 2007: 6,4%</p>

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- When profit margin has stabilized, we act on the industry's driving forces, where technology interacts more with toys.



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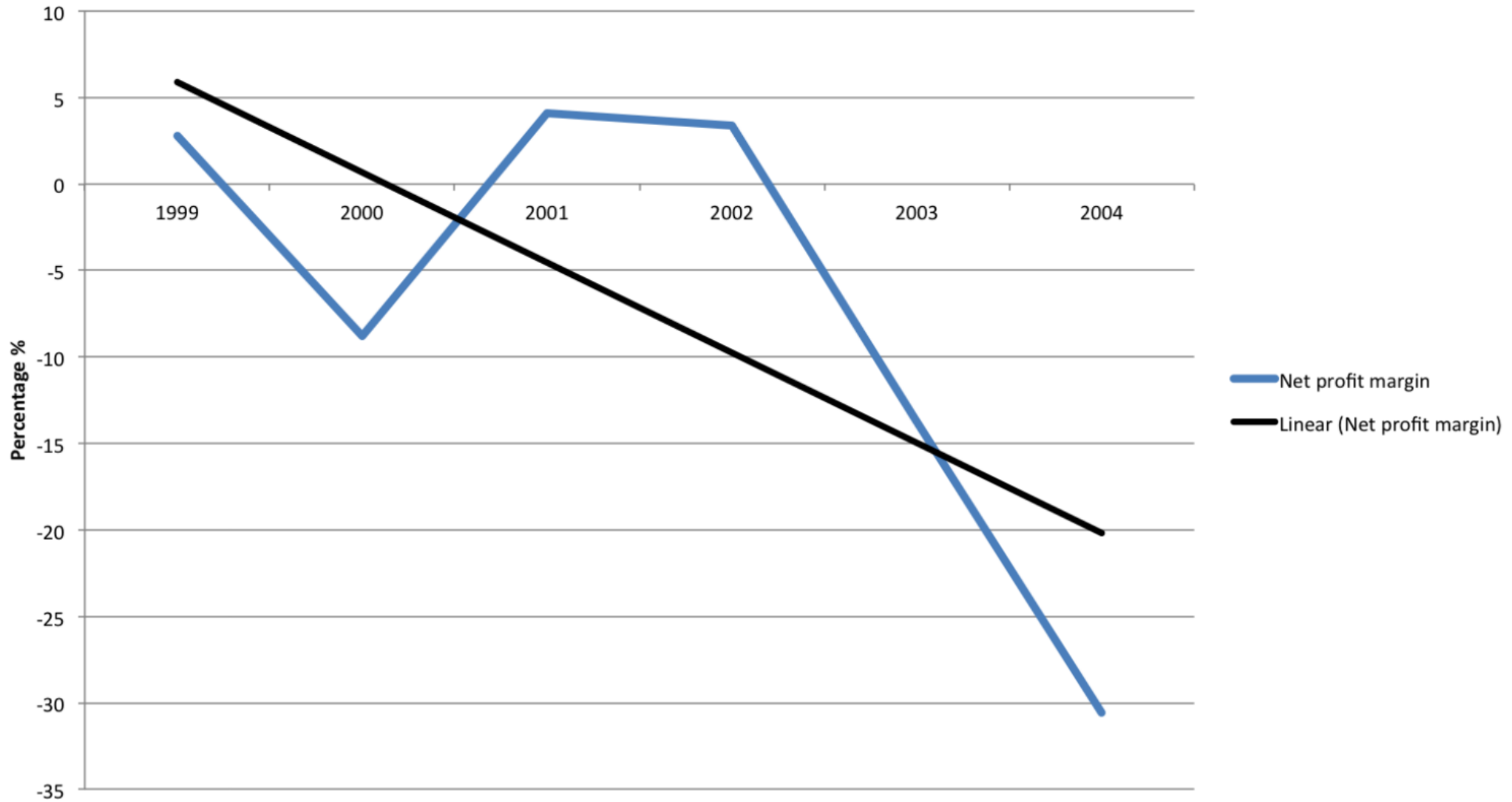
Challenge

Late 2004, from Jørgen Knudstrop to the Board of Directors

- **Absence of mission with confused vision**
- **Objectives do not support core values**
- **There is a lack of accountability**
- **Increasingly complex products**
- **Systems do not deliver efficient value chain management**
- **Expansion in markets where core competencies do not lie**
- **Unstable finances in past 5 years**
- **High cost, low profit margin ...**
- **Relationship with debtors and costumers strained**
- **Fill rate from 5% to 70%**
- **Profit margin at -30,6% in 2004**
- **Debt-to-equity ration from 1,74 in 2004**



Net profit margin from 1999 to 2004: A downward trend



Gross revenues and expenditure from 1999 to 2004

