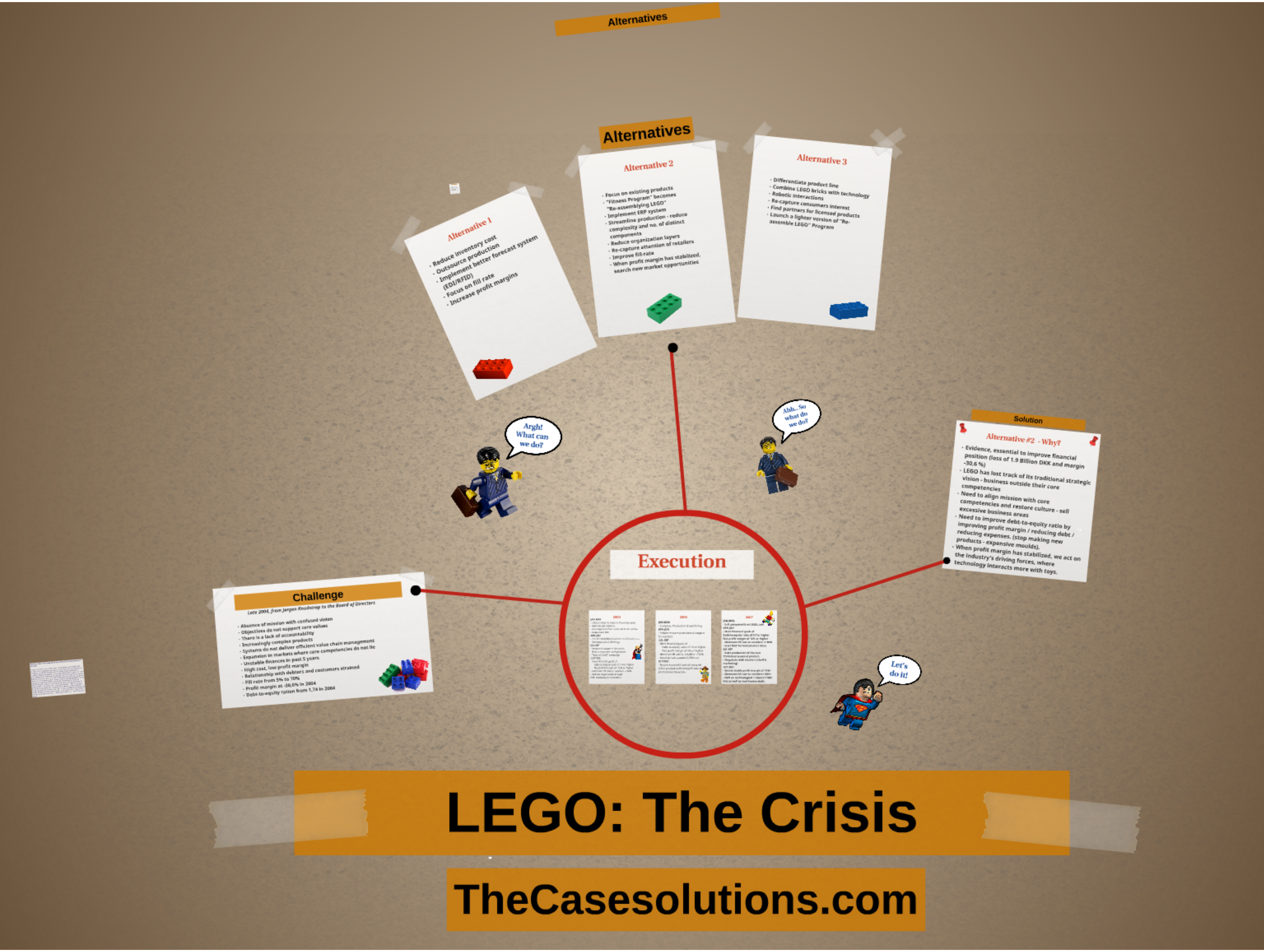

Alternatives
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Alternative 1
- Reduce inventory cost
- Outsource production
- Implement better forecast system (EDI/RFID)
- Focus on fill rate
- Increase profit margins
Alternative 2
- Focus on existing products
- "Fitness Program" becomes "Re-assemblying 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
- Robotic interactions
- Re-capture consumers interest
- Find partners for licensed products
- Launch a lighter version of "Re-assemble LEGO" Program
Argh! 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.
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
Execution
Let's do it!
LEGO: The Crisis
TheCasesolutions.com


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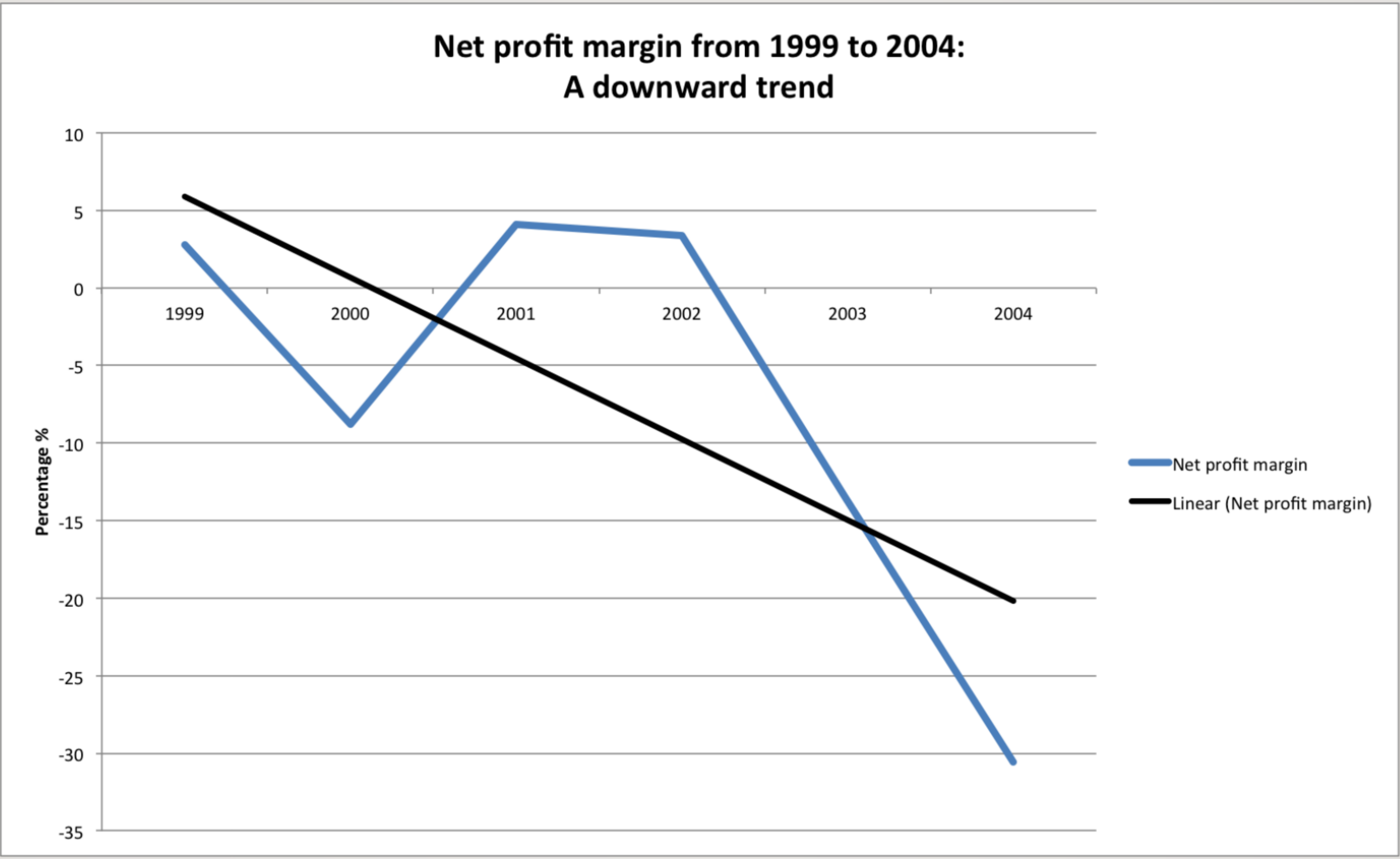
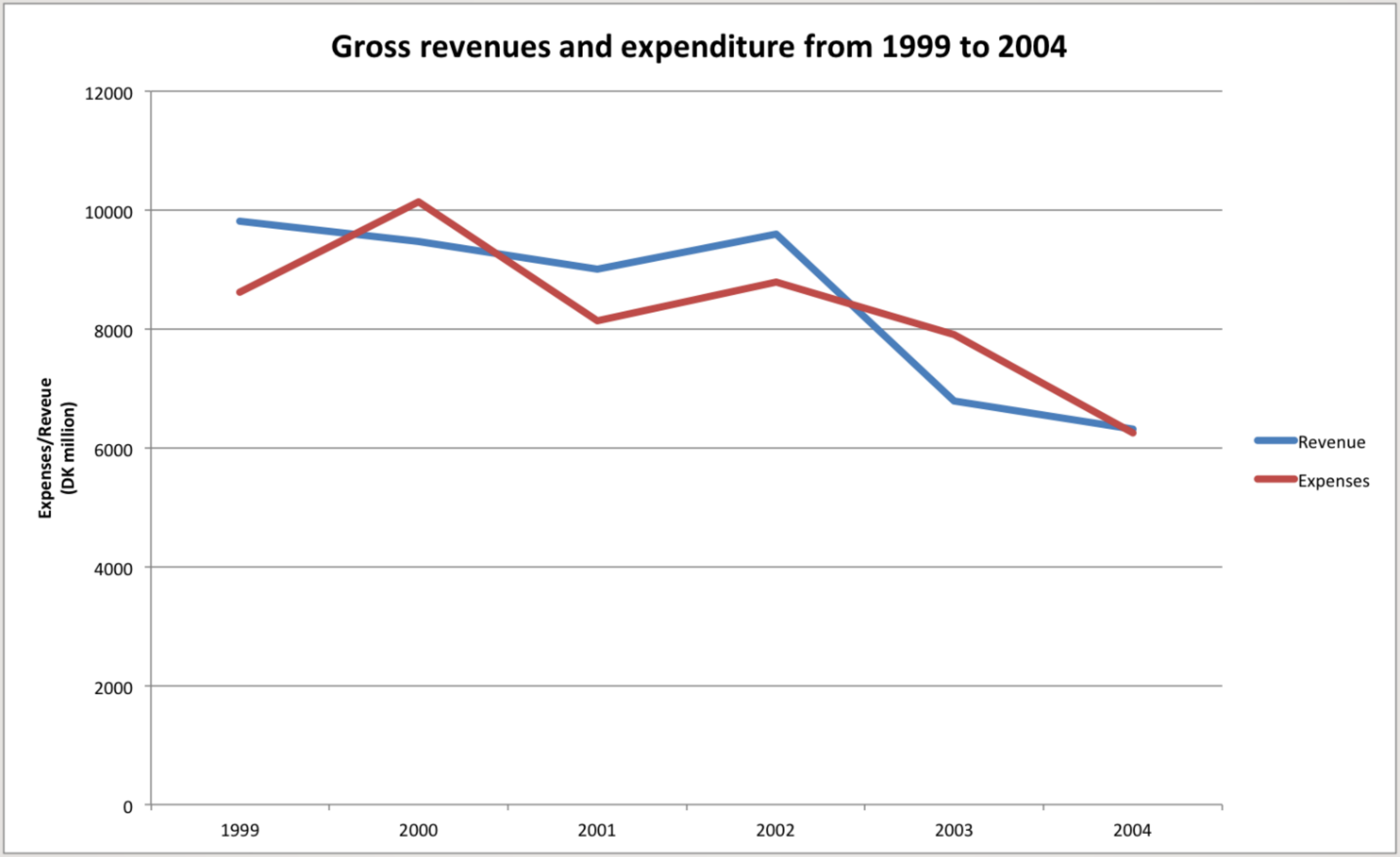

Net profit margin from 1999 to 2004:
A downward trend
10
5
0
-5
-10
-15
-20
-25
-30
-35
Percentage %
1999
2000
2001
2002
2003
2004
Net profit margin
Linear (Net profit margin)


Gross revenues and expenditure from 1999 to 2004
Expenses/Reveue
(DK million)
12000
10000
8000
6000
4000
2000
0
1999
2000
2001
2002
2003
2004
Revenue
Expenses