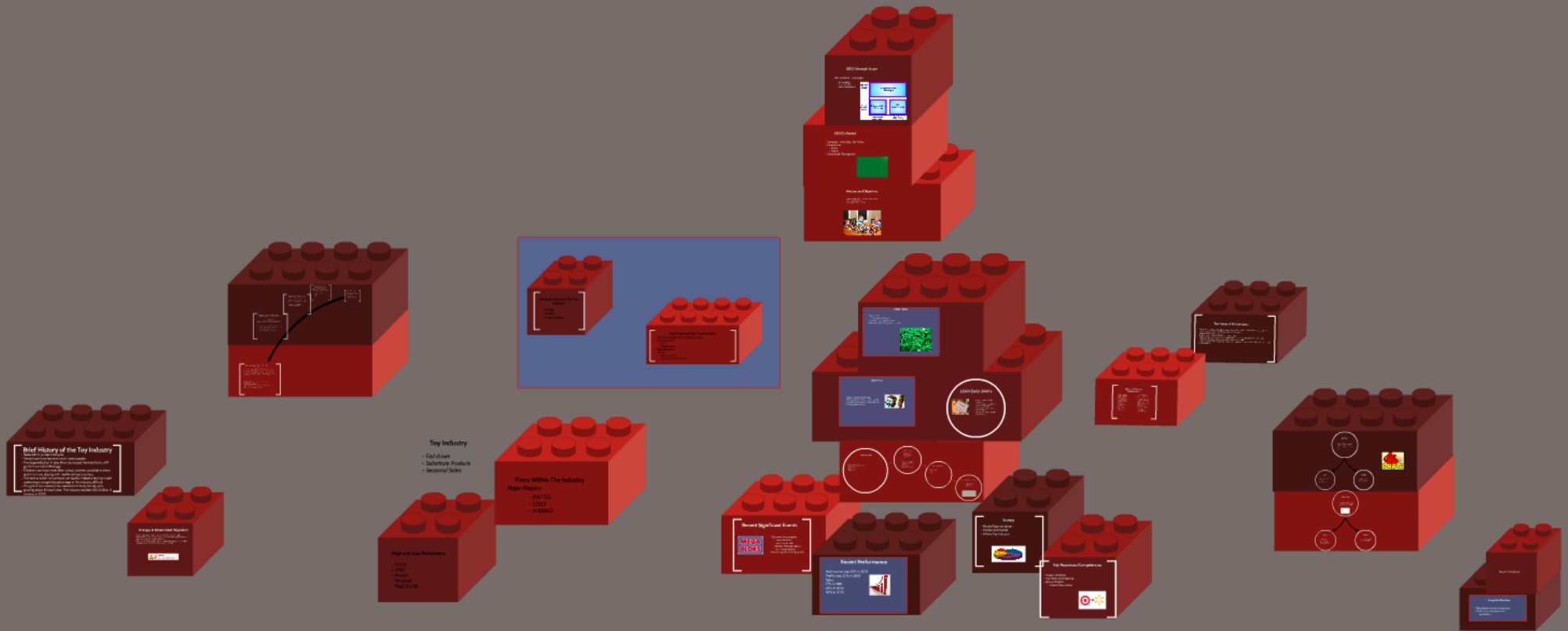




THE LEGO GROUP Harvard Case Solution & Analysis



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Brief History of the Toy Industry

- Reduced its product life cycle
- Trendy toys have become much more popular.
- The large reduction in play time has caused the industry to shift greater towards technology.
- Children now have more after-school activities available to them and in turn are playing with traditional toys a lot less
- The ease at which competitors can rapidly imitate a toy has made sustaining a competitive advantage in this industry difficult.
- The global toy industry has remained relatively steady, only growing about 4% each year. The industry realized \$83.3 billion in revenue in 2010.

Changes in Government Regulation

- Due to globalization, countries are harmonizing their toy regulations
- More and more children are placing toys in their mouth so regulation on the chemicals used to create toys has increased.
- Outsourcing of toy production has also changed the structure of the industry.
- Toys produced in China for American use were recalled



Industry Analysis - Porter's Five Forces

The Bargaining Power of Buyers
The bargaining power of customers determines how much customers can force pressure on margins and volumes. Buyers bargaining power is likely to be high when...

- The product is undifferentiated and can be replaced by substitutes
- Customers have low margins and are price-sensitive
- Switching to an alternative product is relatively simple and is not related to high costs
- Customers could produce the product themselves
- The customer knows about the production costs of the product
- The supplying industry comprises a large number of small suppliers
- They buy large volumes, there is a concentration of buyers

Industry Analysis - Porter's Five Forces

Threat of New Entrants
The opposition in an industry will be the higher, the simpler it is for different organizations to enter this industry. In such a circumstance, new contestants could change real determinants of the market environment (examples would be: market shares, prices, customer loyalty) at any time. There is dependability or dominant weight for response and modification for existing players in this industry. The threat of new entries will rely on upon the degree to which there are barriers to entry. These are regularly:

- Brand loyalty of customers
- Economies of scale (minimum size requirements for profitable operations)
- High switching costs for customers
- High initial investments and fixed costs
- Cost advantages of existing players due to experience curve effects of operation with fully depreciated assets
- Access to raw materials is controlled by existing players

Industry Analysis - Porter's Five Forces

The Bargaining Power of Suppliers
Suppliers comprise all sources for inputs that are needed in order to provide goods or services. Suppliers bargaining power is likely to be high when:

- Suppliers negotiating forwards to obtain higher prices, margins
- They are not fully substituted by a few large suppliers
- They are not fully substituted by a few other and high
- They own an essential facility, but they produce it in small

Industry Analysis - Porter's Five Forces

Threat of Substitutes
A substitute is a different product that can be used in place of another product. The threat of substitutes is high when the substitute is available at a lower price, has a better performance, or is more convenient. The threat of substitutes is high when the substitute is available at a lower price, has a better performance, or is more convenient.

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Industry Analysis - Porter's Five Forces

Power of Suppliers
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Industry Analysis -Porter's Five Forces

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Industry Analysis - Porter's Five Forces

The Bargaining Power of Suppliers

Suppliers comprises all sources for inputs that are needed in order to provide goods or services. Suppliers bargaining power is likely to be high when:

- Supplier integrating forwards to obtain higher prices /margins
- The market is dominated by a few large suppliers
- The switching costs from one supplier to another are high
- There are no substitutes for the particular input

Industry Analysis -Porter's Five Forces

Threat of Substitutes

A risk from substitutes exists if there are alternative with easier costs of better execution parameters for the same reason. They could conceivably pull in a noteworthy extent of business sector volume and thus lessen the potential deals volume for existing players. This classification likewise identifies with reciprocal items. Additionally to the risk of new participants, the danger of substitutes is dictated by elements that incorporate:

- Brand loyalty of customers
- The relative price for performance of substitutes
- Close customer relationships
- Current trends
- Switching costs for customers