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ASSESSOR	TFJ Oosthuizen		
MODERATOR	Dr H Jacobs		
DURATION	3+1 hours (240 minutes)	TOTAL MARKS	300

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	20
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INFORMATION/INSTRUCTIONS:

- **Question papers are to be viewed online and cannot be downloaded.**
- Consult the case study provided and answer **any three (3)** of the possible four questions. Create a cover page with name, student number and then number each question answered – starting each question on a new page.
- Make sure numbering of questions are correct. Submit your answer in a clearly structured (using headings, sub-headings, paragraphs, figures, tables and bullets for listing) and written format, via the turn-it-in link on Blackboard for this module.
- Provide examples (application) only from the case study and make sure you focus on the topic at hand. Read the questions carefully and answer only what is asked.
- This is an **online open-book exam** - relevant study material can be utilised – **No persons** may be consulted. All answers must be originally typed – **NO copy and paste content are allowed from other electronic sources and will be penalized according to turn-it-in criteria.**
- Submit your final answer document in pdf format as ONE document before/by the end of the session closure at 12:30 (afternoon) via turn-it-in – 28 October 2021.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.



LEGO

CASE STUDY

INTRODUCTION

LEGO is a privately held consumer product company engaged in the manufacture and distribution of a wide range of toys, video games and online games. It also offers creativity development products for children, as well as innovative playing and learning techniques. It is the LEGO philosophy that 'good quality play' enriches a child's life – and lays the foundation for later adult life. They believe that play is a key element in children's growth and development, and stimulates the imagination, the emergence of ideas and creative expression.

LEGO inspires and develops the builders of tomorrow

How can children learn to be creative? Through play. Also, through play, children learn new things more easily and acquire soft skills that will support them in the future. That's what LEGO is all about: entertainment and education. Building with LEGO bricks helps kids develop their creativity, increase their problem-solving skills, become more resilient and boost their collaboration and communication skills. As children shape their own worlds with LEGO bricks, they play our part in having a positive impact on the world they live in today and will inherit in the future.

HISTORIC OVERVIEW

The name LEGO is an abbreviation of leg godt which means "play well" in Danish and "I put together" in Latin. LEGO is almost 90 years old. In 1932, master carpenter Ole Kirk Kristiansen had a small workshop in Billund, Denmark. Business wasn't great and before soon, he dismissed his last worker and closed the workshop.

- Pivoting from carpentry to toy making — was the first defining moment for LEGO. Ole lost his wife and he had to take care of his four sons. He was out of business, as his carpentry business closed down. A resourceful man, Ole had an idea: he began making toys. After all, he had all the wood he needed from the carpentry production and lots of creativity. The first LEGO toy Ole made was a wooden duck. This happened 90 nearly years ago and pivoting from carpentry to toy making was the first step that set the organisation up for success.
- "Only the best is good enough", LEGO founder Ole Kirk Kristiansen's motto
Ole's wooden toy business gained momentum and word got out that his toys are of the finest quality. With the help of his son Godtfred, who started working with him side by side, sales picked up and the future somehow looked a little less grim. Everything changed when Ole bought a plastic injection-moulding machine for toy production, the first machine of this type in Denmark. In 1949, the LEGO factory started making 200 different plastic and wooden toys, including Automatic Binding Bricks, a forerunner of the LEGO bricks we know today.
- LEGO is much more than a brick; it is a system built around an idea
With sales picking up around Christmas and plummeting the rest of the year, Godfred felt their LEGO toys were missing something essential. He realized they were giving kids ready-made toys which were not challenging enough. The toys needed an idea and a system built around

it. This way children were able to use their imagination and creativity. This is the second breakthrough moment in LEGO history. Instead of offering kids ready-made toys, LEGO gives them the opportunity to build their toys — a much more challenging activity which kept kids engaged for hours. The LEGO System of Play becomes very successful, and the organisation starts selling it to other countries.

- The bricks that stick together — the third secret of LEGO's success

The kids were happy building something with their own hands and very proud to show their constructions to their parents. But their joy wouldn't last — the constructions were fragile, falling apart at the slightest touch like a card castle. What if bricks could stick together? Godtfried, Ole's son asked himself. He went back to the drawing board and in 1958, he patented the iconic LEGO brick with tubes inside which makes bricks stick together. From this moment on, LEGO became one of the largest toymakers in the world.

LEGO BY NUMBERS AND PEOPLE

Brand value and business growth

Today the LEGO brand value is estimated at \$7.6 billion. This has grown substantially from a low of less than 1 billion Euro annual revenue generated during 2003/4/5 to 5.87 billion Euro in 2020. Over the past 89 years, LEGO has come a long way — from a small carpenter's workshop in Denmark to a modern, global enterprise. Headquartered in Billund, Denmark, the family-owned LEGO Group today focuses on LEGO bricks as core product. Over the years, the LEGO Group perfected the brick, which is still the basis of the entire game and building system. Though there have been small adjustments in shape, colour, and design from time to time, today's LEGO bricks still fit bricks from 1958. The 2,400 different LEGO brick shapes are produced in plants in Denmark, the Czech Republic, Hungary, and Mexico with the greatest of precision and subjected to constant controls.

By 2020 LEGO ranked #1 in the Top 3 largest toy manufacturers in the world followed by Bandai Namco, Hasbro and Mattel, by sales and profits.

It was named "Toy of the Century" twice and is recognized by Reputation Institute as the most highly regarded company in the world when it comes to corporate reputation in 2020. For 2019, the company's revenue registers a 6% growth at \$5.8bn and 69% return on invested capital. 25% of profit goes to the LEGO Foundation which brings learning through play to children in need. The company's products are sold in more than 130 countries where children can play with LEGOs which parents can buy in 570 stores around the world. In 2019 LEGO employed around 16,000 people and still growing. The company, together with its subsidiaries, operates in Europe, the Americas, Africa, Asia and Australia. Each year, the company's portfolio grows by 60% with fresh new products, the latest of which blends augmented reality with building.

LEGO management says, "investing in fluid play — the intersection between digital and physical play — will continue to be a priority." Aiming to add intelligence and behaviour to LEGO Play, the company initiates a visionary partnership with MIT Media Lab USA in 1984. No matter how technologically advanced will the toys of the future be, LEGO's main product is still the traditional LEGO brick. Just six two-by-four bricks can make 915 million different combinations. Kids are literally limited only by their imagination.

The company also co-owns a chain, along with Merlin Entertainments, of Lego-themed theme parks. The chain currently consists of six resorts: Legoland Billund, Legoland Windsor, Legoland Deutschland, Legoland Malaysia, Legoland California and Legoland Florida. The LEGO Group continues to aspire to expand its global presence; eventually reaching children in every country of the world. As of 2018, LEGO was one of the top ten most reputable companies in the world.

Adults also love LEGO

Building LEGOs is a way to strengthen family ties and for parents to spend time with their children. It may come as a surprise, but adults love LEGO as much as kids. In fact, there's a huge community of adult fans of LEGO or AFOLs as they call themselves. They usually gather together to discuss, host conventions and showcase their creativity. So, you might ask, Why do adults build LEGOs?

It's the same as putting together a 5000-piece jigsaw — it's a way to relax and pass the time. But compared to jigsaws, LEGOs develop the user's creativity. When the construction is complete, adults don't play with it, they take pictures and post them on social media for everyone to admire.

The AFOLs love LEGO and LEGO loves them back. They are a valuable group of customers, and the company has found several ways in which to mobilize them: as brand ambassadors, as consumers of bigger purchases and as co-creators in the development of new products. With 300 AFOL communities spread all over the world, LEGO has collected extended knowledge of their members.

Interesting statistics:

- AFOLs collect LEGO bricks from lots of different sets to make colourful MOCs (My Own Creation)
 - Most AFOLs spend between 1–10 hours per week on building with LEGO bricks
 - For each real LEGO designer, there are around 600 hobby AFOL designers who develop new models or theme ideas
 - There are over 600 events for LEGO fans around the world each year, where AFOLs meet.
- Growing in value like vintage cars, LEGOs are a good investment.

Just like cars, art or wine, LEGOs become more valuable over the years. Maybe not every set but some grow by as much as 700%. One example is the LEGO Grand Carrousel's retail price in 2009 was 249 EUR and today, it is sold at EUR2000.

In 2019, LEGO took a significant step to deepen its relationship with their adult fans and acquired BrickLink, the world's largest online community of adult fans. The digital platform boasts 1.1 million members and features a marketplace, software, and a Forum where fans can celebrate and share their creativity.

LEGO South Africa

Brick Up Africa has been proudly distributing LEGO products since 2018. Brick Up Africa shares the passion for the LEGO brand and are determined to grow it further in Africa using their existing warehousing and distribution infrastructure along with their experience in marketing toys. Their drive in spreading the joy of LEGO products in Africa stems from their mission to ensure all children and adults alike have the privilege of playing with this incredible brand.

Tomorrow shines bright for LEGO

Today, the company is still a family business run by Ole's great-grandson, Thomas Kirk Kristiansen as Chairman of LEGO A/S since February 2020. The toymaker has had its own share of business difficulties which the company has managed to overcome by focusing on its mission and corporate values and embracing the online and the eCommerce. In 2009, the LEGO Group was the world's fifth-largest toy manufacturer in terms of sales; eleven years later, it has taken the lead.

LEGO Foundation South Africa

The LEGO Foundation is involved in a multitude of projects across South Africa and with a variety of partners – all aimed at lifting the general quality of education with a play-based learning methodology. The LEGO Foundation shares their overall mission with the LEGO Group – to inspire and develop the builders of tomorrow. It demonstrates their shared heritage and is the guiding star for everything they do. The LEGO Foundation aims to build a future in which learning through play empowers children to become creative, engaged, lifelong learners. They are dedicated to re-defining play and re-imaging learning to ensure children build the broad set of skills they need to thrive and succeed.

The LEGO Foundation's first large-scale project was initiated in South Africa together with Care for Education in 2009 in the Atteridgeville township near Pretoria. Teachers from 25 primary schools were trained in using learning through play tools and pedagogy with some 45,000 students aged 5–12.

There are many urgent reasons for LEGO foundation's presence in South Africa and they have teamed up with several organisations to change the perception of play's importance in learning among parents, schools and governments. South Africa faces a range of challenges in its education system both in terms of quality of learning, drop-out rates and exam failures. These have massive implications not just for the children but for the country as a whole. There are numerous and complex reasons for this situation. The good news is that it is becoming increasingly clear for many stakeholders in South Africa that action is needed – and especially within early learning - to address these challenges.

The LEGO Foundation is involved in a multitude of projects across the country and with a variety of partners including the Department of Basic Education, UNICEF, Sesame Workshop and Care for Education – all aimed at lifting the general quality of education with a play-based learning methodology. Since 2009, they have reached over 1,000,000 South African children with learning through play.

FROM BANKRUPTCY TO INDUSTRY LEADING SUCCESS

LEGO has earned the right to celebrate. Not only are kids playing with more mini-LEGO people than there are human beings on the planet and in 2015, but they were also nominated by Forbes as the most powerful brand in the world. For a company which was on the brink of bankruptcy in 2004, the toy maker has made an amazing turnaround. They restructured, hired a new CEO, and forged more licensing partnerships than ever before. Most importantly, they discovered the secret to some of the world's most successful, low risk innovation strategies.

These strategies helped LEGO create a powerful brand envied by every other company in the world. However, successes like these are not, and need not be, restricted to global companies with billions in revenue. The point of low-risk innovation tools is that one can use them to test ideas in any setting and with any budget. Whether you are a cash strapped start-up or a Forbes 500 firm, sustainable innovation can be your ticket to success.

When LEGO restructured and returned to their core business to climb out of a \$300 million loss in 2004, they realised innovation as usual was not an option. The first step on the toy maker's journey was to embrace their loyal and creative fan base. They hired so-called "adult-fans of LEGO" for their design team and began to crowdsource new toy kits.

Crowdsourcing

As the crowdsourcing venture proved successful, the block manufacturer turned this into a full-blown open innovation policy by opening the LEGO Ideas portal. Through user input, this online platform generates hundreds of new product suggestions each year and uses some subtle and

powerful open innovation techniques, employing everything from social media to peer selection to entice fans into contributing new designs.

Within its factories, LEGO has also embraced a philosophy of rapid prototyping, even to the dismay of its older engineers. David Gram, Head of Marketing at Lego's Future Lab, stated that *"[W]e only develops the few key features that are really needed. A typical engineering mistake is wanting to invent all the things the product might consist of in one go ... we throw that into the market and get feedback from consumers"*. This is a technique blossoming all over the world in Maker Fairs, Hackerspaces, and Makerspaces.

As big and successful as LEGO is, they could still benefit from the many other innovative strategies employed by other industry leaders. For example, there are powerful forces driving both the creation and dissemination of knowledge to the world. As many technical discoveries are driven by access to the latest information, this will be a game changer for business. For start-ups or large companies pursuing numerous risky ventures, information is power, and risk mitigation is the name of the game.

Another powerful shift disrupting traditional industries is the new way software is delivered around the world. Products are now able to be delivered in smaller parts, requiring less commitment from a consumer and turning the decision to use a tool into a "no-brainer." This is even affecting industries with business models based on completely unrelated ways of delivering their services such as medicine.

Information is power, and risk mitigation is the name of the game.

Another important piece of the innovation puzzle is us; you and I. In the end, it is up to us to make the innovation decisions, but how do we decide? This question can be answered by one of the most exciting developments of the 21st century: a symbiosis between two powerful branches of science, behavioural economics, and innovation.

Although these tools are important for an organisation's and entrepreneur's day-to-day work, it is also necessary to know why all this innovation stuff even matters. What happens when we innovate cheaper? What benefits are there to simply lowering innovation risk beyond the obvious? Understanding the basics of these techniques and integrating them into your innovation strategy is what differentiates the disruptors from the disrupted. Up until now, it has been difficult to find them all collected in one place with enough details to be able to successfully use these innovation tools.

Competition never sleeps and LEGO is continuously being challenged by new disruptive innovators attacking their market side-on, such as Minecraft. Although the block manufacturer has a license to produce Minecraft styled pieces, challenges can come from anywhere. Full throttle up the innovation curve requires low risk tools to balance the innovation and fiscal imperatives. LEGO has discovered this. The point is to keep innovating without risking financial ruin.

LEGO - A SUCCESS STORY?!

At The LEGO Group, "Everything is awesome!" The aptly titled theme song for the company's 2014 Blockbuster film, The LEGO Movie, captures the success of a multi-year operational re-alignment that has reaped tremendous financial dividends for the once struggling, globally recognised toy brand. Helped in part by Blockbuster films and headline capturing partnerships with the likes of Star Wars that sustain a strong brand awareness, the secret sauce of LEGO's financial turnaround has been successfully tweaking its operating model to meet changing business model pressures.

Yes, a mere 15 years ago, LEGO found itself on the brink of bankruptcy. Faced with increasing competition from a globalizing economy, video game entrants and mass adoption of the internet, LEGO implemented several poorly prescribed innovation strategies. One such strategy was the hiring of a team of leading young European designers with no toy making expertise. The result was a severe escalation in number of parts (blocks), climbing rapidly from 6,000 to over 12,000 and causing a nightmare for logistics, storage, and infrastructure expansion with no corresponding gain in sales. “Innovative” technologically advanced products, like “Galidor” did not meet the ethos of the LEGO brand and cost more to produce than they were being sold for.

Beginning in 2004, under the new leadership of Jørgen Vig Knudstorp, LEGO went to work to combat evolving business competition, implementing a host of operational improvements that have allowed its business to flourish:

- **Streamlined product line:** Back to the basics. LEGO introduces new products every year but is mindful of the costs of this innovation. The leadership team reduced the number of different LEGO bricks produced, eliminating those that were costly to source, standardizing their design, and thus increasing the team’s ability to react more quickly to consumer trends. Additionally, the company decided to sell off non-core, underperforming business lines.
- **Innovation within reason:** LEGO prides itself on creating unique ways to tap into the needs of its customer through advances in field research and design thinking. In an environment where mistakes can be made cheaply and there are no cost or feasibility constraints, a team called the Future Lab is tasked with generating interesting concepts for the company, even though many of them never end up getting launched. Yet, after the idea generation phase, the business ensures that costs of innovation are clear to designers. LEGO has devised rules regarding the creation of new colours, shapes and ordering of new materials.
- **Small number of suppliers:** LEGO strategically chooses to work with a narrower set of suppliers to stabilize pricing. Previously, engineers had one-off relationships with suppliers, ordering specified products from various vendors and leaving tremendous, costly waste in the system.
- **Focus on large retailers:** Cutting out distribution to some of the smaller retailers, the company can reduce fulfilment costs and eliminate orders that consist of less than a full carton of bricks. Additionally, the organisation works closely with large retailers on demand forecasting, inventory management and product customisation.
- **Proximity of manufacturing facilities:** LEGO has built its manufacturing facilities close to core markets allowing LEGO to get products to store shelves faster and respond quickly to last minute demands. The organisation currently has factories in Mexico, Hungary, Czech Republic, and Denmark and is building a facility in China.
- Lessons learned:
 - LEGO learned to focus on core competencies, and not to be afraid to shut down operations of unprofitable businesses. No boundaries should be placed on idea generation, but strict guidelines limit the chances of creating loss leading toys. LEGO created financial advantages from scale that improve margins and put pricing pressure on competition. They used size and financial might to create physical barriers to entry for early-stage competitors.

LEGO’s business model had historically been guided by two principles: capacity for innovation and commitment to quality. Ironically, a focus on innovation and quality at no costs led to mismanagement of the operating model and a huge drop in profit for the business. As described, LEGO’s current operating model is set up to create unique competitive advantages that have been critical in enabling LEGO to turn around its financial performance.

Yet, despite LEGO's remarkable turnaround, constant evaluation of operating and business model efficiencies is required. LEGO recently announced that it had failed to foresee a jump in demand in Europe and, as a result, may not be able to meet all orders around Christmas time. Until existing factories are expanded, and new factories are built, the organisation must focus on improving its customer demand forecasting capabilities. Under the current operating model, the company's sales team meets monthly to adjust order estimates for the coming month based on sales in the prior month – a system that could require analytical improvement. However, as proven by its commitment to adjust operating tactics to meet business model goals, LEGO will likely address this flaw so that "everything remains awesome" for the company today and beyond.

LEGO – A STRATEGIC APPROACH – MANAGING RISK AND CHANGE

Vision, mission, strategies, values

To understand strategic management, risk, and change at the LEGO Group, you need to understand the company's strategy. The LEGO Group's mission is "*Inspire and develop the builders of tomorrow.*" Its vision is "*Inventing the future of play.*" To help accomplish them, the organisation uses a growth strategy and an innovation strategy.

- Growth strategy

The LEGO Group has chosen a strategy to bring about change that's based on a number of growth drivers. One is to increase its market share in the United States. Many Americans may think they buy a lot of LEGO products, but they buy only about a third of what Germans buy, for example. Thus, there are potential growth opportunities in the U.S. market. The LEGO Group also wants to increase market share in Eastern Europe, where the toy market is growing very rapidly. In addition, it wants to invest in emerging markets, but cautiously. The toy industry isn't the first one to move into new, emerging markets, so the LEGO Group will invest at appropriate levels and be ready for when those markets do move. It will also expand direct-to-consumer activities (sales through LEGO-owned retail stores), online sales, and online activities (such as online games for children).

- Innovation strategy

On the product side, the LEGO Group establishes change and focuses on creating innovative new products from concepts developed under the title "Obviously LEGO, never seen before." The company plans to come up with such concepts every two to three years. One of these examples is LEGO Games System, which consists of family board games (a new way of playing with LEGO bricks) with a LEGO attitude of changeability (obviously LEGO). The company also intends to expand LEGO Education, its division that works with schools and kindergartens. And it will develop its digital business as the difference between the physical world and the digital world becomes more and more blurred and less and less relevant for children.

The LEGO Brand Values:

- Imagination: Free play is how children develop their imagination – the foundation for creativity. Curiosity asks WHY and imagines possible explanations. Playfulness asks WHAT IF and imagines how the ordinary becomes extraordinary, fantasy or fiction. Dreaming it is a first step towards doing it.
- Creativity: Creativity is the ability to come up with ideas that are new, surprising and valuable - and it's an essential 21st century skill. Systematic creativity is a particular form of creativity that combines logic and reasoning with playfulness and imagination.
- Fun: Fun is being active together, the thrill of an adventure, the joyful enthusiasm of children and the delight in surprising both yourself and others in what you can do or

create. Fun is the happiness we experience when we are fully engaged in something that requires mastery, when our abilities are in balance with the challenge at hand and we are making progress towards a goal.

- **Learning:** Learning is about being curious, experimenting and collaborating – expanding our thinking and doing, helping us develop new insights and new skills. We learn through play by putting things together, taking them apart and putting them together in different ways. Building, un-building, rebuilding, thereby creating new things and developing new ways of thinking about ourselves, and the world.
- **Caring:** Caring is about their desire to make a positive difference in the lives of children, for their colleagues, partners, and the world we all live in. Doing that little extra, not because they have to – but because it feels right and because they care.
- **Quality:** For us quality means the challenge of continuous improvement to provide the best play material, the best for children and their development and the best to our community and partners. From a reputation for manufacturing excellence to becoming trusted by all – they believe in quality that speaks for itself and earns us the recommendation of all.

Managing risk during change

The LEGO Group developed an approach to manage risk associated with change in four stages:

- **Stage 1.** Enterprise risk management was traditional ERM in which financial, operational, hazard, and other risks were later supplemented by explicit handling of strategic risks.
- **Stage 2.** Monte Carlo simulations were added in 2008 to understand the financial performance volatility (which proved to be significant) and the drivers behind it to integrate risk management into the budgeting and reporting processes. During the past two years the use of Monte Carlo simulations was refined, as described later in this chapter.

Those two stages were seen mostly as damage control. To get ahead of the decision process and have risk awareness impact future decisions as well, LEGO risk management added:

- **Stage 3.** Active risk and opportunity planning (AROP), where business projects go through a systematic risk and opportunity process as part of preparing the business case before final decisions about the projects are made.
- **Stage 4.** Preparing for uncertainty, where management tries to ensure that long-term strategies are relevant for and resilient to future changes that may very well differ from those planned for. Scenarios help them envision a set of different yet plausible futures to test the strategy for resilience and relevance.

These last two stages were designed to move upstream – or get involved earlier in strategy development and the strategic planning and implementation process.

LEGO Enterprise Risk Management (ERM)

The evolution of ERM toward strategic risk management at LEGO noted that strategic risk was missing from the ERM portfolio until 2006, when things drastically changed. To fix this management gap, CFO instructed Hans Læssøe to establish strategic risk management. "I was a corporate strategic controller who had never heard the term until then," he says. The company had embedded risk management in its processes. Operational risk – minor disruptions – was handled by planning and production. Employee health and safety was OHSAS18001 certified. Hazards were managed through explicit insurance programs in close collaboration with the organisation's partners (insurance companies and brokers). Information

technology (IT) security risk was a defined functional area. Financial risk covered currencies and energy hedging as well as credit risks. And the legal division was actively pursuing trademark violations as well as document and contract management. But strategic risks weren't handled explicitly or systematically, so the CFO charged Hans with ensuring they would be from then on. This became a fulltime position in 2007, and Hans added one employee in 2009 and another in 2011 and so the division started to grow.

LEGO and the Monte Carlo Simulation

In 2008, Hans introduced Monte Carlo simulation into the process. A mathematician by education (MSc in engineering), he started defining how Monte Carlo simulation could be used at. Today LEGO uses it for three areas:

- Budget simulation. The business controllers were asked for their input about volatility, which is combined with analyses based on past performance of budget accuracy. Managers said this helped them understand the financial volatility, so it was part of the financial and budget reporting in 2012. In fact, the first analyses directed top management's attention to a sales volatility that was known but that proved to be much more significant than everyone intuitively believed. This approach has been refined as described by Hans: "We actually stopped this. It was found that the volatility of the business is so significant that we have stopped budgeting altogether, as the process took a lot of effort – too little value as conditions changed. Today we use an estimate process where a small team of lead controllers defines a preliminary estimate for board of directors' discussions. In March (each year) we do a detailed estimate on which we base KPIs, targets, bonus criteria, et cetera. Monthly, we then update the estimate, and hence our financial planning process is more dynamic ... and we do not need the budget simulation anymore."
- Credit risk portfolio. The LEGO Group uses a similar approach as with budgeting, to look at its credit risk portfolio so it can have a more professional conversation with a credit risk insurance partner.
- Consolidation of change and risk exposure. You could multiply the probability and impact of each risk and add the whole thing up. Risk management isn't about averages (if it were, no one would take out an insurance policy on anything). With a Monte Carlo simulation, the LEGO Group can calculate the 3 percent worst-case loss compared to budget and use that to define risk appetite and risk report exposure vis-a-vis this risk appetite.

LEGO's Attitude to Change and Risk Tolerance

As a privately held company, the LEGO Group can't look at stock values, so it looks at the amount of earnings the company is likely to lose compared to budget if the worst-case combined scenarios happen. Not all risks will materialize in any one year, because some of them are mutually exclusive; but a huge number may happen in any one year, as we have seen during the global financial crisis.

What seen so far is more or less damage control during change because it's about managing risks already taken by approving strategies and initiating business projects. Hans decided he wanted to move beyond damage control and be more proactive so he could create real value under conditions of uncertainty, risk and change. Hans came up with a process he calls active risk and opportunity planning (AROP) for business projects.

Active Risk Assessment of Business Projects (AROP)

When the LEGO organisation implements business projects of a defined minimum size or level of complexity, it's mandatory that the business case includes an explicit definition and method of handling both risks and opportunities. Hans says that the LEGO Group created a supporting tool (a spreadsheet) with which to do this. Hans has the following to say on each:

- **Identification** - "where we call upon more stakeholders, look at opportunities as well as threats, and look at threats (risks) both to the project and from the project (i.e., potential project impact on the entire business system)."
- **Assessment** - "where we define explicit scales and agree what 'high' means to avoid different people agreeing on an impact of the change and risk being high without having a shared understanding of the exposure."
- **Handling** - "where we systematically assign risk and/or change owners to ensure action and accountability and include the use of early warning indicators, where these are relevant."
- **Reassessment** - "where we explicitly define the net risk exposure during the change to ensure that we have an exposure we know we can accept."
- **Follow-up** - "where we keep the portfolio of the change intervention / project updated for gate and milestone sessions."
- **Reporting** - "which is done automatically and fully standardised based on the data."

Preparing for Uncertainty and Change

To get further ahead in the decision process, the LEGO Group has added a systematic approach to defining and testing strategies for change. As Hans notes, "We are going one step further upstream in the decision process with what we call 'Prepare for Uncertainty.' This is a strategy process, and we're looking at the trends of the world. The industry is moving; the world is moving quite rapidly. I just saw a presentation that indicated that the changes the world will see between 2020 and 2030 will be somewhere between 10 and 80 times the changes the world saw in the twentieth century, compressed into a decade."

Hans offers the following story to illustrate the forces of change LEGO as business is facing: "My seven-year-old granddaughter came to me and asked, 'Granddad, why do you have a wire on your phone?' She didn't understand that. She'd never seen a wire on a (landline) phone before. It is thus necessary to address that level of change and do it proactively."

- Dealing with strategic scenarios for change

A group of insightful staff members at LEGO (Hans and a few from the Consumer Insight function) defined a set of four strategic scenarios based on the well-documented megatrends defined by the World Economic Forum. Hans commented:

- "We presented and discussed these with senior management first in 2009, prior to their definition of the then 2015 strategies, to support that they would look at the potential world of 2015 when defining strategies and not just extrapolate present-day conditions."
- "Having done that, we then prepared to revisit each key strategy vis-a-vis all four scenarios to identify issues (i.e., risks and opportunities) for that particular strategy if the world looks like this particular scenario."
- "This list of issues is then addressed via a PAPA model whereby a strategic response is defined and embedded in the strategy."
- "This way, we believe that we have reasonably ensured our strategies will be relevant if/when the world changes in other ways than we originally planned for."

Lately, LEGO refined the process and used it actively, the reason being that the original scenarios did in fact not lead to much explicit action. Today, a scenario session is a five-hour workshop where participants focus on one particular strategy (e.g., market entry in China). The workshop is with the management team that owns the strategy and its implementation.

- The first hour they discuss and agree on two key drivers of uncertainty to their strategy (the axes of the 2x2 scenarios). Hans's team comes with a battery of potential drivers

– and they (after some discussion) end up with two – leading to four quadrants of a 2x2 matrix.

- The next two hours the team describes the four quadrants one at a time. First, they individually use post-it notes to write down descriptive elements or key success factors for the scenario (the post-it session is to avoid groupthink). Then they share their descriptions and discuss their way into a reasonably consistent image of that scenario, before they move on to the next.
- The fourth hour is used to define strategic issues – again post-it notes and sharing. Here they are diligently coached to be aware that any issue may be an opportunity (if they choose to pursue this in time). If they do not pursue this, it may become a risk, and if they still don't do anything and the risk materializes, it becomes a problem. The sharing process includes a prioritisation discussion in LEGO's PAPA model.
- The last hour focuses first and foremost on actions to be taken. The team discusses and agrees on explicitly "who is doing what by when" to ensure action on the issues that the team members have themselves decided are important, likely, and fast moving.

The role of Hans's team is to coach the process, including asking provocative questions and ensuring that team members get out of their comfort zone (where the real world is). The process is mandatory for business planning and strategy definition. In 2013 Hans's team was involved with doing 25 of these workshop sessions as the company business plans were to be updated.

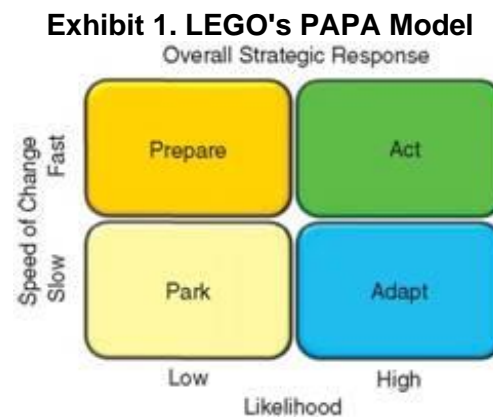
Hans explains, "Once we have decided on the strategy and defined what we're going to do, we test the strategy for resilience. We very simply take that strategy and, together with the strategy owner, discuss: If this scenario happens, what will happen to the strategy? Some of these issues will be highly probable, and some of them will be less probable. Some of them will happen very fast; some others will happen very slowly. This is where the PAPA model comes in."

LEGO's PAPA model

The LEGO Group created what it calls a Park, Adapt, Prepare, Act (PAPA) model, as shown in the exhibit 1, to prioritise problems and opportunities bringing about changes and risks. Hans explains:

- **Park:** "The slow things that have a low probability of happening, we park. But, this does not mean, we forget about them."
- **Adapt:** "The slow things that we know will happen or are highly likely to happen, we adapt to those trends. In our case, this is a lot around demographics. We know children's play is changing, we know demographics are changing, and we know the buying power between the different realms, or the different parts of the world is changing. Although we know children's play is changing, we also know it does not happen fast. So, we adjust, systematically monitoring what direction it's moving in and following that trend."
- **Prepare:** "The things that have a low probability of happening, but, if they do, they materialise fast, we need to be prepared for this. In fact, this is where we identify most of the risks that we need to put into our ERM risk database, make sure that we have contingency plans for them, and apply early warnings and whatever mitigation we can put in place to make sure that we can cover these should they materialize, but they are not expected to."
- **Act:** "Finally, we have the high-probability and fast-moving things that we need to act on now to make sure the strategy will be relevant. In our case, anything that has to do with the concept of connectivity (i.e., mobile phones, Internet, that world) – if we can

see it, we move on it. We know that it is changing so fast, and it's changing the way kids play. It's changing their concepts and their view of the world."



STRATEGY - A RETURN ON INVESTMENT?

A great deal has happened in the LEGO Group's approach to change, uncertainty and manage the risks associated, based on strong support from top management (always needed to develop processes and methodologies) and a strong focus. They have demonstrated value from the efforts they've made. They also have explicitly embedded change and risk management in most of the key planning processes used to manage the organisation:

- The Strategic scenarios used in business planning
- The LEGO Development Process – includes Monte Carlo simulation of overall project risk and/or opportunity exposure
- The Customer Business Planning Process – AROP in collaboration
- The Sales and Operations Planning Process – tactical scenarios
- The Performance Management Process – bonuses based on results, not efforts.

"Managing risks is not the driver of these changes," Hans continues. "I'm not even sure it's a big part. But it's one part. It's a part that has allowed LEGO to take bigger risks and make bigger investments than otherwise would have happened. The Monte Carlo simulation has shown us what the uncertainty is and was a key element of changing the financial planning process to a more dynamic estimation approach. The risk tolerance has shown us how much risk we are prepared to take during the change, between the board of directors and the corporate management team. This has meant that we have been prepared to make bigger supply chain investments than we otherwise would have done and have been able to achieve bigger growth than we ever imagined we could have."

SUSTAINABILITY & COLLABORATION

At the LEGO Group, they're playing their part in building a sustainable future and creating a better, brighter world for the children to inherit. Their focus is on children, environment and people.

Children

When children play, they can build valuable life skills while having fun. Learning through play enables children to solve problems creatively, boosting confidence and resilience.

- Local community engagement - With the help of their passionate LEGO employees they aim to leverage the transformational power of learning through play to inspire and

develop children. Their local community engagement program currently operates in 26 countries, and they are working hard to expand it even further. The program relies on their employees in each country volunteering to help create projects to inspire children. These projects meet local needs, provide opportunities to local children, and leverage the skills and interests of local employees to have the greatest impact on the lives of children.

- **RE:CODE** - Using LEGO Education products, RE:CODE events host hundreds of children who participate in activities that deepen learning on real-world themes while helping to boost 21st-century skills. The events are fun learning environments that steer children toward STEAM (science, technology, engineering, arts and math) subjects while inventing, creating and coding robotic models that solve real issues, mostly around sustainability.
- **Build the change** - Build the Change is a powerful way for children to express their hopes and dreams for the future with LEGO® bricks and other creative materials, plus their own imagination. And it's all done via Learning through Play! LEGO is on a mission to give children a voice and use their ideas and visions to inspire leaders around the world.
- **Supporting children affected by crises** - To help the millions of vulnerable children affected by crises, they launched the Emergency Relief Response Policy along with the LEGO Foundation to provide support for families in armed conflict and natural disaster zones.
- **Play Day** - On Play Day almost all LEGO employees from over the world take the day off work to simply play. LEGO holds 10 major events at their factories and hubs, as well as many more events at offices globally. The aim of Play Day is to let LEGO employees experience the power of play through various play activities, and to equip them to create more playful moments in their everyday life, at work, at home and in their local communities. 2019 marked also the first LEGO Play Day for children where hundreds of children in need of play were invited to come along with their families for a day full of play.
- **Partner with UNICEF** - LEGO has been working with UNICEF since 2015 to implement and advocate for the Children's Rights and Business Principles, a 10-point charter that details how companies can respect and support children's rights and create environments that safeguard children and support their wellbeing. Together with UNICEF, they introduced an industry-first Digital Child Safety Policy to secure the safety and welfare of children interacting with LEGO digital products. And they co-created the 'Child Online Safety Assessment' tool (COSA) so other companies can understand and address children's rights online. A Child Safeguarding Policy was developed to ensure the safety and wellbeing of children engaged directly by LEGO employees and partners. That meant background screening for employees with high child engagement, and contractual obligation for suppliers and partners who engage with children. They also worked together to inform UNICEF's child safeguarding toolkit, a guidance on how to identify and mitigate actual and potential safeguarding risks. It outlines procedures for setting up a child safeguarding policy, rolling out the implementation plan and addressing and reporting potential allegations of inappropriate behaviour towards children.

Environment

LEGO wants to play our part in building a sustainable future and making a positive impact on the planet children will inherit.

- LEGO Replay - is currently available in the US and Canada. LEGO Replay wants to inspire LEGO brick owners to pass along the bricks they aren't using. Play has the power to change children's lives. When children play, they learn how to problem solve, collaborate, and think creatively. The LEGO brick is so unique as it can be rebuilt, replayed with and with LEGO Replay have a new creative life with kids who need it most.
- Sustainable materials – LEGO's ambition is to make LEGO bricks from sustainable sources by 2030 without compromising quality or safety. This a bold ambition as it requires creating entirely new materials. For the LEGO Group, a sustainable material must be responsibly produced, using renewable or recycled resources, generating little or no waste, use sustainable chemistry and be fully recyclable at the end of its life, while meeting their high standards for safety, quality, and durability. LEGO is joining forces with suppliers, research institutions and other industries to develop these new materials for LEGO bricks of the future.
- Sustainable packaging - LEGO bricks are designed to be reused and handed down through generations, but LEGO boxes and other packaging are often disposed of quickly. Some of their packaging contains single-use disposable plastic, which today, isn't sustainable or in some cases able to be recycled. That's why they're taking urgent action to make all their packaging sustainable by 2025.
- Reducing their CO2 impact - LEGO strives to reduce the CO2 emissions from making LEGO bricks. They do this by increasing carbon efficiency and investing in onsite and offsite renewables. They are proud to be balanced with 100% renewable energy due to the investments in offshore wind in Germany and the UK by their parent company KIRKBI A/S. Energy output from investments in renewables currently exceeds the energy used at their factories, offices and stores.
- No waste - How many toys work as well today as the day you bought them? LEGO bricks keep clicking together beautifully. New elements made today fit perfectly with the first LEGO bricks produced over 60 years ago. So, you can play on and on, and many hand their bricks down and down through generations. The quality and durability come from our strict safety process for every new element. LEGO simulates things like children biting, dropping, and stepping on LEGO elements to ensure they don't break.
- In partnership with WWF - Since 2014, LEGO have been part of the Climate Savers Programme, WWF's global platform that engages business and industry on climate and energy. The intention of the programme is to inspire a change in the way companies think about climate solutions. Together with WWF, they have set ambitious targets to ensure more sustainable means of producing LEGO play experiences.

People

LEGO strives to create a responsible place of work for their employees, one in which they can thrive and be their best. They focus on making their workplaces inclusive, safe and motivating, where only the highest standards of ethical business behaviour are maintained. They want all employees to be proud to work for the LEGO Group and help them build a diverse organisation that helps reach and inspire children, regardless of who they are or where they come from.

- A future including everyone - At the LEGO Group, they believe children are their role models. They look to them for inspiration every day and want to help them break down gender stereotypes and create opportunities for everyone. LEGO will continue to play their part in building a more inclusive world, starting with their own organisation.
- Empowering partnerships - The Women's Empowerment Principles (WEPs) outline the best ways businesses can deliver on gender equality and women's empowerment and

by signing up to them, they are committed to taking bold steps, to advance gender equality in their workplace, marketplace, and community.

- A diverse and inclusive LEGO Group - It is their ambition to build a truly diverse and inclusive organisation that helps them reach and inspire all children, regardless of who they are or where they come from.
- Responsible business principles - LEGO treats everyone involved in making LEGO products fairly, whatever their role. They ensure their suppliers and partners share their commitment to business integrity and they help them minimise their environmental impact.

FAST-FORWARD 2021 - LEGO AND A COVID-WORLD

As global pandemics go, the onset of Coronavirus, while forcing many to navigate a treacherously rocky road to begin with, hasn't fared too badly for the toy industry; a global business that has provided support and entertainment to families and children worldwide. Among some of the last year's biggest successes was LEGO, who achieved a 13 per cent growth on sales over the course of 2020.

With an eye for analysis, Utku Tansel LLB, MBA, an industry analyst who has led global research programmes across the entire toys, games, and licensed consumer products spectrum, turns his attention to the Danish toy maker and how shifting focus onto new and emerging audiences has helped the art of LEGO building continue to go from strength to strength.

While the COVID-19 pandemic is forcing some retailers around the world to close, LEGO's statistics changed drastically. LEGO opened 134 new stores – of which 91 were in China (2020). The company plans to open a further 120 new shops during 2021, including 80 in China alone, expanding its total global store count to almost 800 in 2021. Its total employment exceeds 20 000 people globally in more than 40 countries (2021).

This is part of LEGO's business strategy towards – what it calls an 'omnichannel network' – operating in tandem with LEGO.com, whose online visits doubled over the last year. This ties with Mintel's COVID-19 tracker showing that nearly half of British consumers are now doing more shopping online – a double digit increase, since mid-April 2020. LEGO's sales in 2020 grew by a substantial 13 per cent, while operating profit rose by 19 per cent worldwide. Its retail strategy is definitely working.

Merging online and offline

In terms of new product launches, the LEGO Super Mario set from 2020, which uniquely blends physical bricks with online games, has been one of LEGO's most successful theme launches. The product line featured an interactive LEGO Mario figure that collects coins in real life game levels created with LEGO bricks. The figure has LCD screens in its eyes, mouth, and belly to display a wide range of instant reactions to movement, colour and action bricks.

Meanwhile, and collaborating with Universal Music Group, the innovative business continues with this strategy in 2021 with the LEGO Vidiyo release – which taps into kids' creativity through music and play. Through LEGO Vidiyo, children can direct, produce, star in, and share their own music videos, using chart-topping tracks from Universal Music's extensive variety of global artists. Its playful music video maker experience combines physical and digital play as special effect 'BeatBits' and music inspired minifigures integrate and come to life through AR in a vibrant new app.

Mintel Trend Extend My Brand investigates how brands are expanding into new categories and demographics to find new business as well as intrigue consumers. Brands are advised to assess the opportunity to use their company's established image, visibility, and strong brand following to launch new product lines – which LEGO has been utilising very successfully in recent years. They are encouraged to explore new categories and price points that may cater to an extended clientele while still aligning with the brand's identity.

Brick by brick, LEGO, which dominates the construction category globally, has been expanding its presence in toys targeting beyond its core business. In 2020, LEGO entered the arts and crafts category with the introduction of LEGO DOTS – a concept which offers kids a creative canvas for self-expression. Based on multiple shapes and colourful tiles, the line featured bracelets and items for home décor.

Targeting stressed-out adults

Aiming at adults, LEGO also released its 2nd 2D tile building theme, LEGO Arts, in 2020 featuring Andy Warhol's Marilyn Monroe, The Beatles, Marvel Studios Iron Man, and Star Wars The Sith. Mintel Traditional Toys and Games, US, May 2020 report highlights, that consumers need toys and games to bring more than just fun, and brands can connect with adults by appealing to their need for wellness.

With products for adults that can tout stress relief and relaxation, each LEGO Art design is accompanied by a bespoke soundtrack. These soundtracks dive deep into the inspiration behind each wall art set helping adults unwind and fully immerse themselves in the building experience. Our consumer research (US, March 2020) confirms that there is a large market for toys and games for adults, since half of consumers who have purchased toys and games in the previous 12 months have done so for an adult.

Providing a unique retail theatre experience

LEGO stores are a great example of retail theatre with plenty of life-sized models and figurines as well as play stations. Their outlets are seen as a destination in their own right by consumers. Mintel Trend Experience Is All, highlights that most consumers still put a premium on the advantages of shopping in-store, which includes the ability to try products in person and to be helped by customer service associates.

This trend is not about countering online sales, but rather turning shops into enjoyable experiences that promote purchases – either in-store or remotely. Retailers are reminded that shops are windows and adverts as much as places to purchase stock and they need to extend the time people spend there as well as the frequency of their visits.

CONCLUSION

So, what's next? Post-pandemic (or when the restrictions are substantially eased), LEGO should be able to continue to build on its success. So did Hamleys also met a modern crossroad recently, as for consumers, a shopping day out will continue to be a leisure activity and it will increasingly be a choice rather than a necessity.

Overall, the retail landscape will be leaner, the battle for consumer attention will be fierce and when the economy recovers, consumers will remain value conscious. In city centres, particularly, newer, and better retailers are coming in which will undoubtedly help with the footfall into the high street, moving forward. There is a huge opportunity and good retailers will continue to do well. LEGO is in a very good position to capitalise on these.

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Please turn over for the QUESTIONS /

ANSWER ANY THREE OF THE FOLLOWING FOUR QUESTIONS:**QUESTION 1****[100 MARKS]**

To what extent does LEGO embrace change and manage it to ensure that they are well-positioned in the market and ensure growth, considering their current market leader position in the toymaker industry.

Investigate the importance of the following drivers impacting their management decisions and actions in this regard:

- Sustainability - Identify, analyse and apply a framework for sustainability bringing about positive change in the organisation.
- PWC 2020 Trends – Identify, analyse and apply two proposed trends that have a direct impact on LEGO as an organisation during this time-period.

Validate your discussion with an appropriate literature review as well as contextualisation from the case study.

QUESTION 2**[100 MARKS]**

The fourth industrial revolution (4IR) and COVID-19 are two examples of current factors which have brought about a fundamental shift in business, economics, society and governments. Disruption of several industries such as the toy and entertainment industry, within which LEGO is offering its products, has resulted.

Investigate and provide a well-structured debate on:

- the impact of the disruption caused by 4IR on an organisation such as LEGO.
- the relevance of the 4th Wave of management in their newly found capacity to establish the changes needed to overcome the 2004 bankruptcy threat.

Validate your discussion with an appropriate literature review as well as contextualisation from the case study.

QUESTION 3**[100 MARKS]**

LEGO has been up and down the scale of business success. It is performing in a continuous changing and evolving business context. The fifth wave supported by the Fifth discipline of Peter Senge, is a proposed framework to facilitate change within this demanding context.

Provide a detailed presentation of the five (5) principles of the Fifth discipline presented by Peter Senge for developing a learning organisation and analyse how each of these five principles has relevance to the LEGO organisation, to allow LEGO to successfully embrace change.

Validate your discussion with an appropriate literature review as well as contextualisation from the case study.

QUESTION 4**[100 MARKS]**

Consider the business context, prior to COVID-19 as well as the subsequent impact of COVID-19 on LEGO's business and industry, as presented in the case study. Investigate, analyse and debate the value of the following drivers in facilitating risk and managing change, post the 2004 bankruptcy threat:

- innovation,
- collaboration, and
- knowledge management.

Validate your discussion with an appropriate literature review as well as contextualisation from the case study.

END OF ASSESSMENT