



Marketline

Lego AS

Value Chain Analysis

MLVC002-015

Table of Contents

[Company Overview](#)

[Value Chain Overview](#)

[Inbound Logistics: Analysis](#)

[Inbound Logistics: Burning Issue – Quest for sustainability](#)

[Operations: Analysis](#)

[Operations: Burning Issue – Revenues surge despite pandemic](#)

[Outbound Logistics: Analysis](#)

[Outbound Logistics: Burning Issue – Distribution operations overhauled](#)

[Marketing & Sales: Analysis](#)

[Marketing & Sales: Burning Issue – Social media has become key marketing tool](#)

[Service: Analysis](#)

[Service: Burning Issue – Lego renews focus on creating immersive in-store experience](#)

[Appendix](#)

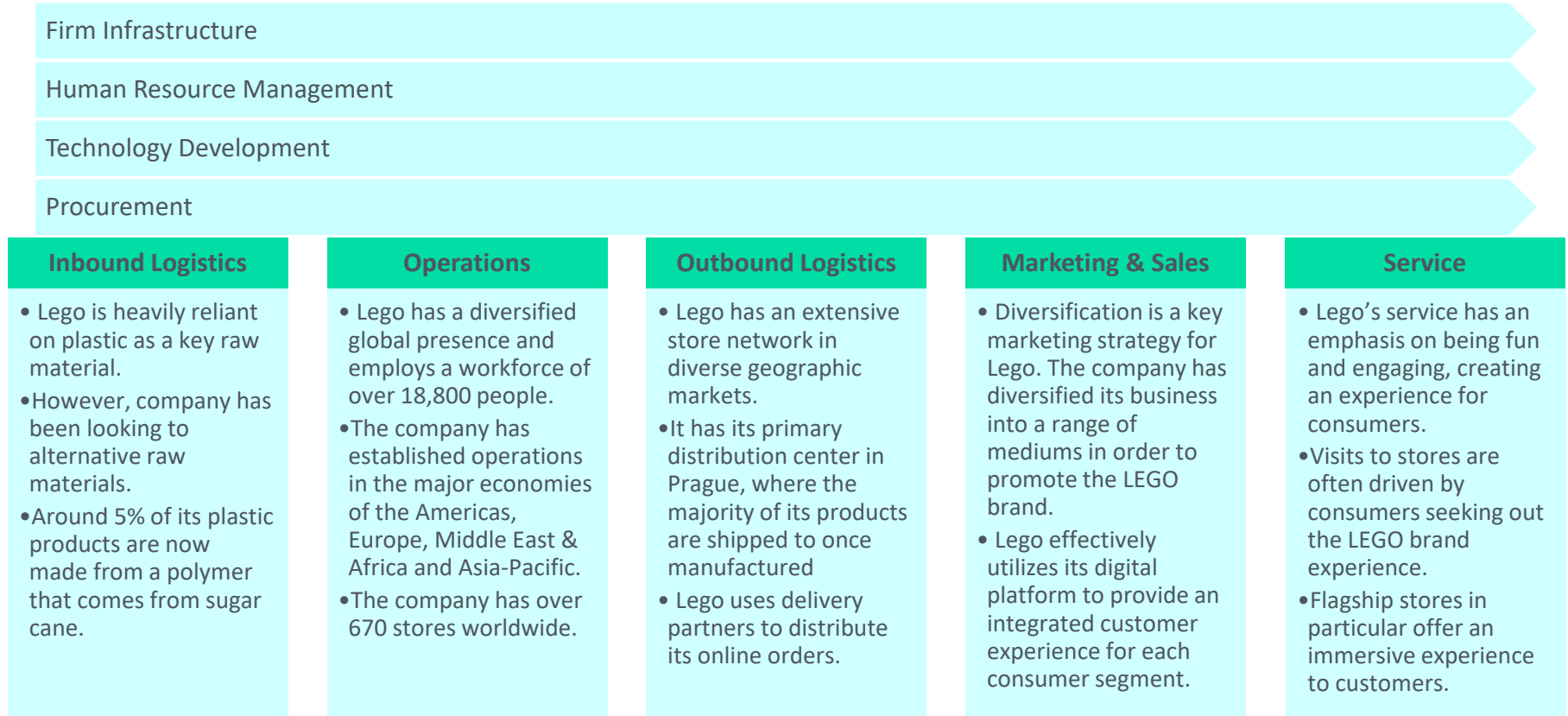
Company Overview

Lego AS (Lego) is a Danish company that designs, manufactures and markets a wide range of toys and play materials

- Lego was founded in 1932 by the Kirk Kristiansen family who still maintain ownership of the company. Lego is one of the leading toy manufacturers worldwide and as well as its iconic brick, now offers a wide range of learning toys, video games and online games for different age groups.
- The company markets products under the LEGO brand name. It has presence across Europe, the Americas, Africa, and Asia-Pacific. Lego is headquartered in Billund, Denmark.
- Lego is a toy manufacturer that has integrated forwards into retail operations. The toy manufacturer and retailer has been incredibly savvy in its techniques, building Lego into a huge brand that now produces films as well as educational and play experiences, which all bring in significant revenue, as well as driving sales of Lego products.
- The company has over 670 stores worldwide, including 97 Lego stores throughout the US, 10 in Canada, and 40 stores across Europe, as well as retailing its products through its e-commerce site and through other retailers.
- Lego has had a strong focus on sustainability in recent years. In 2018, Lego started producing pieces made from plant-based polyethylene, the first of many steps toward achieving its mission of making all bricks sustainable by 2030. Around 5% of its plastic products are now made from a polymer that comes from sugar cane.
- Lego also has a goal of recycling 100% of its operational waste by 2025. Lego currently recycles 91% of all waste, including 100% of the plastic waste from its molding machines.

Value Chain Overview

The value chain is composed of Primary Activities – Inbound Logistics, Operations, Outbound Logistics, Marketing & Sales, and Service – and Support Activities – Firm Infrastructure, Human Resource Management, Technology Development, and Procurement.



Inbound Logistics: Analysis

Plastic, a controversial material that causes significant environmental concern, is a key raw material for Lego

- With the iconic plastic brick at the heart of its business model, Lego is heavily reliant on plastic as a key raw material. However, amid growing environmental concerns and in a move towards more sustainable business practices, Lego has been looking to alternative raw materials to plastic.
- The company manufactures between 110 and 120 billion plastic pieces each year. Currently, around 80% of these are produced from oil-based plastics.
- In 2018, Lego started producing pieces made from plant-based polyethylene, the first of many steps toward achieving its mission of making all bricks sustainable by 2030. Around 5% of its plastic products are now made from a polymer that comes from sugar cane.
- Other suppliers to Lego include suppliers of packaging, parts and finished goods.
- All suppliers to Lego must adhere to the company's Responsible Business Principles. These principles set out expectations for its suppliers and partners and relate to ethics, people, children and the environment.
- Lego arranges regular third-party audits of its suppliers performance and works to address improvement areas. Audits take place annually in high-risk countries, bi-annually in medium-risk countries and periodically in low-risk countries.

Inbound Logistics: Burning Issue

In its quest for sustainability, Lego set a target to manufacture all of its products from sustainable materials by 2030.

The toy industry as a whole has come under fire in recent years as growing awareness surrounding plastic pollution has entered the public consciousness. The way in which plastic is made and the sheer volume that is produced, has proved to be extremely damaging to the environment. Lego manufactures between 110 and 120 billion plastic pieces each year. Currently, around 80% of these are produced from oil-based plastics. It has been estimated that by the middle of 2015, 600 billion LEGO parts, made from a resilient plastic known as acrylonitrile butadiene styrene (ABS), had been produced. As a toy manufacturer that has plastic bricks at the heart of its business structure, Lego has been keen to create a more environmentally friendly image. This has involved a shift to more sustainable business practices and has involved significant investment in finding an alternative to oil-based plastics. In 2018, the company set a target to manufacture all of its products from sustainable materials by 2030.

In 2018, Lego started producing pieces made from plant-based polyethylene, the first of many steps toward achieving its mission of making all bricks sustainable by 2030. Around 5% of its plastic products are now made from a polymer that comes from sugar cane. In June 2021, Lego unveiled a prototype for a brick made from recycled drinks bottles. The Danish firm has been searching for a recycled material that can produce bricks that match the quality of its current oil-based plastic bricks. Vice President for Environmental Responsibility, Tim Brooks, stated that the challenge has been finding a sustainable product that is “as durable, strong and high quality” as regular bricks. The prototype will be subject to further testing, but the company hopes to begin retailing recycled plastic bricks within the next two years. Should further testing prove successful, Lego’s new recycled plastic brick could accelerate the company’s transition to purely sustainable materials.



Operations: Analysis

Lego's main operations are the development, production, marketing and sale of play materials

- Lego adheres to strict quality measures in the manufacture of its products. The company's manufacturing facilities are certified according to ISO 9001:2015, ISO50001:2018, and FSC quality standardization.
- As a global provider of toys and play materials, the company is subject to several regulations in the areas of manufacturing practices, product safety and hazardous substances. The company's facilities and operations are subject to regulations by various federal and state agencies under the Consumer Products Safety Act, the Federal Hazardous Substances Act, and the Flammable Fabrics Act, and consumer protection in its international markets.
- Lego has a diversified global presence and employs a workforce of over 18,800 people. The company has established operations in the major economies of the Americas, Europe, Middle East & Africa and Asia-Pacific. It has five manufacturing plants in Denmark, Hungary, Czech Republic, Mexico, and China. Lego operates with a network of 37 sales offices, with four regional hubs located in the US, the UK, China and Singapore.
- The company has over 670 stores worldwide, including 97 Lego stores throughout the US, 10 in Canada, and 40 stores across Europe, as well as retailing its products through its e-commerce site and through other retailers.
- Lego is rather unique as a toy retailer in the sense that it is a toy manufacturer, integrating forwards into retail operations. The toy manufacturer and retailer has been incredibly savvy in its techniques, building Lego into a huge brand that now produces films as well as educational and play experiences, which all bring in significant revenue, as well as driving sales of Lego products.

Operations: Burning Issue

COVID-19 impacted the toy industry, but Lego saw its revenue surge and market share grow

The COVID-19 pandemic has had widespread implications for a range of markets and industries across the globe. With many countries implementing social distancing measures and nationwide lockdowns, many retail operations and leisure attractions were forced to close. What's more, as measures were eased, social distancing rules have meant that many were unable to reach full capacity. Lego was forced to close its bricks-and-mortar stores, while its Legoland locations were also temporarily shut.

However, despite such difficulties, Lego saw its revenue in the first half of 2020 surge by 7% compared to the same period in 2019. The company saw its market share grow in numerous countries as the company's growth outpaced the toy industry. E-commerce was largely responsible for this growth, with LEGO.com seeing 100 million visitors in H1 2020, double the number of visitors seen in H1 2019.



This strong growth continued in the second half of 2020, helped by the easing of lockdown measures in many countries. For the full 2020 year, Lego saw its revenue grow by 13% compared to 2019. E-commerce continued to be a driving force for the company, with LEGO.com seeing a total of 269 million visits in 2020, almost double the number seen in 2019.

Bricks-and-mortar stores continue to be important for the company, with Lego opening 134 new LEGO branded stores worldwide in 2020, 91 in China including two flagship stores, taking the total number of LEGO stores worldwide to 678.

Outbound Logistics: Analysis

The outbound logistics stage is responsible for distribution, transportation and the storage of goods.

- Lego has an extensive store network in diverse geographic markets. At the end of December 2020, Lego operated through a network of around 678 stores across the world. The company also retails its products through a variety of other leading retailers, including Walmart, Tesco, and Amazon, as well as smaller chains and independent stores. The company also operates its own e-commerce site. As a result, it requires significant outbound logistics operations to get its products to customers worldwide.
- The company has its primary distribution center in Prague, where the majority of its products are shipped to once manufactured. From there, its products are shipped to warehouses across the world and distributed to retailers.
- As well as its facility in Prague, Lego has warehouses in North America and Eastern Europe.
- The company has created a highly efficient manufacturing and outbound logistics system, with the whole process from brick moulding to distribution taking ten days, while delivery to retailers can take as little as three to four days.
- Lego sees a seasonal surge in demand during the weeks leading up to Christmas and, as such, hires additional workers to ensure factories and logistics run smoothly and avoid delays.
- Lego uses delivery partners to distribute its online orders. This was previously DHL in some markets, with this changing in 2019 to DPD.

Outbound Logistics: Burning Issue

Lego overhauled its distribution operations a number of years ago in order to improve profitability

In 2004, Lego found itself facing severe financial difficulties. A key reason behind its financial woes was the high distribution costs it was facing. As such, the company overhauled its operations in order to reduce its expenses and remain competitive. The company began by shutting a number of its warehouses and distribution centers in Europe and consolidating these into one single distribution facility in Prague, the Czech Republic. The company simultaneously made efficiency improvements to its manufacturing processes. Relocating its main distribution center to Prague also led to Lego overhauling its transportation network and the way in which its products were shipped in and out of the distribution facility. Prior to its overhaul, the company had used 55 transportation providers to ship goods in and out of its 11 warehouses across Europe. The consolidation of its distribution centers to the main facility in Prague enabled Lego to downsize to just 10 international carriers capable of serving European and Asian markets.

Lego has now created a highly efficient manufacturing and outbound logistics system, with the whole process from brick moulding to distribution taking ten days, while delivery to retailers can take as little as three to four days. This has enabled the company to compete with other toy manufacturers while reducing its operational costs.



Marketing & Sales: Analysis

Lego has an effective marketing strategy that has enabled it to outpace the growth of the toy industry

- Diversification is a key marketing strategy for Lego. The company has diversified its business into a range of mediums in order to promote the LEGO brand. The LEGO Movie franchise and The LEGO Batman Movie are key examples of this, with these helping to raise the profile of its licensed products whilst also promoting the company's key philosophy of 'play'.
- A number of LEGOLAND theme parks have been opened in the UK, US, UAE, Malaysia, Japan, and Germany. The company has also launched video games based on its LEGO product line.
- The company responds well to its consumer base, ensuring that it markets to its target audience effectively. A key example of this is the introduction of its LEGO Friends line aimed towards girls after research revealed that the majority of its consumers were boys.
- A further successful marketing strategy has been partnering with high profile brands including Disney, Marvel, and DC Comics to create LEGO playsets based on licensed characters. These significantly generate publicity and drive sales.
- Lego effectively utilizes its digital platform to provide an integrated customer experience for each consumer segment. For example, the company has developed LEGO Life, which is a social network app and is aimed at children under the age of 13. Users can share pictures of their LEGO creations and comment on the photos posted by other users. Lego also targets its adult consumer base through its LEGO Ideas online community.
- A further key marketing strategy for the company lies in its links with the education sector. The company has promoted the educational benefits of its bricks, which particularly appealed to consumers during school closures amid the COVID-19 pandemic.

Marketing & Sales: Burning Issue

Social media has become a key marketing tool for Lego, particularly during the COVID-19 pandemic

The proliferation of advertising channels brought about by the advent and growth of digital advertising provides advertisers with a wealth of options as they look to promote their goods and services to the target audience. Lego has embraced digital marketing and effectively reaches its target consumer segments through such means. As well as using its digital platform to engage with consumers through apps such as LEGO Life, the company has also driven engagement through its social media channels. The Lego Facebook page has over 14 million followers and is regularly updated with new LEGO products and LEGO creations. Its Instagram page provides similar content and both platforms show strong consumer engagement, with numerous likes and comments on posts.



Lego has links to the education sector and is 'parent-approved' with the toy manufacturer appealing to parents for educational purposes. This is something that the company leaned upon during the pandemic, with the launch of its social media campaign 'Let's Build Together'. This was launched as many countries went into lockdown and educational settings were closed. As part of the campaign, the company offered videos, daily build challenges and Lego lessons. Parents and children were then encouraged to share their creations on social media using the #LetsBuildTogether hashtag. This campaign helped to drive growth to the Lego website, with the company seeing 100 million visits to LEGO.com in the first half of 2020, double the number of visits in the first half of 2019. The company also saw nine million users on LEGO Life and two million downloads of digital building instructions.

Service: Analysis

Lego focuses on offering an immersive customer experience through its stores and online

- Lego's service has an emphasis on being fun and engaging, creating an experience for consumers. Visits to stores are often driven by consumers seeking out the LEGO brand experience. Flagship stores in particular offer an immersive experience to customers.
- E-commerce has become increasingly important during the COVID-19 pandemic and Lego offers an effective e-commerce platform that has a range of features across its category, product and checkout features. The website offers detailed drop-downs with the ability to filter products based on age, theme or interests.
- The company offers an aftercare service, with consumers able to contact representatives via email, live chat or by phone. Customers can report broken or missing bricks on the company's website, as well as find building instructions online.
- Lego's aftercare experience goes beyond general queries, with the company having created an online community where consumers can share their creations. LEGO Ideas allows customers to join the community and submit pictures of their LEGO builds, which other members of the community can comment on. What's more, the LEGO Ideas website enables users to submit an idea, with the goal being to become a LEGO designer. Consumers can click a button on the website to view ideas that made it to production and are now available in the LEGO store.
- At every point of service, Lego focuses on creating an innovative and immersive customer experience.

Service: Burning Issue

Lego renews focus on creating an immersive in-store experience despite e-commerce shift during pandemic

In June 2021, Lego opened a New York flagship store, with the company stating that it represents the future of experimental retail. The new store is set over two floors and creates an immersive experience, with New York City landmarks depicted in Lego installations, a personalization studio in which consumers can make customized Lego-brick portraits, as well as a station for creating customized mini Lego figures.

The opening of this new store forms part of the company's strategy to create a more immersive retail experience for its customers, with plans to recreate some of the fixtures at its flagship store into its mainline store network.

The company has stated that its stores and the experience they offer remain at the heart of its business, despite the significant shift towards e-commerce. This trend towards online retail became particularly pronounced throughout the pandemic.



While many other retailers look to improve their e-commerce offering in response to recent trends, Lego is following a different strategy. Lego's Chief Commercial Officer, Colette Burke, has stated that there is still a growing trend towards people visiting Lego stores for "high-quality, entertaining brand experiences".

Appendix

Ask the analyst

We hope that the data and analysis in this presentation will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at reachus@marketline.com.

About MarketLine

At MarketLine, we deliver accurate, up-to-date insights on over 100,000 companies, 4,000 industries, 215 countries, and 1,600 as well as the latest news and financial deal information from within your market and across the globe.

Established in 1997 when the Internet was in its infancy, we recognized the need for a convenient and reliable data service to help our clients understand local and global markets and the companies operating within them.

In today's information-rich world, sifting fact from fiction to pick out what's relevant and what's up to date has become the new 'holy grail' in business information provision.

Our 400 dedicated research professionals aggregate, analyze, and cross-check facts in line with our strict research methodology, ensuring a constant stream of informative and accurate information is added to MarketLine every day.

Disclaimer

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, MarketLine.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that MarketLine delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such MarketLine can accept no liability whatever for actions taken based on any information that may subsequently prove to be incorrect.

MarketLine

John Carpenter House, John Carpenter Street
London, United Kingdom, EC4Y 0AN

T: +44(0)203 377 3042

E: ReachUs@MarketLine.com

W: www.marketline.com