

STRATEGY

# Innovating a Turnaround at LEGO

by David Robertson and Per Hjuler

**FIVE YEARS AGO**, the LEGO Group was near bankruptcy. Many of its innovation efforts – theme parks, Clikits craft sets (marketed to girls), an action figure called Galidor supported by a television show – were unprofitable or had failed outright. Today, as the overall toy market declines, LEGO’s revenues and profits are climbing, up 19% and 30% respectively in 2008.

Central to LEGO’s turnaround is a new structure for strategically coordinating innovation activities, led by a cross-functional team: the Executive Innovation Governance Group. LEGO managers take a broad view of innovation that includes not only new products but pricing plans, community building, business processes, and channels to market, all of which can be powerful business drivers. The company distributes responsibilities for innovation in all areas across four groups and expects different degrees of innovativeness from each of them.

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Reprint F0909B

## How LEGO Organizes Innovation

**THE COMPANY** splits its innovation efforts into eight distinct types, from product development to business-model innovation. It divides responsibility for them across four areas of the firm: the functional groups, the Concept Lab, Product and Marketing Development, and a unit called Community, Education, and Direct. The areas’ expected innovativeness ranges from incremental (“low”) to groundbreaking (“high”).



### The Executive Innovation Governance Group

Determines LEGO’s innovation goals and strategy, defines the new-product portfolio, coordinates efforts so they’re mutually reinforcing, delegates authority, allocates resources, and evaluates results to ensure that all activities support the company’s overall strategy

Keith Negley



### Functional Groups

Create core and enabling business processes in functions from sales to manufacturing and supply chain



INNOVATION LEVELS

#### AREAS OF INNOVATION

**Core processes** (sales, operations, financial planning)  
**Enabling processes** (forecasting, marketing planning)



### Concept Lab

Develops fundamentally new products and play experiences; located in its own building



#### AREAS OF INNOVATION

**Messaging** (advertising campaigns, websites)  
**Offerings** (products, packaging)  
**Platforms** (toys’ technology elements)



### Product and Marketing Development (PMD)

Develops the next generation of existing products and innovates on existing play themes (for instance, “pirates”), packaging, and campaigns



### Community, Education, and Direct (CED)

Supports customer communities and taps them for product ideas; manages the LEGO retail chain, the online store, and educational-market offerings; creates online play experiences



#### AREAS OF INNOVATION

**Customer interaction** (communities, customer service)  
**Sales channel** (retailers, direct to consumer)  
**Business model** (revenue, pricing)

## LEGO Games: How LEGO developed its newest product line

**LEGO GAMES** are board games that players construct from classic LEGO bricks. They can be built in innumerable ways, and players can change the rules to, for example, emphasize strategy over luck. The product launched in the UK and Germany in August 2009 and will be marketed globally in 2010.

### MISSION

The Executive Innovation Governance Group asks company managers to develop a new portfolio of products including toys with incremental changes as well as those that are “obviously LEGO but never seen before.”

### CONCEPT

Drawing on input from customer communities supported by CED, the Concept Lab invents LEGO games, a new product category. Though most LEGO products are bought by fathers for their sons, games are purchased more often by mothers and played by the whole family.

### EXECUTION

Components including soft-sided dice with interchangeable faces require new manufacturing capabilities, which are developed by the supply chain and manufacturing teams.

### COMMUNITY

CED supports sales through LEGO stores and online retailers and will help form an online community around the product.

### LEGO GAMES 2.0

After launch, responsibility for LEGO games shifts to PMD, which will seek ideas from the user community and others to develop the next generation of games.

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