

**K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH**

**Business Perspectives in the Global Context**

Class: PGDM Comm – 2017-19 BATCH

I TRIM – END TERM EXAM

Marks: 50

Duration: 3 hours

Date : 29/09/2017

- 1) **Analyse the following case study and present your recommendations based on the key takeaways from it.** (20)

**Building the Lego Case**

Sure, having a global blockbuster film with your company's name in the title is good for business. But the huge box office numbers racked up by *The Lego Movie* (US\$469 million around the world) don't entirely explain the fantastic results Lego posted in 2014. Total sales rose 13 percent, and profits—at a record \$829 million—surged 15 percent. "Everything is awesome!" proclaimed CEO Jørgen Vig Knudstorp, echoing the film's bouncy theme song, which was performed at the Oscars. But, he continued, "without *The Lego Movie*, we would have continued our growth trajectory."

And what a trajectory it has been. Over the past ten years, sales have more than quadrupled. Last year, the Danish company added 893 employees, opened new offices in Shanghai and London, passed Mattel to become the leading toy manufacturer in the world, and topped Ferrari as the world's "most powerful brand" in the rankings by consultancy Brand Finance. Knudstorp pointed out that much of the company's market is now in China, where the movie never even opened. "The fact that it didn't play there means that our more than 50 percent growth rate in China was helped by the general strength of our marketing and assortment," he said. "The movie is an important event, but it is far from the only explanation."

Another explanation is efficiency. The company's operating margin was 34 percent last year, which is extraordinarily high, particularly when you consider that it makes what might appear to be a commodity: plastic, brightly colored bricks. Lego probably has the world's most efficient operating model. Its logistics are unparalleled. Every brick in every box of Legos, no matter how large or small, comes with a numeric code etched inside. If there is ever a missing piece, or a piece that does not fit, Lego will send out a replacement immediately, and then track down exactly what went wrong in its manufacturing and supply chain. Lego hasn't had a single product recall in more than half a decade.

While Lego's logistics and efficiency are fairly well known, the real, unheralded secret to the company's success is its serious study of play. Most toy companies—like all companies—conduct market research by sending out surveys and forming focus groups. Lego behaves more like an anthropology department. It sends people out into the world to study kids in their natural habitat. Through the Lego Foundation, it is the largest private sponsor of play research, globally. Play is simply part of the company's DNA. (In fact, the word Lego is an abbreviation of the Danish "*leg godt*," meaning "play well.") Lego has attacked the question of *why* we play from many angles, including watching kids' brains under an MRI to see which parts light up when playing with different toys.

About ten years ago, when the extraordinary rise of Lego was just beginning, company researchers noticed that kids who were most engaged in sustained play were focused on mastering a skill, on making something. Whether that thing was landing a trick on a skateboard, or constructing a Millennium Falcon, skills-based play has been and will continue to be the key to Lego's mission, sales, and long-term profits.

Most companies study consumers to figure out how they make decisions, in order to hijack the decision-making process and sell more products. But Lego does not simply wish to understand why kids play. The company has a different approach to its research, one that is far more ambitious. It aims to understand children's cultures, the interplay between kids and their

parents, and the social dynamics that shape people's aspirations. The company's sustained efforts toward achieving a deeper comprehension into consumer behavior give it a unique perspective on what's important to kids and how to construct meaningful experiences for them. Lego's focus and sense of direction are unparalleled in the toy industry.

It also helps account for a crucial aspect of Lego's success. To a degree, Lego's bricks can be compared to a smartphone—that rare purchase where both kids and parents feel that they have come out as winners. A mobile phone gives parents a way to reach their kids at any time; and it gives kids independence, with a direct link to their friends, games, social media feeds, and photos. Lego similarly provides satisfaction to both the adult buyers and the child recipients. Parents see their children concentrating, making stuff, and learning—without the intermediation of a screen. Kids get to make stuff, play with that stuff, tear it down, build it up, master a new skill, and negotiate a new world. There's a lot of value for both parties. That feeling of, "Look what I did!" is a fundamental thrill for us all, long after we've grown up.

Ironically, young people's obsession with their smartphones and apps may increase their connection to Legos. The rise of social media actually feeds into the desire for mastery that Lego inculcates. The ubiquity of Instagram, Facebook, and GoPro puts pressure on kids to stand out in the crowd, and put their own stamp on the world. Children today are more adept than any prior generation at posting unique images and craving originality. Lego calls this essential aspect of play "the joy of building, and the pride of creation."

Lego's deeply researched perspective on kids also contributes to the sense of fun inherent in its products. The company has a sense of humor and irreverence. It's filled with funny twists. In some ways, *The Lego Movie* was the greatest (and certainly the most mass-market) reflection of these attributes. Its overall message—that one need not follow the instructions, or build exactly according to plan, and keep everything in its finished, perfect form—might be the best representation of the company's ethos. Lego is a world in which imagination rules and "everything is awesome, when we're living our dream," as the song's refrain goes. It would have been impossible for the song, and the film, to exist were it not for Lego's commitment to understanding the world beyond the company walls.

### **The Case within the Case**

Flashback to the 1960s when plastics were the future and companies proudly advertised "Better living through chemistry." It was obviously a different time with different understandings and attitudes towards petrochemicals. So when the Danish giant Lego partnered with Shell, it no doubt seemed like a perfect fit between a toy company built on playful engineering partnering with a science, engineering and chemistry company that provided the company with its raw materials.

Flash ahead to the present day and we quite obviously live in a very different world. Decades of unfettered petrochemical production and consumption have pushed our climate and environment to the brink of irreparable harm with parents becoming more concerned about what type of Earth their children will inherit.

Seizing on this concern, Greenpeace sought to get at Shell's plan to drill in the Arctic through one of its long-standing partners, Lego, with a creative digital video that showed a pristine Arctic landscape comprised of the iconic toy bricks being decimated by an inflow of toxic black oil. The video quickly gathered 6 million views, and demonstrated both the swift, compelling capabilities of well-executed social media activism, while also showing how in a hyper-connected, hyper-transparent digital world, companies must be very selective about whom they do business with. When it came time to renew its contract with Shell, Lego ultimately chose not to and ended a partnership of over 50 years.

In a smart bit of branding and a better bit of business, Lego sought to regain the narrative and re-assert its long-held positive reputation by undertaking an ambitious suite of sustainable goals for itself, while also developing key strategic partnerships with agencies like the World Wildlife Fund .

The centerpiece of this initiative is Lego's Sustainable Materials Center, which is expected to recruit more than 100 employees in an effort to find and implement sustainable alternatives to existing materials by 2030. And just to prove how dedicated they are, Lego recently announced that they'll be putting 1 billion DKK behind the cause. This endeavor will also extend to packaging and end-of-use scenarios for the colorful bricks, characters and accessories.

As Jørgen Vig Knudstorp, CEO and President of the LEGO Group, puts it:

This is a major step for the LEGO Group on our way towards achieving our 2030 ambition on sustainable materials. We have already taken important steps to reduce our carbon footprint and leave a positive impact on the planet by reducing the packaging size, by introducing FSC certified packaging and through our investment in an offshore wind farm. Now we are accelerating our focus on materials.

Lego's comprehensive efforts also include fostering creative partnerships, such as those with the WWF wherein both groups are working to determine a sustainable materials strategy. This includes aligning on a common definition of what sustainability means in the toymaker's context and encompasses all aspects of the product, its materials, production and packaging, and ultimately, how and where it ends its "life."

By committing to a more sustainable tomorrow, Lego wants to ensure that future generations of children can dream and build all the exotic and breathtaking natural worlds of those that came before them while also creating worlds not yet imagined.

According to Kjeld Kirk Kristiansen, owner of the Lego Group: "Our mission is to inspire and develop the builders of tomorrow. We believe that our main contribution to this is through the creative play experiences we provide to children. The investment announced is a testament to our continued ambition to leave a positive impact on the planet, which future generations will inherit. It is certainly in line with the mission of the LEGO Group and in line with the motto of my grandfather and founder of the LEGO Group, Ole Kirk Kristiansen: *Only the best is good enough.*"

To bring this mission to life, Lego launched **Build the Change**, a global initiative which was inspired in part by the hundreds of letters the company receives from children excited to share their ideas, many of which involve environmental and animal welfare. Jennifer DuBuisson, senior manager, environmental sustainability at LEGO, elaborates, "A few years ago we got this letter from a 9-year-old that read, 'When I grow up, I want my kids to grow up in a healthy world. They (children) are our No. 1 stakeholder and we need to ensure that we are working to meet their expectations of our products and our company.'"

Lego's deep and comprehensive commitment to sustainable change and honoring their stakeholders shows how it's possible for a brand to rebuild even after a PR crisis. For Lego, it involved a clear mission statement informed by core values, which was then backed up by real world behavior, including a retooled supply chain, that ably supported their stated intent.

Given that Lego reaches close to 100 million children in 140 countries, it's a staggering opportunity to help shape and define a generation of builders, makers and dreamers that can positively impact both the culture and the planet.

2 A What is the relevance of management thought leaders from the first phase of management in today's context? Justify with examples. (10)

OR

2 B Discuss the Michael Porter's philosophy of management.

3 A Throw light on Hofstede's indices and their relevance in international business. (10)

OR

3 B Explain Theodore Levitt's thoughts on business growth.

4 A Elaborate on any two tools or techniques used to evaluate the potential of a business. (10)

**OR**

4 B Explain (through a case study) how a change in business perspective can change the direction of business.

**OR**

4 C Discuss the importance of revising business strategies with respect to any two theorists other than those mentioned in the questions above.