

44 BRICKS

AFOL SUPPLIER

Business Plan

Written by DENNIS BECKER



IMAGE: brickartist.com

SCULPTURE: *Courage Within* by Nathan Sawaya

www.44bricks.com

Business Plan 44 Bricks
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All confidential information has been extracted from this version. Access to the full version can be granted upon written request (see contact details below).

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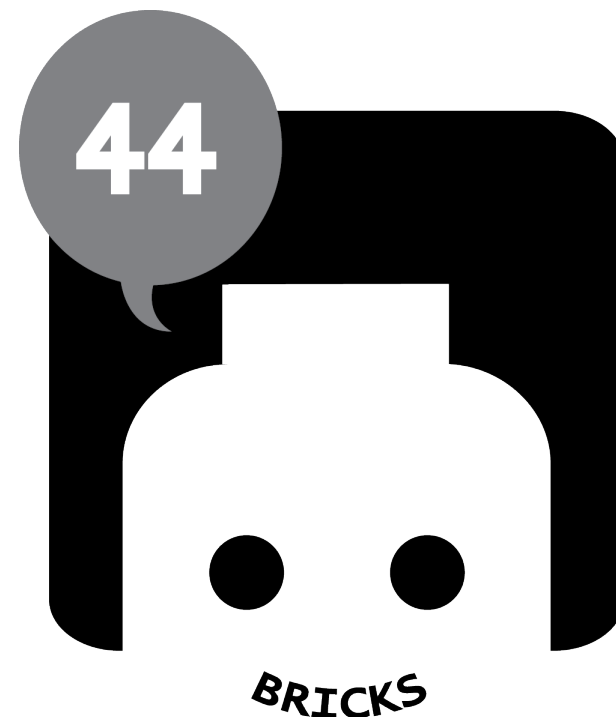
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EXECUTIVE SUMMARY

The Problem

When hearing the name LEGO®, most people think of construction toys for children. What most people do not know is that there is a global community of adult hobby builders and collectors, calling themselves **Adult Fans of LEGO (AFOLs)**. While the collectors among them are interested in obtaining official LEGO sets, the builders often require large quantities of distinct LEGO bricks for their building projects. Their main problem is the discontinuation of LEGO sets and parts going out of production, as the LEGO Group replaces their own product lines. Out of 53.000 LEGO parts ever produced, only 3.000 are currently still in production and **only 1.500 can be purchased in LEGO's own Pick A Brick Shop**. LEGO fans interested in parts and sets that are not obtainable over the distribution network of the LEGO Group thus have to rely on other supply sources.

The Business

44 Bricks addresses this problem by providing LEGO fans around the world with **high-quality used and new LEGO sets and parts** at best conditions via online stores [...]. The underlying business model is to capitalize on **arbitrage opportunities** caused by **price differences between [...]** for LEGO products on different online marketplaces. The core idea is to purchase undervalued LEGO products, [...] and to resell these products to LEGO hobbyists and collectors at current collectors value. 44 Bricks is a German limited liability company that was initially started from one box of used LEGO. The two-man company is owned and managed by Richard Müller and Dennis Becker, two young and authentic AFOLpreneurs with backgrounds in economics and business administration and previous e-commerce experience. [...]

The Market

[...]



COMPANY PROFILE

Mission Statement

We provide LEGO fans around the world with high-quality used and new LEGO sets and parts at best conditions via our online stores. It is our aim to establish trust-based long-term relationships with our customers through very high quality standards for our products, a fast shipping and fulfilment policy and exceptional customer service. 44 Bricks combines the professionalism of a trustworthy and reliable company with the “Love for the Brick” of two young and authentic AFOLpreneurs.

Vision Statement

The vision of 44 Bricks is to become the largest supplier of LEGO products in the vintage and second-hand market. We will be the largest online supply sources for LEGO products that are not available via the distribution network of the LEGO Group. Our internal core values are quality awareness, thoroughness and customer orientation. We believe in a fun and open working environment where everyone shares a common vision for the company and a passion for the product.

Business Idea

The underlying business model is to capitalize on **arbitrage opportunities** caused by **price differences for LEGO products on different online marketplaces**. The core idea is to purchase undervalued LEGO products, [...] and to resell these products to LEGO hobbyists and collectors at current collectors value.

The company's revenue model consists of three major revenue streams:

1. [...]
2. [...]
3. [...]

Additionally, [...] are used to rapidly generate liquidity in case of cash flow shortages.

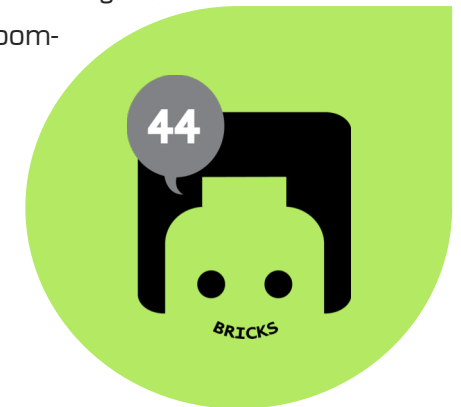
Most of our offers are **fixed price offers**. [...] and all orders are paid in advance. We accept payments in EUR and USD, via PayPal, bank transfer/IBAN or Skrill (Moneybookers).

See **Appendix A** for a complete Business Model Canvas of 44 Bricks.

History

In 2010, co-founder and CEO Richard Müller started to develop the business from a box of his old LEGO. Looking for ways to sell it, he discovered arbitrage opportunities for LEGO products on different online marketplaces. After testing different products and strategies, the business model developed into [...]. By reinvesting the returns, his inventory quickly multiplied until a storeroom-based sole proprietorship had reached its limits.

44 Bricks was founded on February 16th 2011 as a German **limited liability company** with **€ 5.000 equity**. The inventory of Richard Müller was transferred into the company at purchase price. In April 2011, 44 Bricks rented a separate front office and a production facility with [...] of production and storage space in **Dresden, Germany**. Sales were commenced on May 15th 2011, with online shops on [...].



Ownership

The private owners **Dennis Becker** and **Richard Müller** each hold 50% of the company's shares and are appointed as CEOs with sole representation rights. →

Selling the company or any other exit strategy is not intended in the near future.

44 Bricks Ownership as of 12/2011

Name	Title	Number of Shares	Percentage of Ownership
Dennis Becker	CEO	2.500	50%
Richard Müller	CEO	2.500	50%
TOTAL		5.000	100%



Current Status

44 Bricks is a **two-man start-up company** and the management team still performs all processes along the value chain apart from bookkeeping, payroll accounting and the preparation of financial statements.

In 2011, we successfully entered the AFOL market with our store on [...]. Holding a market share of approximately [...], 44 Bricks is now permanently established among the [...] stores in terms of monthly sales. Most importantly, we were able to

develop **long-term customer relationships** with a fast growing loyal customer base:

- My Favourite Store listings: [...]
- Customer Retention Rate: [...]
- Feedback Score: [...]

With our store on [...] we gained valuable experience within the parents segment, especially during the **Christmas season** 2011. Based on the gathered information on consumer behaviour and consumption patterns, we developed a detailed supply

plan in preparation for the Christmas season 2012.

Due to initial seller limits, sales on [...] were comparably low during 2011. Now that these **seller limits are lifted**, the importance of the 44 Bricks [...] Shop as a revenue stream will increase rapidly. The year 2012 will be used to experiment and gain more experience in this marketplace.

See **Appendix B** for a SWOT analysis of our current internal and external situation.

Facts & Figures 2011

Net Profit:	[...]
Total Customers:	[...]
Total Orders:	[...]
Customer Retention Rate:	[...]
Average Orders per Month:	[...]
Average Order Value:	[...]
Average Lots/Items per Order:	[...]
Average Items for Sale:	[...]
Average Inventory Book Value:	[...]
Total Items Sold:	[...]
Inventory Turnover (Inventory Days):	[...]

Revenues 2011

Content removed due to sensitive information.

Total Revenues: [...]	Monthly Average: [...]
-----------------------	------------------------

Revenue Stream Breakdown 2011

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Growth Strategy

[...]

Goals & Objectives

Short-Term

[...]

Long-Term

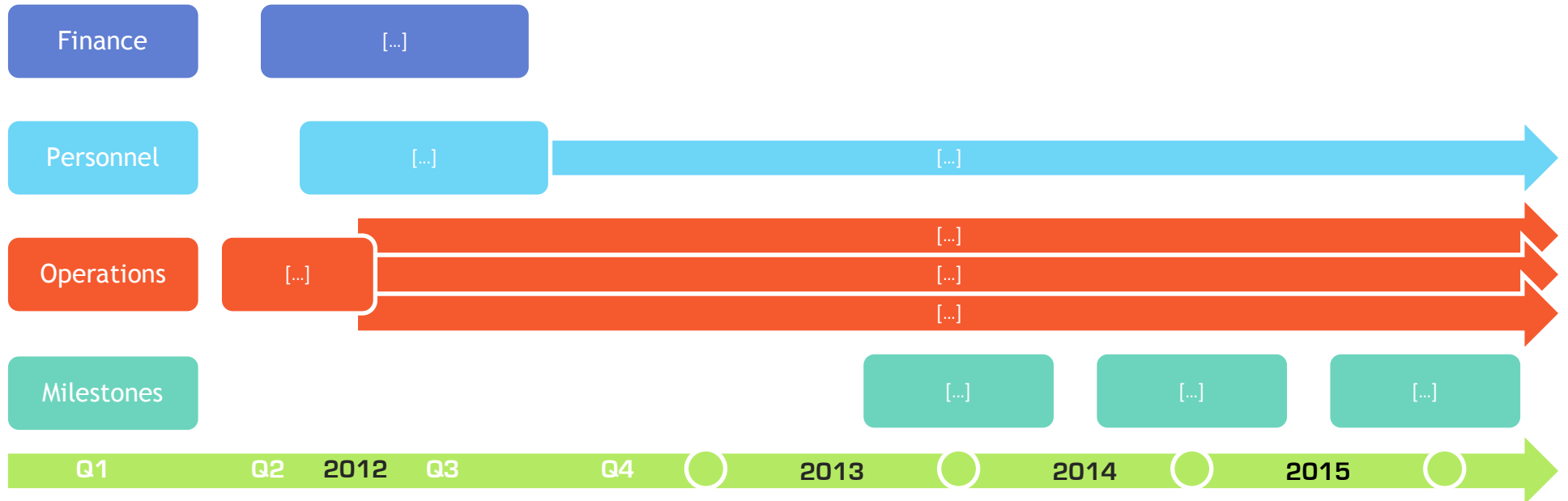
[...]

Ambitions

[...]



Timeline



Critical Success Factors

There are three critical success factors determined by key resources and competences, the combination of which gives 44 Bricks a **sustainable competitive advantage** over the competition:

[...]

PRODUCTS

44 Bricks offers a vast range of over 5.000 different LEGO parts and more than 100 LEGO sets in new and used condition.

LEGO Parts

All parts are **100% original LEGO** products. New parts are extracted from the original box and then sorted directly into the inventory system. Used parts are washed and undergo a thorough quality check before being added to the inventory.

LEGO Sets

We offer sets in all different conditions. We differentiate between **new sets** (parts are still sealed in original plastic bags), and **used sets** (all other sets). Since the condition of the box is a price-determining factor, we also distinguish between **MISB sets** (new in sealed box), and new sets in opened original box.

See **Appendix C** for an overview of our 2011 bestsellers by market segment.

Uniqueness

Due to the standardization of LEGO products, we do not offer unique products. However, we address the marketplace needs of two different segments. [...]

Quality Standards

Compared to other [...] shops, our quality standards for used parts are very high. Unless stated otherwise in the product description, we claim that all used items are **“as good as new”**. All items that do not live up to these standards are either disclosed as such, [...].

See **Appendix D** for a detailed description of our production process.

Pricing

[...]

After-Sales

As most of our products are second-hand products and LEGO is very sturdy, we have **no warranty** on our products. However, as a second-hand seller, we apply a generous

refund policy. We offer a **high level of after-sales services**, starting with fast, safe and cheap worldwide shipping. Intending to build up long-term customer relationships, we devote a lot of time and effort towards best possible **customer support** and **follow-up communication** via e-mail in five languages.

INDUSTRY ANALYSIS

The Global Toy Market

Market Size

The global toy market generated sales of **USD 83.3 billion** in 2010, which was an increase of almost 5% compared to 2009.¹

Leading Markets & Growth Markets

Approximately **50%** of global toy sales are generated in the Top 5 toy-consuming countries: USA, Japan, China, UK and France. The high growth in 2010 was primarily spawned in the **emerging markets** (Brasil, Russia, India and China) with average growth rates of 13%. The entire **Asian market** was able to increase sales by 9.2% compared to 2009.²

Future Outlook

The NPD Group forecasts further, but less rapid growth in Asia and the emerging markets, continuous growth in the US and a slight decrease in sales on the European market. Regardless of the on-going financial crisis, overall prospects for the global toy market are promising with **further growth expected**.³

¹ NPD Group Online Press Release, New York, June 20, 2011 retrieved from https://www.npd.com/press/releases/press_110620.html on March 1, 2012

² NPD Group Online Press Release, New York, June 20, 2011 retrieved from https://www.npd.com/press/releases/press_110620.html on March 1, 2012

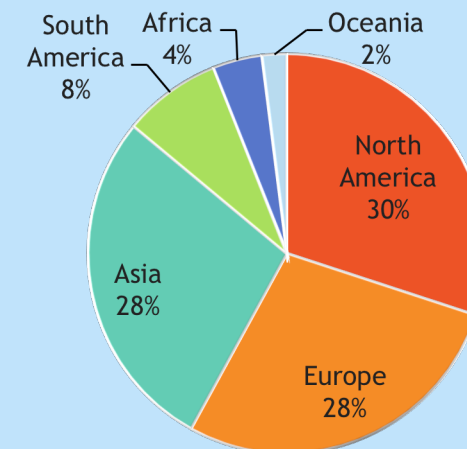
³ NPD Group Online Press Release, New York, June 20, 2011 retrieved from https://www.npd.com/press/releases/press_110620.html on March 1, 2012

Global Toy Sales 2007 - 2011

Year	Global Toy Sales	Change in %
2007	USD 78,7 billion	n.a.
2008	USD 78,1 billion	- 0,8%
2009	USD 79,6 billion	+ 1,9%
2010	USD 83,3 billion	+ 4,7%

Source: NPD Group

Percentage of Global Toy Sales by Region



Source: NPD Group

Market Segments

The toy industry comprises two markets, the **traditional toys market** and the fast growing **interactive games market**, which were estimated to be equally large in terms of sales in 2008. Further growth is expected in both markets.⁴

Market Drivers

Primary drivers for toy sales are a **large population of children** (end-users) and consistent economic growth as an indicator for the **purchasing power** of their parents (customers).⁵

National Differences

Based on a study of the NPD Group, there are nearly no correlations between the best-selling toys, trends and fads in the world's leading markets, which indicates **heterogeneity of consumer preferences** between national markets.⁶

Regulations

Especially in Europe, the toy industry is heavily regulated by national **toy safety regulations** and international directives, which mainly address design and safety testing requirements for toys. Since July

⁴ Toy Markets in the World, 2009 Edition, NPD Group, 2009 retrieved from www.toyassociation.org on March 2, 2012

⁵ Online Press Release, NPD Group, New York, 2011 retrieved from https://www.npd.com/press/releases/press_110620.html on March 1, 2012

⁶ Toy Markets in the World, 2009 Edition, NPD Group, 2009 retrieved from www.toyassociation.org on March 2, 2012

2011, European retailers and importers are obliged to check that their products are marked according to the EU Toy Safety Directive. Furthermore, the requirements for providing **age-related warning notices** were elevated.



The LEGO Group

[...]

History

The Danish family-owned company started in 1932 with the production of wooden toys. LEGO System was launched in 1955, followed by release of the famous **LEGO Brick** in **1958**, which marks the beginning of the LEGO coupling system that ensures the compatibility and timelessness of LEGO bricks until today. Starting in 1979, LEGO product lines were developed around different **play themes**, such as Castle, Town, Space, and Pirates. Since 1999, the LEGO Group entered several license agreements for movie-related play themes, such as Harry Potter™, Batman™, SpongeBob™, and the currently most collected play theme, LEGO Star Wars™.⁷



⁷ The LEGO Group Company Profile, LEGO Group, retrieved from <http://aboutus.lego.com/de-de/news-room/media-assets-library/documents/> on March 5, 2012

Financial Performance

Between 1998 and 2004, LEGO almost went bankrupt with reported losses of DKK 1,1 billion (2003) and DKK 1,9 billion (2004). In the following years, the LEGO Group was completely restructured and recovered quickly with five consecutive years of increased sales and profit figures. The financial year 2010 was concluded with net revenues of DKK 16 billion (+37% compared to 2009) and a net profit of DKK 3,7 billion. According to own statements, the LEGO Group is currently the third largest toy manufacturer in the world with a market share of around 7%.⁸ ↓

LEGO Group Financial Results 1998 - 2011



Source: LEGO Group - Annual Reports 1998 - 2011

Market Leaders 2011

1. Mattel – 16%
2. Hasbro – 11%
3. **LEGO Group – 7%**
4. Bandai-Namco – 4%
5. TOMY Takara – 3%

Source: LEGO Group

Future Outlook & Growth Markets

The LEGO Group expects stagnation on the European traditional toys market and minor growth in the rest of the world. Sales are expected to increase further, however at lower rates compared to the previous years. The LEGO Group has identified the USA, GB, Russia and Eastern Europe as special growth markets.⁹

⁸ LEGO Group Annual Reports 1999 – 2011, LEGO Group, retrieved from <http://aboutus.lego.com/de-de/news-room/media-assets-library/documents/> on March 5, 2012

⁹ LEGO Group Annual Report 2011, LEGO Group, retrieved from <http://aboutus.lego.com/de-de/news-room/media-assets-library/documents/> on March 6, 2012

Distribution

LEGO is distributed in over **130 countries**. Most sales are generated through indirect distribution channels, via wholesalers, retailers and online retailers. Additionally, LEGO has direct distribution channels with **LEGO stores** in the USA (55), Germany (9), UK (7), Canada (3) and Denmark (1). Until 2004, LEGO followed a two-level distribution channel strategy, supplying retailers directly, regardless of order size and value. In the course of the strategic reorientation, **supply conditions** have been raised to EUR 400 minimum order value of whole packaging units only, with four months lead-time. The new **three-level distribution channel strategy** implies handing over local redistribution to large wholesalers, in order to cut distribution costs. In Germany these wholesalers are Vedes, Iden and Hoffmann.¹⁰ [...]

Competitive Advantages

The continuous high demand for LEGO products is a result of the LEGO Group's product development and marketing strategy, targeted towards both children (end-users) and parents (customers). In contrast to most short-lifecycle toy trends, the life-long endurance of LEGO bricks and the compatibility since the 1950s makes LEGO **timeless**. Named "The Toy of the 20th Century" by Fortune Magazine in 1999, LEGO has shaped generations of kids, eventually becoming parents and returning the favour by generating sales. The mostly

positive **childhood associations** paired with the **educational** and **creativity-promoting** value of the LEGO playing experience have created strong **cross-generational brand value**. Even though, not all play themes have been successes, the LEGO Group managed to adapt their product lines towards the evolving interests of different generations of kids (e.g. LEGO Star Wars).

Pricing

In contrast to most competitors, the LEGO Group does not offer product lines in different price classes and quality levels, but charges high **premium prices** on all its products. However, the growing demand shows that the **perceived value** of LEGO products is sufficient to justify these mark-ups.

AFOL Segment Strategy

The LEGO Group has notably realized the existence of the AFOL segment and the emergence of second-hand trading of their products about 10 years ago. Since then, the amount of products targeted to the AFOL segment has increased and the AFOL community is more and more considered and directly involved in product development processes. LEGO collaborates with over **70 national and local AFOL clubs** and tries to serve the segment with **special sales** and **limited collectors editions**.

¹⁰ Online Press Release, International Toy Fair Nürnberg, 2006 retrieved from [http://www.spielwarenmesse.de/news/einzelansicht/news/1571/nb/390/?tx_ttnews\[backPid\]=4220&cHash=a66d0318796d64bfa20a0273eeb886c4](http://www.spielwarenmesse.de/news/einzelansicht/news/1571/nb/390/?tx_ttnews[backPid]=4220&cHash=a66d0318796d64bfa20a0273eeb886c4) on March 1, 2012

MARKET SEGMENTATION

The Parents Segment

The parents segment is defined as parents buying toys for their children. The majority of sales in the traditional toy market is generated in this segment.



Source: legoland.de

Demographics

The parent segment consists of the household lifecycle groups **full nesters** and **single parent**. The specific demand is mostly dependent on **age** and **gender** of the children, who, from a certain age on, have a

large impact on their parent's purchasing decisions by signaling their preferences. Almost 70% of the sales are generated with children under 8 years.¹ The emergence of new media and the game industry causes children to "grow up faster", leading to a downward shift of the age boundaries of traditional toys. However, a large reason for the recent success of LEGO is that play themes like LEGO Star Wars and LEGO Technic are able to defy this age shift and attract older audiences.

Seasonality

With approximately **50% of all toy sales being realized in the fourth quarter** of the year, the toy industry is highly seasonal and very reliant on the economic situation and consumer purchasing behaviour of the parent segment during the **Christmas season**. [...] →

¹ NPD Group Online Press Release, New York, June 20, 2011 retrieved from https://www.npd.com/press/releases/press_100201a.html on March 1, 2012

Purchasing Behaviour & Trends

Toys are normal/luxury goods with **high price elasticity of demand**. Especially in times of economic downturn, the absence of Christmas consumption often forces retailers to offer large discounts to trigger additional purchase decisions of **price sensitive** parents. Consumer price perceptions for toys mostly depend on **perceived value** (brand, safety, quality, educational value, and durability), prices of substitute products and percentage of income. Even though there is a global trend towards low-value/high-quantity toys, LEGO still grows and continues to gain market shares in the segment, benefiting from a shift of consumer preferences towards more expensive but **longer-lasting toys**.

44 Bricks Parents Segment Sales 2011

Content removed due to sensitive information.

The AFOL Segment



Source: theawesomer.com

AFOLS - Adult Fans of LEGO are adults purchasing LEGO products for themselves and not for their kids. [...] ↗

LEGO Group Sales 2010 by Segment

Content removed due to sensitive information.

Demographics

From our experience and the data collected on over [...] processed orders in 2011, we know that AFOLs are predominantly **30 to 65 years old male adults** [...]. Most are free-time **hobby builders and collectors**, working in different industries, often with an educated technical background and salaries allowing for **larger hobby budgets**. According to online surveys, the average AFOL budget for LEGO ranges between [...]. [...]

Geographics

Our customers in the AFOL segment come from all over the world. However, more than [...] of our customers are from **Europe**. Even though it is an online marketplace with low national boundaries, AFOLs tend to satisfy their demand in local shops before looking abroad, where they possibly face higher postage, fees, customs and additional shipping time. ↓

44 Bricks AFOL Customers by Region

Content removed due to sensitive information.



Purchasing Behaviour

There are a vast variety of **LEGO-related hobbies**. Many AFOLs base their **collection** around a play theme from their own childhood.

See **Appendix E** for an overview of popular LEGO hobbies and themes among AFOLs, also depicting the different sub-segments.

The AFOL Community

There is a strong community feeling among AFOLs, connected through their shared hobbies and their “Love for the Bricks”. Using the Internet, many AFOLs are now organized in **local clubs**, they arrange large **exhibitions** together, exchange their experiences in countless **forums**, and share their creations on **Flickr** or on their own **blogs, vlogs** and **websites**. Performing a Google search for the search term “AFOL” yields 650.000 results (04/2012). The AFOL community has even developed its **own language** of LEGO related terms and abbreviations.

[...]

Global AFOL Segment Sales 2011

Content removed due to sensitive information.

Segment Size

[...]

Segment Growth Rate

[...]



COMPETITOR ANALYSIS

Direct Competition

As our major revenue streams are stores on online marketplaces, we consider all **other stores selling LEGO products** on these platforms [...] to be direct competitors. As these marketplaces are fundamentally different in terms of the present customer segments, most competitors are only active in one or two of these marketplaces. We therefore investigate the level of competition separately for both segments.

See **Appendices F and H** for an analysis of the competitive rivalry within both target segments using Porter's 5 Forces model.

[...] We do however not invest many resources in competitor analysis, since the competitive rivalry within the AFOL segment is low, while our limitations for growth are currently of internal nature.

Indirect Competition

[...], the **LEGO Group** and all **wholesalers** and **retailers** within their distribution network are considered to be indirect competitors. There are strong indicators that the LEGO Group's strategic focus is not to capture the surplus in the second-hand trading of their products, but to apply cyclical creative destruction of their old products with new

product lines. In the course of the company's restructuring after 2004, the LEGO Group narrowed down their production range from over 6.000 to around 3.000 parts. It is known among AFOLs that LEGO only keeps a single MINT copy of each set ever produced in stock; which are all stored in the famous LEGO vault. Furthermore, the lifecycle span of a play theme has decreased noticeably, as the LEGO Group tries to keep up with the fast pace in the toy industry. This strategy is highly favourable for second-hand trading as it fosters the AFOL phenomenon, while increasing the pace and magnitude of price increases for vintage LEGO products. However, LEGO's current products are naturally the closest substitutes to our products.

Budget Competition

We regard **all companies selling toys** other than LEGO as budget competition. However, this only holds in the parents segment, as there is no substitute for LEGO in the AFOL segment.



MARKETING PLAN

AFOL Segment Strategy

[...]

See **Appendices F and G** for detailed graphical illustrations of the marketing strategy for the AFOL segment.

Product

[...]

Price

[...]

Promotion

[...]

Distribution

[...]

Parents Segment Strategy

[...]

See **Appendices H and I** for detailed graphical illustrations of the marketing strategy for the parents segment.

Product

[...]

Price

[...]

Promotion

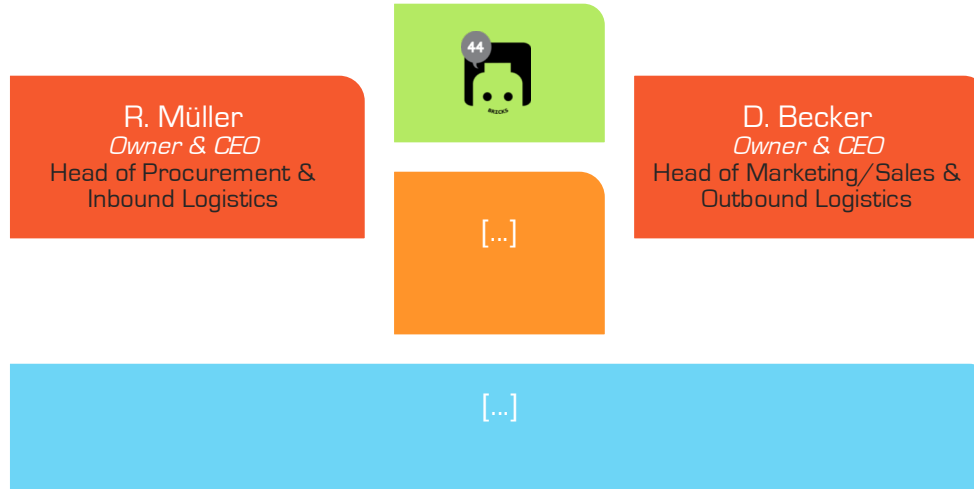
[...]

Distribution

[...]

OPERATIONS PLAN

Personnel Plan



Management Team

Once graduated from university, both **entrepreneurs** will be full-time employees with a workload of 60 hours per week and the contractual right for 30 days of vacation per year. Salaries will be gradually increased [...], depending on the development of the business. →

[...]

[...]

[...]

[...]

44 Bricks Management Team Profiles



Name:
Richard Müller

Age:
24

Title:
Head of Procurement & Inbound Logistics

Academic Background:
Economics & Business

Entrepreneurial Type:
Merchant/Entrepreneur

Key Skills:
Entrepreneurial instinct for opportunity recognition and trade, market knowledge, workaholic, shark

Name:
Dennis Becker

Age:
25

Title:
Head of Marketing & Outbound Logistics

Academic Background:
Economics and Business / Entrepreneurship

Entrepreneurial Type:
Analyst/Administrator

Key Skills:
Economic analysis, financial planning, e-commerce, Online Marketing/SEO, Jack of all trades



See **Appendix J** for the division of tasks along the entire value chain and **Appendix D** for the division of tasks along the production process.

We are aware of the legal requirements for mandatory employee benefits, facilities and workplace safety. All contracts will include non-competition clauses. Intentional harm or theft will be prosecuted legally. All employees get a 10% discount on most items for sale.

External Partners

Tikol Steuerberatungsgesellschaft mbH

Dresden-based accounting and consultancy firm, to which we outsourced **bookkeeping**, **payroll accounting** and the preparation and auditing of **financial statements**. They also provide us with **tax advice** and general management **consultancy services**.

Dresdner Volksbank Raiffeisenbank eG

Local bank providing us with various **financial services**. [...]

DHL/Deutsche Post

Global logistic carriers, used for worldwide **shipping** of incoming orders. [...]

PayPal/Skrill (Moneybookers)

Our providers of **online payment** solutions.

Personal Network

The personal network of the CEOs is one of the company's largest assets as it includes free advice and services within the fields of **legal advice**, **IT** and **information systems**, **(web-) design**, and **skilled trades**.

Location & Facilities

[...] The reasons for choosing this location were cheap rental price [...], **central location** with good **access to public transport** [...], **good lighting** conditions for color sorting, and beneficial **spatial sectioning**. The office is located on the first floor in a commercially rented recently renovated backyard building with separate **parking lots**. [...] We expect these facilities to remain adequate for our operations at least until 2015 [...].

d

See **Appendix K** for a blueprint of our new office and production facilities and the intended operational room division.

LEAN Management

[...] In order to facilitate an effective workflow, we will apply parts of the **5S of LEAN Management** method in our new offices. [...]

See **Appendix L** for an example of a LEAN workstation with an on-site workflow sheet.

Risk Management

In order to assess the identified risk factors for 44 Bricks, we apply **qualitative and quantitative risk analysis**. Based on our assessment of probability and impact on numeric scales, we assessed the need for preventive and risk reducing measures according to the following matrix:

		Impact				
		Very Low 1	Low 2	Medium 4	High 8	Very High 16
Probability	Very High 5	5	10	B	40	80
	High 4	4	8	16	32	64
	Medium 3	D	6	12	D	E F
	Low 2	F	B C	8	16	C A
	Very Low 1	E	2	A	8	16

All risks assessed as unacceptable or medium are addressed by preventive measures and thereby reduced to an acceptable level.

Green – Acceptable risk

Orange – Medium risk

Red – Unacceptable risk

Legal Risks

LEGO Trademarks ^A

As LEGO has no patent on the LEGO Brick itself, the LEGO Group is even more enforcing their trademarks, brands and logos. Legal costs for a **trademark infringement lawsuit** are likely to cause an SME like 44 Bricks to fold.

Impact: 16

Probability: 2

Risk factor: 32 (unacceptable)

We address this risk by including the following **disclaimer** to our product offerings in all our stores:

“LEGO® and the LEGO Icons are protected trademarks of the LEGO Group which does not authorize or support this seller. The usage of all protected trademarks serves to

clearly identify the offered items only and is not intended to violate property rights.”

This disclaimer eliminates the grounds for a lawsuit and thereby reduces its probability.

Impact: 4

Probability: 1

Risk factor: 4 (acceptable)

EU Regulations for Toy Retailers ^B

Especially since the new EU directives for toys entered into force in 2011, the number of **warning notices** for non-conformance with the legal requirements for online retailers has increased significantly. There are entire law firms specialized on suing online stores that have not adapted to the risen requirements, for amounts up to € 2.000 for single violations.

Impact: 4

Probability: 5

Risk factor: 20 (unacceptable)

To address this risk, we closely monitor the developments of applicable requirements,

as Amazon and eBay usually warn their sellers for upcoming changes. We are also in contact with an e-commerce lawyer, warning us through newsletters when legal changes require us to take action. **Up-to-date conformance** with the requirements reduces both the impact and the probability of being sued.

Impact: 2

Probability: 2

Risk factor: 4 [acceptable]

Liability Issues ⓐ

By choosing a limited liability legal form, we have reduced personal liability for the owners. However, due to limited financial resources, most **commercial liability cases** arising from the company's operations (e.g. personal or material damage, accidents, fire, etc.) could cause the company to go bankrupt immediately.

Impact: 16

Probability: 2

Risk factor: 32 [unacceptable]

We will address this with a **commercial liability insurance package** covering all cases of personal and material damage resulting from the companies operations. The impact is significantly reduced, as fixed excess per liability case is limited to € 2.000.

Impact: 2

Probability: 2

Risk factor: 4 [acceptable]

Supply Risks

[...] ⓓ

[...]

Distribution Risks

[...] ⓔ

[...]

Management Risks

[...] ⓕ

[...]



FINANCIAL PLAN

Financial History & Analysis

Start-Up Finance

[...]

Financial Analysis for 2011

[...]

See **Appendix M** for the income statement for the financial year ended 2011.

Current Financial Position

Liquidity

[...]

Solvency

[...]

Profitability

[...]

Efficiency

[...]

44 Bricks Performance Ratios 2011

Solvency

Debt/Equity Ratio: [...]

Debt/Assets Ratio: [...]

Profitability

Purchased Goods: [...]

COGS: [...]

Gross Margin: [...]

ROI: [...]

Liquidity

Quick Ratio: [...]

Current Ratio: [...]

Efficiency

Inventory Turnover: [...]

Inventory Days: [...]

44 Bricks AFOL Segment Sales 2011

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44 Bricks Parents Segment Sales 2011

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Operating Forecasts

[...] →

Pro Forma Income Statements

See **Appendix M** for the pro forma income statements from 2012 to 2015. These statements were prepared according to the principal of **prudence**, based on **scenario analysis** for realistic worst, expected and best cases extrapolated from the financial statements of 2011.

Cash Flow Forecast

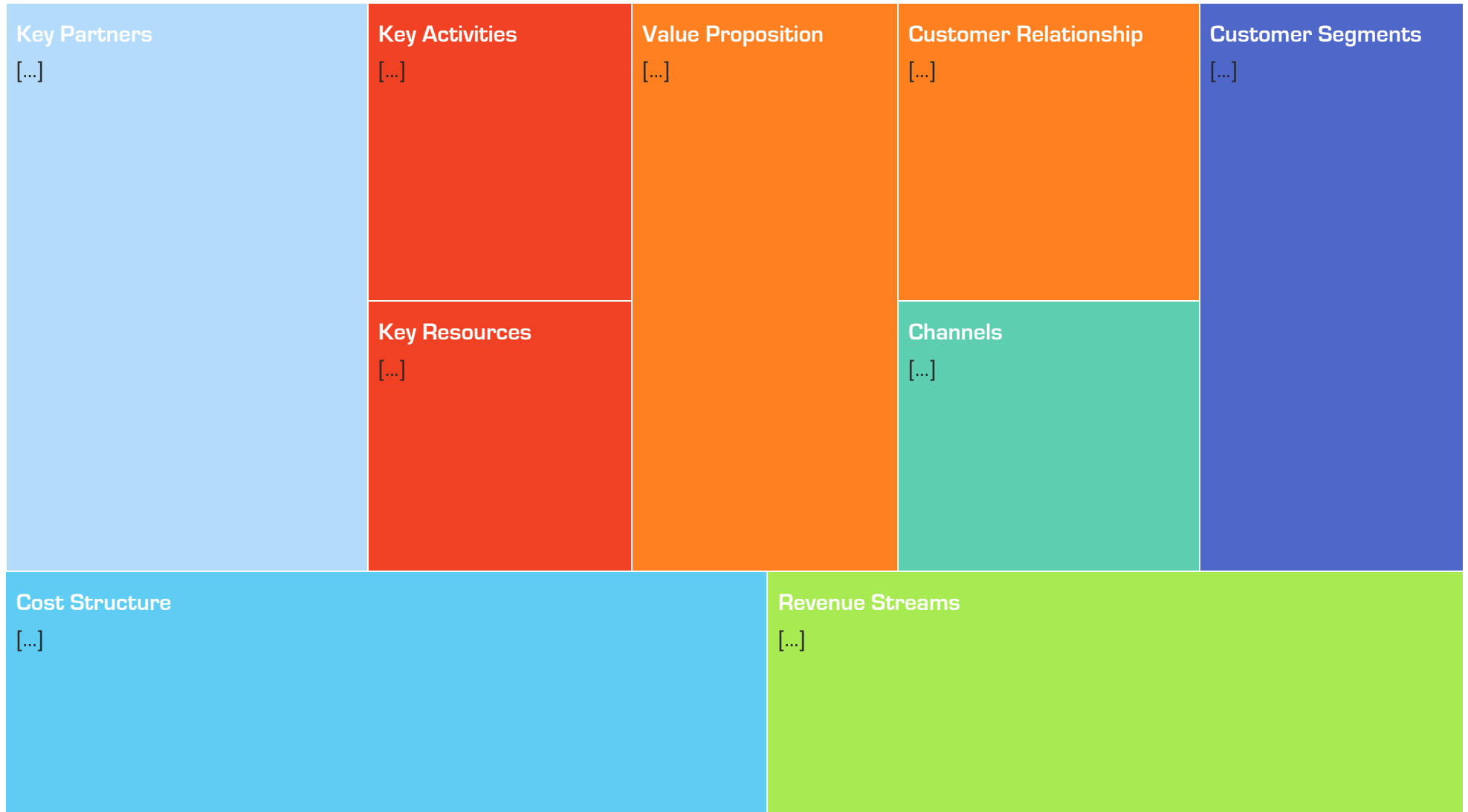
See **Appendix N** for the cash flow forecast for the financial year 2012.

44 Bricks 3-Year Revenue Forecast

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Appendix A: 44 Bricks - Business Model Canvas





Appendix B: 44 Bricks – SWOT Analysis





Appendix C: 44 Bricks - Bestsellers 2011 by Market Segment

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Appendix D: 44 Bricks – Production Process

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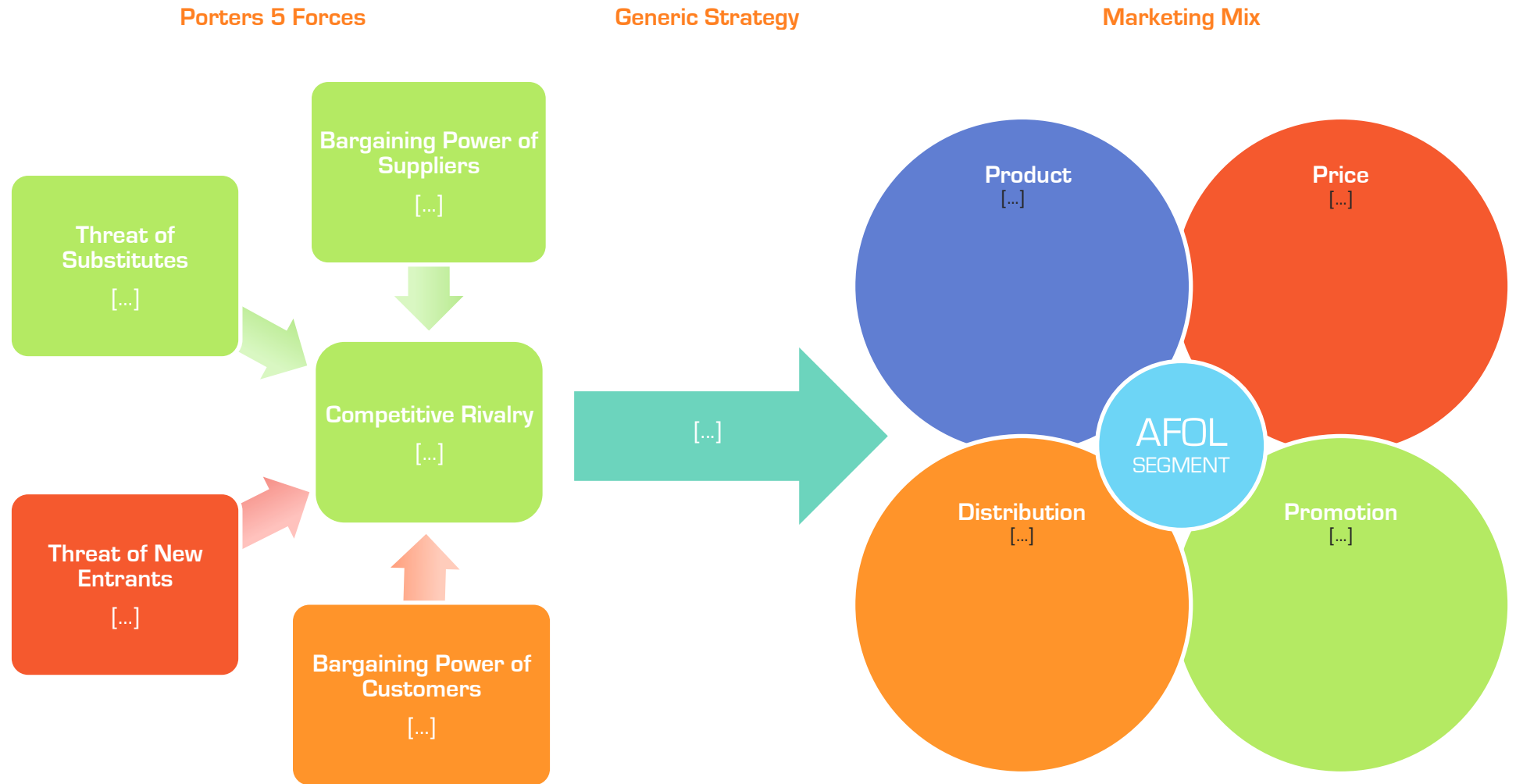
Appendix E: Popular AFOL Hobbies & LEGO Play Themes

Depending on the extent and play theme of a specific AFOL collection, different LEGO hobbies vary in the resources needed to pursue them.

Popular AFOL Hobbies	
Builders	Builders are most interested in buying supplies for their current building projects. There are many kinds of builders with different needs: set-builders (build existing sets), rebuilders (re-build existing sets in other colours or proportions) and MOC-designers (design their own new creations).
Collectors	Collectors usually have collections of one specific play theme either in form of new and sealed boxes or in form of assembled models on display.
Investors	Hoarders are collectors that acquire larger quantities of new and sealed sets as an investment, speculating on the value increase of these sets over time, in order to resell them in perfect condition several years after they are not produced anymore.
Filmers & Artists	There is a large community of LEGO moviemakers creating motion pictures by bringing LEGO to life with sequences of up to several thousand pictures per movie. Furthermore, there are also artists that chose LEGO as their material for building sculptures and large displays.
Customizers	There is a large culture of companies that customize or even produce entirely new compatible parts themselves. The biggest customizers are chromers (colouring existing items in inexistent often metallic colours) and army customizers (producing LEGO compatible army equipment and weapons for minifigures).

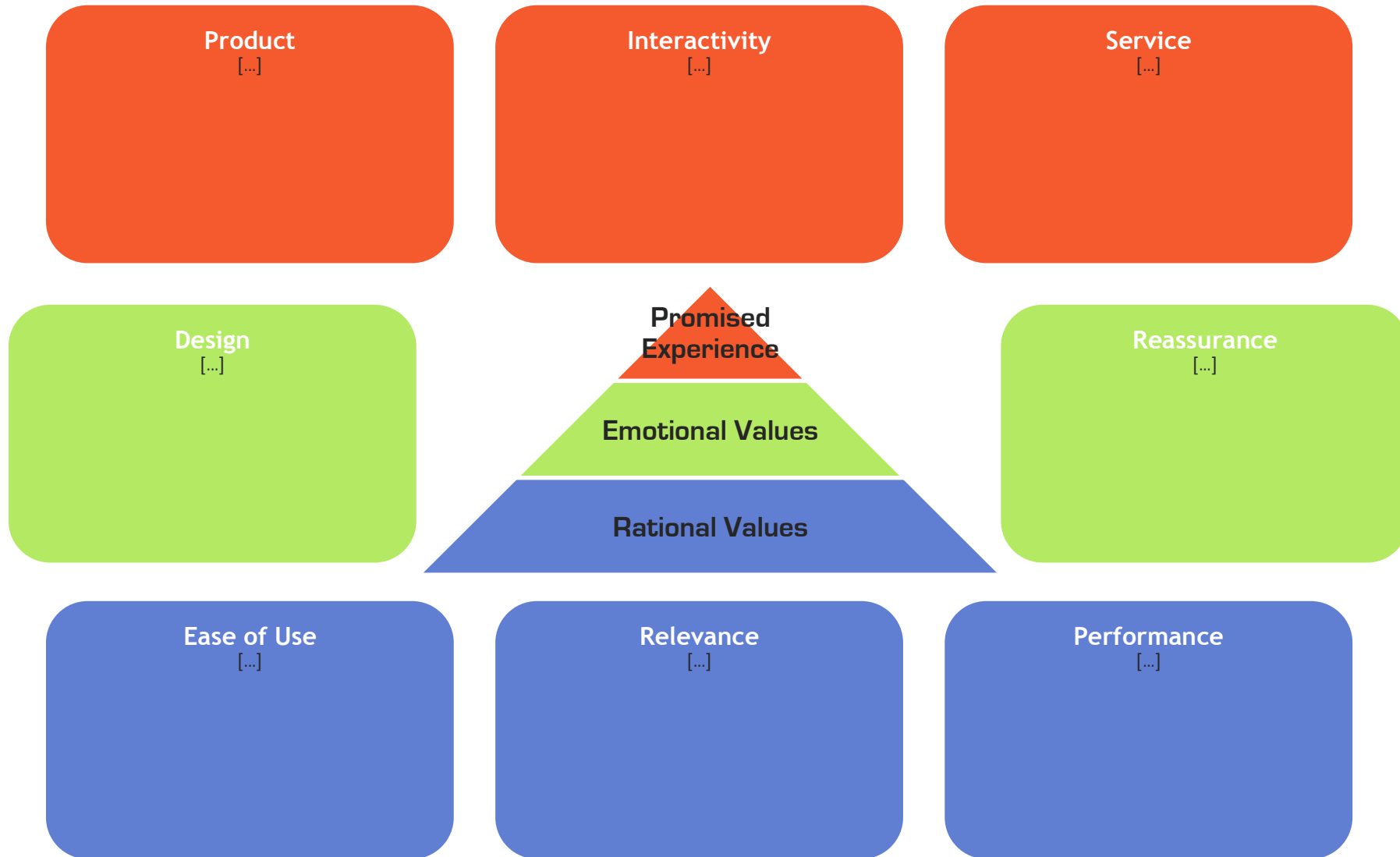
Popular LEGO Play Themes	
Star Wars	The Star Wars theme is by far the most extensive, successful and expensive LEGO product line, with a large community re-building entire battlefields of droids and Jedi knights from the movies.
Train	There is a large LEGO train community with endless basement landscapes primarily built with LEGO System and Trains.
Technic & Racers	The LEGO Technic community can be divided into several sub-segments, which all require large amounts of Technic part supplies for their projects. The models can be highly complex engineering works, especially when powered with Power Functions, engines, pneumatic systems, programmable computers and remote controls.
Historic	The Historic segment builds landscapes with battlefields and fortifications based on the different historic themes, such as Castle, Pirates and Western.
Harry Potter	The Harry Potter theme is one of the younger themes, which is however very popular, also due to the new part colours introduced by the LEGO Group.

APPENDIX F: 44 Bricks - AFOL Segment Marketing Strategy Map

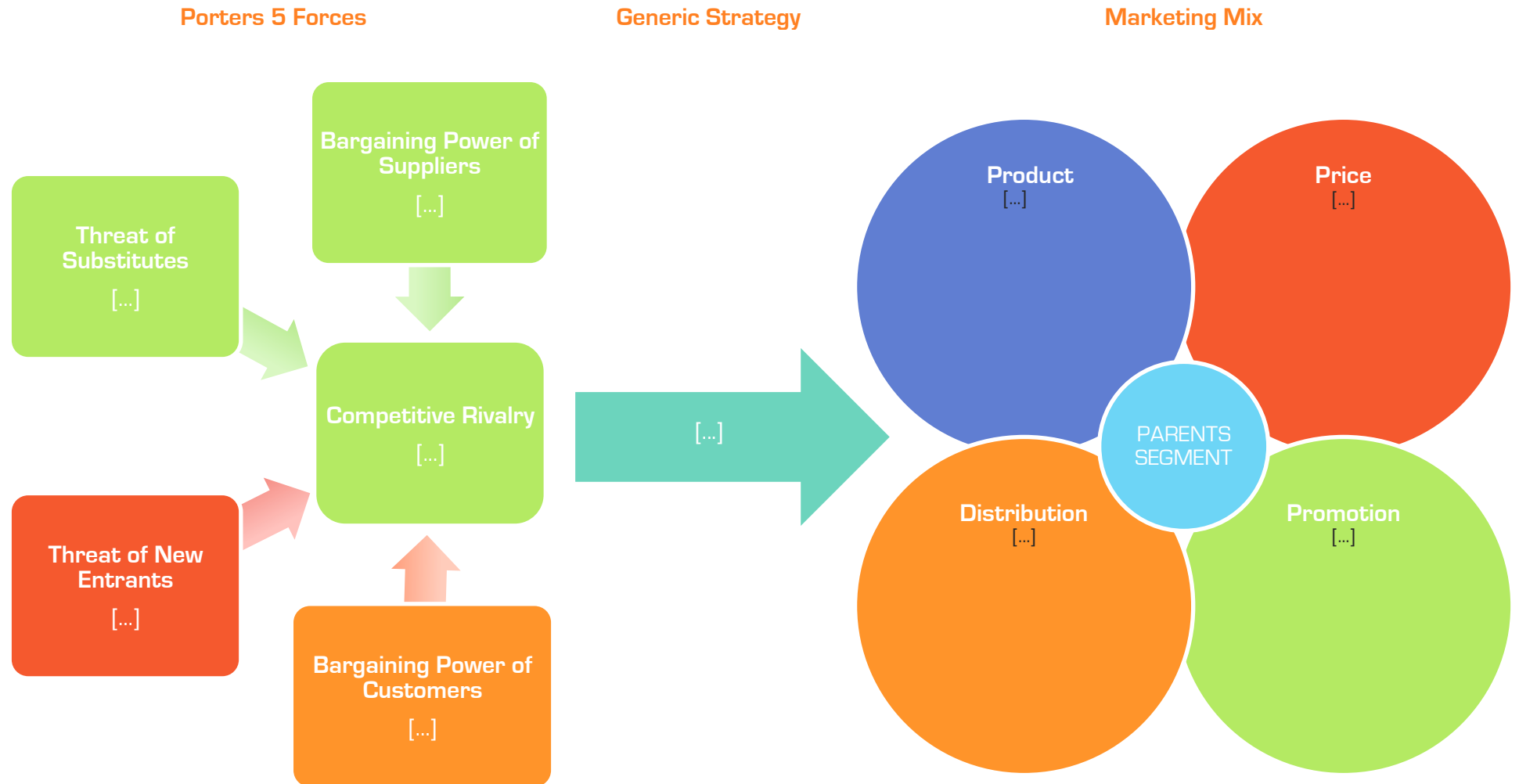




Appendix G: 44 Bricks - AFOL Segment Online Customer Experience Pyramid

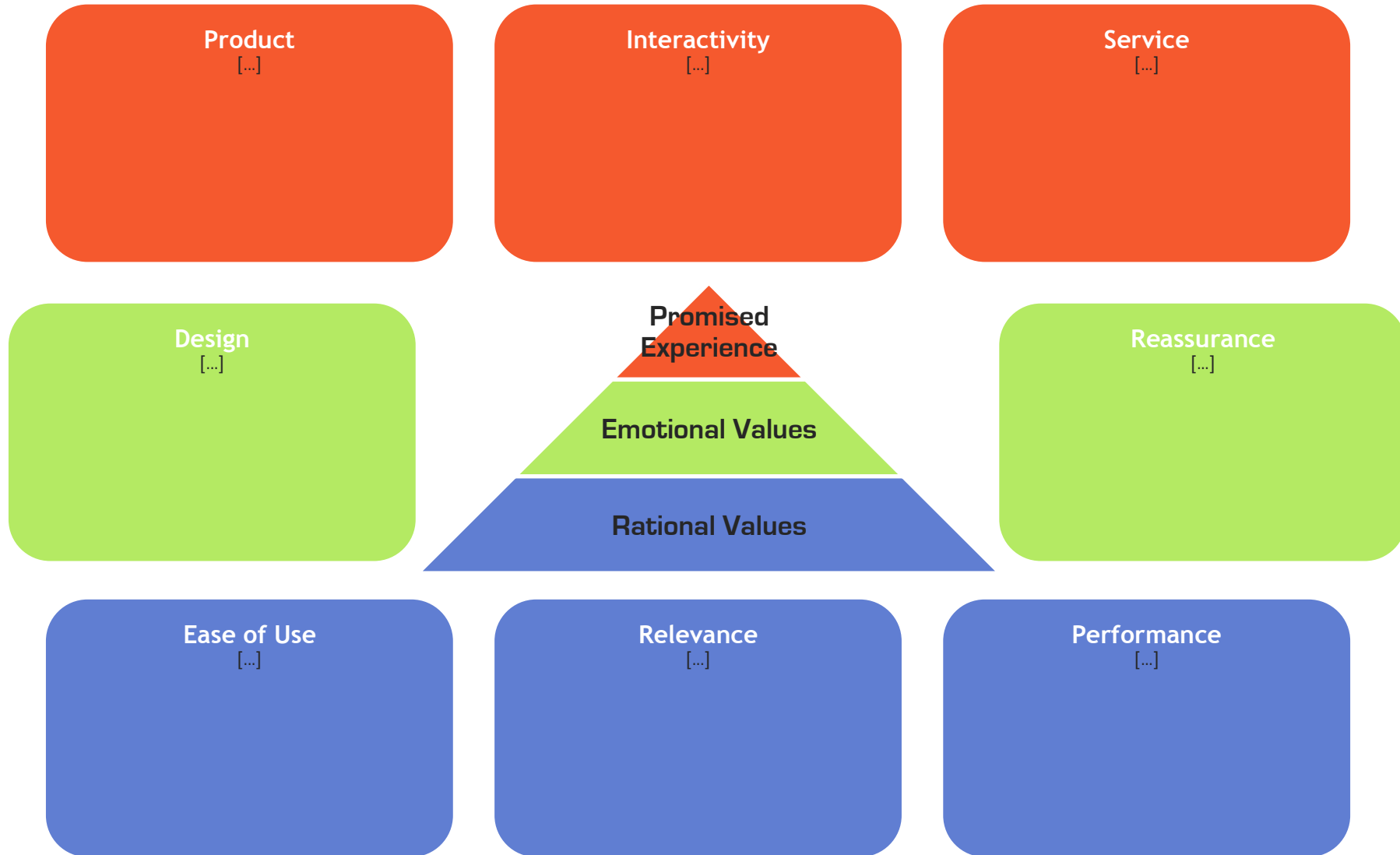


Appendix H: 44 Bricks - Parents Segment Marketing Strategy Map





Appendix I: 44 Bricks - Parents Segment Online Customer Experience Pyramid



Appendix J: 44 Bricks – Value Chain





Appendix K: 44 Bricks – Production Facilities Blueprint

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Appendix L: 44 Bricks - LEAN Workstation (Example Packing Station)

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Appendix M: 44 Bricks – (Pro Forma) Income Statements 2011 – 2014

All figures in €		*** pro forma income statements (scenario analysis) ***								
Year Ending	2011	2012 worst	2012 expected	2012 best	2013 worst	2013 expected	2013 best	2014 worst	2014 expected	2014 best
Total Revenue										
Cost of Revenue										
Gross Profit										
Personnel Expenses										
Rental Expenses										
Insurances										
Vehicle Expenses										
Travel Expenses										
Distribution Expenses										
Depreciation & Amortization										
Maintenance Expenses										
Others										
Total Operating Expenses										
Operating Income or Loss										
EBIT										
Interest Expenses										
Change in Non-Inventory Assets										
Inventory Assets (Year Start)										
Inventory Assets (Year End)										
Change in Inventory Assets										
EBT										
Income Tax Expenses (30%)										
Net Income (EAT)										

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Appendix N: 44 Bricks – Cash Flow Forecast 2012

All Figures in €

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Cash Position (Beginning of month)													
Cash Inflows													
Cash Sales													
Bank Loan													
Total Cash Inflow													
Total Cash Available													
Cash Outflows													
Purchased Goods and Materials													
Personnel Expenses													
Rental Expenses													
Utilities													
Telephone and Internet													
Maintenance Expenses													
Vehicle Expenses													
Travel Expenses													
Distribution Expenses													
Accounting and Legal Expenses													
Insurances													
Interest Expenses													
Income Tax Expenses													
Other Expenses													
Total Cash Outflow													
Cash Position (End of month)													

Figures removed due to sensitive information.

REFERENCES

Used Models

- **5S of LEAN Management** (Operations Plan p. 24, Appendix L) – *Hirano, Hiroyuki 1995*
- **Business Model Canvas** (Appendix A) – *Osterwalder, Alex, 2010*
- **Competitive Advantage** (Industry Analysis p. 14) – *Porter, Michael E., 1985*
- **Critical Success Factors** (Company Profile p. 8 – 9) – *Daniel, D. Ronald, 1961*
- **Customer Experience Pyramid** (Appendices H & I) – *Chaffey, Dave, 2008*
- **Marketing Mix** (Marketing Plan p. 20 – 21, Appendices F & H) – *McCarthy, Jerome, 1960*
- **Porter's 5 Forces** (Competitor Analysis p. 19, Appendices F & H) – *Porter, Michael E., 1979*
- **Porter's Generic Strategies** (Marketing Plan p. 20 – 21, Appendices F & H) – *Porter, Michael E., 1980*
- **SWOT Analysis** (Appendix B) – *Wehrich, Heinz, 1982*
- **Value Chain** (Appendix J) – *Porter, Michael E., 1985*

Used Data

- **Global toy market historical data and forecasts** (Industry Analysis p. 11 – 12) – *NPD Group, www.npd.com*
- **LEGO Group historical data, forecasts and strategy** (Industry Analysis p. 12 – 14, 19) – *LEGO Group, Annual Reports 1998 – 2011, Progress Reports 2008 – 2010, www.lego.com*
- **Parents Segment purchasing behaviour and trends** (Market Segmentation p. 15) – *NPD Group, www.npd.com*