

# CORPORATE BRAND MANAGEMENT AND REPUTATION

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## MASTER CASES

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**The future of LEGO Education amidst  
the greatest corporate turnaround in  
history**

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Eleventh Edition  
Master Student Case Papers

# 2024

## **Corporate Brand Management and Reputation: Master's Cases**

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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# **The future of LEGO Education amidst the greatest turnaround in history**

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## **WRITTEN CASE**

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GROUP 1 - A

## The future of LEGO Education

In the quiet town of Billund, Denmark, Jørgen Vig Knudstorp, CEO of LEGO, sits in his office surrounded by colorful bricks that have defined childhoods worldwide. The year is 2004, and he's contemplating a decision that could alter the course of the company's history. LEGO is on the brink of bankruptcy, and he is currently steering LEGO through this crisis. In this process, Knudstorp faces a new dilemma: the future of LEGO Education.

## A brief history of LEGO's origins from 1932 to 1990

LEGO's journey from a small carpenter's workshop to a globally recognized toy brand is a remarkable tale of innovation, resilience, and vision. The story begins in 1932 in the small Danish town of Billund, where the carpenter Ole Kirk Kristiansen was grappling with the economic hardships of the Great Depression. Seeking to sustain his business, Kristiansen turned to crafting wooden toys, believing that even in tough times, parents sought to bring joy to their children. His high-quality toys soon became the foundation of his business.

In 1934, Kristiansen renamed his company LEGO, derived from the Danish phrase "LEg GOdt," meaning "play well."<sup>1</sup> This name would become synonymous with creativity and quality in toy manufacturing. However, the journey was not without its challenges. In 1942 a devastating fire destroyed the LEGO factory. However, Kristiansen was driven by a sense of duty to his employees and a resilient spirit and built the factory from the ashes.

By the mid-1940s, LEGO had about 40 employees. Recognizing the potential of new plastic materials, LEGO invested in a plastic injection-molding machine in 1946, which allowed them to diversify its production beyond wooden toys. This decision marked an important moment in LEGO's history.

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<sup>1</sup> The LEGO Group. "The LEGO Group History." LEGO.com

The 1950s brought significant developments. Godtfred Kirk Kristiansen, the son of Ole, joined the company as Junior Vice President in 1950. During this time, LEGO bricks were not the main revenue generator, accounting for only a small percentage of sales (5-7%)<sup>2</sup>. However, experimentation led to a breakthrough in 1958 where LEGO patented its revolutionary stud-and-tube coupling system, which provided the basis for the versatile and enduring LEGO brick we know today.

The 1960s forced further changes. Following another fire in the woodwork factory in 1960, LEGO discontinued wooden toy production - in hindsight, a decision that proved advantageous. The end of the decade saw the opening of the first LEGO theme park in Billund in 1968, along with the introduction of the LEGO Duplo line, designed specifically for younger children under five years old.

In 1979, Kjeld Kirk Kristiansen, whom was now representing the third generation of the Kristiansen family, took the helm as President and CEO. He built a robust management organization centered around the LEGO System of Play (i.e. the bricks), sending the company into a period of rapid growth where the company doubled in size every five years.<sup>1</sup>

By 1990, LEGO had become one of the top ten toy manufacturers globally. Under Kjeld's leadership, the demand for LEGO products occasionally outstripped supply to such an extent that the company's executives contemplated strategies to slow sales growth.<sup>3</sup>

## LEGO in the 90 and early 2000s

**Early 1990s:** LEGO, at the peak of its success, becomes one of the top 10 toy manufacturers in the world, expanding beyond classic bricks into theme parks, video games, and various plastic toys.

**Mid-1990s:** Despite signs of success, internal issues arise. LEGO's rapid expansion masks underlying problems, leading to a loss of dynamism and fun within the company. By 1993, growth stalls as LEGO struggles to adapt to market changes, particularly in the U.S., where licensed toys dominate sales. Large-scale toy discount stores outcompeted small, family-owned shops, which significantly reduced toy prices. Moreover, falling birth rates,

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<sup>2</sup> The LEGO Group. "The LEGO Group History." LEGO.com

<sup>3</sup> Kerr, J. (2013, March 18). "How LEGO Grew to Global Dominance." Forbes

reduced leisure time for children, and a growing preference for toys that provide immediate satisfaction further reshaped the market.<sup>4</sup>

**1994-1998:** In response to stagnating growth and the belief that traditional bricks were becoming obsolete, LEGO drastically expands its product range, introducing several major new lines. This expansion includes ventures into markets like video games, clothes, and jewelry for girls.<sup>5</sup>

**1998:** LEGO reports its first-ever financial losses, prompting a strategic review. Consultants advised LEGO to diversify and compete with a broader portfolio, further shifting focus away from the core brick business.

**2000-2002:** The new strategy initially seems effective, with LEGO experiencing a 17% increase in sales.

**2004:** Despite the temporary uplift, LEGO faces its largest financial crisis and reports a loss of \$285 million, which indicates the failure of its expanded strategy and highlighting the need for a fundamental reassessment of its business model.

## Survival phase (2004): Transformation under new CEO

In 2004, LEGO faced a dire situation. The company struggled with over \$800 million in debt and sales declining 30%-year-over-year from 10,1B DKK in 2002 to 7,2B DKK in 2003 (see **Exhibit 1**). In 2004, LEGO lost 285M USD<sup>6</sup>. The newly appointed CEO, Jørgen Vig Knudstorp, a former McKinsey consultant and 35 years old, captured the crisis in a memo to the board: *"We are on a burning platform, losing money with negative cash flow and a real risk of debt default which could lead to a breakup of the company."* His grim assessment concluded, *"We likely won't survive."*<sup>3</sup>

### Redefining the brand: Back to basics

Knudstorp initiated a phase of introspection and brand redefinition. The management team was asked the fundamental question: Why does LEGO Group exist? The answer was around returning to their core mission of providing unique design products that facilitate children's learning in systematic, creative problem-solving, an essential skill for the twenty-first century. This meant refocusing on the essence of the LEGO brand: fostering creativity, learning, and play through its iconic bricks. As the second generation

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<sup>4</sup> Harvard Business School, 2013

<sup>5</sup> How LEGO Clicked: The Super Brand That Reinvented Itself. The Guardian

<sup>6</sup> The Economist, 2006

owner Godtfred Kirk Christensen put it in 1955: *“Our idea has been to create a toy that prepares the child for life – appealing to its imagination and developing the creative urge and joy of creation that are the driving force in every human being.”*<sup>7</sup>

This pivot entailed discontinuing off-brand product lines like action figures, fashion lines, and jewelry, which strayed from LEGO’s vision of stimulating children’s imagination through brick-building.

### The main key strategies for brand revitalization

1. *Respecting LEGO’s heritage*: Re-emphasizing what made LEGO a beloved brand.
2. *Listening to core customers*: Understanding and valuing the feedback from dedicated LEGO users and children.
3. *New innovation approaches*: Balancing creativity with profitability.

### Cost-cutting and streamlining operations

To ensure the company’s survival and independence, Knudstorp implemented drastic cost-cutting measures. In March 2004, LEGO initiated a major restructuring that resulted in the layoff of 3,500 out of 8,000 employees.<sup>8</sup> The plan included closing factories in Switzerland and the USA, shifting production to Eastern Europe and Mexico. The plan included divesting business units such as LEGO Land theme parks, which were acquired off to Merlin Entertainments for 450M USD (a company specializing in operating theme parks), but still operated under the LEGO brand. The theme parks were profitable and growing, but capital intensive and considered off-brand (annual report). The Christiansen family decided to stand by the family business. They injected some Dkr800m of their own money to keep the company alive.<sup>8</sup>

Knudstorp recognized that these business units and product lines were draining resources and were outside LEGO’s core expertise and purpose. Product lines were streamlined, and he reduced the variety of LEGO pieces produced by half. Knudstorp rigorously scrutinized expenditures, aligning design with manufacturing costs, and addressing the issue of some sets being sold at a loss<sup>9</sup>. All of those initiatives were part of the first stage of the “Shared vision” laid out by Knudstorp (see **Exhibit 2**).

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<sup>7</sup> The LEGO Group, “LEGO history: LEGO System in Play

<sup>8</sup> The Economist, 2006

<sup>9</sup> Rebuilding LEGO. The CEO Magazine

### **Focusing on core audience and customer-driven innovation**

Knudstorp shifted the focus back to LEGO's core target audience and in understanding their importance in product development. He believed in the honesty of children's feedback: "*Kids will never lie to you about whether something's fun or not,*" as the then CMO Mads Nipper stated<sup>5</sup>. This led to involving kids in the invention of new products, leveraging its vast fan base for ideas. Knudstorp's insight was to reconnect with the community of loyal LEGO fans, a powerful asset for the company.

### **Collaboration with AFOLs and re-engagement with customers**

The engagement with Adult Fans of LEGO (AFOLs) proved important. Working together, LEGO could create unique sets that appealed to both children and adults. This re-engagement strategy also focused on the heritage aspect, where many adult fans shared their love for LEGOs with their children.

### **Innovative design and management changes**

Knudstorp acknowledged the importance of innovation but also the dangers of unrestrained creativity. New product designs should now be informed by market research, user feedback, and alignment with the company's vision of quality and creative play. This approach placed boundaries on innovation which paradoxically enhanced creativity<sup>10</sup>. To support these changes, Knudstorp overhauled the management team, bringing in new leadership and even a psychoanalyst to guide decision-making processes in understanding logical versus emotional decision-making.

### **Refocusing on core products and profitability**

Knudstorp's strategic vision was that LEGO returned to its roots, focusing on the profitable potential of its core products: LEGO bricks. The goal of this 'back to basics' approach was to realign the company with its core values and thereby recover from the brink of failure. The overconfidence in the LEGO brand's selling power, overdiversification, and loss of confidence in its brick-based products were identified as key factors in the current crisis.

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<sup>10</sup> At LEGO, Growth and Culture Are Not Kid Stuff: An Interview with Jørgen Vig Knudstorp. Boston Consulting Group



### Examples of off-brand product lines that was either discontinued or divested

**LEGO Theme Parks:** Sold to Merlin Entertainments for 450M USD, but continued to operate under the LEGO brand.<sup>11</sup> Although the theme parks were profitable and expanding, they were capital-intensive and did not align with LEGO's refocused brand strategy.

**LEGO Galidor:** A line of action figures connected to the TV series "Galidor: Defenders of the Outer Dimension." These sets, deviating from LEGO's traditional brick-building model, resembled conventional action figures, which undermined the brand's core identity (see **Exhibit 3**).

**LEGO Clikits:** A customizable jewelry and room décor line targeted primarily at girls, featuring atypical LEGO elements like beads and bands. This line strayed from LEGO's foundational brick-building concept, which led to its discontinuation (see **Exhibit 4**).

### Examples of on-brand product lines that was kept

**LEGO Harry Potter:** A licensed theme based on the popular Harry Potter franchise. Despite fluctuating sales, its enduring popularity and appeal to both LEGO enthusiasts and Harry Potter fans ensured it was kept in the LEGO portfolio (see **Exhibit 5**).

**LEGO City:** A theme encompassing everyday city life scenes, vehicles, and buildings. LEGO City has been a consistent and integral part of LEGO's lineup, embodying the brand's core values of creativity and imagination (see **Exhibit 6**).

**LEGO Star Wars:** Launched in 1999, this was LEGO's initial major venture into licensing agreements with external franchises. Despite the high cost of licensing, the Star Wars theme was a massive success (see **Exhibit 7**).

## The management question

The year is 2004. A new strategic vision and direction has been established and several product lines and business have either been discontinued or diversified. The CEO Jørn Vig Knutstøp now has to decide on what to do with the LEGO Education business unit. LEGO Education was established in the 1980s and has been dedicated to providing learning solutions designed specifically for students and teachers. In 1998, LEGO

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<sup>11</sup> The Economist, 2006

pioneered a groundbreaking blend of physical and digital education with the launch of LEGO MINDSTORMS (see **Exhibit 8**). This product marked a significant change in educational tools, especially at a time when the concept of "makerspaces" was unknown in classrooms. Back then, hands-on approaches to teaching technology and engineering were rare. Moreover, this was three years before the term 'STEM' (Science, Technology, Engineering, and Mathematics) even entered the educational lexicon<sup>12</sup>.

However, the business unit was losing money and sales were declining, and the business unit was capital-intensive. If the unit is divested, it could raise a substantial amount of capital, which could then be reinvested in LEGO's core product lines. Keep in mind that LEGO is on the brink of bankruptcy and as mentioned earlier, the CEO considers LEGO to be "...on burning platform, losing money with negative cash flow", concluding "we likely won't survive."

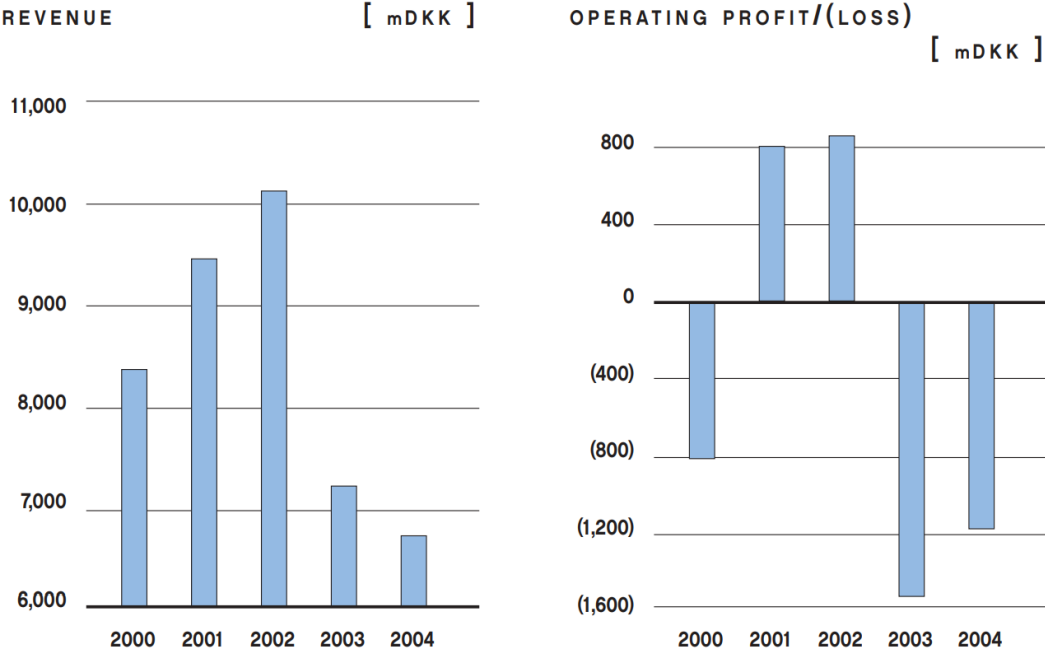
Moreover, the business model of LEGO Education is very different from the rest of LEGO's operations. Its primary market is educational institutions and municipalities (B2G), rather than individual consumers. This model involves creating and providing educational content and tools that integrate LEGO products into learning environments through a hands-on approach to learning. The offerings are designed to enhance students' skills in areas such as science, technology, engineering, arts, and mathematics (STEAM).

**Managerial question:** Should LEGO keep the LEGO Education business unit? Is it aligned with the new strategic direction for the brand? Or, should LEGO divest this unit, similar to its strategy with LEGO Theme Parks, to focus resources on its core on-brand product lines?

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<sup>12</sup> Futurum Careers. How LEGO Education Became Pioneers of STEAM Learning

**Exhibit 1** Revenue and profitability figures from LEGO Annual report, 2004



**Exhibit 2** The 2004 “Shared vision” laying out the three transformation phases

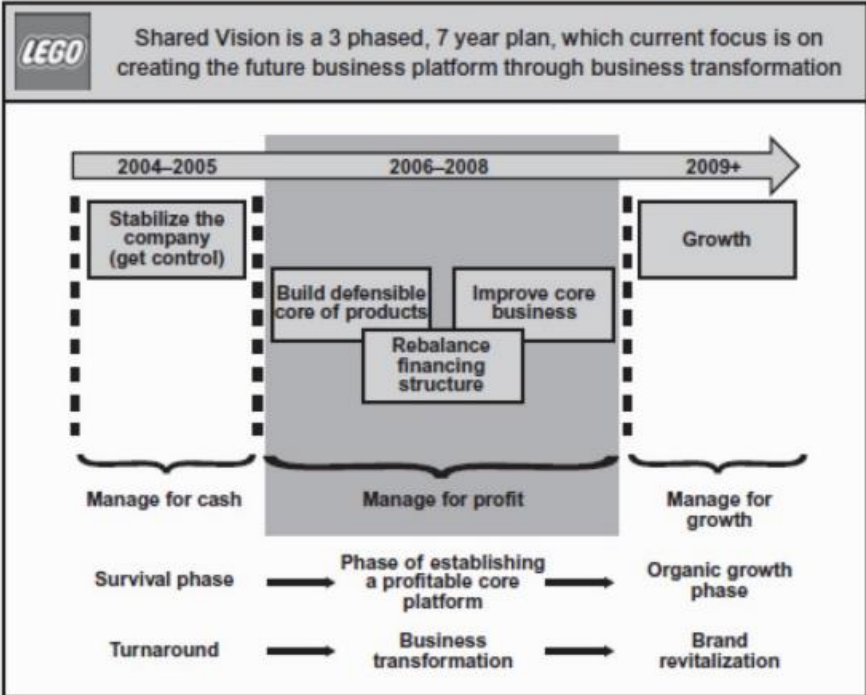


Exhibit 3 Example of a product in the LEGO Galidor product line



Exhibit 4 Example of a product in the LEGO Clikits product line



Exhibit 5 Example of a product in the LEGO Harry Potter product line



Exhibit 6 Example of a product in the LEGO City product line



Exhibit 7 Example of a product in the LEGO Star Wars product line

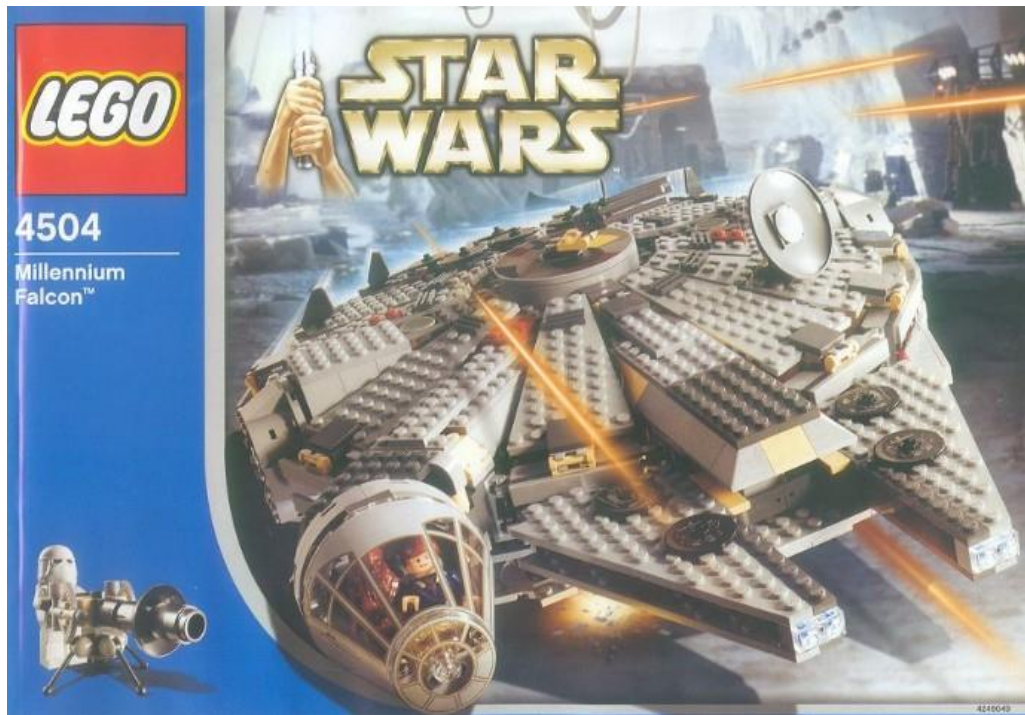


Exhibit 8 Example of a the LEGO Mindstorms product line

