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How LEGO Rewrote the Rules of Innovation and Conquered the Global Toy Industry

DAVID C. ROBERTSON with BILL BREEN

DAVID C. ROBERTSON was professor of innovation and technology management at IMD in Lausanne, Switzerland from 2002 through 2010. He joined the faculty of the Wharton School at the University of Pennsylvania in 2011 and now serves as professor of practice. While at IMD, Dr. Robertson was codirector of the school's largest executive education program which served leading European companies like Credit Suisse, EMC, HSBC, Skanska and BT. Dr. Robertson is a graduate of MIT and the University of Illinois.

BILL BREEN is a member of the team which launched *Fast Company* magazine. He served as senior editor for *Fast Company* for several years before becoming a full-time author. At *Fast Company*, he specialized in writing articles on competition, innovation, and personal success. Mr. Breen is the coauthor of *The Responsibility Revolution* and *The Future of Management*.

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MAIN IDEA

LEGO is one of the world's most recognized brands. Every year, LEGO factories churn out more than thirty-six billion new LEGO pieces – about 2.2 million bricks an hour. Yet for all of LEGO's many accolades, very few people know much about The LEGO Group, the small family-owned company which is headquartered in Billund, a rural part of Denmark.

That lack of attention to The LEGO Group is unfortunate because the LEGO corporate story is highly illuminating. The company was founded in 1932 and through sheer grit and determination had grown into a multi-billion-dollar enterprise on the back of decades of unbroken sales growth. For all that success, however, at the end of the twentieth century, LEGO found itself fading as the digital world arrived. In 2003, the LEGO Group announced the biggest loss in its history and the company was on the brink of insolvency.

What's interesting was LEGO reached that point by aggressively following seven of the most common theories of innovation which are widely circulated in the business world today. With the company in danger of imminent failure, a new management team was installed and they set about taking those academic prescriptions for innovation and reinventing them and synthesizing them. In essence, the new management team developed a practical approach to innovation that works.

The result? LEGO emerged from its near-death experience to become the world's fastest-growing and most profitable toy company. In the middle of a global recession, LEGO's pretax profits trebled from 2007 to 2011 as the company grew its profits faster than Apple and many other heavyweights of the innovation world. LEGO could just go down in business history as the world's most spectacular turnaround story.

"Continuous innovation must be a product of an organization's capacity to learn and adapt. We hope LEGO will continue to thrive, because a world with LEGO in it is a little smarter, a little more creative and a lot more fun."

– David Robertson and Bill Breen



1. The Seven Truths of Innovation and LEGO's Decline Pages 2 - 3

The arrival of video games, MP3 players and high-tech goodies in the global toy marketplace at the end of the twentieth century heralded a new challenge for LEGO. While the company has always been innovative, it suddenly found itself in catch-up mode. In response, LEGO rolled out an ambitious growth strategy based on seven of the most widely heralded innovation theories of the business world. These ideas – which seemed to work wonders for other companies – almost sank LEGO and it looked like the company was in a death spiral.

2. Mastering the Seven Truths of Innovation and Transforming LEGO. Pages 4 - 8

Faced with imminent bankruptcy, the LEGO Group installed a new management team who set to work reinventing those academic prescriptions for innovation and synthesizing them into a management philosophy which worked for LEGO. Rather than thinking outside the box, LEGO figured out how to make innovation happen consistently inside a very conventional organization.

In practical terms, LEGO reinvented the way innovation happens consistently well without requiring the leadership and input of a charismatic renegade. It has come up with a systematic way to make continuous innovation less an abnormal event and more like a new normal. LEGO has built from the ground up an innovation-management system which addresses the trade-offs every organization struggles with:

- How do we give people room to innovate without losing focus on what makes us money?
- How can we provide autonomy without losing all accountability for results?
- How can we stay within business orthodoxy but still deliver expansive growth?

So how do we know LEGO got it right now? The results speak for themselves. From 2007 to 2011, the world went through a global recession and yet the LEGO Group's pretax profits quadrupled as it learned how to innovate within the box. While companies like Hasbro and Mattel struggled to achieve single digit profits, LEGO grew its profits faster than innovation bellwethers like Apple. What's more impressive is LEGO achieved this in an industry with no or few entry barriers, aggressive global competitors, fickle customers, a production cost disadvantage and no patent protection on its core product. LEGO achieved those results not by breaking with business convention but by building within it.

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