

Innovating the business model in order to
renovate and revitalize the brand

Strategic Management Conference
Copenhagen Business School
December 12th, 2006



Meaning to stakeholders – why do you exist? And where should you go in the future?

- Different interests – different meaning

<p>1. Shareholders</p> <p><i>"Best in industry sustainable value creator"</i></p> <ul style="list-style-type: none"> Value creation Streamlines operations Prepared for growth Governance 	<p>2. Customers</p> <p><i>"Deliver differentiation, high velocity, and good margin"</i></p> <ul style="list-style-type: none"> Customer profitability Service effectiveness Innovation 	<p>3. Business partners</p> <p><i>"Access to brand in a mutually value creating way"</i></p> <ul style="list-style-type: none"> Reliability Responsiveness Mutually value creating
Sustainable business		
<ul style="list-style-type: none"> Strong market presence Community building High quality Product on brand <p><i>"Joy of building, Pride of creation"</i></p> <p>4. Consumers</p>	<ul style="list-style-type: none"> Employee commitment Talent development Leadership <p><i>"An exciting, challenging and rewarding place to work"</i></p> <p>5. Employees</p>	<ul style="list-style-type: none"> Ethical SC management Environment People, Health & Safety <p><i>"Responsible, trustworthy and adhering to the principles of Global Compact"</i></p> <p>6. Society & environment</p>

- Innovation far from "only" product innovation

level 3	<p>We will continue the market leading way we have seen before product innovation and systems. The current (2014-2015) is the last and greatest of these. We will do this by continually pushing the envelope of the product and packaging with other technological companies.</p>	<p>We will continue the way consumers expect since the core strategy of LEGO. We will do this by continuously experimenting with new levels of engineering. We will do this by continuously competing all recent patents and competing with licensed partners.</p>	<p>We will strive to continue the way we do business in a "never seen before" way. We will do this by exploring the market and adjacent industries. We will do this in order to create a new business model. We will do this by exploring new business models through the creation of new products and services.</p>	<p>We will continue processes to make better products with fewer seen before solutions. We will do this by collaborating with the company and with external licensed partners. We will do this by exploring new business models.</p>
level 2	<p>We will reconfigure known product parameters to find new ways of solving known customer needs. We will do this by challenging the norm and by creating LEGO unique solutions for our market. We will do this through focused experimentation or experimentation of our products.</p>	<p>We will reconfigure known experience parameters to find new ways of enhancing the customer experience. We will do this by combining LEGO experience with new products from other industries, to use as the through-line understanding customer.</p>	<p>We will reconfigure the ways we do business to increase the potential of our existing product offerings. We will do this by exploring new and new business models from other industries and collaborating with relevant business partners.</p>	<p>We will reconfigure known process parameters to bring our products to market. We will challenge and learn from other industries to challenge the norm and create new repeatable processes to our company.</p>
level 1	<p>We will continuously make adjustments to our existing products to optimize their market potential. We will do this to a high degree of innovation. We will do this by always aiming for the better. We will do this by finding our own experience added to various levels of innovation and competition.</p>	<p>We will continuously make adjustments to the way we apply known experience parameters and integrate these in a relevant and meaningful way. We will do this to improve customer and user purchase experience as they live up to our own ideas. We will do this based on our insight to our customer experience (2015).</p>	<p>We will continuously adjust known business parameters to improve the business potential. We will do this by always monitoring, analyzing and verifying the situation of our business. We will take immediate actions based on our own insights and in a holistic manner.</p>	<p>We will continuously adjust our processes to optimize our efficiency in bringing our products to market. We will do this by adjusting all known process parameters, always aiming to be better.</p>
	product <small>How do consumers buy & use LEGO?</small>	experience <small>How do consumers experience LEGO?</small>	business <small>How do consumers buy & use for LEGO products & experiences?</small>	process <small>How does LEGO bring products & experiences to the market?</small>

Types of innovation



Getting the business model (and processes) right is essential

- Core assets and identity
- Values & vision (raison d'être) → Essence
- Structure incl. performance, aligned with value creation (e.g., CPP)
- Asset configuration (Asset characteristics)
- Financial structure (ROS, ROIC, WACC)
- Repeatable model!



Example 1: LEGO Factory



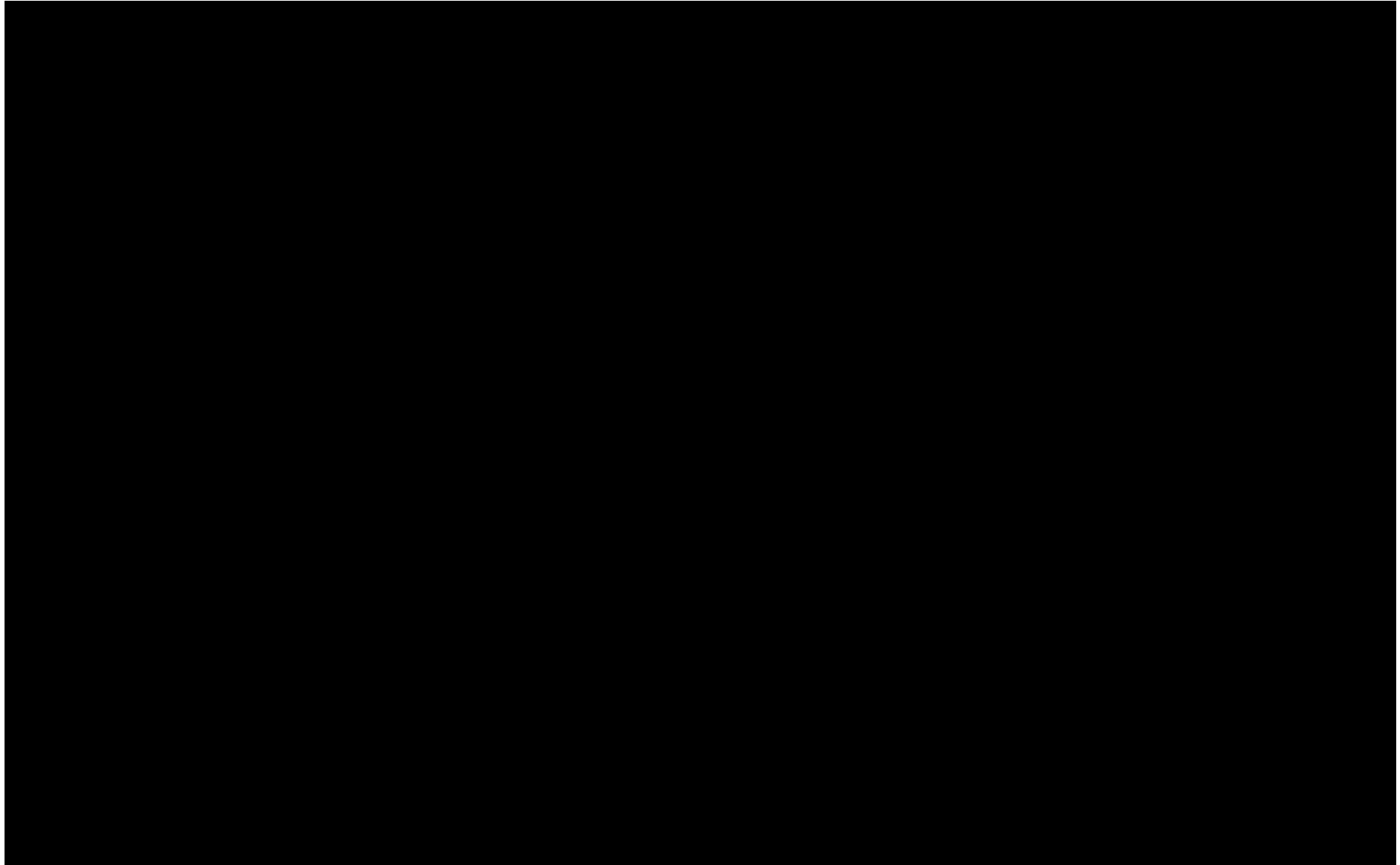
Levels of customer involvement

1. User testing
2. User co-development
3. Own user development of finished products





Listen to this little visionary chap.....



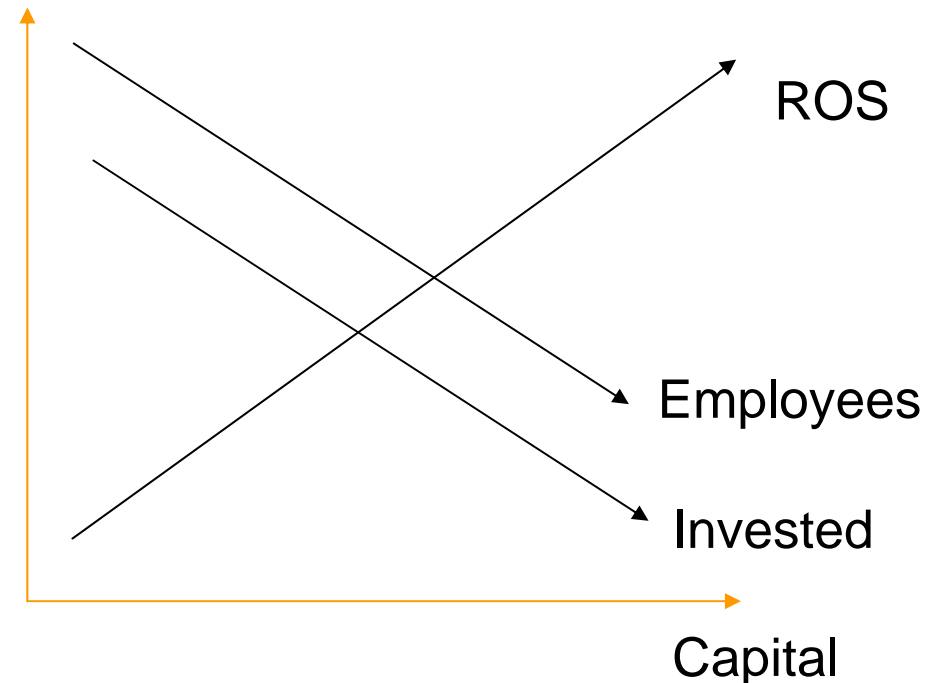


Example 2: Our changing business model

General principle # 1: Open Source
<The case for listening>

- User testing: LEGO City
- User co-development: LEGO MINDSTORMS
- User Own Customization: LEGO Factory
- **Letting the customers run with the brand (fueling the insurgency inside the brand)**

General principle #2: Vertical dis-integration <Property rights>





Making it happen

General principle # 3: Acting into new ways of thinking



Acting ourselves into new ways of thinking
<execution vehicles>

The early and happy days Trouble in paradise The ten-year desert walk **Running as if there was no tomorrow** Into the deep – and up again Sustainable value creation (the transformation energy)

- Customer and Product profitability (CPP)
- Sales & Operations Planning (S&OP)
- LEGO Development Process (LDP)
- Key Account Management (KAM)
 - Account Wheels
- Decision models (RASCI)
- War Rooms and “visual factory”
- Performance Management Program (PMP)
- Communication vehicles; blog, weekly letter, etc.
- Talent and lynch pin
- Specialist
- People reviews

Physical change

- Must Win Battles
- Integrity
- Execution (Systems and decision rights)



Innovating the business model to re-vitalize the brand

- Not only Turnaround but also Transformation
 - Strategic purpose is different to different stakeholders - sustainability
 - Innovation direction is multifaceted – product/experience, etc.
- Strategy frontiers
 - Principle # 1: Entrepreneurship (Open Source/Property Rights)
 - Principle # 2: Platform/Business Model Design (excess liquidity)
 - Principle # 3: Execution – Making it happen (Integrity)
- **How does research inform us?**



Thank
you