The LEGO Case

Teaching Note

The Toy of the Century is close to bankruptcy. It runs theme parks, makes video games and molds 12,900 different parts. You are the new CEO of LEGO, and you are 35.

NÍVEL	B1 em diante (o texto do caso é curto; a discussão sobe com a turma)
DURAÇÃO	30, 45 ou 60 minutos de discussão + 15 minutos de jogo
FORMATO	Aula individual, dupla ou turma; presencial ou online
OBJETIVO DE LÍNGUA	Argumentar e discordar em inglês (I'd rather..., The risk is..., If we..., we'd...), vocabulário de negócios
OBJETIVO DE NEGÓCIO	Foco no negócio principal, custo da complexidade, fazer × terceirizar, crescer sem perder o foco

Como conduzir

1. **Abra com a abertura (5 min).** Mostre o vídeo de abertura. Pergunte: o que você sente? O que faria nos primeiros cinco minutos?
2. **Uma decisão por vez.** Leia o briefing em voz alta (ou deixe o aluno ler), faça a pergunta e peça um voto antes de qualquer debate. Registre o voto de cada um.
3. **Discuta com as perguntas-guia.** Uma por vez. Cobre: “Why?”, “Give me a number.”, “Defend the other option.”
4. **Revele o que aconteceu só no fim de cada decisão.** Nunca antes do voto: a graça do caso é decidir sem saber.
5. **Feche jogando.** Os alunos jogam o caso sozinhos (15 min) e comparam o resultado deles com o real ($5.2B).

> **Correção de inglês:** não interrompa o aluno no meio da frase. Anote os erros e corrija no fim de cada decisão, em bloco. O caso funciona porque o aluno se arrisca a argumentar.

Versões de tempo

30 MIN	45 MIN	60 MIN
Abertura + decisões 1 e 2. Prós e contras só da opção escolhida pela turma.	Abertura + as 4 decisões, 2 perguntas-guia em cada. Debate final com 1 pergunta.	Abertura + as 4 decisões completas, com prós e contras de todas as opções e o cenário alternativo. Debate final com 3 perguntas.

DECISION 1 · BILLUND, 2004

How do you save LEGO?

BRIEFING (READ ALOUD)

Billund, Denmark. Five years ago, the LEGO brick was named Toy of the Century. Last year, sales fell 26% and the company lost 1.4 billion Danish kroner before tax, the worst result in its history.

The empire. LEGO now runs four theme parks and makes video games, clothes, watches and TV shows. Each business was started to make the brand grow. Each one has a defender inside the company.

Your warning. The company owes about 800 million dollars. The owner has put 800 million kroner of his own money in. Last year you gave the board a warning that nobody wanted to hear.

> *"We are on a burning platform, losing money with negative cash flow and a real risk of debt default." — Jørgen Vig Knudstorp to LEGO's board, 2003*

Sales in 2003: −26% · Loss before tax: DKK 1.4B · Debt: ~$800M · Theme parks: 4

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Trim everything Cut 10% in every business. Keep them all.	• Nobody loses their business, so nobody fights you • Keeps every door to future growth open	• Ten small cuts don't pay an $800 million debt • Your best people stay divided across a dozen businesses	Costs fall a little everywhere. The parks still need money you don't have, and the banks still want theirs. Two years later you are making the same decision, with less cash and less time.
Bring in investors Sell half of LEGO to a fund. Keep running everything.	• Solves the cash problem in one signature • Nothing has to be closed or sold today	• The family loses control after 72 years • The fund wants its money back in about five years	The fund's money pays the banks, so the urgency disappears, and so does the reason to choose. LEGO still runs parks, games and clothes. In a few years the fund wants to sell, and the choices are no longer yours.
Sell the parks Sell the parks. Close or license the games. Keep 100% of LEGO. WHAT LEGO DID	• Brings in cash now, when you need it most • Managers stop running businesses they don't understand	• Legoland is the family's pride: the first park opened in Billund in 1968 • If the brick itself is the problem, you have nothing else left	This is what LEGO did. It sold 70% of the Legoland parks, closed its video game unit, licensed the games to outside studios and cut jobs.

GUIDING QUESTIONS

1. What is LEGO really good at? What does it do only because it can?
2. The parks carry the LEGO name. Does selling them hurt the brand or protect it?
3. Why is "cut 10% everywhere" so popular inside companies? When does it work?
4. You have to tell the family that Legoland will be sold. Write your first sentence.

What really happened: In 2005, LEGO sold 70% of the Legoland parks to Blackstone for 375 million euros. The owner family kept the other 30%. LEGO also closed its video game unit, licensed the games to outside studios and cut jobs.

Vocabulary: to divest (vender um negócio ou parte da empresa) · core business (o negócio principal, aquele em que a empresa é melhor)

DECISION 2 · 2005

What do you do with 12,900 parts?

BRIEFING (READ ALOUD)

The design studio. In the late 1990s, LEGO hired young designers from Europe's best design schools and set them free. New sets came with their own new parts and their own new colors.

The factory. The number of different parts has almost doubled since then, to about 12,900. Every new part needs its own mold, its own space in the warehouse and its own place in the plan.

The finance chief. Your new finance chief asks a simple question: which sets make money? Nobody can tell him. Some sets cost more to make than their price in the store.

Different parts: 12,900 · Operating margin, 2004: −14.5% · Sales, 2004: DKK 6.3B · Cash from the parks: €375M

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Cut deep Almost half of the parts go. A new part must pay for itself. WHAT LEGO DID	• Fewer molds, less stock, a simpler factory • Designers finally see what each idea costs	• Your best designers may leave • Some sets that fans love need the special parts	This is what LEGO did. It cut the parts from about 12,900 to about 7,000, showed designers the cost of every part and asked every new product for a 13.5% return on sales.
Protect design Creativity is the product. Save money somewhere else.	• No fight with the people who create your products • New parts make new sets look special	• You still don't know which sets make money • Every new part adds cost for years, even after the set is gone	The catalog keeps growing and the margin keeps falling. Selling the parks bought you time, and the factory spends it. In two years the cash is gone again.
Clean up Remove duplicates and dead parts. About one in ten.	• Nobody can argue against removing a duplicate • No set that sells today has to change	• One part in ten does not change what the factory costs • The habit of a new part for every set stays alive	The easy parts go and the hard conversations never happen. A few years later the catalog is growing again, and now people say: we already tried cutting, and it didn't work.

GUIDING QUESTIONS

1. Why did nobody at LEGO know which sets made money? Could that happen in your company?
2. Is a limit good or bad for creativity? Give an example from your own work.
3. How would you explain the cut to a designer who loves the part you are killing?
4. “We already tried that and it didn't work.” How does a half measure make the next attempt harder?

What really happened: LEGO cut the number of parts from about 12,900 to about 7,000. Designers got the cost of every part, and every new product had to target a 13.5% return on sales.

Vocabulary: mold (molde (a fôrma de aço onde a peça é injetada)) · return on sales (margem: quanto de lucro sobra de cada venda)

DECISION 3 · 2006

Who makes the brick?

BRIEFING (READ ALOUD)

The factory floor. LEGO has molded its own bricks for more than fifty years. A brick made today must click onto a brick made in 1958. Much of this work is still done in Denmark and the United States.

The pressure. The patents on the brick ran out in the 1980s. Rivals sell bricks that fit yours for less. You are profitable again, but your costs are still too high and you have little cash to invest.

The offer. Flextronics makes electronics for some of the world's biggest brands. It offers to take over most of your production, in Hungary, the Czech Republic and Mexico.

Operating margin, 2005: 5.4% · Sales, 2005: DKK 7.0B · Brick patents expired: 1980s · Same fit since: 1958

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Stay home Keep the factories where they are.	• No risk to quality or to deliveries • About 900 jobs stay in Denmark	• Among the highest factory wages in the world • Your factories stay far from your biggest markets	The brick stays perfect and expensive. Cheaper rivals keep growing, and you have less money for new products. The cost problem you did not solve in 2006 comes back in the next crisis.
Move, but own Your own factories, in cheaper countries.	• Lower costs, with your own people in control of quality • You can change production fast when demand changes	• You have almost no money left to build factories • It takes years, and job cuts at home are still painful	LEGO did not do this in 2006, but this is roughly where it ended up in 2009: its own factories in the Czech Republic, Hungary and Mexico. Building them in 2006 would have taken cash LEGO barely had. If you find it, you skip the shortages.
Hire a specialist A contract manufacturer runs most of production. WHAT LEGO DID	• You don't have to pay for new factories • The partner already has factories near your markets	• Your partner has never molded a brick to LEGO's standard • When demand changes, you depend on someone else's plan	This is what LEGO did. Flextronics took over most of production in 2006. There were shortages, LEGO could not deliver what stores ordered, and in 2008 it ended the deal and took the factories back.

GUIDING QUESTIONS

1. In 2004 LEGO sold what was not core. Is making bricks core? How do you know?
2. What can you outsource in your own company without risk? What can you never outsource?
3. Flextronics was excellent at electronics. Why was it not enough?
4. LEGO reversed its own decision after two years. Is that weak leadership or good leadership?

What really happened: In 2006, LEGO gave most of its production to Flextronics and announced 1,200 job cuts. Start-up problems caused shortages, and LEGO could not deliver what stores ordered. In 2008 it ended the deal and took the factories back. Its operations chief later called molding bricks a core competence.

Vocabulary: to outsource (terceirizar: pagar outra empresa para fazer) · core competence (o que a empresa sabe fazer melhor do que as outras)

DECISION 4 · EARLY 2009

Where does most of the new money go?

BRIEFING (READ ALOUD)

Early 2009. The world is in a financial crisis, and LEGO is growing. Sales grew 19% last year, and the operating margin reached 22%. Star Wars and the new Indiana Jones sets drove much of that growth.

The lesson of 2003. Movie sets sell very well when there is a new movie, and badly when there isn't. More than half of the sales lost in 2003 came from movie products. And you pay the studios for every box.

The ideas. Your managers want to grow faster. Three ideas are on your desk: many more movie licenses, a much bigger bet on the online world your team has been building since 2006, and new stories of your own.

Sales growth, 2008: +19% · Operating margin, 2008: 22% · Of the 2003 sales fall: movie products: >50% · Online world in development since: 2006

THE OPTIONS

OPTION	PROS	CONS	IF THEY HAD CHOSEN IT
Hollywood A LEGO set for every big movie.	• Children already love the characters • Each new movie is free advertising for your sets	• You pay royalties on every box • No movie, no sales: 2003 again	Sales jump with every hit and fall in every quiet year. The studios know you need them and ask for more. You grow, but your growth depends on other people's release dates.
Beyond the brick Online worlds and digital play.	• Children spend more and more time on screens • A digital world has no molds and no warehouses	• Game companies do this better and faster than you • Money and attention leave the brick again	LEGO made this bet on a small scale. LEGO Universe, its online world, opened in 2010 and closed in January 2012. As the main bet, it would have taken money and attention away from the brick, as in 2003.
Own stories New worlds on the brick, with your own characters. **WHAT LEGO DID**	• No royalties, and no waiting for someone else's movie • Every new story sells the same brick system	• Most new stories fail, and you pay for every failure • It takes years to build characters children care about	This is where LEGO put its biggest new bets: Ninjago in 2011 and Friends in 2012. It did not drop licenses. It kept Star Wars and added new ones.

GUIDING QUESTIONS

1. Renting a story or owning one: what are the costs and the risks of each?
2. LEGO kept Star Wars and added more licenses. Why not use only its own stories?
3. LEGO lost money making its own video games, then made money licensing them. What is the difference?
4. How do you tell a good growth idea from the next Legoland?

What really happened: LEGO did more than one thing, but its new growth engine was its own: Ninjago in 2011 and Friends in 2012. It kept Star Wars and added licenses. LEGO Universe closed after 15 months. The LEGO Movie, made with Warner Bros., came out in 2014. By 2015, sales had reached about 5.2 billion dollars.

Vocabulary: royalties (o que se paga ao dono de uma marca ou personagem para usá-lo) · intellectual property (IP) (propriedade intelectual: personagens, histórias, marcas)

Final debate

1. LEGO almost died from doing too many things. How does a company know it is doing too many?

2. “Focus” meant selling the parks but, in the end, keeping the factories. Where is the line between core and not core?
3. Some LEGO designers said the limits made them more creative. Do limits help or hurt your work?
4. Knudstorp outsourced production, saw it fail, and reversed it in two years. What does a good leader do with a wrong decision?
5. Think of your own company. What is your “brick”? What is your “Legoland”?

> **Depois da aula:** jogue o caso sozinho antes de levá-lo à primeira turma. Faça as decisões de formas diferentes para ver os cenários alternativos que os alunos vão encontrar.

Fontes: Relatórios anuais do LEGO Group (2003, 2004, 2008, 2015), comunicado da Blackstone (2005), história oficial da LEGO sobre a terceirização (lego.com), Harvard Business Review (entrevista de Knudstorp, 2009), David Robertson e Bill Breen, Brick by Brick (2013), Knowledge at Wharton (2012), NBC News (2006). Vendas em dólar: coroas dinamarquesas convertidas pelo câmbio médio de cada ano, arredondadas. Os números do caminho do aluno são simulação.