

How Lego clicked: the super brand that reinvented itself

From its founding in 1932 until 1998, Lego had never posted a loss. By 2003 it was in big trouble. Sales were down 30% year-on-year and it was \$800m in debt. An internal report revealed it hadn't added anything of value to its portfolio for a decade.

Consultants hurried to Lego's Danish HQ. They advised diversification. The brick had been around since the 1950s, they said; it was obsolete. Lego should look to Mattel, home to Fisher-Price, Barbie, Hot Wheels and Matchbox toys, a company whose portfolio was broad and varied. Lego took their advice: in doing so it almost went bust. It introduced jewellery for girls. There were Lego clothes. It opened theme parks that cost £125m to build and lost £25m in their first year. It built its own video games company from scratch, despite having no experience in the field.

Yet in 2015, the still privately owned, family-controlled Lego Group overtook Ferrari to become the world's most powerful brand. It announced profits of £660m, making it the number one toy company in Europe and Asia, and number three in North America, where sales topped \$1bn for the first time. From 2008 to 2010 its profits quadrupled, outstripping Apple's. Indeed, it has been called the Apple of toys: a profit-generating, design-driven miracle built around premium, intuitive, covetable hardware that fans can't get enough of. Last year Lego sold 75bn bricks. Lego's "Minifigures" - the 4cm- tall yellow characters with dotty eyes, permanent grins, hooks for hands and pegs for legs - outnumber humans.

Vig Knudstorp rescued Lego by methodically rebuilding it, brick by brick. He dumped things it had no expertise in. He slashed the inventory, halving the number of individual pieces Lego produces from 13,000 to 6,500. He also encouraged interaction with Lego's fans, something previously considered unacceptable. Far from killing off Lego, the internet has played a vital role in allowing fans to share their creations and promote events like Brickworld, adult Lego fan conventions. In 2003, Lego launched its own crowdsourcing competition: originators of winning ideas get 1% of their product's net sales, designs that so far include the Back to the Future DeLorean time machine, the Beatles' Yellow Submarine and a set of female NASA scientists.

None of this has happened by chance. Lego is said to conduct the largest ethnographic study of children in the world.

"We call it 'camping with consumers'," says Anne Flemmert Jensen, senior director of its Global Insights group. "My team spends all our time travelling around the world, talking to kids and their families and participating in their daily lives." This includes watching how kids play on their own and with friends, how siblings interact and why some toys remain perennial favourites while others are relegated to the toy box. Children are fickle - as the makers of forgotten "must-have" Christmas toys will concede.