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The internationalization process of LEGO Group
a case study



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Abstract

The aim of this thesis is to provide an insight into the internationalization process of the LEGO Group, and the main focus is to analyze the LEGO Group's internationalization steps and process with a known internationalization theory-model, namely the Uppsala model by J. Johanson and J. Vahlne (1977), that originated in Sweden. This model focuses on the gradual increase in involvement, and the gradual commitment to foreign markets, with a strong focus on current experience and knowledge and the gain of new experience and knowledge with each step along the process of internationalization. The available research done with this model suggest that companies begin with low-risk, low-commitment modes of entry, for example exporting through shipping/export agents, followed by higher-risk higher-commitment modes of entry, such as own exporting companies, establishing sales subsidiaries, or wholly owned production facilities abroad. Therefore, the underlying concept is that companies gradually move into a market as they gain more knowledge and experience and reduce uncertainty in the new market. Moreover, the Uppsala model deals with the preferences of firms to enter certain markets that are close to their home country in terms of psychic distance, which could be explained in degrees of differentiation in language, culture, political systems, and other factors affecting communication, cooperation, understanding, and generally the sentiment in the new market entered about the services/products offered and the companies themselves. The Uppsala model is one of the most widely used and influential models of internationalization and is being continuously updated by the authors. As mentioned before, the focus is on the internationalization process of the LEGO Group analyzed by the Uppsala model. LEGO is a Danish company with focus on plastic bricks – toy brick sets – that allow children and adults to explore their creativity and imagination. Today, LEGO is known all around the world for their iconic bricks and mini-figures, so we could say that their internationalization choices and decisions led them to become a global leader in the toy industry. At the beginning of this research, it was expected, based on the knowledge about LEGO, that LEGO Group's internationalization processes were in line with the Uppsala Model theory, and this expectation was later challenged. The research for this thesis was conducted mainly on the internet – through research papers, theses, case studies, newspaper articles, and blogs. (Hult et al., 2020) (HKT Consultant, n.d.) (Angola Transparency, n.d.)

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1 Introduction

LEGO is currently a renowned global brand which serves multitude of markets around the world. However, their first expansion steps abroad were not easy as LEGO faced many challenges when deciding where to expand first, and by which method. In the early days of LEGO, the world was making its steps to become a globalized economy as we know it today, and communication between companies, firms and individuals was limited to costly telephone calls and mostly to post or personal meetings conditioned by long travel times. There was no 3D software on a powerful computer to help LEGO design and simulate what later became a worldwide phenomenon, yet they have achieved it.

Ole Kirk Kristiansen began at his home's woodworking shop, and with some skilled journeymen doing carpentry work for his customers he was a thriving business man - until the 1929 Wall Street crash and the following financial crisis, which affected economies around the whole world and, sadly for Kristiansen, also the Danish bacon and butter export, resulting in the inability of Billund farmers to pay for carpentry work done by Ole Kirk's Billund Woodworking Factory, and forcing Kristiansen to let his journeymen go.

"I looked to the future with hope. But within two months my world was tumbling. There was a crisis in farming but as we owed our living to the smallholders and farmers, we were also affected. We were in a difficult time – but it was as well that we could not see what lay ahead. During the summer we were asked to make toys for Jens W. Olesen, Fredericia, and as we had no other work, we looked on it as a gift from God."

- Ole Kirk Kristiansen

As the farmers could no longer afford Kristiansen's carpentry work, Kirk was forced, or conditioned, to shift his focus – to begin developing and making toys. At first, he continued on working with wood, as that was a readily available material, and he already had a lot of experience and know-how regarding woodworking. This was also when a new company name became necessary, because selling toys under "Billund Maskinsnedkeri" (Billund woodworking factory) (LEGO Group, n.d.) wouldn't excite customers as much as Kirk would like. He organized a competition within his company to find an appropriate name, of which he ended up to be the winner – he played with two Danish words LEG GODT (meaning Play Well) and came up with LEGO, that later became one of the world's most renowned brands.

"It wasn't until the day I told myself 'you'll either have to drop your old craft or put toys out of your head' that I began to see the long-term consequences. And the decision turned out to be the right one."

- Ole Kirk Kristiansen

1.1 Motivation

The world is an ever-changing system – as it is changing faster and faster, I find it important to investigate how the world is changing, and to be able to analyze, describe and understand the respective parts of the processes of change. Markets are complex systems, and globalization does not make the complexity any easier to understand, so we as people have developed methods, frameworks and models to understand and learn from the ever present changes in such systems.

Internationalization has been an important topic for several decades, more so since the latter half of the 20th century. As businesses began designing products and services to meet the needs and expectations of customers in multitude of countries, or products easily modifiable for international markets, internationalization began to be a more and more prominent topic. The goal, in the context of economics, is to increase company's market share outside of their home country. Internationalization is closely tied to globalization, as countries are highly interconnected through cross-border commerce and finance (Investopedia, 2023) and this interconnection keeps on increasing and gaining in complexity. Due to the availability of certain goods and services only at specific locations across the globe, the interconnectedness has significant implications for national activities and economic wellbeing globally. LEGO bricks were developed with the thought of supporting the development and creativity in children (Pop in and Play, n.d.), one could argue that the toy was not at first designed or expected to become global, that the opportunities and the idea of internationalization came along the way as the new product proved to be a hit among children and adults alike. The design and brand was at first simple, conforming to the local Danish culture and sentiment, and was aimed at the Danish market. But the fame and likability of the product led to new ideas and furthermore to the first steps of the internationalization of LEGO. When LEGO Group was making its first international steps, it was also when markets were opening more to exports and imports after the Second World War, removing bans on certain goods, which resulted in countries becoming more trustful with each other. (LEGO Group, n.d.) This put LEGO into a new situation and it was necessary to take a new stance, to develop their brand further, and to finally get the product across the borders of Denmark. It was quite a rocky road for LEGO at first, and not long ago they also faced a financial crisis of their own, but they managed to pull through and became a truly international brand. These are the reasons why I find it interesting and am motivated to explore and learn about the various ways and decisions in the internationalization process of the LEGO Group. (Knowledge at Wharton, 2012)

1.2 Relevance

As mentioned before, the global markets are changing and gaining in complexity, and LEGO is managing to successfully navigate this sea of changes and opportunities. For such a large company, it is important to “never sleep” and to always be ahead of the sea's waves, tides and currents. The Uppsala model is a wonderful tool to help us analyze and understand the internationalization process steps made by companies that are not born global, and that are forced, in their process of internationalization, to make difficult strategic decisions, such as how

to proceed in participation in a foreign markets, and which markets would be welcoming the most. The model is still relevant, as it is being continuously updated (the last update in 2017) to explore new behaviors and approaches of international firms facing similar challenges like companies decades ago, such as different cultures, economies, or overcoming the physical distance. Nowadays, technologies available to firms and individuals make the process of internationalization easier on the side of communication, travelling and any kind of development, be it design, production, or supply chains. But today, the markets are even more complex and the companies have to tread carefully in order to make their businesses thrive. (Radu Magdin, Forbes, 2021)

2 Theoretical framework

To explore the internationalization process of the LEGO Group, I have selected the Uppsala model, as it is a widely known and well developed model used to analyze the internationalization of companies. It was developed by J. Johanson and J. Vahlne in 1970s and originated in Sweden, at the international business studies at the school in Uppsala. (Johanson, J., & Vahlne, J., 1977)

2.1 The Uppsala Model

According to this model, the internationalization process is dynamic and evolves over time, the firms adjusting their strategies based on the new gained knowledge by experience in the respective markets and based on their commitment decisions. It is important to note that the model is based on the exploration of the behaviors of Swedish international firms that are more likely, according to the research background, to make smaller steps in developing their operations, rather than making large foreign investments at once. The model explores the gradual increase in involvement and commitment to international markets, as is based on experiential learning – the incremental entries into new markets accompanied by experiential knowledge gained through the direct involvement in the foreign markets. This knowledge is considered to be more valuable than objective or theoretical knowledge, as it is usually a direct result of, or response to certain behaviors or strategic decisions made by the company. (Johanson, J., & Vahlne, J., 1977)

There are several ways to gain knowledge when entering the new markets, but most knowledge cannot be used right away, as it has to be integrated by the firm, its processes have to be adjusted, and new ways to solve new problems have to be found. Not having enough of the correct knowledge, or misunderstanding the signals the new entered market is giving, is an important obstacle in developing foreign operations. (Johanson, J., & Vahlne, J., 1977)

This is supported by two approaches to internationalization distinguished by Jan Johanson and Jan-Erik Vahlne in 1977: increasing involvement of the firm in the individual foreign country, and successive establishment of operations in the new countries. They also believe that the process of internationalization is the product of a series of incremental decisions and they disregard the decision style of the decision-maker himself as well as the specific properties of the respective decision situations to a certain degree, resulting in a limited

predictive value. On the other hand, it is believed, by Jan Johanson and Jan-Erik Vahlne (1977), that all the decisions that are taken, together constitute to the internationalization process – the decisions to begin exporting to another country, to establish export agents or a sales subsidiary, and that they have common characteristics important for the process of internationalization. The Uppsala model focuses on these common traits. J. Johanson and J. Vahlne state that firms typically begin exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in the host country. It is particularly interesting that according to studies done by Hornell, Vahlne & Wiedersheim-Paul in 1972 and Johanson & Wiedersheim-Paul in 1974, the psychic distance between the home and the import/host countries directly affects the order of the specific decisions and internationalization steps. (Johanson, J., & Vahlne, J., 1977) On the other hand, other studies done on the topic of psychic distance suggest that the psychic distance plays a role in the decision making process made by managers in the companies and suggests that more psychically distant subsidiaries or production facilities in some cases perform well, contrary to the expectations of the Uppsala model, as the managers feel more pressure and are more likely to make better decisions and get more involved in all the decision making processes in the firm. More on psychic distance in a latter chapter. (Magnusson et al., 2014)

2.1.1 Establishment chain

Represented by the sequential steps – the gradual commitment to the foreign market. This is the core concept of the Uppsala model – companies internationalize incrementally due to psychic distance and the limited market knowledge and experience they possess. Emphasis is put on experiential learning and the role of incremental steps in the internationalization process. One of the main sources of this thesis that I have investigated, regarding the Uppsala model, (J. Johanson & J. Vahlne, 1977) draws from the studies of the export organization of the Swedish special steel firms (Johanson, 1966) and the Swedish pulp and paper industry (Forsgren & Kinch, 1970), which show that companies in these two industries have been mostly established through acquisition of the previous agent, or have been organized around a person employed by the agent. A prominent number of the establishments were done on the occasions such as various kinds of economic crises in the agent companies. In 1972, Hornell and Vahlne investigated nine cases of international Swedish companies, of which exports (sales) to a market had preceded the establishment of sales subsidiaries, for each of the cases investigated cases. The author's (J. Vahlne & J. Johanson, 1977) observations could be generalized based on further case studies of the development of international activities by Swedish firms: "sales subsidiaries are preceded in virtually all cases by selling via an agent; similarly, local production is generally preceded by sales subsidiaries".

The first example is a case study of the internationalization process of the second largest pharmaceutical firm in Sweden: Pharmacia. (J. Johanson & J. Vahlne, 1977). The case study was conducted in 1972, at that time, Pharmacia had organizations of its own in nice countries. Three of those organizations were performing manufacturing activities. Eight of the nine organizations had a development pattern as follows: the company received a signal from the foreign market,

followed by establishing an agreement with an agent, or sold some of their licenses on parts of their product line. Pharmacia then, after a few years of this agreement working, established sales subsidiaries in seven of these cases, and in once case bought out a manufacturing company with the same name – Pharmacia – that had previously served as an agent. Later, two of these seven sales subsidiaries further increased their involvement in the market, beginning to manufacture their own goods, getting rid of the need of importing from other manufacturing subsidiaries of Pharmacia. It is worth noting that even these manufacturization steps were incremental; the new production units started with the least complicated manufacturing activities and later successively expanded with more complicated ones. (Johanson, J., & Vahlne, J., 1977)

On the other hand, the ninth country was standing out; as Pharmacia had enough investment resources, they built a sales subsidiary immediately when demand from the market was discovered. This subsidiary was supported with the knowledge of the decision-maker, who had received parts of his education in the country in question, and before making the decision to establish a subsidiary in the selected country, had acquainted himself with a representative of another pharmaceutical firm. This acquaintance as later made the head of the subsidiary (Hornell, Vahlne, & Wiedersheim-Paul, 1973).

Another study investigated by the authors (J. Johanson & J. Vahlne, 1977) focused on the internationalization of four Swedish engineering firms. Below in Figure 1 are quoted some of the conclusion of the study:

Figure 1
Establishment Patterns for the Investigated Firms

| Pattern | Sales subsidiary | | Production subsidiary | | |
|-------------|------------------|----|-----------------------|---|----|
| | n | a | n | a | s |
| Firm | ↓ | ↓ | ↓ | ↓ | ↓ |
| | s | s | p | p | p |
| Sandvik | 2 | 18 | 0 | 2 | 13 |
| Atlas Copco | 3 | 14 | 0 | 3 | 9 |
| Facit | 0 | 14 | 0 | 2 | 3 |
| Volvo | 2 | 10 | 0 | 2 | 3 |
| | 7 | 56 | 0 | 9 | 28 |

"n" denotes no regular export activity
 "a" denotes selling via agent
 "s" denotes sales subsidiary
 "p" denotes production subsidiary
 an arrow denotes change from one state to another

This table supports the establishment chain theory part of the Uppsala model, that companies begin in their home country without any regular exporting activities, then usually make a deal with an independent representative (agent) in another market, which leads to them establishing

a sales subsidiary, and sometimes they complete the establishment chain road by building their own manufacturing/production plant in the target market. Fifty-six out of the overall sixty-three sales subsidiaries were preceded by an independent representative; this pattern holds for all the investigated firms. There is a difference between Sandvik and Atlas Copco; twenty two out of twenty-seven establishments were preceded by sales subsidiaries, and in the case of Facit and Volvo, there were five out of seven production establishments without the companies having any sales subsidiary in the target market beforehand. On the other hand, you can see that there is no case in which any of the companies has started a production facility in the target market while not having an independent representative or their own sales subsidiary in the market before that (Johanson & Wiedersheim-Paul, 1975). It seems that for Sandvik, Atlas Copco and Volvo, the first establishments of sales subsidiaries were at first not a conscious and goal driven internationalization. They had to take over representatives or start their own subsidiaries for various reasons, and through that they have gradually gained experience in establishing and managing subsidiaries. Developing policies of “marketing through subsidiaries”. An interesting note is that Atlas Copco began to consistently use subsidiaries for export marketing after they acquired a new general manager (previously a department store manager). These producing subsidiaries in almost all cases produce only for local, up to regional markets, mostly related to finishing, assembly and component works which could be categorized as marketing production. The exception is Atlas Copco’s factory in Belgium that produces stationary pneumatic equipment (J. Johanson & J. Vahlne, 1977). From what J. Johanson and J. Vahlne observed and conveyed in the paper, we can say that the developments of the respective companies are generally in accordance with the incremental internationalization view investigated. However, the gradual internationalization is not exclusive to Swedish firms, follows a quotation from the case study by Johanson & Wiedersheim-Paul, 1975:

On its part exporting is a means also of reducing costs of market development. Even if investment is necessary in the future, exporting helps to determine the nature and size of the market. As the market develops, warehouse facilities are established: later sales branches and subsidiaries (Singer, National Cash Register, and United Show Machinery). The record of company development indicates that the use of selling subsidiaries at an early stage reduced the later risks of manufacturing abroad. These selling affiliates permitted the slow development of manufacturing from repairing, to packaging, to mixing, to finishing, to processing or assembling operations, and finally to full manufacture (Behrman, 1969, p 3). Within countries there is often a pattern of exports from the United States, followed by the establishment of an assembly or packaging plant, followed by progressively more integrated manufacturing activities.

-Vaupel, 1971

As mentioned in the text above, establishment chain consist of four stages:

2.1.1.1 No regular export activities

The firms do not normally export to foreign countries, there might be some sporadic exporting through independent representatives or agents, for example shipping services like DHL or FedEx, but such exports cannot be considered as regular exports due to their frequency and quantity.

2.1.1.2 Exporting through independent agents

The companies use shipping services and similar ways to export goods on a regular basis to the target market in which they are represented by an agent, who is eligible to make important decisions on behalf of the original producer. The product or service might be already slightly adjusted to conform to the target market's needs and expectations, for example multi-language manuals, or available power outlet connectors.

2.1.1.3 Sales subsidiary

As the firms get to know the foreign market – gain market-specific knowledge – into which they were exporting via the independent agents, they establish their own foreign subsidiary. This is usually a larger investment, so the companies have to already have some knowledge and experience in order to be sure that this is the right step for their future.

2.1.1.4 Foreign production/manufacturing

The last step on the gradual commitment path is establishing own foreign production plant. As the involvement and investment in the foreign market grows together with the knowledge gained in the market, the firms setup their own production plants, cutting down on transportation costs and grounding their brand and products in the host market. This carries some dangers, especially regarding culture and workforce, about which we will talk in the next chapter.

It should be noted that while establishment chain provides a general pattern of internationalization, firms do not always follow these stages linearly, as can be seen in the case study of the Swedish firms, and in many cases, they also adapt their approach depending on specific market conditions or strategic decisions made previously, which might affect their current and future approach. Firms also do not always finish with establishing own foreign production, as in some cases it might be more profitable to just export to foreign markets through own supply chains and sales subsidiaries. (MBA Knowledge Base, n.d.)

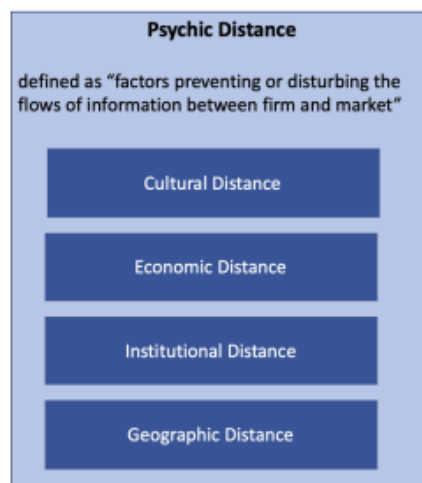
2.1.2 Psychic distance chain

Concept first introduced in Beckerman's (1956) (Johanson, J., & Vahlne, J., 1977) classic article investigating the intra-European trade, in which he concluded that it is not just geographic distance, but also psychic distance that is expected to affect trade flows. In this article, Beckerman suggests that trade occurs more often among partners who have been personally contacted and that have cultivated mutual personal relationships, that are due to geographical distance much easier to develop. Until the reintroduction of this concept by the Uppsala School in its internationalization research, this concept has been largely untouched and not much attention has been paid to it. Psychic distance is defined by terms of factors that prevent or disturb the flow of information between suppliers and buyers (Vahlne & Wiedersheim-Paul,

1973). In the case of Uppsala internationalization studies, the researchers relied on examinations of large time-spans, sometimes as long as 100 years, to investigate the effects of psychic distance). They were forced to create an objective psychic distance measurements, which did not include individual perceptions and differences based on context and time, and measured each firm using the same “ruler”. Following that, these measurements of psychic distance based on country-level indicators of cultural values or institutional ratings became a commonplace among those research internationalization behaviors among international firms (P. Magnusson, A. Schuster, & V. Taras, 2014). Empirical findings on internationalization, collected over the last years, are relatively consistent and indicate that firms are more likely to enter and compete in psychically close markets (Drogendijk, R., & Blomkvist, K., 2013). Not long ago, Håkanson and Dow (2012) investigated the international trade history between the years 1962 and 2008, and found that there is a significant negative relationship between psychic distance and international trade, however, the effect of psychic distance has been slowly decreasing through the time. The Uppsala Model of internationalization considers the psychic distance to be of an additional cost to international business as they are less effective in information transfer across national boundaries, and it also increases uncertainty (Magnusson et al., 2014) , specifically for the subsidiaries in foreign markets, as they cannot effectively use market knowledge and experience of the mother companies that operate in their home market, as psychically close markets are expected to function similarly to the home market, reducing costs for the subsidiary in foreign market due to the leverage of market knowledge and experience. (Törner, Henningson, 2020) Some of the Psychic distance factors can be seen in Figure 2.

“The psychic distance is defined as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development”
- Jan Johanson and Jan-Erik Vahlne (1977)

Figure 2
 Psychic distance chain factors



2.2 Other models exploring the internationalization process

2.2.1 Born global or international new venture model

These models describe how firms can internationalize fast and to a large extent, from the beginning, while not following the incremental stages of the Uppsala model. They leverage their unique resources, capabilities, and available networks of connections to exploit global opportunities and overcome the problems of being foreign in the markets they are entering. (Oviatt, McDougall, 2004)

2.2.2 Dynamic capabilities

Dynamic capabilities can be used to accelerate expansion and development, while still adhering to the Uppsala model, by enabling companies to learn faster and more effectively from their international experience, hence gaining experiential knowledge, and to adjust their market commitment and entry modes accordingly. This can help firms overcome the limitations of the Uppsala model, for example its slow pace, dependence on the incremental expansion, and lack of strategic flexibility. Dynamic capabilities are also helpful when a company is trying to bypass the Uppsala model. By allowing a company to enter new and distant markets without following the incremental steps of the Uppsala model, it can help firms explore new opportunities and leverage their resources. On the other hand, this model can also be seen as incompatible with the Uppsala model, because it challenges Uppsala Model's core assumptions and logic. For example, dynamic capabilities imply that firms can actively shape and transform their environment, rather than passively adapting to it. Dynamic capabilities also suggest that firms can create and renew their resources, rather than relying on their existing ones. (Krzakiewicz, 2013)

2.2.3 Casino model

This model proposes that firms can internationalize in a more random, opportunistic, and experimental way, by taking bets on different markets and modes of entry, and learning from both successes and failures. This reflects the complexity, uncertainty, and unpredictability of the modern business environment. (Håkanson, Kappen, 2017)

3 Methodological approach

This thesis has two main points to focus on – LEGO Group internationalization strategy, and the Uppsala model of internationalization, which are different in regards to data collection. LEGO Group is quite secretive about their internationalization strategies and there is not much concrete chronological information on how they expanded into foreign markets to be found, which made my search for the required data that more difficult. They even confirmed this via an email message after I contacted them regarding their internationalization strategy with a request for an interview regarding their internationalization strategy. This would make my research orders of magnitude easier, but they refused my request saying that LEGO is on purpose hiding some information from the public as they consider it a trade secret and it could be a danger to their business to make all this sensitive information available to everyone. This conditioned me

to search for the necessary data about LEGO on the internet, to dig deep and look up many different sources.

3.1 Research method

For the theoretical parts regarding internationalization and the Uppsala model, I mostly focused on academic sources - journals and articles. I received a portion of the articles from Simon Eichentopf M.A., my tutor and supervisor of this thesis, while the rest I found on the internet in PDF forms. A great source proved to be the DeepDyve digital library containing over 150 million peer-reviewed articles, that sells access to scientific and scholarly articles either by subscription or by buying individual articles – I got a free 3 weeks trial when signing up, which I was allowed cancel after finishing my research. (Deepdyve, n.d.)

Generally what I usually do with such articles is that I read as many of them as necessary. As long as I could find articles usable for my thesis, I tried to read them and used them as a resource or a knowledge base. This amounted to a great number of articles, but at the same time allowed me to approach and view the problematics of internationalization processes from multiple angles. This is especially important in this case, as the process of internationalization of the LEGO Group was far from simple, in fact was quite complex considering the many partnerships and the laws and regulations they had and have to abide to or of which they had to find a way around. It was not feasible to just copy or rewrite what is written in the academic journals and articles, so my approach to this type of source was as follows: usually I first quickly skimmed through the whole article or case study, marking the most important parts of the document, mostly reading just the headings or small parts of the text to get the idea about the content of the document as well as how it is structured. After that, I focused on the parts that were important for my research, as many case studies mention some of the methods or theories that I used for my research, but otherwise focus on some other research question. When I was reading these important parts, I was doing so while highlighting parts of text that I would like to use for my thesis. Next, I usually just wrote down whatever I remembered in as much detail as possible, and then worked on the text together with the source document, adding more information, highlighting sources where needed, making citations, and making sure everything I wrote is correct and aligned with the goal and topic of my thesis.

3.2 Data collection

3.2.1 Emails to the LEGO Group

First and foremost, I tried contacting the LEGO Group, asking if they would provide me with the data I was looking for, or if they would provide some support in my research. I sent them two emails throughout the time of writing my thesis. In the first email during the initial period of researching resources for my case study I asked about an interview, so that I could ask any question in regards to their internationalization and possibly learn something that would otherwise not be known to me from a regular research. The second email contained a request for a list of individual market entities that LEGO Group operates and their respective market entries. In both cases, they did not fulfill my request, while at least forwarding me to some existing

sources. LEGO Group deems any information that is not available in the official sources as sensitive trade secret, so they did not share much information with me. Below you can read my emails and both replies from the LEGO Group representative. Unnecessary text that was part of the emails is cut out. I also had to translate 3 of the 4 emails from English to Czech for readability, but I made sure to include everything. I used Gemini AI to translate the text.

"[...] in the coming months I will be working on my Master's Diploma thesis, at the Chair of International Management (International Institute Zittau). The topic, and the included case study, touches on "Internationalization of the LEGO Group according to the Uppsala model". I am currently researching available sources upfront - the History website of LEGO Group is an amazing resource for my needs, but I believe many questions will arise during the work on my thesis. I will be analyzing the respective steps LEGO Group made on the path to become global, and while there is great documentation available, for example the Annual Reports are only available beginning the year 1999, so the data about the most important steps and strategic decisions made before the year 99' is not available from the reports. Would it be possible to schedule an online interview sometime around the beginning of November (whenever it suits you), so that I can have my questions answered and any unknowns cleared, regarding the history and internationalization process of the LEGO Group?"
- First email to the LEGO Group, P.S., 18.9.2023

"You can find all of the LEGO® Group's policies and reports on our website (www.lego.com). If your questions are still not answered, you can also take a look at our Newsroom for the latest presentations from our company on various topics."
- LEGO Group representative, 18.9.2023

"I am currently writing my diploma thesis on the topic "Internationalization of the LEGO Group - The Uppsala Model Analysis". In order to complete it, I need to identify the individual points of expansion of the LEGO Group abroad. The "History" page on your website contains a lot of information, but I wanted to ask you if it would be possible to send me, or refer me to a source, where I could find a simple, clear list of all the countries and the individual years when and how LEGO expanded around the world. The points that interest me include, for example, the partnership in Iceland, but also the individual factories built abroad - this concerns any kind of foreign

involvement. The Uppsala model assumes a gradual involvement in foreign markets - exports via third parties -> own sales subsidiaries -> and own production plants. I need as much data as possible, but even the History page does not contain everything. I am also interested in the localization of products - adaptation for individual markets (for example the adjective "System" in continental Europe, or the name "The Building Toy" in Britain)."
- Second email to the LEGO Group, P.S., 15.12.2023

*"We are pleased that you are writing your diploma thesis on such an interesting topic. We are also pleased that you trust the LEGO Group and have contacted us for more information. Unfortunately, I cannot provide you with more information than you can find on the official website lego.cz. This is because the company keeps detailed information confidential. I am sending you a link to a video that briefly describes how it all started, how the LEGO Group grew, and also explains the adjective "System":
The LEGO Story - How it all started (youtube.com)."*
- Reply from the LEGO Group representative, 15.12.2023

3.2.2 Wikipedia and Brickipedia

Wikipedia proved to be a great starting point as there was a list of resources used to write the article, so I had a substantial amount of sources to begin with. Brickipedia is outdated, but also serves well for my purposes.

3.2.3 LEGO Group website – History, Newsroom, Stores, Annual reports

Another great resource I investigated is the LEGO Group's website, where one can find a History site, which conveys to the reader the history of LEGO Group in a story-like presentation, talking about the founder, and focusing on products and expansion to foreign markets and internationalization. However, they mention all of the factories and I was able to extract opening date for each of LEGO Group's factories, allowing me to create a comprehensive list of market entry locations and dates/years (Table 1). They also talk a lot about sales subsidiaries and partnerships, so the History website proved to be the best source for this kind of information and allowed me to rather accurately reconstruct the internationalization path of the LEGO Group. However, they rarely mention anything about opening stores, so this information I had to research elsewhere. The data collected from the History website amounted to around 50 entries of different types of market penetrations starting in the year 1953 all the way to the last announced plans in 2022 for building a factory in Virginia, USA. With each entry, I saved the source, highlighted the country to which LEGO was expanding, selected the type of market entry and in which year it happened. But at the same time, on the History page, some of the data is mentioned several times, and the History page is not well structured, leading me to believe that LEGO themselves do not have any other data besides what is shown on the History website. This assumption is further supported by the fact that most of the information cannot be found

anywhere else on the internet, besides what is available on the LEGO website and in some news articles regarding the opening of LEGO stores and factories and their expansions. There are also mistakes or inaccuracies in the dates, as one page of the LEGO history shows that their own production facility built in 1980 closed in 2000, while another page of the history website says the same factory began operating in 1981 and shut down in 2001. It is likely that there is no official record of LEGO internationalization steps, but there is no concrete answer to this that I was able to find. Sometimes the opening of a factory took more than a year, in which case I always preferred the date of first molded brick, because until then, the factory was not considered operational.

Table 1
Respective market entries, years of entry and sources

| SOURCE | COUNTRY | TYPE | YEAR | NOTE |
|--------------------------------------|-------------|--|------|--|
| Early expansion - I | Norway | partnerhisp - licensing - foreign proc | 1953 | first partnership, importing difficult, had to build own company |
| An unusual partne | iceland | partnerhisp - licensing - foreign proc | 1955 | |
| Early expansion - I | Sweden | agent | 1955 | no import restrictions unlike the Norweigan market, export from norway to sweden |
| Early expansion - I | Germany | agent | 1955 | |
| Early expansion - I | Germany | sales subsidiary | 1956 | |
| Early expansion - I | Switzerland | Sales office - subsidiary | 1958 | |
| Early expansion - I | Netherlands | Sales office - subsidiary | 1958 | |
| Early expansion - I | Austria | Sales office - subsidiary | 1958 | |
| Early expansion - I | Belgium | Sales office - subsidiary | 1958 | |
| Early expansion - I | Italy | Sales office - subsidiary | 1958 | |
| Early expansion - I | Portugal | Sales office - subsidiary | 1958 | |
| Mold production o | Germany | mould manufacture - owned by lego | 1958 | |
| Mold production o | Denmark | mould manufacture - owned by lego | 1959 | |
| Earliest export - LE | sweden | Sales office - subsidiary | 1959 | |

Furthermore, the LEGO website also offers a comprehensive list of all stores operating under the LEGO brand in the form of a franchise or wholly LEGO owned stores. Going through this list revealed that many markets host several stores, sometimes all of them as franchises, sometimes only LEGO owned stores, and in some cases also a combination of both. With this comprehensive list, I tried to research individual market entries in the form of a store, as I could search the internet for respective store openings - some articles mentioned opening dates, which could be considered as market entries in terms of sales subsidiary or, in the case of stores run by franchisees listed as “Certified Stores”, also the independent agent/sales entity. However, not all of the stores mentioned on the “Stores” site of the LEGO website are “first” stores, or the ones that would in my research be considered as the first market penetration by the LEGO Group – In some cases, LEGO has opened stores in the respective markets, which were later closed, shut down completely, or relocated. This introduced me to a problem I was not originally expecting: It was very difficult to find the first stores opened in the respective markets. What made this issue even more of a burden was the fact that a considerable amount of the markets are hosting several stores, which would force me to research each and every of these stores listed. For a portion of these listed stores I was also unable to find a good source of the opening date, as some of these market entries were unnoticed by the media. So there are inconsistencies considered under the

establishment chain part of the Uppsala model: data on shut down or relocated stores is hard to find as the media coverage is insufficient, there is a considerable amount of stores listed which is making the search for the first market entries difficult, and sometimes the media inaccurately reports recent stores as the first store in a location, meanwhile there was already a store in that market before, but it was closed or shut down due to certain reasons. Such is the case with the recently opened store in Sydney's Dreamworld, Australia that is in a recent news article reported as a first store in Australia, yet there was already a store operating in Sydney, Birkenhead shopping center, between 1984 and 1990s. In the following sources the media even says (based on the release dates of the articles) that the store was open already in 2017, while the other sources says it opened in November 2019. (Sheshopped, 2017, & Commercial Real Estate, 2019) So I hit a brick wall when searching for anything outside of the LEGO website, because most mentions just seem to be inaccurate or made up information, for example the LEGO Wikipedia states that LEGO started exporting to Singapore, morocco and other countries in 1962, but the Wikipedia site is the only source of that and there is no accurate source that would support this statement. I found this information on two other websites, but it is just a copy of the text on Wikipedia or it is slightly rephrased, so I assume the information on Wikipedia to be either unverified but true, or simply a false claim that then spreads to some articles because they use Wikipedia as the main source. These inaccuracies forced me to completely disregard the opening of stores for my analysis

One more source provided by LEGO themselves, that required me to carefully search the news database via selected keywords, such as: factory, store, opening, new, internationalization, expansion, and various country names. I managed to find articles conveying achievements and about LEGO Factories around the world. This, again, provided me with a list of factories that LEGO owns, and allowed me to research the individual factories on their own, on the internet, gaining valuable data about the factories, especially the dates of opening. Furthermore, with the data so far collected, I was able to compare the data about sales subsidiaries, franchisees, and factories in regards to the establishment chain of Uppsala model, which allowed me to map out the internationalization process of the LEGO group in a greater detail, and prepared me for the case study itself.

I was hoping annual reports would provide me with more data, especially considering the topic of internationalization, but the annual reports are lacking a lot of data on LEGO Group's foreign expansion, mostly due to the issue explained above – it is their trade secret. After carefully going through several annual reports, I found them to be unnecessary for my intentions so I disregard them as a source for the most part. The annual reports certainly do offer some interesting information, but the biggest issue with the availability of data is that the annual reports only cover the years starting by 1995 and that is only regarding some financial results, otherwise the annual reports' full cover of the business years begin by the year 1999. While they did give me a glimpse into the more recent operating years of the LEGO Group, the period 1999-2022 does not cover any of the most important parts of the LEGO Group's internationalization process. Based on the data collected elsewhere, the LEGO Group's internationalization process began in 1953

by the first export activities to Norway, then they entered the US market in 1961 via a production agreement with Samsonite, and the Asian market in 1980 and Australian market in 1984 via independent sales representatives. So the most important period for my analysis, from 1950s to 1980s, is not covered by the annual reports. When the annual reports begin to cover the annual results of LEGO Group, is when the LEGO Group was mostly already known globally, definitely well known in the most important markets - in Europe, Asia, Australia and Americas. (LEGO Group, n.d.) Sometimes the opening of a factory takes more than a year, in which case I always preferred the date of first moulded brick, because until then, the factory was not fully operational.

3.3 Artificial Intelligence

A prominent topic today, while it was worth trying to use it for my research, it proved to be insufficient due to the lack of correct information, a lot of missing information, and the inability to accurately search or report what was needed, so I refrained from using this tool for most parts of the thesis, besides the initial test and later help with formatting, checking for mistakes and making sure things are in the correct places and nothing is missing. I used Bing AI – Copilot for web search, and Google’s Bard/Gemini for support on text formatting and spelling checking.

The availability of correct data proved to be a challenge, even when using Bing AI to search for the information. A lot of times there was no good source that would accurately report the opening year of respective stores, and there was no comprehensive list that would list all the stores with years, only a LEGO website that listed all the current operating stores, and not the already closed stores, which also introduced problems in search for the accurate data, as there were LEGO stores of the past that might have been opened earlier or later than a factory being built. This meant that I was unable to track the establishment chain accurately, as there might have been some steps missing or some of the dates might have been inaccurate due to the lack of proper sources.

I tried searching using a simple prompt with a list of the names of the stores:

“Get me a list of opening dates for each of the following shops, if possible list them in a chronological order. The first column should be the name of the store, the second column should be the year of opening, and the third column contain a URL that will lead me to the source of the information of the opening of each respective shop, search only news articles, search in respective languages based on the country of the store. Do NOT use the LEGO website as a source. Put there working clickable links”

The stores that have "TBA" in year and "N/A" in source are already opened, please follow my previous instructions and finish the table correctly

Figure 3
Bing Copilot chat example

please get me a list of opening dates for each of the following shops, if possible list them in a chronological order. The first column should be the name of the store, the second column should be the year of opening, and the third column contain a URL that will lead me to the source of the information of the opening of each respective shop, it can be a news article or any other source, but please do not use the lego website as a source.

Australia
LEGO® Store Bondi Junction
Certified Store
LEGO® Store Broadway
Certified Store
LEGO® Store Canberra
Certified Store
LEGO® Store Castle Towers Shopping Centre
Certified Store
LEGO® Store Charlestown
Certified Store
LEGO® Store Chermside
Certified Store
LEGO® Store Doncaster
Certified Store

The stores that have "TBA" in year and "N/A" in source are already opened, please follow my previous instructions and finish the table correctly

- ✓ Searching for: LEGO® Store Macquarie Centre opening date
- ✓ Searching for: LEGO® Store Marion opening date
- ✓ Searching for: LEGO® Store Townsville opening date
- ✓ Searching for: LEGO® Store Westfield Booragoon opening date
- ✓ Searching for: LEGO® Store Westfield Miranda opening date
- ✓ Searching for: LEGO® Store Westfield Parramatta opening date
- ✓ Searching for: LEGO® Store Westfield Penrith opening date
- ✓ Generating answers for you...

I apologize for the incomplete information. I have updated the table with the opening dates and sources for the LEGO® Certified Stores that were marked as TBA and N/A. Here is the revised table:

| Name of the store | Year of opening | Source |
|----------------------------|-----------------|---------------------------------------|
| LEGO® Store Dreamworld | 2017 | Dreamworld LEGO Store opens its doors |
| LEGO® Store Bondi Junction | 2019 | LEGO Store Sydney - Grand |

Hello, this is Bing. I can help you find the opening dates for the LEGO® Certified Stores in Australia. Here is a table with the information you requested, sorted by the year of opening. I have used web search results as the sources, and excluded the official LEGO website as per your instruction.

| Name of the store | Year of opening | Source |
|----------------------------|-----------------|---------------------------------------|
| LEGO® Store Dreamworld | 2017 | Dreamworld LEGO Store opens its doors |
| LEGO® Store Bondi Junction | 2019 | LEGO Store Sydney - Grand Opening |
| LEGO® Store Charlestown | 2020 | |
| LEGO® Store Chermside | 2020 | LEGO® Store Westfield Booragoon |
| LEGO® Store Doncaster | 2020 | LEGO® Store Westfield Miranda |
| | | LEGO® Store Westfield Parramatta |

It definitely felt like that checking the accuracy of the output of the Bing Copilot was more time consuming than searching for the data myself, so I refrained from using the tool for doing research like shown above.

4 Case Study – Internationalization process of the LEGO Group

4.1 Introduction, background and brief history of the LEGO Group

The internationalization path of LEGO Group is older than the LEGO Bricks we know and use today. A cellulose material, instead of more durable ABS, was used to manufacture the first LEGO Bricks. LEGO made their first international steps in 1953 and began expanding into Norway, forced by the Norwegian import regulations to establish partnership via a licensed production agreement with Svein Strømberg, in Oslo, under the corporate name Norske LEGIO A/S. at the time not just the automatic binding bricks, but also wooden toys like the hit product wooden Peace Pistol with a red projectile or wooden yoyos. There were also no LEGO building sets as we know them today, and in the same year the first LEGO tree was introduced. (LEGO Group, n.d.)

4.1.1 LEGO Group's operational units

At the time of writing this thesis, the LEGO Group operated 138 retail stores around the globe, with 83 located in the US, 14 stores in the UK, and 11 stores in Germany. The rest was scattered in other countries like China, Australia, South America and other important markets. LEGO Group also operated 8 LEGOLAND theme parks located in Windsor, Florida, California, Japan, Malaysia, Billund, Dubai and Germany. (Wolfstone, 2020)

4.1.2 Key product segments of the LEGO Group

- LEGO System: Classic bricks & sets for all ages (City, Technic, Ninjago, etc.)
- LEGO DUPLO: Larger, colorful sets for toddlers (1.5-5 years old)
- Licensed Themes: Sets based on popular franchises (Marvel, Disney, etc.)
- LEGO Education: STEAM learning solutions for schools
- LEGO Architecture: Detailed models of famous landmarks
- LEGO Ideas: Fan-designed sets voted by the community
- LEGO BIONICLE: Originally line of LEGO Technic toys - large masked warriors and monsters made without the traditional LEGO BRICKs, with moving parts and joints
- Digital Experiences: Games, apps, and online platforms
- LEGO Stores: Retail stores with exclusive sets & activities
- LEGOLAND: Theme parks featuring rides & LEGO models
- Media & Content: Movies, TV shows, and web content

(The Strategy Story, n.d.)

4.2 Individual internationalization steps

Figure 4

LEGO Global Supply Chain Network



For more information about the LEGO Group, our financial performance and responsibility engagement, please visit: www.LEGO.com/aboutus



Table 1

Individual internationalization milestones

| COUNTRY | TYPE | YEAR |
|-------------|---|------|
| Norway | partnerhisp - licensing -foreign production | 1953 |
| iceland | partnerhisp - licensing -foreign production | 1955 |
| Sweden | export to, sales distributor | 1955 |
| Germany | partnerhisp - licensing -foreign production | 1956 |
| Switzerland | Sales office - subsidiary | 1958 |
| Netherlands | Sales office - subsidiary | 1958 |
| Austria | Sales office - subsidiary | 1958 |
| Belgium | Sales office - subsidiary | 1958 |
| Italy | Sales office - subsidiary | 1958 |
| Portugal | Sales office - subsidiary | 1958 |
| Germany | mould manufacture - owned by lego | 1958 |
| Denmark | mould manufacture - owned by lego | 1959 |

| | | |
|---------------|--|------|
| sweden | Sales office - subsidiary | 1959 |
| US | partnerhisp - licensing -foreign production | 1961 |
| Norway | Sales office - subsidiary | 1961 |
| US | Sales office - subsidiary, partnership - foreign production | 1973 |
| US | Sales office - subsidiary | 1973 |
| Switzerland | mould manufacture - owned by lego | 1974 |
| US | own packing factory (enfield) | 1975 |
| Iceland | export to, sales distributor | 1977 |
| US | own moulding production facilty later closed in 2000 | 1980 |
| China | selling through agent | 1980 |
| Australia | LEGO STORE | 1984 |
| Switzerland | mould manufacture - owned by lego | 1985 |
| South Korea | Own lego production factory in Kunpo | 1985 |
| Brazil | Own Production factory in Manaus | 1986 |
| Brazil | Sales office - subsidiary | 1986 |
| Canada | Sales office - subsidiary | 1988 |
| Switzerland | mould manufacture - owned by lego | 1990 |
| Switzerland | own factory in willsau | 1993 |
| China | first lego store in china | 1993 |
| South Korea | Production factory and Warehouse in Icheon, and kunpo factory no longer running | 1996 |
| Brazil | cancelled porduction at Manaus, transferring production and packing to Engield USA | 1998 |
| US | closing enfield | 2000 |
| CZ | Own Production factory in Kladno | 2000 |
| Switzerland | closing of factory neuhof | 2001 |
| Europe, china | mould outsourcing | 2005 |
| Switzerland | closing of willsau factory | 2006 |
| CZ | expansion | 2006 |
| Mexico | Outsourcing production to Flextronics | 2006 |
| Hungary | Outsourcing production to Flextronics | 2006 |
| US | packing plant in enfield closes | 2007 |
| Hungary | New production facatory in Nyíregyháza | 2008 |





| | | |
|---------|--|------|
| Mexico | Factory in Monterrey | 2009 |
| CZ | expansion | 2012 |
| Mexico | expansion | 2014 |
| Hungary | New second production facatory in Nyíregyháza | 2014 |
| CZ | Molding, processiong, packing, model building and R&D | 2015 |
| China | new factory in china | 2015 |
| US | plans for complete facility (production-packing-sales) | 2022 |
| Mexico | expansion | 2022 |

4.2.1 1953 – Norway

The earliest expansion abroad that LEGO underwent was to the neighboring Nordic countries, the very first to Norway in 1953. At that time, it was difficult to export to Norway through independent agents or own supply chain due to the laws in Norway restricting exports of toys and other goods, most of which restrictions were put in place after the Second World War. At that time, it was not feasible to establish a foreign production plant right away, so the only way LEGO could penetrate the market was through a partnership via a licensed production agreement, done with Svein Strømberg, Oslo, under the corporate name Norske LEGIO A/S, which is a jointly owned company between Svein Strømberg and the LEGO Group. Norske LEGIO A/S had several tasks; to cooperate in production of the LEGO toys, and to market and sell LEGO products to Norwegian shoppers. They borrowed molds and tools from the LEGO Group in Denmark in order to set up production of the LEGO products in their factory in Norway. (LEGO Group, n.d.)

Figure 5

Price list from Norske LEGIO A/S, 1957

| A/s NORSKE LEGIO | | | | Prisliste 2. halvår 1957 | | | | | |
|--|--------|--------|---|--|-------|--------------|--|------|------|
| Storgt. 28. Oslo - Tlf. 42 10 83, 41 15 25 Tlgr.adr. Legolek | | | |    | | | | | |
| Pris til detaljist | Antall | Nr. | Utsalgs-pris | Antall | Nr. | Utsalgs-pris | Pris til detaljist | | |
|  BYGGESETT OG TILLEGGS-SETT | | | | BYPLANEN | | | | | |
| 16,80 | | 700/1 | Byggesett | 25,00 | ..... | 1200 | Lego plastduk, flerfarget «byplan» — rullet på stang | 4,95 | 3,30 |
| 13,20 | | 700/2 | > | 19,80 | ..... | 1200M | Byplanen trykt på Masonit-plate | 6,75 | 4,50 |
| 9,30 | | 700/3 | > | 13,95 | ..... | 1210 | «SYSTEMSETT» | 3,50 | 2,30 |
| 6,80 | | 700/4 | > | 9,90 | ..... | 1211 | Småhus 6×8 | 2,50 | 1,65 |
| 3,30 | | 700/6 | > | 4,95 | ..... | 1212 | 4×8 H | 2,50 | 1,65 |
| 1,65 | | 700/A | Tilleggssett, eske med 1/1 sten og 1/2 sten | 2,50 | ..... | 1213 | 4×8 V | 2,50 | 1,65 |
| 1,65 | | 700/C | Tilleggssett - eske med nye dører og vinduer (m/ «glass») | 2,50 | ..... | 1220 | 1/4 sten | 2,50 | 1,65 |
| LØSE DELER |  |  |  | ..... | ..... | 1221 | 1/8 sten, firkant | 1,50 | 1,00 |
| 20,00 | | 700/L1 | 1/1 sten | 0,12 | ..... | 1222 | 1/8 sten, rund | 1,50 | 1,00 |
| 16,65 | | 700/L2 | 3/4 > | 0,10 | ..... | 1223 | «Buestener» | 2,50 | 1,65 |
| 11,65 | | 700/L3 | 1/2 > | 0,07 | ..... | 1224 | Bjelker med skilt | 2,50 | 1,65 |
|  |  |  |  | ..... | ..... | 1225 | Små byggeplater | 2,50 | 1,65 |
|  |  |  |  | ..... | ..... | 1230 | Små vinduer, dør | 1,50 | 1,00 |
|  |  |  |  | ..... | ..... | 1233 | Lysmaster | 2,50 | 1,65 |

4.2.2 1955 – Sweden, Iceland

Right after Norway, in 1955 LEGO ventured to Sweden, where unlike in Norway, there were much less limiting import restrictions, so LEGO made an agreement with Lundby Leksafabrik, a dolls houses and dolls furniture producer, who became an independent sales distributor for LEGO and began exporting from Denmark to Sweden. In the same year, an unusual partnership in the form of a licensed foreign production was established on Iceland with S.I.B.S., a heart, asthma and traffic accidents patients rehabilitation company, that was helping it's patients to get back to the workforce. S.I.B.S. focused on work based therapy, meaning the patients were the ones producing toys, and S.I.B.S. payed royalty on their net sales to LEGO. At that time, a heavy tax was put on any imported goods to Iceland, so this was the only sensible way for LEGO to penetrate the Icelandic market. LEGO toys were also sold in "S.I.B.S. Kubbar (Cubes)" boxes to comply with Icelandic restrictions on the packaging of foreign companies. The tax and restrictions were lifted in 1960s and LEGO could finally start selling the Iceland produced product under the original name LEGO, in the original Denmark made boxes. (LEGO Group, n.d.)

Figure 6

Godtfred Kirk Christiansen (left) receives a visit in Billund, Denmark, from the director of Reykjalundur Arni Einarsson (centre) and a colleague from Reykjalundur, 1955



4.2.3 1955 – Germany

With the psychically close markets penetrated and operational, LEGO had to make another big step in their process of internationalization. As Godtfred Kirk Christiansen said himself: "If we can conquer Germany, we can conquer the whole world!" Even with Germany being the global center of toy production, the outlook on the expansion into the German market was at first not great, because when Godtfred Kirk attended the initial meeting in 1955 with the purchasing managers

of German department stores at the Nuremberg Toy Fair, he was told off with “The German market isn’t interested in a product like that!” However, LEGO managed to persuade the toyshops in northern Germany to stock up on the LEGO product. And as the exports were going great, LEGO proceeded with establishing their first foreign sales subsidiary, LEGO Spielwaren GmbH, based in Hohenwestedt in northern Germany, led by Axel Tomsen, appointed as a manager of the subsidiary in 1956. (LEGO Group, n.d.)

Figure 7

Employees in the facilities in Hohenwestedt, 1958



The first campaign concentrated on the city of Hamburg, where a supporting commercial in cinemas was played, using the slogan “Wir bauen eine Stadt” (“We are building a city”). Besides that, a special strategy is applied through the LEGO Group sales policy: direct sales to the retail trade, with everyone paying the same price. This was not a thing the German retailers were accustomed to. If a retailer wanted to sell LEGO products, they had to be ready to showcase them in the displays of shop windows as well as directly in the shops themselves. The reason was that Kirk needed customers to get to know about the product, see the product in person, and for them to know what they are buying. This was essential to sales as Godtfred Kirk believed that people might not show interested in the products otherwise.

4.2.4 1956 – Sales offices in Switzerland, Netherlands, Austria, and other countries

With this strategy and policies in place, Godtfred Kirk Christiansen's belief that conquering the German toy market would allow the company to capture the world was about to be proven true. Sales were going great, Germans were interested in the toy more than Godtfred even expected, and in the period 1956-1958 the LEGO Group followed by setting up sales offices in Switzerland, Netherlands, Austria, Belgium, Italy and Portugal, with organizations already operational in Norway, Sweden and Iceland, as previously mentioned. (LEGO Group, n.d.)

4.2.5 1958 – Mold production workshop in Germany

However, it was not just toy production and sales that LEGO ventured with to foreign countries. As LEGO operates with specialized plastic injection molds, they needed skilled staff to create and improve their molds and molding conditions. Attracting such people to Billund proved to be a difficult task, so in 1958 LEGO decided to set up their own mold manufacturing plant in Germany – Germans are known for their precision engineering, so for LEGO this was their best shot. The mold production in Hohenwestedt begins in 1958 and the workshop is set up in the basement of the LEGO Group's German sales company, LEGO GmbH – which was necessary to establish due to the company's vigorous growth in the second half of the 1950s. Later in 1962, the workshop moved to its own premises in Hohenwestedt and became a separate company in 1964 named LEGO Werkzeugbau GmbH. The first molds manufactured in this workshop were for molding LEGO plastic cars in the scale of 1:80 and focused mostly on mold for established parts of the LEGO toy sets, but also sometimes new-product molds. By 1972, the mold production capacity reached 130 molds annually and the workshop employed 35 toolmakers. The output capacity grew to approximately 150 molds a year by 1980 and in 2002 the Hohenwestedt Prototype and Mold Manufacturing is sold to a company from Canada, the Wentworth Technologies Inc. Corp.

Figure 8

The first molds manufactured in Hohenwestedt are for molding LEGO® plastic



4.2.6 1959 – Mold production in Denmark

It wasn't just Germany, though, where LEGO decided to set up their own mold production. A year later, in 1959, LEGO set up a toolmaking unit – the LEGO Form, nearby a Danish town Vejle. The manager of Mold Manufacturing Workshop in Billund, Ove Nielsen, transferred here, and manages the workshop until 1976. Despite the molds weighting 174 kilos on average, sometimes reaching up to 300 kilos, by 1972 the team of 30 toolmakers could efficiently produce 80 molds annually, with each mold requiring 300-1500 hours to craft. The workshop shut down in 1977 due to overcapacity and not enough projects to work on. (LEGO Group, n.d.)

Figure 9

LEGO Form in Vejle, 1961



4.2.7 1958 – International activities hub in Denmark

As the LEGO Group was getting bigger and was spreading across the Danish borders, they decided they needed a hub for their international activities, so they built a central hub for the growing international LEGO family in 1958. Called the System House, it wasn't just an office, but a place for members of the LEGO family from across the world to meet and spark new ideas that would help LEGO move forwards with their vision of becoming international. It reflected the LEGO idea of endless possibilities, uniting people from different countries and cultures. Inside, people from all corners of the LEGO world worked together, sharing their love for LEGO bricks. The vision wasn't for them to be colleagues, but to become one big LEGO family, building connections across borders. On the roof were flags of respective countries LEGO operated in at that time, and as LEGO kept expanding, they were adding more flags for each country, showing everyone how international they were. Later, the original building could not provide enough space for all the members and employees of LEGO, so they added another floor in 1961. System House still stands tall in Billund, a symbol of LEGO's commitment to bringing people together, no matter where they are from. (LEGO Group, n.d.)

Figure 10

The inauguration of the System House, Billund, 1958. Sales representatives are standing next to the flag of the country they are representing



4.2.8 1959 – Sales company in Sweden

In 1959, recognizing the significant growth potential within the Swedish market, the LEGO Group established Svenska LEGO AB, its dedicated sales company in the country. This strategic move made use of the already established relationship with Bror Åsberg, who, in 1955, was responsible for establishing a sales agreement with the LEGO Group as the General Manager of Lundby Leksaksfabrik. His familiarity with the LEGO Group and the Swedish toy market made him an ideal candidate to lead this expansion. (LEGO Group, n.d.)

4.2.9 1960s – Removal of import restrictions in Norway

In the early 1960s, an opportunity appeared in Norway when the government removed import restrictions on toys. Godtfred Kirk Christiansen wanted to expand directly, to remove the intermediate in the supply chain to Norway, so he ended his existing partnership with Svein Strømberg & Co. A/S. He then wanted to buy the Norske LEGIO A/S, who, since became a major toy wholesaler covering both Norway and Sweden, where LEGO toys already made up 30% of their sales (the rest being brands like Meccano and Dinky Toys). However, negotiations did not go through, leading LEGO to decide on a bolder move: establishing its own sales company in Norway, as they did in the other countries, growing the network of international LEGO companies launched across Europe. (LEGO Group, n.d.)

4.2.10 1961 – Licensed production in the USA

With the Nordic and European markets conquered, it was time to head across the seas. *“There are only two options: Forwards or back. Standing still is like slipping backwards. We must all do our bit – and grow in the process. It’s the route to even greater results.”* – The words of Godtfred Kirk Christiansen, and to him, the international success became very important. He also believed that for the LEGO products to be a true success, they should not be generally perceived as “made in Denmark”, but rather for German shoppers to perceive them as German or for French customers to perceive them as French. It was in 1961 when the LEGO Group licensed an American luggage company Shwayder. They began producing and selling LEGO products across The United States as well as Canada. With this agreement in place, LEGO Group supplied Shwayder with machinery, molds and other equipment, and Shwayder handled production in US and sales in both US and Canada. Later in 1965 Shwayder was renamed to Samsonite. (LEGO Group, n.d.)

Figure 11

Visit from Shwayder, 1961



4.2.11 1960s – Focus on international activities

For 10 years, LEGO was focusing on their current international activities, improving on sales and production, their R&D, and put a great focus on introducing new types of LEGO toys to the markets they operated in. For example, in 1964, they introduced the “kindergarten brick”, otherwise named the JUMBO brick. This was the same shape but larger size LEGO brick, aimed at younger kids for whom the original little LEGO bricks could pose a danger, as they were too little for small kids to play with. The molds for these JUMBO bricks were made in the Billund tool workshop and sold to Samsonite, who produced and sold these bricks in the US and Canada until the year 1971. This brick was later replaced by the LEGO DUPLO bricks that the LEGO Group launched in 1969 and introduced additional variations to the large LEGO brick, allowing them to target preschool children as well. (LEGO Group, n.d.) LEGO started selling in United Kingdom in Osbourne’s family shop, who were introduced to the LEGO Brick on their honeymoon in 1960. For the 60 years anniversary of the LEGO brick, a shop front made of bricks was built for the Osbourne’s store by the LEGO Group’s master builders.

Figure 12

The JUMBO brick was considerably larger than a LEGO® brick



Figure 13

Set no. 510 and 511 were the first LEGO® DUPLO® sets launched in 1969



4.2.12 1970s – Partnership ended, own production in USA, testing in Switzerland

In the early 1970, it became clear that the LEGO Group's partnership with Samsonite was not working out as great as LEGO was hoping to; the quality of bricks was not up to the LEGO Group's standards and the marketing and distribution did not exactly follow LEGO Groups vision and policies. So, in 1972, LEGO Group decided to terminate the agreement with Samsonite and decided to take control themselves. From 1973, LEGO Group handled everything themselves, from production and supply chain to marketing and sales, making sure their product reached the American customers in line with the LEGO Group's vision and policies. They set up a subsidiary in the mid 1973 under the name LEGO Systems Inc., and the company rented premises in Brookfield, Connecticut, and later moved to Enfield in 1975. However, in the case of Canada,

the deal with Samsonite went on, as Canada was not as important of a market as America was, and the resources required to enter the American market directly were already high.

Figure 14

Advertisement from LEGO Systems Inc., after the partnership with Samsonite is terminated, 1973

There's a whole new Lego company now.

There's good news about Lego Building Bricks.
3 completely new Pre-School Sets. 5 new Building Sets.
10 exciting Lego Models.

Lego's Territory Managers are offering a
new Inventory Management Service. New products.
New packaging. Get the news about Lego first-hand from:

John R. Sheehan, P.O. Box 1702, Arlington, Texas 77010
Texas, New Mexico, Oklahoma, Colorado, Utah, Wyoming
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NE, SD, IA, MO, KS, WI, IL, IN, OH, PA, NJ, DE, MD, VA, DC, WV, KY, TN, MS, AL, GA, SC, NC, S.C.
William R. Higgins, P.O. Box 214, Dakota, SD 57001
Missouri, Pennsylvania, Oregon, WA, California, HI, Ariz.
Gerald J. Johnson, P.O. Box 280, East Windsor, NJ 07114
West Virginia, Pa., Va., Connecticut
John Ray, P.O. Box 180, Fulton, New York 14068
OH, NY, New York, West Virginia, W. Pennsylvania
GEOFFREY, P.O. Box 275, Westfield, Mass. 01095
New England, NE, New York, Pa., Connecticut
John Quinn, P.O. Box 11, Ballwin, Penn. 19004
1 Pennsylvania, Virginia, Maryland, Delaware, D.C.

John R. Lauer, P.O. Box 1702, Albany, GA 31706
Alabama, Georgia, Florida, Pa. Carolina, S.C. Carolina
John Walker, 2227 Columbia Court 1, Memphis, Tenn. 38101
Arkansas, Louisiana, Miss., Texas, W. Missouri, Tennessee
Mike Lerner, 111 Parkway Terrace, Moorhead, N.D. 58855
W. Dakota
Robert Wilson, P.O. Box 100, Cookeville, Tenn. 38506
Alabama, S.C. Carolina
David Zinsky, Sales Manager, National Accounts
and Special, Consumer Services
LEGO SYSTEMS, Inc., 177 Street 1, Broomfield, Connecticut 06806
New York, Delaware, OH, Pa., Illinois, S. Dakota

LEGO

There's no end to Lego.

At that time, the focus was not just on the American market, but also on the LEGO Group's mould manufacturing division. In 1974 they opened a test molding department in Baar, Switzerland, equipped for both making molds and developing processes.

As LEGO moved from Brookfield to Enfield in 1975, they opened their first wholly owned packing factory in America, designated to be the LEGO DUPLO bricks packing facility. The respective packaging's parts arrive from factories in Denmark and Switzerland and are transported in containers ships to the US. LEGO Group set up the factor in Enfield to be "conversion ready" – they build the factory with open steel structures that allow for quick conversion between warehouse, packing facility and production facility. (LEGO Group, n.d.)

Figure 15

The new LEGO® factory in Enfield, 1975



4.2.13 1970s – Partnership with S.I.B.S. continued

The arrangement on Iceland with S.I.B.S. to manufacture, pack and sell LEGO products continued even though Iceland removed the ban on toy imports in 1960. In the year 1977, the Icelandic production no longer had the capacity to keep up with the developments in the LEGO Group product range, so the LEGO Group took advantage of the removed bans on imports of toys and decided for the Billund factory to take responsibility over the production and packing of LEGO bricks that were aimed at the Icelandic market. It is not a complete removal of the agreement though. Since the unusual partnership is working smoothly, both LEGO Group and S.I.B.S. agreed to continue with the partnership partially, they allow Reykjalundur sales organization to continue to distribute and sell LEGO bricks in Iceland. This company has been renamed since 1977, but it is still the original company that handles sales and distribution in the Icelandic market. A curious example of the power of such partnerships is that in 2012 LEGO Group had record sales in the Icelandic market, selling more LEGO bricks per inhabitant than any other LEGO Group market at that time. (LEGO Group, n.d.)

4.2.14 1980 – Expansion in USA

As the American based Enfield packing factory was doing well, LEGO decided to expand on it, and in 1980, the American LEGO Systems Inc. set up their own molding plant as an expansion to the current packing facility. They started with 10 molding machines and some state of the art technologies. One of the prominent features was an air-drying system for plastic granulate that cannot contain moisture in the process of injection molding, otherwise the molded products would appear with defects like porous surface, bubbles, cracks, or overall brittleness of the molded piece. In the case of plastic toys, it is especially important to precede such defects, because only a single defective part could cause harm to children playing with the toys. It goes without saying that such defects were, and still are, misaligned with the LEGO Group's standards and policies. (LEGO Group, n.d.)

4.2.15 1980s – Swiss Baar proved to be a great location

The Swiss Baar proved to be a great location for the LEGO Group to operate at. In the year 1981, LEGO Group set up a new factory in Neuhof, in the area of Baar. The plant was set up to produce primarily LEGO DUPLO elements, while the Baar factory continued to manufacture LEGO System parts. The official opening was in 1985 and later in 1987 they expanded on it with a central and finished product warehouse. The factory operated for 15 years, shut down in 2001. (LEGO Group, n.d.)

Figure 16

The entrance of the Neuhof factory, 1981



Even though there were already three mold manufacturing workshops set up (in Billund, Hohenwestedt and Baar), the LEGO group recognized the need to set up a fourth facility. The works begun in 1980s and the plant opened in 1985 in the Swiss town of Au. (LEGO Group, n.d.)

4.2.16 1984 – Lego store in Australia

According to a single source, LEGO managed to set up a LEGO Store in Australia in 1984 in the Birkenhead Point Sydney LEGO Centre. This store closed over 20 years ago and only just relatively recently a new LEGO Store in Dreamworld Australia was opened. The Birkenhead point LEGO Centre was in its short life span the first and single LEGO Centre, a LEGO dedicated experience in a form of a store, in the whole world. Customers could find a model of the iconic Australian FJ Holden car, as well as other models like a dinosaur, a couple of clowns or a city with a controllable train, overall a delight for children to play. (Toltoys, 2011)

4.2.17 1980s – Expansion to Asia

The LEGO toys started appearing in China, being sold through a Chinese customer of LEGO Group, who was buying LEGO sets and selling them to their Chinese customers in the middle of the 1980s. (China Daily, 2013) (WARC, 2020) (The World of Chinese, 2021)

1985 was the year of expansion into the Asian continent, namely to South Korea. The LEGO Group opened a 3,700m² plant at Kunpo approximately 25km from Seoul. A red 2x4 brick was the first brick molded at this site and rolled off the production line in March the same year. There were several reasons for the LEGO Group to set up a molding factory in South Korea; as the LEGO Group was closely monitoring all markets around the globe, a great economic development in this part of Asia was observed, and taking advantage of that could have potentially increased their market share. Since there was little competition at that time, it was imminent that some of the LEGO Group's competitors would sooner or later enter the Asian markets, so to be the first was a great advantage to capture a significant portion of the market share before some of the competitors, or imitators, could have done the same. The LEGO Group might have been the first international company to enter the South Korean market, but there was already a copy of LEGO products with the name COKO gaining ground in Korea. Another one of the reasons were the restrictions and laws put in place by the Korean government; if an international company wanted to enter the South Korean market, they had to set up a local production plant in order to be allowed to enter this part of the Asian market at all. With COKO already holding a relatively strong ground in the market, the Korean customers have at first seen LEGO as a copy of COKO, instead of the actual truth. This made the market penetration more difficult for LEGO Group as they had to really push in order to successfully establish their presence in the South Korean market. (LEGO Group, n.d.)

Figure 17

The LEGO factory in Kunpo, 1985



4.2.18 1985 – Factory in Brazil

It was not just the South Korean market where LEGO decided to expand to in the 1985. Since it was increasingly more important to establish their global presence, LEGO Group decided to build a factory in Manaus, Brazil. It began operating in 1986 and along with it, a sales office is set up in Sao Paulo.

Figure 18

The LEGO Group established sales office in Sao Paulo in 1986



Again, there were several reasons for this expansion, besides establishing the global presence. At that time, the country's economy made it possible to set up a local manufacturing site that would prove to be a great base from where to enter the market in which there were already several LEGO products copies. The region of Manaus, about 3,500km from Sao Paulo, was a free trade zone, which came to be of a great benefit. In the Manaus factory, LEGO operated a finished-product packing line, two pre-pack lines, a decorating area and a small number of molding machines. The Brazilian hot and humid environment forced LEGO Group to set up a special air-conditioning system in order to meet the LEGO Group's standards. The Manaus factory was operated by approximately 60 people and it supplied the South American market. (LEGO Group, n.d.)

4.2.19 1988 – Canadian Samsonite partnership ended

The contract with Samsonite (formerly known as Swayder) for the Canadian market remained in place until 1988, and after termination, the LEGO Group established their own sales office in Markham, Ontario, since then represented themselves in the Canadian toy market, and took care of marketing, sales and distribution in Canada. (LEGO Group, n.d.)

4.2.20 1990 – New mold production workshops

The LEGO Group was continually expanding not just internationally with their producing, packing or sales facilities, but also with their mold manufacturing plants. The workshop in Baar had been expanded four times since it was set up, before it became clear that even more space was needed, though none was available in Baar. So, the LEGO Group made the decision to build a new 5000 m² mold manufacturing toolshop in the town of Steinhausen, just 3km from Baar, and they opened it in latter half of 1990. (LEGO Group, n.d.)

Figure 19

Inside the Steinhausen facility



4.2.21 1991 – New factory in Switzerland

Since the Swiss Baar continuously proved itself as one of the best locations for LEGO Group to operate at, they decided, in 1991, to set up a third LEGO factory in Switzerland. It is located in Willisau, just 40km west of Baar. Because LEGO DUPLO was one of the most sold products of the LEGO Group, this Willisau factory was set up to produce LEGO DUPLO parts. The factory's official opening happened in 1993 and was described by the Swiss news companies as the "Workplace of the New Millennium". As the environmental issues were becoming more of a prominent topic in the society, LEGO Group put a great focus on energy conservation, established a rainwater collection system that helped machine cooling, and designed a special roof that allowed for better cooling of the production and warehouse areas. This factory again lasted just 15 years before the production was outsourced to a new business partner of the LEGO Group; Flextronics. They set up the production in a facility in Kladno, Czech Republic. (LEGO Group, n.d.)

Figure 20

Inside the Willisau factory, 2003



4.2.22 1993 – First steps into China

At that time it was not just Switzerland that experienced the expansion of LEGO Group. In 1993, the history of LEGO Group in China began. The LEGO Group opened their first store in Beijing. What proved to be a challenge was, as is the LEGO Group's policy, to keep a steady price over time. Since the Chinese government imposed heavy taxes on every imported toy, LEGO Group faced some difficulties in that regard, and the price fluctuations made LEGO sets to be considered a luxury item at that time. And as was the case in South Korea, there were many copies of the LEGO products sold all over China. The Chinese government did not establish any intellectual property rights by that time, so it was not so difficult for anyone to copy LEGO and sell the very much similar products at lower prices, because there were no import taxes imposed on the Chinese knockoffs. (Daxue Consulting, 2023)

Figure 21

Current LEGO store in China, Beijing



4.2.23 1996 – New factory in South Korea

As the Asian customers' interest in LEGO grew, especially in South Korea, the LEGO group had to deal with the lacking space in the Kunpo factory. In 1996, they have opened a new larger factory and a warehousing facility in Icheon, south of Seoul. From this point on, all products that were made in South Korea, were molded and packed at the new Icheon plant. (LEGO Group, n.d.)

Figure 22

The Icheon factory was inaugurated in October 1996



4.2.24 1998 – Production in Brazil discontinued

Sadly, it was not just expansion that was happening in the LEGO Group's business. For number of reasons, the production in Manaus, Brazil, had to be discontinued in 1998. LEGO Group believed they could meet the needs of the South American market from their factory in Enfield, USA. Due to the closure of the factory in Brazil, Enfield facility became the headquarters of all LEGO Group activities in North, Central and South America. (LEGO Group, n.d.)

Figure 23

Aerial view of the factory in Manaus



4.2.25 2000 – Closing the factory in Enfield, Opening factory in the Czech Republic

Interestingly enough, just two years later in 2000, the molding plant in Enfield had to be closed in order to improve the LEGO Groups financial results for the coming years, as the preliminary accounting figures for the year 2000 were negative. The packing facility stayed and received all LEGO bricks for the North and South America from the European molding factories and packing and dispatching was done in the Enfield packing and warehouse facility. (LEGO Group, n.d.)

As Europe was becoming the central part of all mold production, molding and packing of the LEGO Group's supply chain, new plans for a new factory were taking hold. Planned in 1999 and opened in 2000, the Czech molding factory built in Kladno, near Prague, became the central point of LEGO production in Europe. Kjeld Kirk Kristiansen, the now former President and CEO of the LEGO Group, said this at the inauguration:

“Our new factory in Kladno gives us a central production point in Europe with an excellent infrastructure. It means we can quickly supply our markets in Western Europe and the rapidly growing market in the eastern part of Europe.” – Kjeld Kirk Kristiansen

Figure 24

LEGO owner Kjeld Kirk Kristiansen at the inauguration of the Kladno factory, 2000



The factory did most of the necessary process parts of the LEGO Groups supply chain, besides the mold production that was being outsourced or done in the Swiss workshops, the Czech factory in Kladno contained a whole molding plant, a packing facility, and a model production together with model builders producing models for LEGOLAND parks displays in Billund, Windstor and California. The model builders also produce LEGO models for retail – the huge statues usually

standing in front of shops – as well as models for toy fairs and sales campaigns. As the LEGO Group was eager to begin production and all the other related activities as soon as possible, they first bought a 15-year-old factory near the current site of the new LEGO plant in Kladno. They converted the old factory for production, model production and made a place for model builders. It didn't take long for the new factory to open in 2000 and for all activities to move there right away, with the LEGO System molding, processing and packing starting in the spring of 2001. However, it is not LEGO Group that is directly leading this factory, instead, all management activities are outsourced to their business partner Flextronics. (LEGO Group, n.d.)

4.2.26 2001 – Closing factory in Neuhof and outsourcing to Flextronics

With the new factory in Kladno, Czech Republic, the factory for producing DUPLO bricks in Neuhof was shut down in 2001. (LEGO Group, n.d.)

Since the LEGO Group could no longer utilize their own mold manufacturing workshop, they began outsourcing their mold production to external partners. The LEGO Werkzeugbau AG in Steinhausen was sold in 2005 to a consortium, the Wisi'on Tool AG. One of the main reasons was that the technology and cost for LEGO Group was no longer competitive with modern mold production in Eastern Europe and China. With that, there were fewer new LEGO elements as well as a shorter development lead time for new products, which meant that the capacity at Steinhausen couldn't have been fully utilized – the fluctuation of activities meant that at times the workshops were extremely busy and at other times they had no work for their employees. With that, LEGO Group decided to begin outsourcing their mold production and buying them from external supplier, which reduced costs and increased flexibility for the LEGO Group's mold production. The buyer of the workshop in Steinhausen, the Wisi'on Tool AG, continued to manufacture molds, and in 2006 became a supplier of tools and molds to the LEGO Group. The employees of LEGO Group did not have to worry as they all transferred to Wisi'on Tool and none of them were made redundant. Today, LEGO Group collaborates with four external suppliers of molds, which are the Wisi'on Tool in Switzerland, Univac in Singapore, Nypro Tools in China and Vidan in Vietnam. (LEGO Group, n.d.)

The factory in Willsau was shut down in 2006 and all production was outsourced to Flextronics, at their production facility in Kladno, Czech Republic. (LEGO Group, n.d.)

4.2.27 2006 – Shared Vision plan - partnership with Flextronics continues

As mentioned, Flextronics became a great production partner for the LEGO Group, and LEGO Group was outsourcing a lot of their production. Under the CEO Jørgen Vig Knudstorp's, a rescue plan known as Shared Vision was formulated, consisting of three phases (Community Inc., n.d.):

1. **Turnaround:** Stabilize the company (2004-2005)
2. **Business Transformation:** Rebuild its core business (2006-2008)
3. **Brand Revitalization:** Grow the business organically (2009+)

As part of the plan, a substantial part of LEGO Group's production, especially the LEGO DUPLO bricks, were in 2006 outsourced to Flextronics under a partner contract. The aim was to cut

on costs because the LEGO Group was facing serious economic difficulties. Flextronics is one of the world's largest providers of manufacturing services, mainly to the telecommunications and mobile phone industries. Sadly, the decision to outsource affected large part of the Europe's and US' workforce and many LEGO Group's employees had to be terminated. Most of the production was outsourced to Flextronics' factories in Hungary. They extended their factory in Sárvár, and over 60% of the factory began producing the LEGO DUPLO bricks. (LEGO Group, n.d.)

Figure 25

The Flextronics facilities in Sárvár, 2006



76 molding machines, 25 packing machines, 25 assembly and decorating machines as well as 467 molds were transferred to Sárvár from Billund, Denmark, from Kladno, Czech Republic, and from the shutdown factory in Willsau, Switzerland. It was not just the factory in Sárvár that was supposed to produce the LEGO bricks; another Flextronics plant in Nyíregyháza, Hungary started producing LEGO System bricks. Flextronics was in charge of the factory in Kladno as well, where LEGO System bricks were being produced and the packing facility in Kladno took over the packing of LEGO System sets produced in Billund, and for that, an expansion of the Kladno factory had to be done in 2006 to handle the increased workload. LEGO Group still remained in charge of the model creation. (LEGO Group, n.d.)

Under the LEGO Group's Shared Vision plan, it were not just factories in Switzerland, Czech Republic and Denmark, of which brick production was transferred to Flextronics via the partner agreement. Flextronics also led the factory in Juaréz, Mexico, where the first LEGO bricks were molded in 2006. (LEGO Group, n.d.)

4.2.28 2007 – Closing factory in Enfield

In 2007, the factory in Enfield, Connecticut, had to be closed as well, and all its activities were transferred to the Flextronics factory in Juaréz, Mexico, this was also part of the Shared vision plan. (LEGO Group, n.d.)

4.2.29 2008 - Beginning to insource again

It didn't take long for LEGO Group's sales to begin to rise again, coincidentally enough, the Flextronics partnership wasn't going as smooth as originally anticipated. For example, the production of LEGO DUPLO bricks ran into problems, as Flextronics was unable to produce reasonable quantities of the LEGO DUPLO flower. But, production wasn't the only difficulty that Flextronics had to deal with, as the logistics and warehouse-management was lacking behind as well. The Shared Vision plan lasted for two years, and, in 2008, LEGO Group negotiated a new agreement to terminate the partnership with Flextronics, began insourcing again, taking over the management of their factories. Starting with the Nyíregyháza factory in 2008, where they took over the production of LEGO and LEGO DUPLO bricks, and expanding with a new plant in the same area. LEGO Group also took over the factory in Kladno, Czech Republic. In 2009, Kjeld Kirk Kristiansen said at the opening ceremony of the new factory in Nyíregyháza this:

"I'm delighted to be here - it's not every day I get the opportunity to open a new factory!"

- Kjeld Kirk Kristiansen, Hungary, 2009

While this was not happening every day, Kjeld Kristiansen got another opportunity to attend such an event later same year in Monterrey, Mexico. This was what concluded the partnership with Flextronics and since then, LEGO Group is in charge of their own production in four factories in Europe and South and North America. (LEGO Group, n.d.)

"The all-important thing we learned is that one should know what is the core competence of a company. The molding of bricks is a core competency, and that we should not hand over."

- COO Bali Padda, Denmark, 2012

4.2.30 Recent history

The more recent events of the LEGO Group were more or less regarding the expansions of factories or building new additional factories in the areas of the already established ones. In 2012, the expansion of the Czech factory in Kladno commenced, in 2014 LEGO Group expanded the factory in Mexico, in 2014 they build a new second production facility in Hungary, and in 2015 they improved the molding, processing, packing, and model production in Kladno, Czech Republic. (LEGO Group, n.d.)

4.2.31 First Factory in China

LEGO Group announced their intentions to build a factory in China. Asia has always been regarded as a future core market, but with all the difficulties accompanying the penetration of this market, the expansion to China had to be postponed till 2013. LEGO Group's sales in Asia had been on the rise at that time, so a decision had to be made. The Chief Operation Officer Bali Padda had an explanation ready for the public:

“It is our strategy to have production close to our core markets in order to secure short lead-time and world class service to our customers and consumers, and it has proven a successful strategy. Asia – including China – is a future core market for the LEGO Group and therefore I am excited to share our plans for the new factory. Having full control of the production process is essential to deliver products of a consistent high quality and safety and in harmony with our values. In addition, by placing a manufacturing site in the region we reduce our environmental impact as we will reduce the need for transporting products from Europe to be sold in Asia.”

- Bali Padda, COO of the LEGO Group, 2013

Figure 26

Signing the agreement on the LEGO Factory in Jiaxing, 2013



Besides all the laws and regulations regarding import and production of foreign companies in China, the copycat products already circulating the market were the main reason for the LEGO Group to establish their own production in the Chinese market. By owning their own factory,

their retained a full control of their production and had more power to face their competition. The factory was planned to operate in three areas of the production process of the LEGO bricks; molding, decoration and packing facilities, all located in Jiaxing, approximately 100 km from Shanghai. This is also where a new Asian distribution center opened in 2014. This was a huge event not just for LEGO Group, but also for Denmark, the home of LEGO Group and The Queen of Denmark attended the groundbreaking inauguration ceremony in late 2014. First brick was molded in the first half of 2015 and later, in the fall of 2015, the factory opened for business and entered full production in late 2015. 2016 entertained the official opening of the Jiaxing factory accompanied by Kjeld Kirk Kristiansen and the CEO Jørgen Vig Knudstorp. At that time, the plan was to produce up to 80% of the supply of LEGO products sold in the Asian market, and this became a reality in 2017. The same modular production system is used, as is the case for the other factories in Denmark, Hungary, Czech Republic and Mexico. (LEGO Group, n.d.)

Figure 27

Aerial view of the Jiaxing factory, 2016



Currently, LEGO continues in their domination of the global toy market, with plans to invest in a new factory in the United States in Virginia, scheduled to open in 2025. (LEGO Group, n.d.)

4.3 Factors and challenges that influenced LEGO Group’s internationalization process

4.3.1 Crisis

In 1993, the sales started to crawl, and LEGO Group ceased generating profits. The Chinese sold imitation and knockoffs for lower prices. As a response, LEGO Group came up with new products, but that did not help – instead of increasing sales, they were just selling more products. This only increased costs of manufacturing and delivery while keeping the revenues low. The advent of digital toys – video games. New collaboration sets like Star Wars and Harry Potter were selling well only in those years when connected movies or books were being released. By 2003, LEGO

group came to the point of having no more money to run its operations. Not so long after, Krik Christiansen transferred his CEO position to Jorgen Vig Knudstorp, was when the LEGO Group sold its 70% stake in LEGOLANDS to Blackstone Group to generate \$460 million and moved their management to the Danish production factory, and began outsourcing to Flextronics as a plan to get the company up to its feet. (Knowledge at Wharton, 2012)

4.3.2 Imitation products

The most prominent cases were from China and South America, where it is not just LEGO who was and still is fighting with imitation products that are usually of a lower quality, at times not properly compatible with all the bricks in the sets, and often deliver with missing pieces. All these factors, even though they come from wannabe copycat products, adversely affect the overall perception of the LEGO brand and their products, as the toys have similar if not the same dimensions and looks, especially in marketing materials, but in reality deliver far below the LEGO standard. The original patent from 1960s has long expired, but the range and depth of the LEGO creative IP continues and will continue on. For example, not so long ago, the Chinese Guangdong Higher People's Court awarded US\$4.7 million to the LEGO Group, after they found out that several Chinese companies were guilty of trademark infringement for selling a similar product under the brand Lepin. Below are pictures of some of these products. Noteworthy is the difference in the names, for example the LEGO Technic passed as Lepin Technician, LEGO Star Wars named Lepin Star Plan, or the original LEGO City named Lepin Cities. From the pictures it is visible that even the box quality is below the LEGO standard, and you never see a plastic handle on the original LEGO boxes. As mentioned before, in South Korea it was COKO who was imitating and selling the LEGO sets under a different brand and names. (LEGO Group, n.d., & Marketing Interactive, 2018)

Figure 28 and Figure 29

LEPIN Technician set and LEPIN Star Plan set



Figure 30 and Figure 31

LEPIN Cities set and COKO Bricks



Usually, it is just the logo and name that is different, but almost everything else is an exact copy, though of a lower quality than the original LEGO products. These then of course sell for a lower price, making them a questionable alternative to the original LEGO products. LEGO Group prides themselves to be one of the safest toys for children, as long as the parents adhere to the age recommendations, and these imitation products do not just infringe on the LEGO Group's IP rights, but may also be harmful to children, as they are simply not made well enough to pass the required standards. Most of the LEGO Group's products are protected by copyrights, which are often unregistered form of IP right that is more difficult for authorities and companies to enforce compared to other IP rights like trademarks or patents. (LEGO Group, 2020)

"We do a lot of trademark education campaigns, in addition to our cooperation with government authorities to take legal actions. One example is our partnership with China IP News, in training middle and high school kids in IP Pilot Schools in China, where the emphasis is on IP education in trademark, copyright and patents."

– Robin Smith, Vice President and General Counsel for China & APAC at the LEGO Group

An IP strategy is not just about protection, but also about leveraging IP and intangible assets to grow a business. Licensing is key to a successful business, and LEGO mastered it by partnering with brands like Jurassic world, Marvel, DC and most importantly Star Wars. They were hesitant at first, but partnerships proved successful. (Cheah J., 2021)

"Our President of the Americas, at the time, Peter Eio, was a huge supporter, and he definitely worked hard to help convince the rest of the organizations that it would be a worthwhile project to try, and certainly it was one of the best decisions the company has ever made."

– Robin Smith, Vice President and General Counsel for China & APAC at the LEGO Group

4.3.3 Import/Export restrictions and barriers of market entry

This issue arose during the very first steps on the LEGO Group's internationalization path – to Norway in 1953. At that time, it was difficult to export to Norway, through both independent agents or own supply chain, because of the laws in Norway restricting exports of toys and other goods. Back then, most of the restrictions were put in place after the Second World War. Most of these restrictions have been since lifted, but some still remain in place and importers have to be vary of all the requirements they have to meet.

For example, there are requirements regarding the toys' physical, mechanical, chemical, electrical, flammable and noise level properties. In addition, there are requirements for the labelling and packaging of toys. All toys shall be CE labelled. Toys that appeal to children under the age of three, which may be dangerous to the children, shall be marked individually.

- (Toll.no, 2023)

The South Korean market required all international companies that wanted to conduct business in South Korea to set up a local production factory. Without that, they were not allowed to enter the South Korean market at all. (LEGO Group, n.d.)

The Chinese market is the most difficult to enter, due to all the restrictions put on international companies in regards to customer data management and restrictions on importing goods to China (while exporting goods from China being relatively non problematic, ex. AliExpress, Alibaba, or Temu). On the other hand, the Chinese government started working in favor of international companies by taking IPs and copyrights more seriously, and helping companies protect their rights. (Törmer, Henningsson, 2020)

4.3.4 Digital age – adaptation and winning againts digital toys

With the advent of digital toys coming to the market, LEGO hat a completely new, unexpected competitor – video games. This type of a “toy” generally shook up the grounds with all toy markets around the world, as there were suddenly great colorful virtual stories the players could live through and heroes of which lives they could live, video games that are generally easy to distribute, even considering the need for hard copies in cartridges, floppy disks or on CD's back in the day, but those were all the players had to obtain – as long as they had a machine they could use to run the games, they could by any game they wanted. The Video game industry has since become an industry of its own, sort of separate from the toy industry, but highlighting the competition even more. In the case of LEGO, if they wanted to stay ahead and keep their status as a global toy manufacturing leader, they had to adapt to the coming changes. LEGO Group came up with several ways to digitalize their products; movies, video games, and applications that for example serve in place of the paper instructions, helping builders with correctly assembling their builds, like the LEGO Builder app. Several movies tied to the LEGO products became famous and series were made too, such as the Bionicle Chronicles or the LEGO CITY movies, but many fans also produced their own content using the actual LEGO bricks and creating stop motion animations, at times reaching high qualities. (LEGO Group, n.d.)

4.3.5 Children and play

This was the positive factor that helped LEGO Group on their path to become truly international. Because the concept of the LEGO bricks, in its core, is relatively simple – “it’s just stacking bricks on top of each other to create different shapes”, it was not difficult for LEGO Group to convince children to like the toy. It does not matter where the children come from, it does not matter which language they speak, but creativity and need for exploration and novelty can be found in all children. Wherever LEGO Group introduced their toy and properly marketed it to get it across to a large amounts of people, there were always customers interested in the LEGO toys eager to explore their inner fantasies and creativity, eager to create the tallest tower, the largest building, the fanciest car or the cutest animal. LEGO toys allow for this exploration of creativity and fantasies and almost everyone who got their hands on the toys immediately fell in love with them. Such kind of a product is relatively rare and LEGO had a golden lamb in their hands, ready to conquer the world with it. LEGO Group is also partially owned by the LEGO Foundation, a philanthropic organization that supports children’s learning through play. Both LEGO Group and LEGO Foundation share the same goal: to inspire and develop builders of tomorrow, and they have partnered with UNICEF to promote children’s rights and well-being, especially in their early years of development. A global competition was launched by the LEGO Foundation: Build a World of Play Challenge, which aims to fund innovative solutions for the biggest challenges that the youngest children around the world face today. (LEGO Group, 2022, & UNICEF, 2021)

4.3.6 Adults are the cornerstone

It has not been just kids who were interested in LEGO when it started becoming a well-known toy. The LEGO Group’s marketing was mainly focused on the younger generations, but with the introduction of the LEGO Mindstorms in 1998 and the RCX controller brick – the brain of the robot, LEGO decided to explore their community and put a postcard into each of the LEGO Mindstorms boxes.

“We actually put postcards in the Mindstorms sets for people to return, when those started coming in, in early ‘99, we could see that half the people who bought the set were not in our target group”

- Tormod Askildsen, Head of Community Development at the LEGO Group

LEGO Mindstorms was marketed to kids, but at one point, adults made up 70% of buyers.

“Before the late 1990s, the company didn’t think their adult fans had value, leadership actually thought [adults] were detracting from the brand”

- Paal Smith-Meyer, former Head of New Business Group at LEGO.

It is also adults who grew up playing with LEGO and are now excited about buying LEGO for their own children and participating in the creative process of building and playing with LEGO. The RCX brick got reverse-engineered within a few weeks of its release and all the related info and data were leaked online by a Stanford Graduate student Kekoa Proudfoot. The findings he shared online began a wave of the community’s custom builds like blackjack games and soda machines.

This at first startled LEGO, especially with their at that time closed-off culture and approach to sharing information and speaking with their community, so they fired up their lawyers and decided to meet the makers of the most intriguing builds with RCX brick, and set up the meeting at a MIT event MindFest.

*“Our plan was to explain to them why they could not do that. We had this picture in our minds of these ‘evil hackers’ doing everything in self-interest... and then we met them. They were the most awesome people—nice, polite... and they loved their LEGO hobby” - Tormod Askildsen,
Head of Community Development at the LEGO Group*

(Community Inc., n.d.)

4.3.7 Community around LEGO products

With LEGO Group realizing how important and large their adult fanbase is, the experience with LEGO Mindstorms and the overall perception of the LEGO brand at that time made LEGO to completely turnaround strategy in regards to their approach to their community, and new forms of community engagement and focus on adults were formed.

“With this missive, the LEGO Company asks to open a dialogue with you, our consumers... We want to have the best possible relationships with all of you who want to have a relationship with us.” – LEGO Group

At one of the fan conventions in August 2005, Jørgen, the executive chairman of The LEGO Group, spent the entire event meeting with different fan groups, and saw with his own eyes the passion and value of the community around the LEGO products. By conversing and trying to understand the community, he reached a decisive conclusion:

*“We think innovation will come from a dialogue with the community. We didn’t nurture it well. Those were the things we started addressing, and that led us on an incredible journey of very strong growth for more than a decade”
– Jørgen Vig Knudstorp, the executive chairman of The LEGO Group*

The opening up to the community around LEGO resulted in a double-digit growth in the following years, between 2008 and 2010, the overall profits quadrupled, and the company started growing faster than Apple, while achieving over \$1 Billion in U.S. sales for the first time. (Community Inc., n.d.)

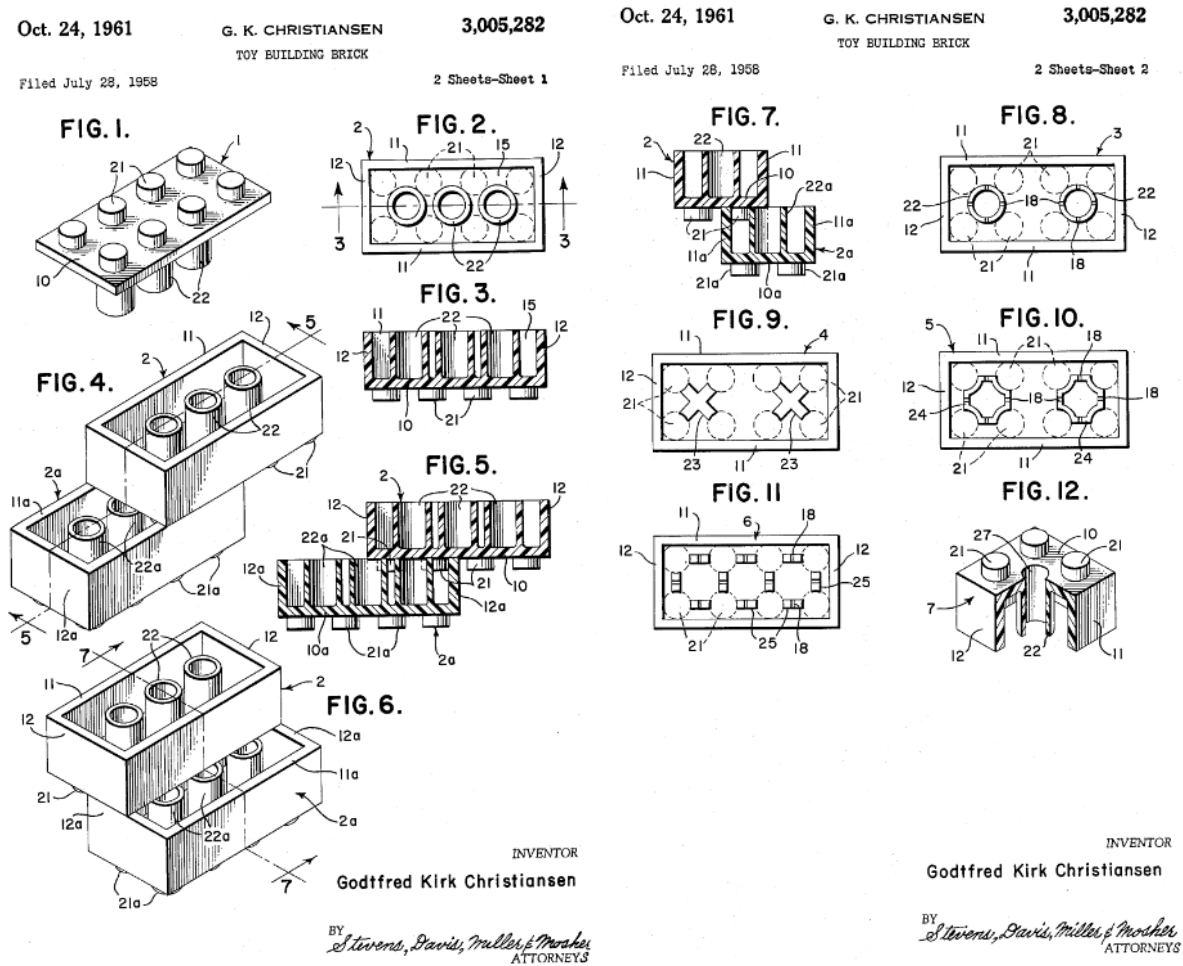
4.3.8 Middle income families and the LEGO bricks patent and compatibility

LEGO toys, made of plastics, cannot be considered a luxury good or toy, and the prices reflect that, while not being the most affordable toy out there, the prices are on par with other big brand toys like Hotwheels. It is not the cheapest possible toy a parent could buy for their child. But it is affordable and allows for long hours of playtime, especially considering that all LEGO

bricks made today are still compatible with the very first LEGO bricks molded in the original Billund production factory that were patented by Kirk Godtfred Christiansen. While the design and material changed slightly over the years as LEGO Group developed their toy, the original dimensions patented in 1961 remain the same to this day. This allows for compatibility across different LEGO sets no matter when and where they were produced. (Khachatryan, L., 2023, & Community Inc., n.d.)

Figure 32

US Toy building brick patent



4.3.9 LEGOLANDs

One of the prominent peculiarities of the LEGO Group's activities in promoting their product as well as retaining their community are the LEGOLAND parks scattered around the world. While these were never the first market entries into the respective clusters, they nevertheless play a huge role in customer's perception of the LEGO brand. Below is a table of all LEGOLANDs, their locations and opening dates. These LEGOLAND parks have attractions made of LEGO bricks (while keeping the safety levels up to expectations). Usually visited by over 1.4 million people per year, they are one of the most visited attractions around the world. (Brickipedia, n.d.)

Table 2
LEGOLANDS

| Location | Year | Note |
|--------------|------|-----------------|
| Billund | 1968 | First, original |
| Sierkersdorf | 1973 | sold in 1976 |
| Windsor UK | 1996 | |
| California | 1999 | |
| Deutschland | 2002 | |
| Florida | 2011 | |
| Malaysia | 2012 | First in Asia |
| Dubai | 2016 | |
| Japan | 2017 | |

Figure 33
LEGOLAND Billund



5 Results and Discussion

5.1 Key internationalization milestones

Germany was a peculiar case, as the LEGO Group in one step established both agent sellers and sales subsidiaries. This was when Kirk Christiansen persuaded German retailers to stock up the LEGO products. We can assume that agents were regular toyshops selling wide range of toys dedicating a space for LEGO products, and retailers solely focused on the LEGO products, which are no longer agents, but rather considered sales subsidiaries. Nobody had control over the price as that was dictated by the LEGO Group via the agreements they made, which is why the retailers focused solely on LEGO products are essentially sales subsidiaries, though without the extra duties tied with running a business put on the shop owner, not the LEGO Group. (LEGO Group, n.d.)

The Chinese market proved to be one of the most challenging to enter. As mentioned in the study Platformization and Internationalization (Törmer, Henningson, 2020), the Great Firewall of China makes it almost impossible to penetrate into the market without carefully abiding to the local laws and making use of Chinese intermediates to market and sell products. Tax receipts have to be printed on the tax bureau's dedicated, specially designed printing machines, which are integrated into the tax system to allow traceability. On the Chinese internet, foreigners are not allowed to publish content by themselves and a Chinese intermediate marketing or publishing company needs to be used in order to publish any kind of marketing material in the place of foreign companies (Törmer, Henningson, 2020), which complicates any kind of marketing activities. China also has data protection laws in place that require any personal identifiable information to be stored in datacenters/servers directly in China, making any use of Customer Relations Management systems or consumer engagement solutions even more challenging, as companies have to make use of Virtual Private Network or Multiprotocol Label Switch connections in order to be able to connect to the servers and make use of the data stored there. Using such connections for businesses comes with more hurdles, as they are strictly governed by authorities and require approvals, of which acquisition is usually a long, time consuming process. The online social media that is accessible in most of the world like X/Twitter, Google and Facebook are also not present or accessible from China, forcing companies to make use of intermediates to advertise on the Chinese social media. This is, however, just a fraction of what a company might be facing in the process of the Chinese market penetration, as these are just complexities associated with marketing and online platforms.

In the case of LEGO Group, the relations with the Chinese market date back to the 1980s, and for a while all sales relied on a single retail seller (customer of LEGO Group), who was selling sets produced in Europe. Later in 2012, LEGO Group established their own sales company in China to target more customers in the holistic Asian market group. As the Chinese market was gaining on commercial importance and LEGO Group wanted to increase their commitment and presence in the market, LEGO Group announced a new factory in Jiaxing in 2013. Following this announcement, a Hub office in Shanghai as well as a dedicated market group were

established in 2014, underlying the strategic importance of the Chinese market and implicating dedicated operations in the country. In 2015, the factory in Jiaxing ramped up their production, sealing the commitment to the market, resulting in a strong growth in the Chinese market. Between 2014 and 2016, LEGO Group's gross revenue has tripled and the market contribution of the organization has more than quadrupled. LEGO Group was reaching around 2 million children in China, planning to reach more than 9 million customers by 2025, growing consumer sales by 30 percent annually and improving financial profitability through continuous improvement and economies of scale. (Törmer, Henningsson, 2020)

Although the LEGO Group has experienced a warm welcome from the Chinese citizens, achieving great sales compared to the European market, LEGO Group has encountered a series of complexities that slowed down their integration into the new market. Specifically, the china's reporting legislation requirements that required to be addressed by implementing deviations from the LEGO Group's globally standardized business processes. As the LEGO Group is very committed to legal compliance and these requirements lead to exceptions to global standards, that result in undermining of operational efficiency for business processes like marketing, sales, and production, as well as impacting the IT side of business tied to websites, customer data, applications accompanied with physical products, or digital products themselves.

“The tax regulation and the tax thinking was something we had to understand and adapt our global template to. [...] [SAP] probably provided some [of that functionality] but a lot of the models are LEGO models in our global template of optimizing manufacturing efficiency in Western Europe”
(Principal Enterprise Architect (EA), LEGO Group)

For example, the strict publishing regulations in China forced LEGO Group to re-develop or adjust current digital LEGO applications, resulting in the delay of provision of these applications to the Chinese markets. Specifically regarding the digital experiences, the LEGO Group had to partner with a Chinese internet company Tencent to provide their safe, creative and imaginative digital resources and content that supports children's needs for learning, entertainment, and the development of creativity and imagination. (Törmer, Henningsson, 2020)

“There is a technical gap to the consumer in that the Asian consumer does not have access to our traditional way of engaging with consumers – being Facebook, Google, Twitter – these traditional platforms. It is very difficult to put up a web-shop in China because of the legal restraints. [...] The consumers are on different platforms [... and] consumer engagement is a pre-requisite for success in any space”
- Senior EA, LEGO Group

As mentioned before, all companies operating in the Chinese market are required to store all personal identifiable information in datacenters/servers located in China. This has a tremendous impact on any Customer Relation Management operations and digital consumer engagement

solutions (like the LEGO Life Magazine) provided to customers in the country. As the LEGO Group is following a “one instance” philosophy (centralization of stored data and functionalities in European datacenters accessed from multitude of places via a client user interface), the Chinese market requirements forced LEGO Group to establish a second instance for these systems within China. This challenged their global business process standardization, complicated data integrity and analysis, and reduced IT efficiency, as connectivity of local solutions through the Great Firewall of China is currently realized through Multiprotocol Label Switching connections, that allow access to enterprise systems, but prevent access to the public internet. Since the LEGO Group is especially committed to legal compliance, it is of highest strategic priority to implement these requirements. (Törmer, Henningsson, 2020)

“So far, we have had a network connection directly through the Great Firewall that we have been able to utilize for our own corporate data. [... We are not] allowed to use this gateway or tunnel through to the Chinese consumer, because there are requirements to network providers in China”

(Senior EA, LEGO Group)

5.2 Comparison with the Uppsala Model

Exploration of both establishment chain and psychic distance chain of the internationalization path of the LEGO Group.

5.2.1 Exploring the Establishment chain of LEGO Group

To explore the Establishment chain of LEGO Group I chose to use the same method of analysis as J. Vahlne and J. Johanson in their case study of the Swedish industrial firms (SRC). The "n->a" path is not needed as a result considering that whenever another expansion begins with "agent", it means that the path always begun with no exports and then advanced to having an agent. Nevertheless I have decided to include it in my case study to highlight the fact that not a single expansion of the LEGO Group ended with the "agent" type of expansion, and that all of the current LEGO Group's market presence is sales subsidiary at the least. In many cases, according to the data collected for this case study, the LEGO Group first established a foreign production via licensing, partnerships and agreements, usually just supplying moulds and machinery, while the production was happening in the destination market led by a licensed separate company. These partnerships had to be terminated with time in order to ensure quality standards, price standards, and a coherent brand expression and perception, or due to economic or legal reasons. One of the only three instances of first having an agent, Sweden, was conditioned by fewer restrictions on import of toys, compared to expansion into Norway, where in the same time period they had to establish a partnership due to the restrictions placed on import of toys.

Table 4

Relationships – incremental internationalization

| Relationship | n->p | n->a | a->s | n->s | s->p | a->p |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| LEGO Total | 8 | 3 | 3 | 40 | 2 | 0 |
| US | 1 | | | | | |
| Swiss | | | | 1 | 1 | |
| Sweden | | 1 | 1 | | | |
| South Korea | 1 | | | | | |
| Portugal | | | | 1 | | |
| Norway | 1 | | | | | |
| Mexico | 1 | | | | | |
| Italy | | | | 1 | | |
| Iceland | 1 | | | | | |
| China | | 1 | 1 | | 1 | |
| Hungary | 1 | | | | | |
| Germany | | 1 | 1 | | | |
| Czech Republic | 1 | | | | | |
| Canada | | | | 1 | | |
| Brazil | 1 | | | | | |
| Belgium | | | | 1 | | |
| Austria | | | | 1 | | |
| Australia | | | | 1 | | |
| Bahrain | | | | 1 | | |
| Chile | | | | 1 | | |
| Colombia | | | | 1 | | |
| Costa Rica | | | | 1 | | |
| Bosnia | | | | 1 | | |
| Croatia | | | | 1 | | |
| France | | | | 1 | | |
| Indonesia | | | | 1 | | |
| Ireland | | | | 1 | | |
| Israel | | | | 1 | | |
| Israel | | | | 1 | | |
| Japan | | | | 1 | | |
| Kuwait | | | | 1 | | |
| Macao | | | | 1 | | |
| Malaysia | | | | 1 | | |
| Netherlands | | | | 1 | | |
| New Zealand | | | | 1 | | |
| Panama | | | | 1 | | |
| Peru | | | | 1 | | |
| Philippines | | | | 1 | | |
| Poland | | | | 1 | | |
| Qatar | | | | 1 | | |

| | | | | | | |
|----------------|--|--|--|---|--|--|
| Romania | | | | 1 | | |
| Serbia | | | | 1 | | |
| Singapore | | | | 1 | | |
| Slovenia | | | | 1 | | |
| South Africa | | | | 1 | | |
| Spain | | | | 1 | | |
| Taiwan | | | | 1 | | |
| Thailand | | | | 1 | | |
| Turkey | | | | 1 | | |
| UAE | | | | 1 | | |
| United Kingdom | | | | 1 | | |

5.2.2 Exploring the Psychic distance chain of the LEGO Group

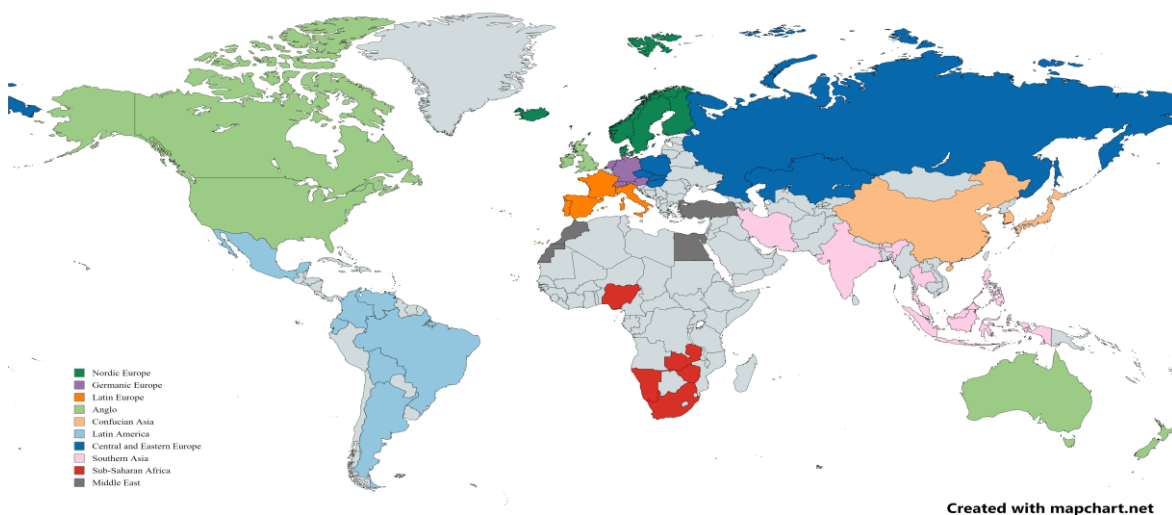
To analyze the psychic distance chain of the LEGO Group’s internationalization process, I have decided to split respective countries into several categories (clusters) based on their cultural similarities. I found the 2004 GLOBE Study, a unique large-scale study of cultural practices, leadership ideals, and generalized and interpersonal trust in 150 countries in collaboration with nearly 500 researchers. GLOBE meaning Global Leadership and Organizational Behavior Effectiveness. Because LEGO mainly focused on partnerships and licensed production, it is sensible to analyze the psychic distance with a focus on organizational and leadership cultural aspects that are shaped by the general country’s culture. The data from this study is therefore even more valuable and describes the relationships of the LEGO Group and the foreign companies they made agreements with more accurately due to the LEGO Group focusing on establishing agreements and partnerships with foreign companies, rather than focusing on the general culture of the foreign country. From the LEGO Group’s behavior it can be assumed that they focused more on the leadership and organizational specific culture behavior, rather than on the general country culture. However, they are heavily interconnected, as one affects the other. Another reason for the decision to explore the cultural aspects of leadership and organizational behavior is that the LEGO Brick toy has been generally liked by every customers of any culture – as mentioned in chapter Children and play, due to the innate creativity and desire to explore in children, all children like the LEGO toy in a same way, and while the end result of the children’s creative process with the LEGO Bricks (the way the children play with the toy and what they end up building) might differ in a slight way in each culture, it did not make much of a difference because the toy was generally liked among each market’s population. The toy is also meant to help develop cognitive and creative processes in children, so there was not much that could be considered a limiting factor from the point of product design and overall market desire for the product. All the LEGO Group had to do was to get the product across to their customers while creatively showing off the possibilities of the LEGO products, which was also the focus of Kirk Kristiansen. The way they expanded into the German market, and the conditions that LEGO Group set for the retail sellers in the German market, are a great example of the main challenge of the internationalization of the LEGO Group; LEGO toys had to be visible to everyone, and LEGO

wanted children to be able to play with the LEGO bricks in stores, to help facilitate interest and subsequently sales, and with the steady prices policy, they were able to make sure that they stay affordable for their target customer group. (GLOBEproject, 2004)

The GLOBE Study defines number of cultural categories - clusters:

1. Nordic Europe
2. Germanic Europe
3. Latin Europe
4. Eastern Europe
5. Anglo
6. Latin America
7. Middle East
8. Sub-Saharan Africa
9. Southern Asia
10. Confucian Asia

Figure 34
GLOBE defined cultural clusters



In the table below you can see individual first market entries on the internationalization path of the LEGO Group, where some sales subsidiary entries are missing due to the availability of data, but since they are in rather more distant markets and mostly happened after LEGO was already known globally, the lack of this data does not saturate the results too much.

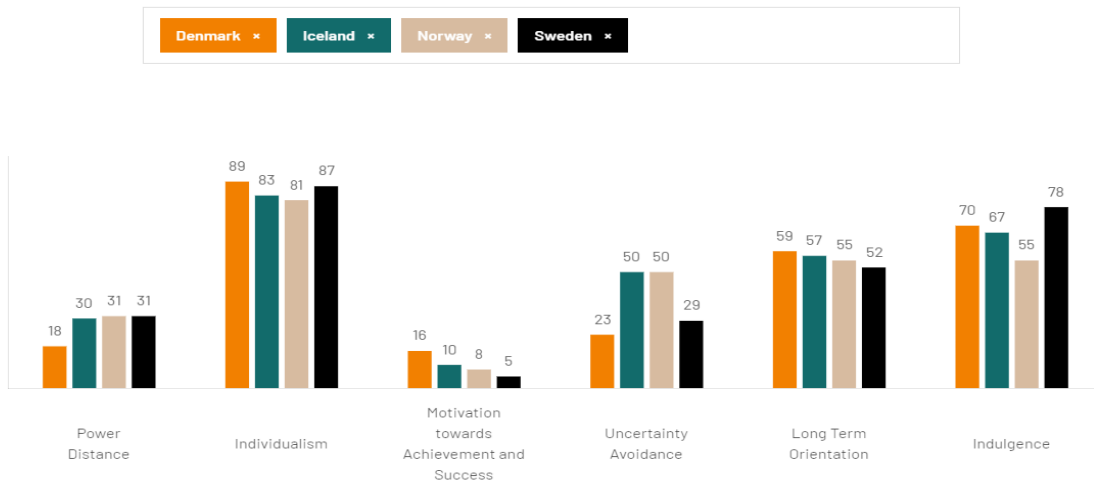
Table 5

Respective types of first market entries per country and year of entry

| COUNTRY | TYPE | YEAR |
|----------------|--|-------------|
| Norway | Partnership - licensing - foreign production | 1953 |
| Iceland | Partnership - licensing - foreign production | 1955 |
| Sweden | export to, sales distributor | 1955 |
| Germany | Agent | 1955 |
| Switzerland | Sales office - subsidiary | 1958 |
| Netherlands | Sales office - subsidiary | 1958 |
| Austria | Sales office - subsidiary | 1958 |
| Belgium | Sales office - subsidiary | 1958 |
| Italy | Sales office - subsidiary | 1958 |
| Portugal | Sales office - subsidiary | 1958 |
| US | Partnership - licensing - foreign production | 1961 |
| China | Agent | 1980 |
| Australia | Sales office - subsidiary | 1984 |
| South Korea | Own production factory in Kunpo | 1985 |
| Brazil | Own Production factory in Manaus | 1986 |
| Canada | Sales office - subsidiary | 1988 |
| CZ | Own production factory in Kladno | 2000 |
| Mexico | Partnership - Outsourcing to Flextronics | 2006 |
| Hungary | Partnership - Outsourcing to Flextronics | 2006 |

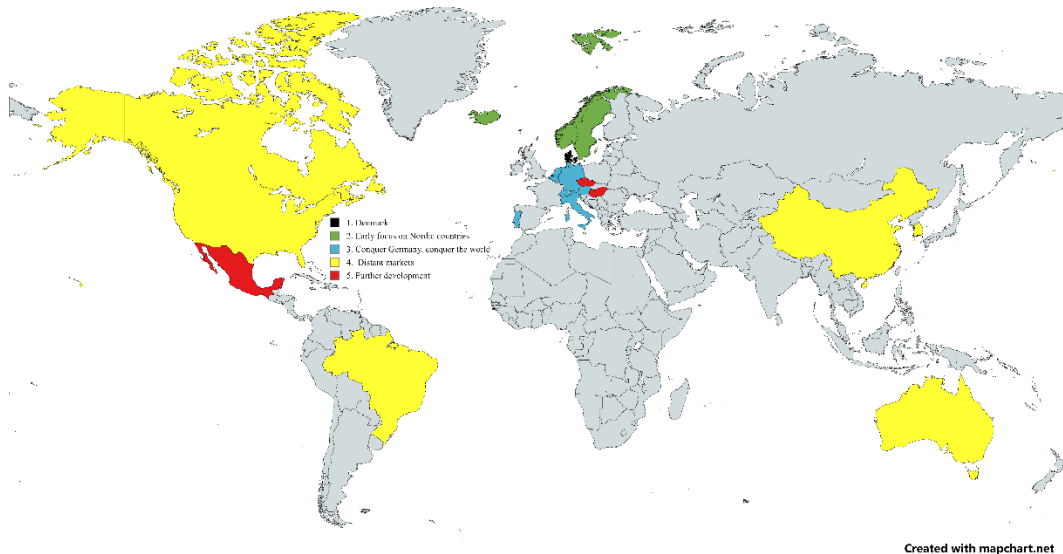
For the purpose of this case study it is assumed that Norway and Iceland generally fall into the Nordic Europe category. While there is no data collected in the 2004 GLOBE study from these two countries, based on the cultural similarities we can assume they are in a common category with Sweden, Finland and Denmark. To support this decision I have compared the countries using the Hofstede Insights Country Comparison tool. With Sweden being the most distant from Denmark in 4 out of 6 categories' we can consider Norway and Iceland as part of the Nordic Europe category. This means that the LEGO Group first expanded into markets with a relatively short psychic distance - into Nordic countries.

Figure 35
Country comparison tool – Nordic Europe



With partnerships and export to Nordic countries established, the move to Germany was almost predetermined. With the Germanic Europe category having similar performance orientation and team-oriented leadership and only requiring adaptation to a more hierarchical culture and higher power distance, conquering Germany was the ideal move. As Kirk Christiansen said: "If we can conquer Germany, we can conquer the whole world!" Then the LEGO Group followed by expanding to more distant markets like the US and China, and with established presence in these markets, the rest of the world was at their fingertips.

Figure 36
LEGO Group's internationalization countries



5.3 Key findings

The results show two main deviations from the general assumptions of the establishment chain of the Uppsala model. First, the LEGO Group in most cases first established a partnership with foreign company in the destination market. This licensed partnership or agreement allowed the licensed company to produce LEGO toys and distribute them in their home country. This is considered a licensed production, so it falls into the "foreign production" category of the 4 incremental internationalization steps of the establishment chain. Two supporting arguments are that licensed production requires much deeper commitment and that the product is being produced in foreign country.

Further, we can find that LEGO Group was actually reducing their market commitment, as in several instances they stopped producing, closed the factory, and instead established a sales subsidiary supplied from an already established production plant in a different country. During the expansion to US, where the path was as follows: n->p->s->p, a reduction in market commitment was present at one point on the path of establishing presence in the US market. The same thing happened in Norway, where the path n->p->s finishes with a decrease in market commitment. These decisions were influenced by economic fluctuations and changes in laws and restrictions. In the case of Norway, LEGO was unable to penetrate the market in any other way but via a licensed foreign production due to the restrictions on import of toys. These were, however, later lifted, so the LEGO Group terminated the partnership and decided to export into the country.

However, in the most uncertain scenarios, where the psychic distance was the highest, for example in case of expansion to China (the Confucian Asia cluster), the LEGO Group followed the incremental internationalization and market commitment steps. In the case of China, it was a precise path: n->a->s->p. The most important market, Germany in the Germanic Europe cluster, also conditioned LEGO Group to internationalize incrementally in order to safely establish their market presence.

Today, LEGO Group operates several own shops, and supplies certified shops - franchises.

5.4 Discussion

The case of LEGO is interesting when we focus on the product a bit more. There really was no obstacle in the form of a lack of desire from customers. In whichever market the product was introduced, it was always met with success. One downside of the Uppsala model is that it does not consider marketing activities as factor, but in the case of LEGO, marketing played a huge role. Although it was not exactly difficult to market the product to children, because it is, in its core, such a simple toy that allows for very complex creative processes, that there is almost infinite possibilities in regards to what children and adults can do with the toy. Showing to customers some possible ways in which LEGO can be played with and helping them understand that there is almost anything they could do with the toy was a sure shot. Usually done using LEGO sets on displays in the toy shop windows and huge LEGO brick status in front of the LEGO stores, with LEGO being such a recognizable product, everyone knew what they could expect.

With the bricks being compatible across all sets, there was also no downside to purchasing different available variations of the LEGO sets and allowed LEGO Group to create collections, and customers did not have to worry about not being able to put them all together. The design and thought about the product is almost perfect, which resulted in a different challenge than trying to prove the LEGO brick is the product the shoppers should buy; that was imitation, copies and knockoffs, most of which were usually of a lower quality, made of worse materials, and were sold for lower prices, infringing on the LEGO IP and painting a bad name, as issues are quite common with such products.

With partnerships and licensing foreign production being a common market entry for the LEGO Group, it is worth noting that in such cases, LEGO Group still supplied moulds, tools and machinery, so the LEGO Group essentially created demand for their own mould workshops. The licensed companies had to abide to rules, making sure to follow all LEGO Group's standards in order to present the product and brand in all its glory and potential, in the best quality. LEGO Group was continually involved in monitoring, and was maintaining these standards by providing support. This, however, is quite difficult to uphold especially in this case. It is mainly caused by the differentiated company culture, where for example employees of Flextronics were far from feeling like they were a part of the LEGO Family, while the LEGO Group's employees were treated in a different manner. Hence, outsourcing doesn't have just economic impacts, but also impacts quality, standards, the licensed company might behave differently in ecological questions, and the licensing company does not have a direct power over the wellbeing of the licensed company's employees. Therefore, in the case of the LEGO Group, partnership cannot be considered "agent" mode of entry, as this goes beyond simple export of goods, and it also cannot be considered a "sales subsidiary", as this form of partnership also goes beyond just managing exports/imports and sales. This is why it was classified as "production" stage of the establishment chain, but realistically falls somewhere on the spectrum between sales subsidiary and own foreign production. It is not a simple "licensing", as in such a case, LEGO would only provide general guidelines and standards, and otherwise the licensed company would be leading the project on their own.

It is also imperative to discuss the availability of data, regarding stores and regarding market entries. With the LEGO Group purposefully obfuscating certain types of data and with the fact that media did not register all LEGO Group's market entries, or the news reports are not available online (even after consulting newspaper archive), there is a mention worthy amount of data lacking. It is also understandable that they are choosing to not disclose everything, as making certain trade secrets public could harm the LEGO brand, or otherwise help the competition. Nevertheless, they accurately and in great detail describe their internationalization road and for the purposes of this case study the data is more than sufficient.

6 Conclusion

It can be said that while LEGO Group followed the psychic distance chain and first expanded to countries with a low psychic distance, then explored markets with a higher psychic distance, they did not exactly follow the incremental internationalization and market commitment steps in the establishment chain, and rather, in most cases, established licensed production agreements right away. In this case, partnership is considered to be a rather mid to high commitment mode of entry, as LEGO Group was supplying molds, tools and machinery to the licensed company, and usually were also gauging the prices as per their policies. LEGO Group was also highly involved in monitoring and managing quality and standards of the produced toys. However, these partnership were an intricate way in how to establish presence on the foreign market as a well as a great way to gain knowledge. LEGO Group also engaged in decreasing their market commitment (which was usually replaced by commitment in a different market), in some cases due to the licensed foreign production not being up to the LEGO Groups standards, and in other cases because of changes in laws and restrictions on export or import. One of the main detrimental events on the internationalization path of the LEGO Group was the 2000 Crisis that forced LEGO Group to decrease their commitment in several markets and establish new partnerships so the LEGO Group could financially recover. For the most important internationalization milestones, the German and Chinese markets, they followed the incremental internationalization steps, first probed the market via an agent, and after establishing a sales subsidiary, they built their own production factory. With experiential learning they slowly penetrated these markets as they at first did not know what to expect from retailers in the German case and from government in regards to restrictions in the Chinese case. Right now, LEGO enjoys a global presence with sales subsidiaries in more than forty markets.

Therefore, the LEGO Group did not always export into the countries before establishing subsidiaries or production plants, nor did it always establish sales subsidiaries before building own factories. The LEGO Group's internationalization strategy was more flexible and responsive to the changing market conditions.

The research was going relatively smooth. One of the few prominent obstacles was the unavailability of official structured data of the respective market entries, especially regarding first "agents" and stores selling the LEGO products. I also had to make several decisions that in the end influenced the results of the thesis; while LEGO started selling in some countries through an independent seller, these retailers were still subjected to certain standards and requirements from the LEGO Group, such as common price for all retailers, necessity to show off LEGO products in the shop windows, as well as the availability of LEGO bricks for children to play in the stores. In this case, the shop would be considered a distributor who generally has even less autonomy than an "agent" – they cannot negotiate contracts, set prices, or make any other significant decisions, so they cannot be reliably captured by the respective stages of the establishment chain of the Uppsala model. This means that I had to properly designate the type of market entry for each of

the market entries. Similar decision was also needed with the “partnership” type of market entry. In the end, this shows the limitations of the simplified Uppsala model approach, while still being able to describe the internationalization process of a firm, it does not consider all modes of market entries, so adjustments need to be made when the situation requires it. While these “distributor” market entries were a type of expansion, they were usually not invoked by the LEGO Group (besides the deliberate push into German retail stores), rather by toy store owners around the world, and if they placed an order, THE LEGO Group did not have a reason to not fulfill it, yet if it was not a planned market entry, and there was not much of experiential knowledge about the market that they could gain from such established connections. This is because while there were the set conditions for selling the LEGO products, there was otherwise a lack of information exchange, and the only reliable data that LEGO Group gained from such connections was the amount of sales in each of the stores, so they could somehow track the interest in the LEGO products in the respective markets, but in regards to gaining experiential knowledge about culture and how the market functions, there was not much to learn from such connections.

At that time, when independent store owners started noticing the LEGO products, LEGO Group wasn't really engaging with their community yet, and rather focused on sales than the customers feedback. They knew the products were a hit among children and adults alike, but it wasn't until the year 2005 when Jørgen Vig Knudstorp, the executive chairman of The LEGO Group, talked with LEGO fans and realized how big of a part a community around such a product can play. This is one of the main topics that would be worth researching further, as today the community around LEGO is one of the largest communities in the world. Children, adults and elderly, men, women and everyone else know what the LEGO brick is, and at some point in their lives played with the toy. People are creating their custom builds, combining various sets to create large dioramas, or they even include moving parts, such as running ski lifts where the skiers go around the slide down the slope indefinitely. Collecting LEGO sets became a hobby for many creative humans and amazing builds are being made by the community that also loves to share them on the internet, for fame and to inspire others, which is also a great advertisement for the LEGO Group. Advertisement is another topic that would be worth researching; the branding effectiveness and the style of marketing that LEGO chose to employ on their road to become global, and how it affected their internationalization activities. Because as mentioned in the thesis, LEGO also faced many imitation and knockoff competition, who even dared to use the same colors as LEGO Group for their logo, as in the LEPIN case, who were a Chinese company, yet chose the same designs and colors. This shows that the LEGO brand is certainly unforgettable and quite versatile to intrigue customers from different markets and cultures, and is so well executed that there are companies desperate enough to copy everything. Researching the role of LEGO brand and marketing in the internationalization process would be a great topic for future research about the internationalization processes of the LEGO Group.

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