

Storytelling: An Emotional Branding Approach Based on Consumer Experience--The Case of LEGO

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Abstract. Founded in 1932, LEGO is now a giant of toys for all ages that have taken the world by storm. However, at the end of the 20th century, LEGO was on the verge of bankruptcy and its performance was deteriorating. Today, LEGO is back on top. This study focuses on a case study using the 4P to explain how LEGO has re-emerged as a toy giant company and analyzes the important role of storytelling marketing in it. LEGO regrouped the brand's core products and values, focusing on their classic products. They heavily use story marketing to attract loyal consumers by giving exclusive stories to their products. They are also using storytelling to attract more consumers by cutting costs and increasing the number of ways to buy and lowering prices. The study concludes that utilizing these strategies effectively will help brands to a great extent, and brands must be clearly positioned to create an image that cannot be replaced by other brands. At the same time, storytelling provides consumers with a sense of "immersion" that shapes their emotional foundation for LEGO and makes it impossible to replace. Therefore, some companies may consider this as a starting point for choosing the right strategy and defining the brand's identity and positioning. This study can be used as a reference when planning a company's future or when choosing to create a branding effect.

Keywords: Case study; storytelling; LEGO.

1. Introduction

In the early 90's, Lego grew wildly successful and has become one of the top 10 toy manufacturers in the world. In addition to the classic brick toys, Lego's empire included theme parks, video games, and several other variations. However, as the year 2000 came near, Lego started to run into issues. Their business posted a deficit for the first time ever in 1998. Lego requested assistance from specialists in order to take control of the situation. The consultants advised LEGO to broaden their clientele by looking to its rivals. As a result, LEGO switched its attention away from its primary business of manufacturing toys and into several diverse fields in which it had no prior experience. These new areas included video games, clothing, and jewelry for girls. In an effort to increase their profit margins, they stepped into uncharted terrain. Sales of Lego climbed by 17% between 2000 and 2002, but two years later, in 2004, Lego announced its biggest loss ever, a staggering \$285 million [1]. Sales of LEGO have steadily increased over the past few years. In the first half of 2020, LEGO announced a considerable gain in sales and profits, with a 14% increase in sales [2]. The management and personnel of the LEGO Group have been examined by the present research area, along with LEGO's marketing strategy. The success of Lego's transition from a deficit to profitability has also been investigated, as well as improvements in internal management within the business. The LEGO Group began an agile transformation of its corporate digital division at the beginning of 2018, bringing in a new digital operating model. After a year of the transformation, the company's essential functions now respond to change in weeks rather than months [3].

The research method of this study is literature analysis. It mainly analyzes how Lego went from the brink of bankruptcy to become a toy giant company again, and the case studies are conducted

from four perspectives: product, price, place and promotion. Furthermore, in terms of promotion, it mainly focuses on the benefits of storytelling to LEGO and building brand emotion through consumer experience. A brand can position itself over time by using storytelling to develop a reoccurring sequence of narratives. It seeks to evoke an emotion in customers when they view a product in order to motivate them to act and strengthen their brand loyalty. Retail marketing uses storytelling to humanise brands and assist customers to understand why they should care about a product [4].

2. Description of LEGO

The LEGO Company is a Danish toy manufacturing company founded in 1932 by Ole Kirk Christiansen. Initially, the company mainly produced wooden toys, but in 1958, they started using plastic to produce building blocks and introduced the famous "LEGO blocks". LEGO bricks are uniquely designed and consist of interconnected plastic bricks so they can be assembled into a variety of shapes. LEGO bricks were initially unpopular but became popular in the 1960s and 1970s with media promotion and the expansion of sales networks.

LEGO's experience is not smooth sailing, it has experienced two huge crises. In the 1990s, the toy industry was hit hard. Many toy stores have slashed prices, and competition in the industry has become fierce. In addition, the birth rate is also declining. In the United States, the birth rate fell from 16.7 percent in 1990 to 14.4 percent in 2000, while in Europe it went from 12.4 percent to 10.6 percent [5]. Children have also gradually lost interest in traditional toys and began to shift to electronic games, the Internet, etc. Finally, internal threats to the company were the final straw, and in 1998, due to scattered interest and mishandled documents, LEGO was so indebted that it nearly went bankrupt. LEGO lost DKK 831 million in 2000 and its sales could not keep up with the increasing number of LEGO-branded products [6]. So, during Kjeld's tenure in 2001, LEGO made changes to the product to focus on its core business. Finally, at the end of 2001, LEGO was profitable again.

Unfortunately, traditional toys began to decline in the early 2000s, and in 2003, LEGO went downhill again. Its net sales and gaming material sales are both plummeting. Meanwhile, sales in Asia were down 28%, and the German market was also hit hard, with sales down 20%. In a word, LEGO in 2003 was in debt, losing money, and falling apart at any time. The turning point came when Knudstorp took office. His report pointed out that excess capacity and inventory should be dealt with by stabilizing sales and cutting costs significantly. Finally, after some grinding, LEGO's fiscal year 2013 revenue increased by 10% to 3.4 billion euros, and the company's pre-tax operating profit margin was 33%. Revenue tripled in eight years, and LEGO became one of the giants in the toy manufacturing industry at the time.

In recent years, LEGO has also begun to cooperate with major brands. The financial performance in the first half of 2020 alone was astonishingly as high as 15.7 billion Danish kroner, and its revenue increased by 7% compared with the same period in 2019 [7].

3. LEGO Marketing Strategy Analysis

3.1. Product

LEGO's shift in focus from the core of its products has been a big factor in the company's success. Before the crisis, LEGO's strategy included many initiatives outside its core business, such as investing in software, LEGOLAND and lifestyle products. The building blocks also include train sets, minifigures and a programmable robot pack with custom building blocks. In order to save LEGO, Knudstorp, the former executive chairman, decided to regroup the brand's core products and values and serve them to a clearly defined customer base. As a result, the LEGO Company has shifted its focus from a diversified market to LEGO building blocks, producing products that children like, and also launching some new products, such as Harry Potter, biochemical warriors, etc.

In 2004, the previously failed LEGO Duplo series was successfully relaunched, and it played an important role in the subdivision process. LEGO has launched products for girls, boys and people

who are skilled in building blocks, ensuring the experience of every consumer. In addition, LEGO began to endow products with real stories, vivid character styles, and a brand-new world, so that consumers can actually feel and experience. In the 21st century, LEGO has released a variety of video games, feature films and books, and its hit movie LEGO Movie revolves around the minifigures. With the improvement of modern technology, LEGO has also launched many architectural scenes in the field of science in the past ten years, and the building blocks are more complex and closely related to biotechnology [8].

3.2. Price

LEGO has flexible adjustments to prices in the face of different situations. By 2003, a report produced by Knudstorp pointed out that the company must stabilize sales and cut costs, and decided to cut product quotations by 30%. The goal of the move is to cut costs, reduce product offerings, and restore competitiveness. Research shows (as shown in Figure 1) that the price of Lego bricks fell to the bottom quickly after increasing in the 1980s. After decades of price fluctuations, it fell to a sub-low point around 2004. This was LEGO's countermeasure to lower the price in response to the company's debt and bankruptcy difficulties.

However, due to the increase in raw materials and operating costs, the prices of many Lego building block sets are rising in 2022, some of which have increased by as much as 25%, such as the Tree House series and Typewriter series in the LEGO Ideas set, both of which have risen from \$199.99 to \$249.99 [9].

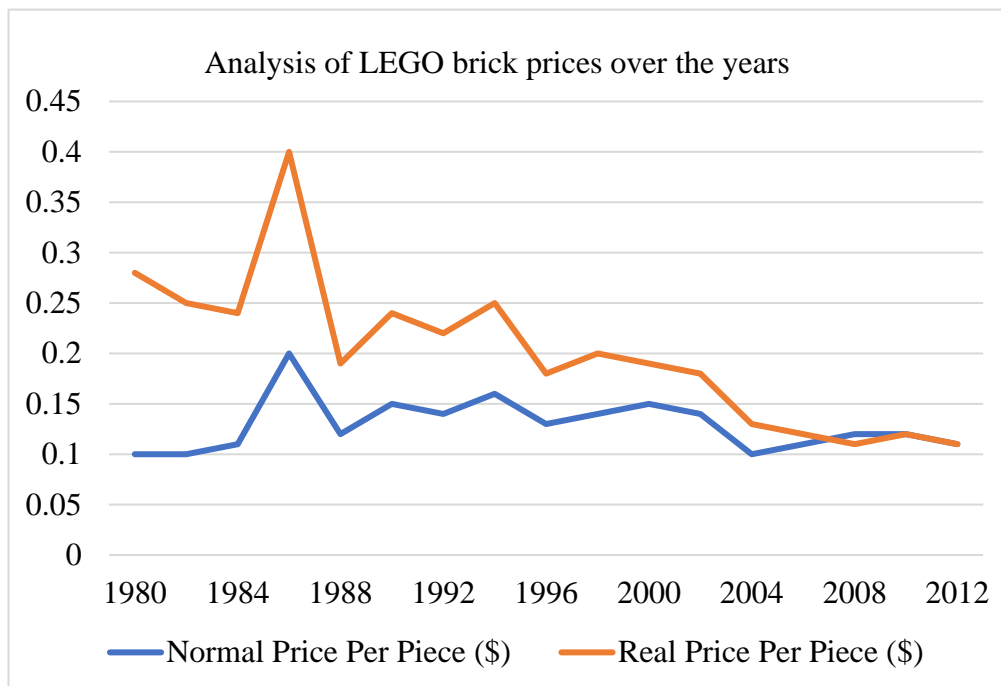


Figure 1. Analysis of LEGO brick prices over the years [10]

3.3. Place

Traditional stores are a very important part of LEGO's brand strategy at all stages. In response to the difficult times in 2000, LEGO increased direct sales and online sales, but closed some factories to reduce inventory. This adjustment made its market more efficient and oriented. In order to strengthen consumers' experience of LEGO products, in 2003, LEGO opened 12 test stores, as well as 5 brand stores and 4 directly-operated stores. As of 2020, LEGO has a total of 678 stores around the world, and opened 134 new stores that year, including 91 in China. Its operating profit in the first half of the year reached 3.9 billion Danish kroner, an increase of 11% compared to 2019 [7]. However, due to the new trend of online shopping and the new crown epidemic, LEGO's website visits have increased sharply, and many stores have been forced to close, and this may become a new trend.

3.4. Promotion

LEGO endows each set of building blocks with a different story, and uses story marketing for efficient publicity. From the wooden handmade toys that LEGO founded in 1932, to the brightly colored and shaped plastic building blocks, to today's IP co-branded series, its success is based on product marketing and effective business models, not to mention story marketing. In the 1980s and 1990s, LEGO faced tremendous competitive pressure in the industry. After all, other imitators and toy companies could easily copy and produce simple LEGO toys. In particular, after the patent expired in 1983, LEGO was powerless to prevent competitors from selling their toy series [11]. Therefore, to become more competitive, companies know that they need to create new marketing methods and build stronger brands. Based on its advantages, LEGO hopes to integrate consumers' experiences and experiences into its products, so as to win consumers' recognition.

From 1999 to 2000, the newly launched Bionic Warrior series was an important turning point in the history of LEGO [12]. It greatly helped Lego, which was in trouble at the time, and made Lego enter the top five American toy companies for the first time. An important factor for its success is LEGO's storytelling marketing strategy, which resonates with consumers' emotions and stories. In addition, LEGO constructs different story themes according to consumers' gender, cultural background, age and other factors, such as launching Valentine's Day bouquets for girls to meet their pursuit of romance, and launching different brands of sports cars for men to realize their dreams, etc. [12].

In addition, LEGO will also produce movies and use the Internet for story marketing. The LEGO Movie released in 2014 is a very successful example of story marketing. The movie contains a profound story connotation, which is exciting and easy to understand, and each scene is carefully built with LEGO bricks. LEGO sales were reported to have increased by 14% the year the film was released, and 25% the following year [13]. Of course, LEGO is also present on many social media channels. It has a strong fan group and brand communication area, and has more than one million subscribers on social platforms such as YouTube, which is a strong foundation for LEGO's story marketing on the Internet [14].

It is also worth mentioning that LEGO is also very good at co-branding with various movie IPs. They bring the story of movies into Lego blocks so that consumers have a deeper emotional bond between their inner spirit and real life. For example, released the model of the School of Magic in Harry Potter, various scenes and battleship models in Star Wars, etc. [4]. Most of these models are familiar and loved by consumers, and the scene of manually building models can further improve their sense of experience and satisfaction. The way of "storytelling" allows consumers to quickly enter the scene, establish their own identity, and realize ideas that are difficult to achieve in the real world.

4. Summary of the Model

LEGO has successfully weathered the crisis and become a giant in the industry based on the marketing strategies analyzed above. After the crisis, LEGO chose to regroup the core products and values of the brand, and at the same time launched different series of building blocks for different customer groups, so as to satisfy the needs of every consumer. Moreover, LEGO started story marketing, giving exclusive stories to its products to attract more people to buy them. In terms of price, LEGO is also cutting costs and closing some factories to reduce inventory and restore competitiveness. In terms of purchasing channels, LEGO itself valued the traditional offline stores the most, and in order to survive the crisis, they added direct sales and online purchasing channels.

Since the 1990s, due to the change of consumer demand, the traditional design process of LEGO enterprise has been broken, so they have shifted from product design to service design, and this shift is manifested in two aspects: firstly, LEGO has shifted from purely designing products to providing consumers with design opportunities and platforms that belong to them. LEGO players around the world can discuss LEGO products as well as their own creative products on online platforms.

Secondly, LEGO has shifted from designing toys to providing entertainment and education services with toys as the carrier. In the official website of LEGO company, the service orientation of LEGO products is: explore the world through play, hands-on process to learn personality creation; through toys to enter a specific story; through the LEGO community to find common enthusiasts, improve interpersonal communication and physical movement ability [15].

It can be seen that the toy industry enterprises want to occupy more market should start from the following aspects to change: First, the brand needs to cohesion of their own brand of core products, the introduction of their own brand representative of the classic models of the product in order to occupy a place in the hearts of consumers, such as LEGO launched the Harry Potter series, the Disney series and so on. Second, the brand needs to produce different products for different customer groups and develop different marketing strategies. For example, LEGO has various series of building blocks for girls, boys, adults, etc., and conducts advertising and marketing in different places for different groups of people. Thirdly, brands use story marketing to give different stories to their products and promote consumers' desire to consume, for example, LEGO launched the Harry Potter series and continuously updated new products to tell consumers a story of the magical world exclusively for them, locking more consumers who like this kind of products or IP. Fourthly, brands need to reduce costs and prices, as high prices can dramatically reduce consumers' desire to consume and cause brands to lose vitality. At the same time, brands can reduce inventory buildup to have more cash flow for advertising or new product development. Fifth, the brand needs to increase the purchase channels, no longer limited to traditional stores, will broaden the channel to direct sales, online shopping, etc., in the post epidemic era, most people have been accustomed to online shopping, which is also a major trend in the future of society. Sixth, the brand should shift from designing the product alone to designing the entire service process, providing design opportunities and communication platforms for the product, which can increase the interaction between consumers as well as the fun of designing and creating their own hands, so that the entire process of consumption has become fun-filled. At the same time, brands can also shift from designing toys to using toys as a carrier to provide entertainment and educational services.

5. Conclusion

This study analyzes how Lego has overcome huge losses to regain its position as the top company in the industry in four areas: product, price, place and promotion. It concludes that the effective utilization of these four characteristics will help the brand significantly, showing a series of moves that brought a brand from loss to success. In terms of products, LEGO concentrated on the block toy market from a diversified market after losses and focused on the development. In terms of price, LEGO lowered the price when it was losing money in order to increase the sales volume and expand the popularity, and then slowly raised the price again after the sales volume and profit recovered. In terms of sales channels, with the rapid development of the Internet in recent years, LEGO also expanded online shopping, but also maintained the traditional offline sales. However, LEGO has closed some factories to reduce inventory and storage costs. In terms of promotion, if a brand wants to be at the forefront of the industry, it must clearly find its own brand positioning and characteristics, and create an impression that cannot be duplicated or replaced by other brands. LEGO has chosen story marketing. The "sense of involvement" that LEGO brings to consumers builds their emotional foundation for the brand, making it impossible for LEGO to be easily replaced by other toy manufacturers. Therefore, some companies that are experiencing difficulties or unable to make their brands go further can consider these four areas to choose the appropriate strategy and accurate brand characterization and positioning. This study mainly contributes to some companies with strong specialization in the industry, which can be used as a reference when planning for the company's future or choosing to build a branding impact. Alternatively, it can be used as an appropriate reference when the company's performance has declined or suffered a loss. The current study still has shortcomings in terms of investigation. The study only focuses on the past literature on how LEGO

went from loss to profit, and does not research and analyze LEGO in today's society. In the future, a comparative study can be conducted on LEGO's share of the toy market today and in comparison to other toy manufacturers.

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