

Reimagining Retail: How Lego Became the World's Largest Toymaker

Audio



On today's podcast episode, we discuss the elements of the Lego flywheel, how its remained relevant across demographics, and what other brands and retailers can learn from its success. Listen to the conversation with our Senior Analyst Sara Lebow as she hosts Principal Analyst Sky Canaves and Senior Analyst Zak Stambor.

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Episode Transcript:

Sara Lebow (00:00):

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(00:19):

Hello, listeners. Today is Wednesday, February 19th. Welcome to Behind the Numbers Reimagining Retail, an e-marketer podcast made possible by Zeta Global. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is Lego.

(00:44):

Before we jump into that legacy brand, let's meet today's guests. Joining me for today's episode, we have Zak Stambor.

Zak Stambor **(00:51):**

Hey, Sara.

Sara Lebow **(00:52):**

Hey, Zak. Also with us is Sky Canaves. Hey, Sky.

Sky Canaves **(00:56):**

Hi, Sara. Glad to be here.

Sara Lebow **(00:58):**

Glad to have both of you here. Okay, so you guys have something in common. You both have kids, which I think means that you both have a lot of Legos in your homes. Am I correct in that?

Zak Stambor **(01:11):**

So many. So many Legos.

Sky Canaves **(01:14):**

We have a fair amount. I feel like we could definitely have more though.

Zak Stambor (01:18):

Do you want some?

Sara Lebow (01:21):

So, something I wanted to start on with this topic is how Lego has found a way to remain relevant across demographics. You guys both have Legos because you have kids, but Lego is making a lot of adult products too. So, can we talk about that? How has Lego remained relevant across different demographics?

Sky Canaves (01:39):

I think because it's such a classic toy, and it can grow with the consumer through different stages of their lives, starting very young as toddlers with those big Duplo blocks. And then into childhood, as we all know, is a great educational and now screen-free toy. And then teens and kid adults like Gen Z, and now they've even started targeting adults to create, not just play, but create or use Lego for relaxation and kind of a meditative process of putting the sets together.

Zak Stambor (02:15):

And there's just so many reasons that Lego is appealing to consumers, both adults who play with them, as well as kids, and adults playing with their kids with them. There's the educational component, there's the creative aspect to it. It fosters family bonding in a way, similar to when you put together a puzzle. And so it feels good as a toy to buy for your own kids, and for yourself, as well as to give as a birthday present. It's like my go-to gift as a birthday present.

Sky Canaves (02:48):

Same here. My daughter is seven, and she likes Legos. And it's always a feel good kind of present. And I also feel if somebody already has a particular set, it's easy for them to exchange. But it's nice, and there's such a big range of price points too. You can find a \$10 Lego stocking stuffer, or you can spend hundreds of dollars for a very special person in your life.

Sara Lebow (03:13):

Sky, I can't believe your daughter's seven. I feel like you've just had a toddler. Yeah, and there are products specifically made for adults too, right? So, it was just Valentine's Day. Did either

of you receive or give any of those Lego botanicals?

Sky Canaves (03:28):

I would love to receive some, but I bought a heart botanical wreath from my daughter, and we're also, we were visiting friends, so I also bought them for their daughters a flower present, because the flowers are just really nice. That's been one of their brilliant moves in terms of product innovation, is creating a product that looks nice that you want to display, you don't have to think about, "This is a Lego set. Where do I put it?" It looks like flowers, they don't die, they're very fun to put together, and give, and receive.

Zak Stambor (04:03):

Yeah, I mean, that's something we didn't touch upon a few minutes earlier, but Lego is so innovative in the products that they roll out. They're constantly rolling new stuff out across a broad range of categories, and it's super fun, it's interesting. There's the botanicals, there's the home alone house, and there's everything in between.

Sara Lebow (04:25):

Yeah. Lego has become the biggest toy company in the world, selling as much as Mattel and Hasbro combined. I want to talk about the flywheel of Lego. And I've identified a few different pieces of this flywheel, feel free to add or subtract. But Lego has a great in-store experience. They're combining that with their own entertainment that they're producing. Things like the Lego Movie, or movies, as well as Lego Masters, the show where people create things with Legos, and create our content on social media. In addition to stores and entertainment, they also have so many IP partnerships, name property, and there are Legos for it. And they also have parks for in-person experiences as well as wholesale in other stores.

Zak Stambor (05:15):

Well, and everything about Lego is centered around this one particular thing: the Lego brick. And so that's extremely powerful that other brands just don't have that, that sharp, sharp focus on what it is. And so everything flows from that, and that's where you get that flywheel.

Sky Canaves (05:36):

Yeah. And I thought it was really interesting, I learned while I was researching this podcast, one that they are the world's biggest toy company, and have been for a while. And it's really

interesting to think of that in the sense that they're operating under a single brand, while most of their competition is multi-brand, and feels like they have to serve a lot of different needs. But also they went through a lot of struggles in the years, in the early 2000s after the patents on the bricks expired, I guess they thought they had to do something different, and they got too much into different areas, and lost their focus on the brick. And they since managed to return to a focus on what I think you could call thinking inside the brick. So, everything is based on the brick, but there is so much possibility and diversity within that to appeal to a very broad range of consumer needs from basically almost babies to adults.

Sara Lebow (06:37):

Speaking of the brick, let's get into one of Lego's strongest things, which is its brick-and-mortar presence. Did you like that segue? That was pretty good, right?

Zak Stambor (06:45):

It was good.

Sara Lebow (06:47):

What makes Lego's brick-and-mortar formula work so well?

Zak Stambor (06:52):

I think they're just a pretty good, easy-to-navigate store that's fun to visit. So to start, they have all of the big Lego sets that you can just look at and get inspired by. So they serve as inspirational. Then, because Lego has such a powerful brand with such brand enthusiasts, they very easily attract those people to work in their stores. And so you can engage with those people. And if you need to ask, "What would be a good Lego set for this sort of kid? I'm going to a birthday party," they can steer you right in that direction. Or if you just want to engage with them, or your kid wants to engage with them, to explore what might suit their needs or wants at the moment, they're great for that. And then there's also all the other little pieces, where you can build your own mini fig, or grab a bucket of pieces, or look at the sculptures. Is that what you would call it?

Sky Canaves (07:51):

Yeah. They create really interesting experiences in the stores. I saw that last year in London for Valentine's Day to promote the flower collection, they transformed the whole large store into

a beautiful European style flower shop, and it looked amazing. And so they create events and a sense of community in their stores as well. They host after hours, build events for adults to come in, as well as the workshops that are geared more towards kids. And it's been really important for them in their international expansion, because in countries like China they're introducing parents who didn't grow up with Legos to the product. So they really want to be able to bring them in and have them see and feel how the product works.

(08:39):

And I still don't think they have enough stores. I wanted to go to a Lego store to look around, and there's only one here in Austin, and it's not anywhere near where I live. So it's a little out of the way. And they could definitely have another two or three stores around here.

Zak Stambor (08:55):

I totally agree. They are a brand that could be in every mall, and they just aren't.

Sara Lebow (09:02):

Well, I'm curious about this, because we talk a lot about the balance between D2C, which is what a LEGO store is. It's one product vertical in a store, and wholesale. And LEGO does both. They're in Target, and Walmart, and they're in the Lego store. How are they not eating into their own margins in either place?

Sky Canaves (09:25):

I think the selection is much different. So, it's pretty limited in terms of what you can find at Walmart, or Target, or Amazon, versus what you would find in a store, because I wanted to look at the newest latest sets, the things that people are excited about now, and I don't think I find those on Amazon, because they have a bit more of a standard selection, not the latest and greatest stuff. I think they reserve those for their D2C channels, and for their fans.

Zak Stambor (09:54):

And they have so many products that it's pretty easy for them to segment, "We sell these things to this retailer and we save these things for our own stores."

Sara Lebow (10:05):

Yeah, those things being specific IP. I mean, they manage to have all of these partnerships, and I think one of the reasons for that is they don't necessarily overlap. There's no competition between LEGO and these other properties. They have, I don't want to use the word synergy, symbiotic relationship. That was just a synergy-like.

Zak Stambor (10:28):

Yeah, they're creative with their partnerships as well. I mean, having the friends' coffee shop, or having the various Nintendo relationships, or the Harry Potter stuff, it's not what you would necessarily assume they would have, but they're just constantly rolling these things out.

Sky Canaves (10:48):

And then they can reach new audiences that way, because they're not necessarily targeting the Lego super fan, but they might be able to reach the Harry Potter super fan, or the Star Wars super fan.

Sara Lebow (11:00):

Okay. So something I don't get about Lego is, whenever we talk about anything on this podcast, we talk about dupes. Dupes are huge right now. Makeup dupes, clothing dupes. Why hasn't LEGO been duped by a new entrant or a Mattel?

Zak Stambor (11:16):

Well, it's coming.

Sara Lebow (11:16):

Or why haven't they been duped successfully? I think is a better question.

Zak Stambor (11:20):

Yeah, it is coming. Mattel plans to roll out the Mattel Brick Shop, which these pieces look exactly like Lego's, I think in May. So it'll be interesting to see what they do with that, because Lego has such a strong core identity of what it is, and it has these relationships. What can Mattel offer? I don't quite know.

Sara Lebow (11:47):

Zak, take a guess at what the first paid ad is on Google when I search Mattel Brick Shop.

Zak Stambor (11:53):

Is it Lego?

Sara Lebow (11:54):

It's Lego. They've bought that key word.

Sky Canaves (11:57):

Yeah, I think it's really hard to just copy the product, because I think there is something to the product and its quality, and the fact that it's interoperable. So if you already have Lego bricks, why would you buy something else that isn't going to work with them? But this past Christmas, my daughter received a set that was not Lego, but it was bricks for a specific different IP character, and the pieces just didn't work as well as Lego. They were much harder to put together even for me, and that was very frustrating. So, I think there might be quality control issues that other brick makers just don't take as seriously because they're not as big and they don't have the resources to really get those extra precise injection molds for their products.

Sara Lebow (12:44):

Yeah. And Lego also, they have such strong brand equity, they've been around for so long, that they have a name that's synonymous with the product, sort of like a Kleenex, or Band-Aid, or an Inline skate, or a Jello. It's Legos. If you were to ask me what Mattel was making, I would say Legos.

Zak Stambor (13:02):

Yeah, I agree. And we talked about it last week with Sam's Club and Costco, but it's like there's no use in being a lesser version of Lego, so in what way could Mattel zag? I don't know. It just is unimaginable to me, and maybe it's a failure of imagination, but Lego does so many things and in so many ways that I don't see the path for Mattel to find a path forward.

Sara Lebow (13:33):

Can we expand this to other retailers? What is the lesson Lego offers that you would apply to another retailer? I think for me it would be that them leaning into these DIY style media partnerships can work really well. So, Lego Masters and then also working with creators on social media to create things with their products is something that I think makeup and beauty

in particular, but other brands also can mimic. Good example of it is this Sephora and Hulu team up, where Sephora is making Get Ready With Me Style videos that will be on Hulu. So it's like Lego Masters, where you have the product, you have the creator, and then you have the streamer partnership.

Zak Stambor (14:18):

Yeah. For me, it's Lego's laser-sharp focus on what makes Lego, Lego. Lego got into trouble, as Sky mentioned, when it ventured into clothing, and dolls, and all these other things that were adjacent to the brick. And as soon as they shifted gears and went right back to, "We do bricks well, so we're going to focus on everything centered around the brick," that's when they righted the ship and just saw their sails soar.

Sky Canaves (14:49):

Yeah, I think it's that discipline coupled with the willingness to listen to their customers, and they take that very seriously, so that you can turn your customers into brand fans and have that continual engagement and drive the loyalty.

Sara Lebow (15:04):

Yeah. And then the last thing I would say is entertainment media partnerships. Not every brand has those accessible to them, but if you can create a partnership with something like Star Wars that might be kind of pie in the sky, but a piece of media, then you're also folding in those fans into your brand as well.

Sky Canaves (15:24):

And collaborations always add freshness and excitement to brands. I think another one we've talked about a bit that collaborates a lot is Crocs, and it's a way of keeping a brand that's a very simple product, and they remain very focused on that pretty straightforward single product, but they're able to expand and refresh it through collaborations.

Sara Lebow (15:44):

Yeah, Crocs is another product that sticks with their original product, the Croc, but does a lot of different things with it.

Sky Canaves (15:52):

And has the multi-generational appeal as well.

Sara Lebow (15:55):

Yeah. And I famously, as I've said on this podcast before, have owned the same Croc since fifth grade, so thank you, Crocs. Any final thoughts on Lego before we wrap up?

Zak Stambor (16:05):

Yeah. I mean, the thing that stands out with Lego is that so many toys, you get them, they fall apart, they go in the trash. And the reason that I have a million LEGOs in my basement is because Legos last forever. They're a very high quality product.

Sara Lebow (16:22):

They do last forever. But also, aren't they starting to make them for more sustainable products as well?

Sky Canaves (16:27):

Yes, they've been working on finding sustainable sources for resins that they use, as well as recycled materials. And last year, they had launched a Take Back Program, where they were taking back used LEGOs as a pilot, and they may bring that back or expand it further.

Sara Lebow (16:46):

Zack, what Lego project are you and your kids working on next?

Zak Stambor (16:51):

I don't have any.

Sara Lebow (16:53):

Anything you've worked on recently?

Zak Stambor (16:55):

No. We're kind of past the-

Sara Lebow (16:57):

We're past LEGO.

Zak Stambor (16:58):

Yeah.

Sara Lebow (16:59):

Sky, anything from you?

Sky Canaves (17:00):

We have flowers to work on. Loads and loads of flowers. And I'm a big fan of the botanicals collection now that I've seen more of it.

Sara Lebow (17:09):

Yeah, I love those.

(17:11):

Okay, well, that is all we have time for today. Thank you for being here, Sky.

Sky Canaves (17:15):

Thanks for having me again.

Sara Lebow (17:16):

Thank you, Zak.

Zak Stambor (17:18):

Yeah, thanks for having me.

Sara Lebow (17:19):

Thank you to our listeners and to our podcast team that edits the podcast. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer podcast, made possible by Zeta Global. And on Friday, join Marcus for another episode of Behind the Numbers.