

A Research of The Impact of Strategic Alliance Co-operation Model on Brand Competitiveness - The Case of LEGO

Lun Zhou*

College of Arts and Humanities, University of Stirling, Stirling, UK

*Corresponding Author: luz00030@students.stir.ac.uk

Abstract. With the development of the global economy and the advancement of science and technology, the fragmentation of knowledge is increasing, resulting in the fact that no single enterprise can solve technological challenges on its own. In this regard, enterprises need to work together to overcome technological challenges cooperatively to achieve a win-win situation. Strategic alliances are an organisation between firms and the market that facilitates co-operation between firms and promotes risk sharing and benefit sharing. By engaging in strategic alliances, enterprises are able to facilitate the upgrading of their products and services, as well as enhance their brand image. Consequently, strategic alliances are increasingly becoming a prevalent development approach for various enterprises to keep abreast with the trends of the times. This research takes LEGO as the research object, through analysing LEGO's participation in strategic alliances in recent years, it explores the impact of strategic alliance co-operation on LEGO's product upgrading and business optimization. Based on the analysis of LEGO's strategic alliances, it proposes specific ideas to improve brand competitiveness. The purpose is to provide suggestions for enterprises to participate in strategic alliances, and then to build the brand effect of enterprises to inspire.

Keywords: LEGO; Strategic Co-operation; Strategic Alliance; Brand Competitiveness.

1. Introduction

1.1. Research Background

LEGO was founded in Denmark in 1932 by Ole Kirk Christiansen and has been a globally recognised toy company for over 90 years since its inception. In the global toy industry, LEGO is the inventor and leader of building block toys, which gives LEGO a great reputation and status in the toy industry. The basic principle of LEGO building blocks is that they are assembled using easy-to-use clasps that fit together a wide variety of blocks into a variety of shapes, thus enabling children and players to use their creativity in an unlimited way. In this respect, Lego blocks are known for their convenience and creativity and are popular with children and adults alike. According to Euromonitor, LEGO holds a 68.8% and 42.3% share of the global and Chinese construction toy markets, respectively, and breaks ahead of other toy companies [1]. In terms of market share, LEGO is undoubtedly the world leader in toy brand value.

In LEGO's previous strategic alliances, LEGO's co-operation mode is mainly divided into two kinds. The first is to cooperate with other brands to launch co-branded products, which is also known as the IP co-operation mode [2]. As early as the beginning of the 21st century, LEGO reached strategic alliances with several internationally renowned brands such as Disney and Marvel. These alliances have launched a series of authorised themed block sets, such as the Disney Princess series and the Marvel superhero series. In addition, with the advent of the digital era, LEGO and Tencent entered into a strategic partnership in 2018, aiming to cooperate in the field of games and toys. The goal is to develop intelligent toys and healthy games, as well as to safeguard children's digital environment. In contrast, LEGO's second mode of co-operation is the implementation of educational projects with educational institutions [3]. As an educational toy, LEGO often possesses educational value. It has developed a series of educational projects with educational institutions by utilising LEGO blocks as

educational tools, for instance, LEGO Education and China's Ministry of Education became international project partners in 2010. Currently, LEGO Education has established partnerships with eleven teacher training colleges in China to jointly promote the advancement of STEAM education.

1.2. Research Objectives

For the definition of strategic alliance, it is a community of cooperative interests formed by two or more enterprises to achieve strategic objectives [4]. To achieve common strategic goals enterprises only cooperate, thus achieving complementary advantages, risk sharing, and benefit sharing through long-term strategic alliances. Based on the definition and theory of strategic alliance, the theme of this research focuses on LEGO's co-operation model and strategic alliance, especially exploring how LEGO achieves market expansion and brand competitiveness through co-operation with different brands.

In addition to focusing on LEGO's brand collaborations and strategic alliances, this research delves into three sub-themes: the theoretical framework underpinning LEGO's strategic alliances, the evolution of these alliances, and the impact of LEGO's strategic alliance co-operation models on brand competitiveness. These aspects collectively contribute to a comprehensive understanding of the strategic alliances employed by LEGO. This research aims to provide in-depth research on the above themes and analyse how LEGO shapes its market leadership position through strategic alliances and the impact of strategic alliances on brand competitiveness. Furthermore, the research seeks to provide insights and recommendations that LEGO and other toy companies can learn from in the future.

2. LEGO's Strategic Alliance Co-operation Model on Brand Competitiveness

2.1. LEGO's Theoretical Framework for Strategic Alliances

LEGO's theory of strategic alliances, revolves around five main steps: partner selection, deal negotiation, implementation, exit, and alliance portfolio management [5]. In LEGO's view, the selection of partners should take into account potential factors such as the experience that the partner can gain from the co-operation, as this signals the latter's ability to contribute to the success of the strategic alliance partnership. In the past, LEGO chose partners based on a set of qualifying criteria, in which partners were able to create value if they utilised and promoted the LEGO brand in a strategic alliance partnership. For example, LEGO has purchased intellectual property licences for the Disney, Marvel, Star Wars, and Harry Potter brands. Since LEGO does not own the IP and must invest in the manufacturing and global distribution of the licensed products, the partners take the lion's share of the revenue earned. As a result, in recent years, LEGO has become more selective in its partner evaluations and alliances, pursuing both strategic and operational fit.

Negotiation is an indispensable part of strategic alliances during the deal-consultation phase. Negotiators who are bent on capturing the lion's share of potential value at the expense of their partners risk undermining the alliance, and the actual gains may be minimal. That's why successful deal negotiation should prepare for the implementation phase by providing knowledge sharing between the negotiators and the individuals responsible for day-to-day implementation. Whilst it may be uncomfortable to propose an exit before a strategic alliance relationship has been established, it can be helpful to plan for unforeseen events and to have a closure process in place at the start of the negotiation. For example, when LEGO negotiated with multiple partners for The LEGO Movie project, the scope of the project was more clearly defined than in previous collaborations, the partnership was clearly defined, and both parties had the right to choose to work together or not in the future [6].

Collaboration among people from different organisations and with different behavioural styles is necessary to achieve the strategic objectives of each partner. Many strategic alliances involve collaboration across industry and sectoral boundaries, where disagreements are inevitable. In this case,

finding ways to overcome the inevitable friction before finding new solutions and reaching a consensus is key to successful collaboration. Similarly, in the case of The LEGO Movie, LEGO hopes that the agreements signed will allow partners to bring their best ideas to the film project. Not only did LEGO provide core intellectual property to share and collaborate with partners on new character and set designs, but it also actively contributed to key decisions during the three-year production of the film.

If in the case of a smooth co-operation, the alliance will end with a happy ending. However, co-operation in alliances will inevitably fail for a variety of reasons. Although a few alliances fail, the dissolution of an alliance is not always a sign of failure. Since strategic alliances can be used as a tool for exploring new opportunities, it is not uncommon for the results to sometimes fall short of initial expectations. If an alliance is to be terminated, the responsibilities of each partner and stakeholder should be clearly defined in the termination process. Among other things, partners should agree on how to share profits and losses, and the reasons for exit should be communicated to other partners on both sides of the alliance so as not to damage the goodwill of either company.

In the final alliance portfolio management, the right configuration of partners and deal structures in a company's alliance portfolio can generate added value [7]. At the very least, having multiple partners can reduce a company's dependence on a single partner. On the other hand, alliances should not over-expand the number of partners just to reduce risk and increase bargaining power. If partners are over-expanded, the company's scarce resources, such as management resources and attention, are diverted. The addition of new partners, when appropriate, brings complementary capabilities to the company and enhances, rather than reduces, the company's strategic flexibility. A company should regularly evaluate its portfolio of strategic alliances to ensure that future relationships fill important gaps. For example, LEGO has identified the key elements of its alliance strategy as leveraging existing resources and know-how to enhance its innovation capabilities. At the same time, it is important to pair alliance programmes that are more risky and exploratory, but also more likely to lead to a new generation of products.

2.2. Current Status of LEGO Strategic Alliance Development

As for the development of LEGO's strategic alliances, LEGO has already partnered with several companies, both in entertainment and education. LEGO has partnered with several media and entertainment companies to launch a series of films and games, such as The LEGO Movie, LEGO Kingdoms Adventure, and a digital game with Tencent. Regarding digital games, LEGO is actively engaging in digital partnerships in the context of the contemporary digital world, launching LEGO digital products and collaborating with game developers to keep up with the overall trend of the digital age [8]. These collaborations with the media and entertainment industry expand LEGO's presence in the entertainment industry and open up new opportunities for brand image and product promotion. Similarly, LEGO's IP collaborations have led to co-branded products through partnerships with other well-known brands, such as the collaborative series with Disney and products with Marvel. In addition, LEGO has Star Wars, Harry Potter, and other well-known IPs in association, and these IP collaborations have brought LEGO more opportunities for product innovation and market expansion. On the other hand, LEGO has cooperated with several organisations in the field of education, launching LEGO educational products and courses to help children learn science, maths, and engineering in games. In addition to LEGO's co-operation with the Chinese Ministry of Education and universities in recent years, which is described in the research background, LEGO cooperated with MIT in the development of robots and related programmes as early as 1986. Moreover, LEGO Education is committed to providing a fun and hands-on STEAM learning system. By partnering with various educational institutions and combining the LEGO building block system, curriculum materials, and unique teaching concepts, LEGO Education helps children and students to develop a wide range of abilities, providing a part of a successful education system for the future.

Although LEGO faced financial difficulties at the beginning of the 21st century, the clever use of strategic alliances by LEGO has resulted in a multiplication of annual revenues from around 1 billion

US dollars to more than 5 billion US dollars in the decade from 2005 to 2015 [9]. This proves that strategic alliances have played an important role in the development of LEGO. Based on the LEGO strategic alliance theory, in the previous strategic alliances of LEGO, partners were selected based on a set of limited criteria. LEGO would assume that value would be created by utilising and promoting its brands in the partnership, for example, LEGO would buy intellectual property licences from Disney, Harry Potter, and Marvel. However, as LEGO continues to own more and more intellectual property, the effort it must spend on investing in the manufacture and global distribution of a large number of licensed products can lead to distraction and lower profits for LEGO. In recent years, LEGO's strategic alliances have become more selective in their evaluation of partners and collaboration between brands, pursuing both strategic and operational fit. For example, in *The LEGO Movie*, LEGO has defined the scope of the film project more clearly for its partners, with roles and divisions of labour between the two parties precisely defined for the same project. On the execution side, LEGO tends to hope that the agreements signed will allow the partner to bring the best ideas to the project. In response, LEGO offers core intellectual property sharing, collaborates with partners to develop designs for new co-branded ranges, and actively contributes to making key decisions during production. Portfolio management is also a key focus for LEGO, with the addition of partners bringing complementary capabilities between companies and increasing the flexibility of strategic alliances. LEGO has identified the key elements of its alliance strategy as leveraging existing resources and specialised technologies. At the same time, a certain amount of exploration and risk is paired with alliance projects that may result in a new generation of products, to enhance LEGO's innovation capabilities.

2.3. The Impact of LEGO's Strategic Alliance Co-operation Model on Brand Competitiveness

LEGO has improved its brand competitiveness in several ways through its strategic alliance co-operation model. Firstly, in terms of market expansion, LEGO's alliances with other companies or brands have enabled it to enter new market segments. Whether it is in the entertainment industry, the education industry, or the latest digital gaming industry, LEGO has been able to expand its brand's market scope and increase its consumer base. As LEGO's market reach expands and its consumer base grows, it will be able to provide influence to enhance its brand competitiveness. Secondly, in terms of innovation capability, LEGO's strategic alliances facilitate the exchange and integration of different ideas and knowledge, such as emerging markets, emerging technologies, and intellectual property rights. As the strategic alliance brings more innovative inspiration and opportunities to LEGO, it results in LEGO continuously launching new and unique products while enabling it to maintain its brand competitiveness in the complex and changing market environment. Finally, in terms of resource integration, LEGO can integrate and analyse different advantageous resources and seize opportunities. LEGO tends to fully understand the policies, economic conditions, and digital technology of different countries. The reason why LEGO can strengthen its core competence through strategic alliances is that LEGO continues to further optimise its products and services [10]. At the same time, LEGO uses different resources for different situations in different countries and regions. However, LEGO's strategic alliance co-operation model also has difficulties and challenges. In the course of strategic alliance co-operation, LEGO may be affected by the cultural, policy, and economic differences, as well as challenges from competitors and the risk of intellectual property disputes. To mitigate the negative impact of these challenges, LEGO needs to prepare and plan. On the one hand, LEGO can formulate strategies in advance to deal with possible challenges in case of an accident. On the other hand, LEGO can seek legal support to stabilise its strategic alliance and brand competitiveness through law if it is faced with insurmountable difficulties.

In addition to market expansion, innovation, and resource integration, LEGO's strategic alliance partnership model has had a variety of impacts on its brand competitiveness. By forming alliances with well-known entertainment brands, LEGO can capitalise on the existing strong brand reputation and extensive fan base of its partners. As mentioned earlier in this research, LEGO's co-operation with popular IPs such as Disney and Marvel has attracted a large number of consumers who were originally interested in these IPs to LEGO products, thus greatly enhancing LEGO's global awareness

and influence. At the same time, strategic alliances enable LEGO to rely on different IPs to introduce a variety of elements with different themes and styles to enrich the diversity of its products. This not only meets the needs of consumers of different ages, genders and interests but also increases consumers' choice and loyalty to the LEGO brand. Furthermore, in the process of cooperating with other innovative companies, LEGO can draw on new design concepts and the application of emerging technologies to inject innovation and freshness into its products [11]. This helps to make LEGO's products more attractive and competitive in the toy market because LEGO is different from other toys. The LEGO Strategic Alliance leverages the partners' access to market channels and resources in different regions, enabling them to enter new markets more effectively and increase the pace of LEGO's globalisation. As mentioned earlier, LEGO has already cooperated with several educational institutions around the world, and LEGO plays an important role in inspiring and cultivating children's creativity. In addition to LEGO fostering children's creativity, the LEGO education system is gradually improving, with more and more adults and universities around the world being influenced by LEGO. In this context, LEGO's choice to partner with a brand with a positive image and values helps LEGO to further consolidate and convey its brand image of creativity and quality. However, the strategic alliance co-operation model is not without risks. If the co-operation is not done properly, it may lead to inconsistency in LEGO's brand image, increased difficulty in controlling the quality of the product, and loss of consumers at the end of the co-operation. If LEGO and other companies want to rely on strategic alliances to enhance their brand competitiveness, maintaining a good mode of co-operation must be their top priority. Otherwise, it will hurt competitiveness in the marketplace.

3. Conclusion

This research focuses on analysing LEGO's involvement in strategic alliances in recent years and examines the impact of strategic alliance co-operation on LEGO's product upgrading and business optimisation. The researcher arrives at the view that the strategic alliance co-operation model has had a positive impact on LEGO's brand competitiveness. LEGO's strategic alliance co-operation with its partners has achieved the complementarity of their strengths, which has helped LEGO to reduce costs and risks as well as to expand its market share. Moreover, after LEGO cooperates with the entertainment industry and the education industry, LEGO's products are more innovative, as well as LEGO's brand image, awareness and influence have increased significantly internationally.

However, LEGO needs to be careful in dealing with issues that may arise in strategic alliances, such as different cultures and policies in different countries or regions, intellectual property disputes, and other challenges that may arise. In this connection, LEGO needs to be effectively-prepared to take full advantage of strategic alliances to enhance brand competitiveness to adapt to the ever-changing market and the challenges of competition. Additionally, for LEGO's strategic alliance strategy, methods to improve brand competitiveness, and prevention of possible challenges, these factors and experiences are worthy of learning and inspiration for other companies and brands. To ensure that the strategic alliance co-operation of LEGO or other enterprises goes smoothly, improve their brand competitiveness and realise the brand value in the future.

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