

Brad Justus, Sr. VP Of Lego Direct , Q&A @ Brickswest 2002

Disclaimer provided by Mr. Justus. "I will answer what ever he could within bounds. Please understand that there are some areas I can not talk about for a variety of reasons."

Transcript of Q&A Session provided by A&M Productions, Ahui Herrera
(http://jedi_agh.tripod.com http://ap_production.tripod.com)

Note that LEGO refers to the company, Lego Direct refers to the LEGO Business Unit (Shop@Home & Web), Lego refers to the physical brick) There may be some spelling errors and some of the names may not be spelled correctly. I apologize for this but wanted to get this out ASAP.

Q1: Color Mosaics?

A1: Color Mosaics, Not yet. (Laugh by crowd)

Q2: Lego direct has done a lot of good things in the last couple of years. Is there any one thing that stands out that you are particular proud of?

A2: The Blacksmith's Shop. Mostly because, this is a personal belief as well as business unit belief, what we are about is not how good are designers are. I mean we have really good designers, but LEGO is not about how good our designers can be and what we can put in a box and to show you this is Hogwart's castle, this is what it looks like and here is how you built it. Rather what can we put in your hands because you all have castles in your heads. So how do we make that happen? So I really feel that our job, in LEGO but particularly in Lego Direct, is to help you all realize as best we can the castles in your heads. So bringing something like the blacksmith's shop to life and say look we think that there is a lot of great creativity in the community and to be able to take that and make it a LEGO set and put it back out in front of the community. I think for me it's something we are all very proud of.

Q3: For those of us that are not completely briefed in can you tell us what is Lego Direct as oppose to the rest of LEGO? How do you fit in? What is your mission?

A3: We are part of the rest of LEGO. Lego Direct is a business unit of the company; it's the newest major unit of the company. It's about 2 years old. We had our official first birthday at the end of January. That is when we had our business plan approved a couple of years ago. Our mission is quite simply, as I have always put it in one line, to make the consumer part of the company. We got a corporate mission to be the strongest brand among families with children by the year 2005. There are countries in the world where we are already that brand. In Germany we are a bigger brand than Disney. There are other markets, like the US, where we are a very, very strong brand but we have some work to do. Ultimately if we want to be that brand, we don't get to wake up on January 1, 2006 and pat ourselves on the back as say "Hey we did it". We are not the decision makers there. You all are, you, the kids, and the families are the ones who are going to

decide that LEGO is the brand that you want us to be. So Lego Direct was put together to engage in dialog with consumers, to listen, to try to act as best we can on what you think we should be doing. Keep in mind it's also a business, so we are making business decisions. But Lego Direct was put together to operate a lot of the direct to consumer activities. So we operate the website, the catalog, [Shop@Home](#), all the consumer service centers globally, the LEGO club, a lot of community activities. We are now responsible for the First LEGO League and some other activities as well. It's really most of the major direct to consumer community related activities that are going on within the company. I am one of the 12 people on the executive committee. There are essentially 12 people who run the company. So we are very well integrated with whatever else is going on.

(Questions with b, c, d, etc... are follow-on questions by the same person)

Q4: For me the promise of LEGO Direct when you made the announcement two years ago was access to basic bricks at bulk prices. The reality has been that a few more items have been added in on the [Shop@Home](#) catalog in what use to be the individual packs. If you take a 1,200 brick tub and buy that from a store or Lego Direct you spend 5 to 10 times more than the per unit price and you don't even get all the bricks. What about those of us who are looking to buy a 1,000 2x4 whites at a 1,000 2x4 price?

A4: What is a 1,000 2x4 price? I mean, don't be misled by what's in a 3033 (brick tube).

Q4b: Those were sold at retail store for a few years.

A4b: Right, do you know why they are sold at retail? They are sold at retails, because retails want foot traffic. It's items that are very low prices that bring people in.

Q4c: Yeah, they were typically sold at low prices of \$15 to \$10 on sale.

A4c: That is done to generate foot traffic. They are not done to generate profit. Item's like that are very attractive to retailers because LEGO is a very know brand name and it brings people into the store. They are not necessary the best things we (LEGO) can do as a business, either for our retailers or ourselves. The times that the buckets and the tubs are most popular is black Friday, the day after thanksgiving when retailers want to get as many people into their store as possible and they are looking at providing incentives to the people to come in. Those buckets are incentives. On a year round basis tubs are... I see a lot of people trying to estimate what the price per piece would be. The price per piece is not as low as what it is in a 3033, this is for bulk but not as high as what you would necessary need if you were trying to part out a set.

Q4d: The smallest piece in a 3033 is a 1x1. You can't even buy 1,200 1x1s for the price of a 3033.

A4d: Right but we are running a business too. Ultimately, we have to prove that the items we are running can make a profit.

Q4d: But you are not the retailer, you are the wholesaler.

A4e: Yes but we also run our own fulfillment centers, there is inventory carrying cost, processing cost, it's not... what we are looking for is not the retail margin in selling direct it's the relationship with the market. In other words, the establishment of a direct relationship with the consumers. Do I wish we had a whole lot more in bulk right now? Yes I do. When you start selling products, it's very easy to start high and bring the price down. It's very hard to go the other way. So we started the bulk program with a certain number of selected items and we are expanding the items constantly. A couple of months ago we introduced that if you buy multiple bags you get a step discount. We are going to see how that works. We are then going to go back and look at the numbers and see if there is some more we want to do. A lot of what we are doing is something the company has never done before. What we find, constantly, is that no company has ever done this before. Every time we put out a new product I'm always asked to predict what our numbers are going to be like and I can't predict that. I don't have any baselines.

Q4f: Decades past you could buy what they called service packs at retailers, perhaps this is new in the US but for the company it's not.

A4f: Yes you are right but 80 to 90 percent of those lost money. The reason they existed was because they created foot traffic for the retailer's in Europe where it's a much more independent toy market. Those retailers had a relationship with their consumers and they wanted to be able to service them in the best way possible. Most of those items just sat at retail there was no turn over. We are running a business and we have to operate like that. I know people would like pitchforks. But pitchforks are a relatively limited market (Crowd laughs) on a mass scale. That is not to say that we will never do it. I get a lot of letters that say, "I would like 100 pitchforks, and therefore I think this would be a good product. But 100 pitchforks don't justify hauling out the mold and doing a run. We are constantly looking at what are the items we should be bringing out and how should we be doing it. We opted to bring out as many basic bricks as we can in as many colors as we can. We are always looking on expanding with more elements and more colors. On top of that we will layer on new pricing formula's that will help to bring down prices for those people that are looking to buy many, many bricks.

Q5: How often do you expect to release something like the blacksmith.

A5: You mean MOC (My Own Creation) Sets? Or special sets?

Q5b: You are looking for that type of thing outside from the creators at LEGO. How often do you plan on finding sets like those?

A5b: I suspect that we will do it only a few times a year, maybe 3 or 4 times a year at most (MOC sets). We want to be pretty selective. This is not to say that there are not creative creations out there. I see creations everyday. We look at websites, we go to club shows, and shows like this. There are lots and lots of really terrific creations out there

that we could make into sets. At the same time we have to balance it against what theme is the set in, price point... I would love to do a MECHA set but at the same time I think a lot of them cross the line into what LEGO would see appropriate for a LEGO issued set in terms of the weaponry and a lot of the other things. (Crowd laughs)

Q6: We won't work together anyway. We want to be seen as something that we created, that we started. It's a vision thing.

A6: There is a market for it though.

Q6b: You are right but that leads you into the violent theme. I personally try not to make violent MECHA. It looks spooky and crazy but I don't load them up with lasers and big guns because it's just not what I do.

A6b: You are right, you are never going to see us do something with lasers and guns. I hope that we see MOCs at least 2 – 3 times a year. When we brought in Dan's set, it was already a set that was designed and done; we had our designer's look at it. We made a couple of changes, pretty minimal in the name of build-ability and not just to change it. We ran it past Dan and he was all behind it. We also look at layouts and say "That is pretty cool" but there is a difference between what looks really cool and what makes a good set. You also have to look at what's a good building experience, what it going to look like when it's done, right number of pieces, price points, and lots of other boring stuff.

Q7: Can you tell us anything on where Mindstorms is going and whether or not you have any information on speech recognition. Is this something you guys are working on?

A7: I cannot comment on that. (Crowd laughs)

Q8: How about black technic beams? Why can't we get black technic beams off of [Shop@Home](#)?

A8: I don't know.

Q9: Are we going to see something in the Legends line in the terms of classic space and if that conflicts with your Star Wars license at all?

A9: No it does not conflict with the license. I would say it's entirely possible that you will see something. We have not ruled out anything in Legends. The question is what do we have out in terms of lines. We are not trying to compete with our lines at retail but rather complement them. So by coming out with the first Lego set that was a castle set at the time when we did not have a castle theme. Yeah Harry Potter is a castle theme but it is also a license. It's going back to classic castle and not anything that you fit into there (Harry Potter). Then we came out with the Metro Linear at a time since it's been a couple of years since the last train release at retail. In fact Lego Direct is probably the biggest train retailer for the company. So we can do whatever we want there. It would be unlike

that you see a classic space legend this year because it's 2002 and Star Wars comes out in 3 months. We are not going to try and go up against that. But we have not ruled out doing it.

Q10: Are we going to see more Ice Planet? Is Ice Planet 2002 coming?

A10: No

Q11: Are you going to drop Mindstroms?

A11: No, absolutely not.

Q12: Is there any products from [Shop@Home](#) that will be at retailers?

A12: Some of them are already there. The sculptors, the dragon, the statue of liberty, the mini-fig, Toys R Us has picked some of those up. FAO Shwartz has also picked them up. You will see a lot more out this year, the camel will be one of them. In Europe some of the independent retailers will also pick them up.

Q13: What about the train sets?

A13: Very doubtful, it's possible we can put it together. What you have to realize about those trains is that they don't exist as a set. When you want a large blue engine with tender that is not a physical product in a box but four different components. It gets assembled in our distribution centers. They pull the components that come in the box. That is also how we are able to do it at a relatively low favorable price. We don't have to worry about inventory management on how many black ones do we need, etc. In order to do it at retail we need to do inventory management. I'm not ruling for that.

Q14: Are road base plates being discontinued? The catalog says limited quantities.

A14: That means we don't have a whole lot of them. I don't know if they will be discontinued.

Q15: The LEGO trains have been growing in popularity within organization in the last 2 – 3 years. What do you think are the next steps for both you and us (LEGO train community).

A15: We have been taking a lot of steps ourselves. We got trans.com now backing us up and a LEGO section on lego.com. There are many articles there and you guys have been contributing to that. That has been raising awareness and I think it's really helping a lot. I think it's also the clubs getting out there and making people aware that yes LEGO makes trains. You guys keep showing us off and we will continue to make more trains. I think we are getting a really good response from it. The company has always believed we have a place in trains. Historically it's been the impression that the train market is in Germany. I think we have proved that yes there is a train market in Germany but also in

the US. We are going to keep working the official angle www.trains.com is going to have a promotion called “The World’s Greatest Hobby”. Should we go to the NMRA show? I don’t know. We have talked about trying to do a national LEGO train show, but I think that at this point in time we should try to get visibility within the hobby itself. If we play our cards right, from where we are right now we are the ‘new lionel’. Back in the 50s that is how kids got into trains. You got a lionel set and then you graduated and got other sets. Our opportunity is to get kids involved with trains through Lego and hopefully they don’t have to graduate. (Crowd laughs)

Q16: You have seen how effective Lego layouts are at train shows. Have you thought about getting some of the train sets to the vendors at the shows.

A16: Yes, but it’s an inventory issue. We don’t distribute to the independent hobbyist. It’s not to say we will never do that but our distribution centers are not set up that way. We are set up to server the Targets, Wal-marts, etc. It’s a high volume palette system. In Lego Direct we have a pick-n-choose type of system that may be suitable for what you are saying. But there are a lot of logistics that need to be reviewed. We rather right now, if you want trains go to the nearest imagination center or call shop@home.

Q17: Have you thought about allowing smaller independent train retailers to sell just Lego trains in their shops? Perhaps with a couple of town sets? Although you don’t have any town sets but that is another issue. (Crowd laughs)

A17: (Mr. Justus shows a box that was hidden in his suitcase. The box is a new Lego LEGEND Town set) First of all, this looks like a town set to me. (Cheers from the crowd). We will work with retailers but we want them to take a representative assortment of our products. We don’t allow people to sub-divide the assortment because we get into the issues of cherry picking and that is not the way we do business. There is also the issue of how do you service that with sales? You only have so many people and they have to cover so many stores. It makes it difficult. We are doing everything we can right now to build the best direct-to-consumer business and worry about business-to-business later.

Q18: Can Lego Direct help the technic lines?

A18: I don’t know that they need our help. It’s an issue for the product development group and it’s one that they are working on.

Q19: We all know that Lego Direct has picked up the banner for trains and...

A19: (Mr. Justus interrupts) We are not going to do 8-wide John. (Crowd Laughs)

Q19b: What do you mean you are not going to? What is the tank car then? Trains are picking up in popularity. What is it going to take for Billund, Denmark *This is the LEGO HQ somewhere in Europe wherever they are from, I think*) to update points, curves, that kind of thing that takes some real investment?

A19b: We are working on that. Where do you think product development comes from? We do our product development in Belinet.

Q19c: But all the new trains sets are actually not new products. You are just recombining and using new color on bricks. It seems like without Lego Direct the last train set from Belinet would have been a couple of years ago, if at all.

A19c: The people who develop retail trains are the same as ours. They all use the same resources. It's the same group of people but we are working to different specifications. We are also aware that in the Direct market we are able to target the market more specially whereas when you develop a product for retail you have to aim a lot broader. There are differences there but we are working on the track geometry issues.

Q19d: So a 400 to 500 category are those... you are in the 10000s for trains now will we see more in the 400 to 500s categories?

A19d: The numbers are just a matter of tracking. Yes these (legends) are in the 10,000s but who is to say that these (Legend Lego Café) can't be at retail. The stuff that we are developing, that we have direct control of we are going to maintain our exclusivity, period. It's not just a matter what we say cannot be sold at retail but does retail want it. There are some items like the Star Wars Blockade Runner is a bog box and it is \$200. You don't see a lot of \$200 toys out there. They are not racing off the shelves. We are very aware of who buys from us and who our audience is.

Q20: Is there any development going on at LEGO about Mindstorms and trains? Or is that a no comment question?

A20: I think it's a good idea. (Crowd laughs)

Q21: What would get LEGOs attention on 'here is a credible Lego group' to help create a relationship.

A21: We are trying to come up with a set of criteria that says How long have they been around, how often do they display, results of what has been displayed, are you doing new things, response from the community, who could be the best ambassador for the brand....

[Tape 1 on my digital camcorder ended sorry had to switch tapes]

Q22:Lego direct is targeted towards an older audience, how does this affect the rest of LEGO.

A22: I don't agree that Lego Direct is geared towards an older audience. Yes we are doing call them collectable but we are doing more complex models, more challenging models. We think of them as inspirational models they are not primarily aimed at an adult audience. What they are aimed at is Lego enthusiast which are looking for challenges not

available at a retail store. These are complements that we have at retail. We know that people who buy directly from LEGO are people who are proactively expressing an interest and love for the brand. We, off course, want to encourage that. These people are not satisfied with building what's on the shelf at Wal-Mart they want something more. We are trying to provide that something more to them. It's not just the adults. Adult fans, you are small in number, but have more spending power than kids. But the fact is that when we do something like this (Legend Café) it's targeted toward the younger audience. Probably the most that we have targeted toward the collectors and older audience is the star wars sculptors. Not because it's a Lego's collector market but because there is a Star War collector's market. But the greatest number of people who get the Lego series are kids. These are kids, however, who want more than just building the Star War or Harry Potter sets. We are targeting a complement audience to retail. We are building brand loyalty.

Q23: The Darth Maul and Yoda models that were given out as prizes before the current sculptors were made as sets are much more detailed than what we have now. Who designed those and oppose to what we have? Do you talk to those model makers for input?

A23: The Yoda model that is out now is more complex than the one done for shows & events. For the Darth Maul you have to keep in mind that we are targeting a certain price point. To create the one done for shows & events with the hood over his head would have cost \$400 dollars! We know that there is a point at which consumers will not buy. There is a difference between what makes a cool looking sculptor and what makes a set we are able to sell. We have to keep in mind the price points, number of pieces, how build-able and playable is it. There are certain things you do for shows & events that you would not do for retail sets. This is not to say that we don't use shows & event models. The statue of livery was created by shows & events for us. What you see at shows & events does not always make a great build-able model.

Q24: During X-mass you would go to store and the Harry Potter sets were gone. Did you not anticipate such a demand for them or did you just hold them back?

A24: It was more popular than what we expected. For Harry Potter we did a late production run in the season that for any other line we had done. It was just very, very popular and somewhat unusually that the biggest set in the theme was the one everyone wanted. Usually the mid-price point items are the more popular sets. We just couldn't make them fast enough. You must remember that we had a lot of popular items this past year this is great but puts a strain on what you are going to produce since you can't do all of it at one time.

Q25: You had several airline promos and some Japanese as well. Will you be doing more of those promos?

A25: We are always looking at these options and trying to get the manufacturing team to produce more. Every now and then we may find in a warehouse with some left over

items. That is what happened in Europe last years with the accessory packs. You could only get them there because it was a rare find. For the most part, our new products like the Legend Café will be available in all our markets. Promotion sets are different. We may have contracts that don't allow us to sell the sets outside of the promotional market.

Q26: Are you going to invest in the website to change the interface for trying to buy bulk bricks. It's very hard to see list after list of bulk bricks trying to find the one you want.

A26: I agree we are constantly looking at the site and seeing how we can improve it. It's an extremely deep complex site and not easy to make changes.

Q26b: I know it's not an easy change, because I've had to do it before. It is something really important for Lego Direct to invest their time to do.

A26b: We are looking at what is the best way to sell bulk bricks online. This is not a lightly access site. Lego.com gets 12-15 million visits a month with more than 3 million new users. The average session per user is more than 48 minutes for November 2001. People are coming in and spending a lot of time. When you are out their pumping that much bandwidth you plan changes very carefully. We never make major changes in the 4th quarter. We just don't go there. We do planning in 4th and 1st quarter and do implementation in 2nd and 3rd quarter so we are ready for the next 4th quarter.

Q27: On the 48 minutes that people spend on your site it might be waiting for .asp pages to load. They take forever to load.

A27: Check you ISP. We tests the ISPs, we do down specs of them and 99 out of 100 it's not us. It's the local ISPs.

Q28: Will the Mindstorm get more outputs and the external jack again? Also for the Mindstorm/Train development are they seriously looking at fully compatible DCC systems?

A28: I never said we are looking at Mindstorms for trains. I think Mindstorms and trains are great. Are we doing something specifically on it right no, NO. We are looking at ways to do it. More important right now is getting a lot more out there, more models, rolling stock, point geometry, and buildings that go with it.

Q29: What is the story about why the power jack was taken off the RCX?

A29: I don't know, I'm not the person to ask about that. That happens in the deep dark bowels of product development.

Q30: Are there any sculptor sets that are being discontinued? What are service packs?

A30: I don't know about service packs. We had discontinued the statue of liberty and then it started selling so we are going to produce more. The dinosaur and min-fig will be

discontinued... Discontinue means we are just not manufacturing it anymore. We will still have it in our sales assortment but not making it. From my point of view nothing is ever really gone. We can bring it back if there is a market for it. Everyone though the guarded inn was gone.

Q31: So is there a chance for a mono-rail?

A31: No (Crowd Laughs)

Q32: Now that Enfield is no longer molding bricks how does that affect your product development.

A32: It doesn't. Enfield only molded a limited number of basic bricks. We were doing product development in Billund anyways. The fact that we consolidate molding is suppose to give us lower cost.

Q33: You said you won't do MECHA because of the lasers and guns. Some of your products do have guns, however. Can you make a distinction for us?

A33: I said SOME MECHA. When you look at the MECHA I have seen that have the weapons they are extremely explicit. There is a difference between a little blaster and someone holding a cannon (Mr. Justus stretches out his arms). Where we draw the line is... Conflict in a historical context is considered acceptable. Dan's Tanks (Brickmania) are great, but we are not going to be doing that. As we move closer into the 20th century we get into the gray area.

Q34: A club is talking about doing an ancient Greek line. Will people talking about stuff like this ever make LEGO not do it.

A34: No, again we never rule anything out... except the monorail (Crowd Laughs). Believe me, I would love to do the monorail again. I have a ton of monorail stuff but a lot of the equipment is destroyed.

Q35: Outside of the MOC and Legends line do we have to wait until Harry Potter finishes to return to the castle line?

A35: Harry Potter is castle. I don't think we will do a major retail theme of castle while we are doing Harry Potter.

Q36: The destruction of the monorail models is a matter of company policy or an accident?

A36: We destroy molds that are no longer of any value to us. What I am told about the monorail is that even the schematics are not available to us they were destroyed as well. Also the monorail was a unique item and even the supplier who created the motors is no longer in business and we don't have any of that equipment and don't have the details. In

order for us to do the monorail we would have to start from scratch. That in terms of product development is the most expensive thing to do for us.

Q37: You took Dan's Blacksmith shop as a product of your own. For those of use who would love to be blessed like that is there anything you can tell us that you are looking for.

A37: Built great stuff. I don't want people out there trying to great something and thinking I hope LEGO makes this into a set. That is not what I want. That is not want we want to see. We want you guys to create what you want to create to make yourselves happy. If it so happens that there is something that makes you happy and makes us happy and makes a great set so much the better. We are going to make MOCs in the MOC program that may not even be a MOC out there. We may ask someone who is really good at building ships, planes, houses, etc. to build us a MOC. There are different ways to go about the MOC program. In terms of what you should build to get our attention, do the things that make you happy. Don't do the things that you think we make us happy. At the end of the day you are going to be frustrated that we don't pick it and that is not what we are out to do. Everyone already is a set designer. You guys would not be here if you weren't. Yes we have many designers at Billund, but at Lego Direct we think that we got hundreds or thousands of million designers. But not all those designs have to be made into sets. There are many ways to show off your design. We are not going to be doing dozen and dozen of theses a year. What is more important to us is that you do the things you like to do.

Q38: To what extents to you think sets in terms of having parents and children playing together.

A38: A lot. I have two little boys. Part of my criteria is not do I want to put this together by myself but do I want to sit down with my guys and put together a set. Is it something that they are going to like and have fun with. That is something that is really important.

(Mr. Justus brings out the LEGEND Pizza Shop and the Santa Fe Super Chief Train Engine. The Crowd is cheering and going wild...)

VP: This (Train engine) is not out of the MOC program; It was designed by our own designers. It's the same designer who did my-own-train series. We went to Santa Fe and said we want to do an F7, a super chief. What do we have to do. They were more than happy. They want to sell it in their own gift shop now.

(Crowd starts making lots of comments)

VP: We are looking at making an accessory pack because the B-unit actually has 3 port windows that will allow you to change the Super Chief (10020) into a B Unit.

(Crowd yells 8-wide)

VP: Not in my life-time. John, just to make you happy. I was talking to Kjeld Kirk Kristiansen (CEO) about a month ago and I was showing him all the stuff we are going to put out and he was going nuts about the super chief and he told me, "You know if you do it in 8-wide you can do more detail."

(Crowd laughs and claps)

VP: But it won't fit into anything else we do so lets not go there.

Q39: How limited (on train engine) is limited?

A39: It's a series of 10,000. We run out of the numbered ones at 10,000 and then we will we see how that goes.

Q40: What if you motorize it, how do you get the gray side-plates for the motor?

A40: The set comes with the gray side plates for the motor.

Q41: For ordering you get a random number?

A41: Yes

Q42: You alluded to track geometry and other items like that. But can you tell us about your personal priorities for trains?

A42: #1 - Different curved radius

Q43: What about the unusual switch tracks that nobody else has?

A43: We are looking into various things. This is one area where we will have to create new molds. In all the product development that we have done (Lego Direct) from the statue of liberty to the Santa Fe we have done no new molds. Everything that we produced is something that is commonly available.

VP: This is coming out in May and all I have is box art right now. This is not a MOC. [Shows off the Red Baron Bi-wing airplane similar in size to current British bi-wing plane]

Crowd: Does it come with snoopy?

VP: No there some licenses we will just not do.

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