

Building bridges with retailers

Toys 'n' Playthings' John Baulch speaks to managing director LEGO UK, Marko Ilincic, about this year's developments and, perhaps more importantly, what lies ahead in 2007.

In many respects it's been an encouraging year for LEGO's UK operation. The company has enjoyed its best trading year in the UK since 2002, the year it separated from the larger Europe North infrastructure. But this success has somewhat inevitably been accompanied by some significant challenges, notably in the stock and logistics area.

TnP: How has business been this year?

Marko: LEGO UK has performed exceptionally well in 2006. If you take Star Wars out of the equation, we're actually around six per cent up year-on-year in terms of market share, and are into double digit growth for our sales.

TnP: What have been the highlights?

Marko: This year's growth has been driven by the City range and also by Star Wars, whilst Bionicle has continued to perform fantastically and Exoforce has exceeded our expectations.

TnP: So Star Wars held up well?

Marko: We certainly haven't experienced the decline that is traditionally associated with a post movie year. Partly this was because we were unable to fulfil demand in 2005, but equally we know that people who bought into Star Wars last year came back to buy a lot more this year. We'll exceed our forecast for Star Wars by 30 per cent in 2006, and we're looking forward to another good year in 2007.

TnP: You must also be heartened by the performance of the City range?

Marko: It's wonderful to see one of our classic ranges enjoying such success. Some of our customers may have been surprised at the level of demand,

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but in the end they are great products. Sustainable core business is invaluable to LEGO; in the past perhaps we have tried to drive the business through our 'spice' brands, but this year it's great that we've been able to grow on the back of a strong performance from our traditional ranges.

TnP: But from what we hear in the trade, this success has led to some supply issues...

Marko: Unfortunately supply is finite. There is a level at which you simply can't supply any more. The majority of our problems have stemmed from demand outstripping supply. We recognised that this might be the case early on in the year, and we encouraged our retail partners to give forward visibility on their orders, which in the main has worked. But we reached a point where we had to turn down advance orders; we knew we weren't going to be able to fulfil them, so it wouldn't have been responsible to write them in the first place. Therefore, even though annual fill rates have been very

good with, for example, Toymaster, its members see that they can't order key lines at an important time of the year and that inevitably affects their perception of the situation.

TnP: Do you think some independent retailers believe that you show preference to major accounts when it comes to stock allocation?

Marko: I can promise you that there is nothing sinister going on with the supply issue. In a critical supply situation, we have to assess stock coverage and allocate according to where we believe the demand will be. Unfortunately there is no exact science involved; we try to do it as fairly as we can. But in these circumstances, whatever you do, you'll be criticised. If anything, the independents have benefited from ordering in advance, which has helped them to secure stock. Stock coverage is far healthier across all accounts than it was a year ago, and I can honestly say that LEGO does not disadvantage any customer beyond another.



TnP: And the stock issues weren't just a UK problem, were they?

Marko: It has primarily been a European issue and the UK is one of those countries affected. Predicting demand is always difficult in the toy trade, and we are coming from a platform where we have to manage our business conservatively. We have been challenged by the transition of our manufacturing process, which has particularly affected some of our pre-school lines. It's also been a sharp learning curve for some of our new logistics partners such as DHL; in fact, the distribution changes we have undergone have probably had a greater effect than the manufacturing issues. But we have to hold our hands up; quality and consistency of service has been one of the most frustrating issues for our customers, and we have to try to improve that in 2007.

TnP: Speaking of 2007, what are your key objectives for next year?

Marko: The focus has to remain on continuing to be a profitable subsidiary of the Lego group. It's all about controlled growth; we're well on the road to recovery, but if it means that LEGO UK has to be a smaller business to achieve that, then so be it. I could go out tomorrow and buy market share, but that wouldn't help us in the long term. We're celebrating our 75th anniversary in 2007, and we want to be around as an independent company for a long time to come. It's far more important to make profit for our retail partners and ourselves than turnover twice as much and make half the profit. This year we have stepped back from certain discounting activities and left them to others, which has inevitably affected our market share. Over the years we got caught up in the 'discount rat race', and perhaps

we have been more focussed on promotions rather than getting the right product on the shelf throughout the year. This year, by addressing our range, and by doing fewer but better promotions, we have seen both productivity and profitability increase. It had to; we weren't in a position to continue in that vein in the long term. I believe that the obsession with promotional offers has to be addressed by the whole industry. We accept that it's a valuable dynamic, we accept that it needs to be done, but in a far more controlled way. If it is used tactically to build on a sustainable base, that's fine. But if the majority of sales come from promotions, it's a house of cards. We can't continue on the merry-go-round of 'offer after offer' if it's not right for our business. Some companies are under pressure to maintain aggressive growth rates, but at what cost? If these offers are

never-ending, consumers will become sceptical as to whether they are genuine offers; they're not stupid.

TnP: No doubt independent retailers reading this will be heartened by some of those points.

Marko: The independent sector is still of vital importance to us, as indeed it is to all the classic brands such as Playmobil and Brio. We maintain a disproportionately high percentage of people in the field for our size of business, and our return to Toy Fair has garnered us significant positive feedback, which we need to build on. But we're equally important to each other. We need to be as open as possible and keep communicating with each other. LEGO is perhaps one of the few suppliers which has improved its business with the independents this year, and we want to build on that in 2007.