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## The Turnaround

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LEGO

**I**T'S A DREARY LATE FALL day in Billund, Denmark. In a town of around six thousand people and a handful of stoplights, one would expect a small airport with a coffee cart and a single runway. Instead, Billund is the second-largest airport in Denmark, bustling with hundreds of international flights coming in and out every day. The town wastes no time in communicating its chief benefactor and honorary citizen; in fact, the smiling, square head of the iconic yellow man greets you at every turn. Billund is home to the LEGO Group, one of the largest and most respected toy companies in the world.

At the company headquarters, giant red, yellow, and blue bricks are visible through the gloomy fog. The reception desk is, you guessed it, an enormous brick broken in half. And a life-size yellow LEGO man holds a computer welcome screen at the entrance. Considering the pride behind the LEGO brand on display across the campus, it is hard to imagine that only eight years ago, the iconic

brick was lying on its deathbed. LEGO has undergone an astounding turnaround since 2004, driven, in part, by its commitment to a sensemaking practice.

In the 1930s, Danish carpenter Ole Kirk Christiansen started making tiny versions of his work projects—toy furniture and games. In 1947, he moved from wood to plastic, ultimately creating a full product line of toys. He named his company LEGO from the Danish *leg godt*, or “play well,” and, in 1958, his company patented its now-famous stud-and-tube coupling system, or the click-fit. An iconic children’s toy was born. The core patent remains unchanged even now, more than fifty years later.

But after decades of growth and innovation—in 2000, the company was the fifth-largest toy maker in the world—LEGO hit a major slump. In January 2004, it announced a huge deficit. It was, by its own accounts, bleeding cash to the tune of \$1 million a day. Owner and CEO Kjeld Kirk Kristiansen, grandson of founder Ole Kirk Christiansen, was at the helm of a strategy to turn the company around. He stepped down and appointed Jørgen Vig Knudstorp, a former McKinsey consultant, as new CEO of the company.

Somehow, the company honored with the Best Toy of the Century award *twice* had completely lost touch with its core consumers. How did it happen? And how did LEGO come out of the fog and solve its own mystery?

### “Back to the Brick”

The answers are revealed in LEGO’s commitment to an open-ended inquiry. The company used theories from the human sciences and applied them to the sensemaking method, exploring the behavior of its customers:

#### Sensemaking: Five Phases

1. Frame the problem as a phenomenon.
2. Collect the data.
3. Look for patterns.
4. Create the key insights.
5. Build the business impact.

#### Phase 1: Frame the Problem as a Phenomenon

For LEGO, framing the problem as a phenomenon meant reframing the question from “What toys do kids want?” to “What is the role of play?”

If you ran into Paal Smith-Meyer on the street, you might mistake him for a grad student. In his late thirties and dressed in an unzipped hoodie with a dusting of scruff on his chin, he could not appear more casual. But Smith-Meyer, currently head of the new business group, is one of several design powerhouses at the helm of LEGO’s new strategy.

He started at the company in 1999 as a designer. “To me,” he explained, “LEGO was all about the brick. So you can imagine my surprise when I showed up in the early aughts and there was not much interest in it. It was all about the LEGO *brand*.”

The company was leveraging brand opportunities by branching out into action figures and video games. It left its core audience— young builders—in an attempt to gain market share.

“Things started looking less like LEGO and more cool,” Smith-Meyer said. “We were hiring a lot of designers known for their styling skills—designers in areas like automotive design.”

The management consultants who came in to help the company streamline initiated a program called Step Up, which helped LEGO employees with higher education advance within the corporate structure. Unfortunately, many of LEGO's oldest and most experienced designers did not have the management background to benefit.

"The old designers who had been essential to bringing Drone and Star Wars to market couldn't participate in the same way, and so, much of the company lifeblood was getting lost," Smith-Meyer recalled. "It was a really bizarre time to try to keep the brick alive."

During this period, the company was working with several key assumptions. Its in-house studies concluded that kids were facing time compression, and as a result, they no longer had time to play. With all of the kids' calendars, play dates, screen time, and early academics, LEGO felt that its brick system—known for requiring a lengthy time commitment—was becoming obsolete.

The company also felt the need to compete with the instant gratification of plug-and-play toys. The digital space was bringing so many bells and whistles to the play experience, LEGO assumed that its old-fashioned bricks could not compete with the excitement.

And finally, LEGO was concerned that its traditional consumer base—young boys who like to build—was jeopardizing its ability to break into trendier markets. There was pressure to bring more-aggressive play into the brand: darker colors with more violence and danger. If the smiling yellow head of the minifigure was the face of old LEGO, the LEGO face of the 1990s and early aughts was the Navy SEAL. One German mother interviewed described the expressions on the little figures as "straight from hell."

"They wanted to move away from the nerd stigma," Smith-Meyer told us. "They were fighting the idea that LEGO was for kids who didn't have friends."

The original DNA of the company—systemic creativity through the brick—was left aside for the expansion of new product lines. With none of the modularity of core LEGO products, toys like ClickIts—an attempt to reach girls with snap-and-play accessories and jewelry—felt completely out of the LEGO family. As one LEGO employee put it, "If you covered up the LEGO logo, you would have had no sense who made that stuff."

The designers were also hamstrung by the management consultancy's new reliance on focus groups and tests. Smith-Meyer told us, "In the focus tests, kids would pick Mega Blocks, made by our competitor, simply because they were bigger. It didn't mean that kids liked them any better. They actually liked the original LEGOs better, but the focus tests were a false environment. The problem was that we were using them to inform our product development."

Despite the enormous growth in product offerings, there was an increasing sense of unease throughout the company. Instead of speaking to the real LEGO fans, the expanded brand offerings were communicating with theoretical consumers.

"We had a phrase we used to call the 'crisp, cool wow,'" Smith-Meyer said. "It was a way to describe what we thought of as wasted creativity. At the beginning of a season, we would show a hundred concepts, and it was almost like this creative fairground. We would always joke about how certain concepts would get the response, 'Wow . . . Cool . . . Yeah . . . Go for it!' We would say, 'What rationale is that? What does that mean?' We were up against the 'crisp, cool wow' because we thought it was more important to ask, 'Do we really need that? Does that add to the portfolio? Do we even *like* that?'"

By expanding the brand, LEGO was also diluting marketing opportunities for nostalgia with parents. Suddenly all the LEGO toys looked different, and there was no longer the pleasurable memory trigger for parents: *I used to play with these when I was a kid!*

"I was sitting in one of our focus groups in Germany," Smith-Meyer recalled. "And they were bringing in new moms who had kids in the right age range for our consumer base. The moms who played a lot with Playmobil, well, their kids were into Playmobil. The moms who played more with LEGO, guess what? Their kids were more into LEGO. And then there were moms who grew up in East Germany. They said, 'Oh, we didn't have a lot of toys growing up so we just played with what was around. A doll. An old teddy bear.' And they, too, said, 'Oh, my kids just play with whatever is around.'"

The play culture is an emotional link between generations just as much as it is an interaction between the kids themselves. Like our examples of the Coke bottle and the hammer, objects like LEGO bricks become most interesting when they sit in relationship to the humans playing with them. Nostalgia exists in a world of aspects, not properties. For that reason, parents were not always able to articulate to marketers their desire to see versions of their own toys, but they instantly responded when the toys looked familiar.

"Of course, our researchers said, 'No, you can't talk about nostalgia. There is no evidence to back that up . . .'" Smith-Meyer told us. "But just look at the number of parents who grew up with LEGO. When we make a fire station that looks like the fire station that parents played with as children, it sells. When it doesn't trigger that memory, the parents say, 'Do you have something that looks a little different?' There are all these layers to product development that you can't see. Especially not if you just look at it from a management perspective or just at the spreadsheets. If you don't actually understand the ecology of play."

By the end of 2004, LEGO was adrift in a fog. After 2003, a year with an enormous deficit, 2004's heavy writedowns caused CEO Knudstorp to change course. As a sensitive environmental scanner, Knudstorp could feel that something was wrong. Using default

thinking, he knew that LEGO needed to cut costs by becoming more efficient with better operations. But he also intuited that something else was being lost beyond just numbers. There was the more elusive loss of *connection* with the core of the brand. This was something deeper than simply adding new product lines or renegotiating floor space with the retailers. Knudstorp announced that the company needed to understand children's desires in a much deeper way. LEGO didn't just need to redesign its toys to sell better. It needed to understand the phenomenon of play.

### Phase 2: Collect the Data

For LEGO, collecting data involved different methods for different situations: participatory observation, interviews, study of objects, narratives, card sorting, diaries, video, and photo ethnography.

Knudstorp recognized that if he truly wanted to investigate a phenomenon as deep and rich as play, he would need to enlist the help of experts. He sponsored initiatives to embed trained research teams—referred to as the LEGO *anthros*—with families in the American cities and suburbs of Los Angeles, New York City, and Chicago and the German metropolitan areas of Munich and Hamburg. The teams collected data for months. LEGO made photo diaries, interviewed parents, and asked kids to sort pictures and tell stories about the images. They spent weeks going where the kids went and analyzing the semiotics of the popular movies and stories that made up the kids' world. The teams interviewed experts on learning and child development while studying toy shops, indoor play spaces, and playgrounds. They went shopping with grandparents and parents as well as with children and the kids' friends.

Smith-Meyer explained how this data-collection process began to open up new questions for the executives at LEGO:

The process was very different for us. Usually we would just look at the trends and develop our products and then show them to the kids in focus groups. It was always centered around this idea of, "Hey, so how cool is that . . . ?" Or, "Is this cooler than that?" Then we would wait to see what the kids would say.

It's very different when you visit people in their homes. In focus groups, ten moms are sitting around in a circle in some generic space, and there is inevitably some kind of competition. There is some pressure to say what they think they are supposed to say, or not say. In a home, you get much closer to the real truth. You see more of what is happening and not what they wish or hope to project. You see that the toys are everywhere and it's a mess.

In short, the analysts were steeped in the culture of the families. As ethnographers, they did everything possible to simply observe the culture without any preconceived notions. Then, once the data was collected, the team processed every bit of raw, qualitative data in a software program. This meant that all written texts, audio recordings, videos, and graphics—once unstructured—were now coded into themes. The software program allowed the analysts to create and then manipulate networks with the themes. By mapping out all of the possible relevant patterns, the teams were ready to begin exploring the complex phenomena hidden inside the textual and multimedia data. Rather than delivering the data raw, or simply listing it, the researchers made sure the data was organized in a structured, transparent way so that the teams might identify patterns from the visuals maps.

### Phase 3: Look for Patterns

Once the data is collected, sorted, and made available, the next phase is to analyze it and find the patterns. The goal is to find bigger themes that connect the data, using a process called *formal indication*. This team process is built around creative and analytical conversation.

The research team members immersed themselves in the data through conversations. "We were constantly asking, 'What is that kid doing over there? Is that the same as what this kid is doing here?'" one member of the team told us. After an intense period of discussion about the data, each researcher stepped away and made his or her own decision about the most important patterns. The researchers brought a whole lifetime of critical training to the pattern recognition process, but they also brought themselves. They melded art with science by using their own perspectives to discern the experiences of the children.

When all of the researchers came back to the conversation, they shared their choices. "Once we started deciding on the patterns," one team member said, "we kept saying to one another, 'Is this really supported by the data?' Then we would go back and check to be certain."

"You need to think about it and talk about it," said one of the researchers. "We didn't say, 'Okay, first we are going to decide, and second, we are all going to vote, and third, we are going to move on to the next step.' The process was much more nonlinear."

During a session with the photo diaries, for example, the researchers noted that the children's bedrooms in New Jersey tended to be meticulously designed by the mothers. "They look like they're from the pages of *Elle Décor*," noted one participant. Another child's bedroom in Los Angeles was suspiciously tidy



with a stylish airplane mobile hanging down. "That looks staged," an anthropologist observed, and the team discussed what that might mean. These were children who were driven everywhere in SUVs with carefully managed after-school activities. The researchers noted that the moms were also "staging" their children's development. They were trying to shape children who were creative, fun, outgoing, humorous, intelligent, and quiet all at the same time. Throughout the conversation, critical theory from the human sciences provided a framework for the observations. The researchers discussed how these "staged" childhoods resembled Foucault's "panopticon," where activities were under surveillance and subject to disciplinary measures. One of the analysts drew a picture with a large circle and a very tiny circle. "This is the space we used to have for playing," he said, pointing to the large circle, "and this ever-diminishing circle is the space these kids have right now."

In this same session, several researchers reported that children were hiding things from their parents. The observers noted the acronym POS (parent over shoulder) so prevalent in online gaming. One researcher reported being invited into a young boy's room to see his most secret prized possession. The child pulled a shoebox out from under the bed and announced that it was filled with magic poisonous mushrooms.

"We asked one kid to design his ideal room," another researcher told us. "And it had all sorts of covert elements: booby traps and CSI [from the *Crime Scene Investigation* TV series] secret doorways. Everything was communicating, 'Stay out!'" The anthropologists discerned that the box of mushrooms and the booby-trapped room were both reactions against the staging and surveillance happening in the children's lives. After further discussion, the team saw a pattern emerge more clearly: the children were suffocating.

"These kids were bubble-wrapped," one team member recalled. "Every physical space in their life was curated, managed, or staged by an adult. Whereas children in the past used to find freedom and an appropriate level of danger on the streets, playing on sidewalks throughout the neighborhood or roaming free in the country, these children needed to find their freedom in virtual spaces through online gaming or in imaginary zones (like the box of magic mushrooms)."

An important insight came to the group through the discussion of all of these observations. One role of play for these children was to find pockets of oxygen, away from adult supervision. The group realized that kids were desperate to sneak some element of danger into their lives. If the researchers had used a more linear process—one focused on the properties of the children's play—the team would never have thought to put poisonous mushrooms and booby traps in the same category. But the nonlinear act of connecting the dots revealed that the underlying phenomenon of both behaviors was the same.

At another point in the discussion, the researchers reported that kids in both Germany and the United States had systems of rankings and hierarchies everywhere. One researcher told the group about a boy's elaborate game of ranking his fantasy football players. The boy could rattle off endless statistics about every one of his imaginary players. Another anthropologist talked about the almost incessant discussion of video game scores within a group of boys. He reported that every day seemed to bring a new assessment of the hierarchy based on the video game's rankings. The research team turned again to the phenomenon: what did the kids' attention to rank say about the role of play? The team discovered that just as animals use play as a means of establishing social order and hierarchy, so too do children. They are playing to understand who is alpha and who is beta.

The most salient observation revolved around an old shoe. An eleven-year-old German boy showed a researcher his most prized possession. It wasn't a video game or a fancy new toy. It was his beat-up sneaker. He lovingly pointed out all the ridges and nooks along the side and the bottom. They communicated to his friends that he had mastered a specific skateboard trick. From this observation, the researchers discerned a larger pattern of mastery. Children play to achieve mastery at a skill. And if the skill is valuable to them, they will stick with it. The German boy's dedication to skateboarding—and the social currency it brought him—dismantled all of the earlier assumptions about time compression and children's need for instant gratification from their toys. In fact, the analysts discussed, it was the exact opposite. The most meaningful play for children seemed to involve degrees of difficulty and skill acquisition. The team dubbed this insight “instant traction versus paying your dues.”

These and other findings led the researchers to identify the key patterns: children play to get oxygen, to understand hierarchy, to achieve mastery at a skill, and to socialize. The patterns were simplified into four categories: under the radar, hierarchy, mastery, and social play.

“I still have the notebook from that first workshop,” Smith-Meyer told us. “I was thinking, ‘Why don't we do this all the time? Why would we just sit and talk to focus groups?’ LEGO has done a lot of research on play, but it almost becomes too academic. It didn't really live in people, certainly not in the management. We should have been out with families. These are the real people who use our products.”

#### Phase 4: Create the Key Insights

Once you have the patterns, the next step is to define what they mean for business, or to create the key insights. In many cases it helps to have one organizing idea to give a clear direction and focus

for strategy. In this phase, you create ideas to solve the problem at the core of the insight. These might include ideas for new products, new services, customer interactions, technology, and other improvements. If your insight has depth, you won't need a ton of imagination to create the right ideas. But it is important to look at these ideas from the perspective of the people who are going to buy, use, or interact with your products. This perspective can often be built around a value proposition that defines the benefit you are bringing to market and the vectors of innovation that you can use to guide development.

Instead of focusing on the false assumptions of time compression, LEGO started to reconnect with its core consumers: the kids who wanted to achieve mastery through LEGO play. These kids really did have the time and the desire to commit to LEGO.

Smith-Meyer explained: “When you just look at quantitative research, you say, ‘The average kid doesn't have time.’ But the reality is different. In reality, 40 percent of kids have a fair amount of time, while another 40 percent have no time. The average can't tell you anything. What we know is that LEGO does take time. We shouldn't take away the core idea of LEGO so that it fits into an average. We should say, ‘LEGO takes time . . .’ and the people who want to take that time will take that time. And the people who don't will go to Hasbro for action figures or some other kind of toy. We were trying to get rid of our core competency.”

The insight about the children's desire for mastery had design implications for all the products. “Now we are making products that are proud of being LEGO,” Smith-Meyer said. “If you look at the boxes, you know it's LEGO. You can't force someone to play with these bricks. The research allowed us to make a decision about who we wanted to reach. It was a decision that grew into a mantra: we're going to start making LEGO for people who like LEGO for what LEGO is.”

This moment of clarity about LEGO's connection to its consumer base led to the new company motto: "Inspiring the Builders of Tomorrow" and more outreach with the fan communities, including the Adult Fans of LEGO (AFOL).

"We started going to the AFOL conventions and doing business with people from the community," Smith-Meyer said. "These people were much more multifocused and dynamic in thinking about the product than we were."

The under-the-radar category that the research team had come up with helped LEGO to design toys with a covert sense of danger. One idea was a fire truck for boys—sweet and very straightforward—with an under-the-radar quality. A series of recipes would be leaked to online sites showing boys how to transform the truck into weapons and other dangerous items.

The LEGO clubhouse originated from these discussions. The clubhouse—now a central aspect of the LEGO retail environment—consists of bins and bins of LEGO bricks available for free play in all the stores. Kids can work their way up from the easiest bins—larger bricks and fewer pieces—to the hardest and most time consuming model building. Younger kids watch and learn from the older builders, creating an informal mentorship network based on a hierarchy of skills.

The patterns also showed the company where to cut back. CEO Knudstorp streamlined the elements available for new LEGO kits from 12,900 to 7,000. Instead of the design free-for-all that characterized the 1990s and the early aughts, today's LEGO product development is focused on strengthening the relationship with the same core consumer.

Executive vice president Mads Nipper described LEGO's value proposition to us:

We've developed a strong sense around what the LEGO Group does particularly well—we don't want to do stuff

just because there's a market for it. There are things we choose to do and things we choose not to do. The LEGO brick and variations of it remain the core part of what we do. It's part of our DNA. When we develop new bricks or play experiences based on the system we have, we make sure everything we add to that system supports systematic creativity. If a building system is exceptionally well done, it will enable everything from a model that emerges—from two-hundred-page building instructions to an idea that it's just a creative tool with a specific collection of bricks to let you do anything you want. We believe this combination is possible; the key requirement is to make the system exceptionally well thought through.

#### Phase 5: Build the Business Impact

One of the insights to come out of the study had enormous profit and growth potential for LEGO. The researchers kept hearing the kids talk about going up against authority: teachers, parents, and other adults. "For the first time, I really understood Nickelodeon," a researcher told us. "Every single story on that channel shows kids rebelling. There is just a lot of energy around that idea for kids."

But when the researchers brought up the possibility to the LEGO executives, they shot it down. "That's not us," the executives told the research team. The insight had depth and market potential, but it did not appeal to the company.

"Ultimately, the business impact has to be an aesthetic and even an ethical choice for the company," one researcher noted. "It's a big credit to LEGO that they turned something like this down. It shows that they actually stand for something."



“People keep asking us to speak on how we did it,” Smith-Meyer told us. “How did we make such a turnaround so quickly both internally and externally? But what they need to be asking is *why* are we doing this. Instead of asking, ‘Can we make more money?’ we should be asking, ‘Does this add to our mission of inspiring the builders of tomorrow?’”

LEGO started its journey by reframing its problem as a phenomenon: “How do we recapture market share?” turned into “What is the phenomenon of play?” After executive leadership engaged deeply in data collection, the entire team looked for patterns, or common themes, that fit into the larger analytical framework. From there, LEGO was able to create and design key insights that gave it a genuine perspective on its market.

LEGO is not the only company to use sensemaking to obtain these moments of clarity. In chapter 6, we introduce you to the executives at Coloplast, one of the world’s leading medical technology companies. Unlike LEGO, Coloplast had one specific challenge to conquer: the product-design pipeline. The company had no shortage of possible innovations—often initiated by its R&D team—but it could never adequately answer the most fundamental question: why are we making the product this way? Using the sensemaking method, Coloplast ultimately arrived at a moment of clarity that helped it create meaning and value across the entire company.

## SIX

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## Product Design

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## Coloplast

A SENIOR EXECUTIVE AT A major medical supply company was looking for a new direction for one of his best-selling products. He was staring at a conference table covered with R&D proposals containing net present value calculations, but it just didn’t feel right. Nothing in any of the numbers could tell him how people actually experienced the product.

He set the calculations aside and, instead, initiated a different kind of exploratory process using ethnography to study how people experienced living with his product.

When the data came back in, however, his team was overwhelmed. How do you find the needle in the haystack when you have thousands of photos, gigabytes of video, and endless field notes and other artifacts? Teasing out the reality from data like this is not as clear-cut as drafting a spreadsheet.