

Lego toying with new piece in battle with Mega Bloks

Danish building blocks maker aims at foundation of Canadian rival's business

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The building block wars are about to escalate.

For years, industry titan **Lego AS** has been accusing Montreal-based **Mega Bloks Inc.** of stealing market share by making colourful plastic blocks that not only look like the famed Danish building bricks, but snap right into them and sell for lower prices.

Now, Lego is planning to turn the tables on its upstart rival. The Danish construction-toy maker will soon launch a new line of oversized bricks aimed squarely at the toddler and preschool market segment that forms the foundation of Mega Bloks' business. Like Mega Bloks toys, the new Lego line — known as Quatro — will be made of a softer plastic and carry lower price tags than traditional Lego play sets.

Quatro, to be unveiled this month at the American International Toy Fair in New York, is one of a number of products Lego plans to roll out this year as it aims to regain lost ground. The Billund, Den-

mark, company has seen its share of the North American building-toy market slide to 62 per cent from more than 80 per cent several years ago. Meanwhile, Mega Bloks estimates that its share of the market has doubled during the same period to about 30 per cent.

"We want to claim back some of our lost market share, business that we believe is rightfully ours," says Soren Torp, Lego's newly appointed North American head.

The decline was partly why the closely held Danish toy maker reported a record loss of \$166-million (U.S.) for 2003, on sales that plunged 25 per cent from the prior year to about \$1.4-billion. As a result, Lego last year cut its work force by 4 per cent to about 8,000 employees worldwide.

While Lego has faltered, Mega Bloks has been growing. For the first nine months of 2003, the company's sales rose 18 per cent, to \$123-million, and profit nearly doubled from a year earlier to \$12.7-million. Analysts expect sales for the full year of \$224-million, roughly double the levels of 2000.

Mega Bloks carved its niche partly through low prices. A 140-piece Lego Bulk Tub of blocks is priced at \$19.99 on the Toys "R" Us-Amazon website. On the same site, a 100-piece Mega Bloks Mini Bag of blocks retails for \$9.99.

Unlike Lego, which uses its own mix of resins, Mega Bloks uses commodity-grade resins to make its colourful bricks. Lego believes its proprietary mix produces a higher-quality plastic. Some parents disagree. Claudia Esposito, of Madison, Conn., recently bought a Mega Bloks play desk for her three-year-old son because it was less expensive. Then she says she discovered that the larger Mega Bloks are "easier for him to manipulate" than traditional Lego bricks. "He's able to build things with them."

Mega Bloks chief executive officer Marc Bertrand and his brother Vic Bertrand, chief operating officer, say they're confident the company will continue to gain market share this year. At the New York toy fair, Mega Bloks will unveil a new line of smaller bricks that enables kids to construct elaborate models in finer detail than existing bricks. The new product is aimed at seven- to 12-year-olds — a segment still dominated by Lego — and has "blown away" focus group partici-

pants, according to the Bertrands.

K'Nex Industries Inc., a closely held Hatfield, Pa., company, and Hasbro Inc. of Pawtucket, R.I., which launched a line of construction toys last fall, are also vying for sales in a market estimated at about \$600-million a year.

Now with Quatro, Lego is taking aim at Mega Bloks' sweet spot — the preschool-aged market where the Canadian company commands a 50-per-cent market share versus Lego's 10 per cent. Made of softer plastic and larger in size, the new Lego bricks are easier for small children to manipulate. Quatro's prices will be in Mega Bloks' range.

In recent years, Mega Bloks also expanded beyond the preschool niche with more elaborate models designed for older children. Lego has tried to stymie its Canadian foe by filing lawsuits claiming that Mega Bloks is deliberately trying to confuse customers into thinking they're buying Lego products. But because its patents have expired, Lego's efforts have largely failed.

But one of the main focuses of Lego this year will its effort to wrestle Mega Bloks for bragging rights in North America's playpens. "You know what they say," Lego's Mr. Torp says, "if you get them young, you get them for life."