

# Chinese Blind Box Market Needs Regulating

Lige Fu <sup>1, †</sup>, Zheyu Zhao <sup>2, \*, †</sup>

<sup>1</sup> Eli Broad College of Business, Michigan State University, East Lansing, 48824, United State

<sup>2</sup> College of Business, Missouri State University, Springfield MO, 65897, United State

\*Corresponding author. Email: zheyu23293@live.missouristate.edu

<sup>†</sup> These authors contributed equally

## ABSTRACT

China's rapidly developing economy and the sound Internet era have had an integral influence on the prosperity and rise of the blind box industry. This paper focuses on the lack of market regulation and the corresponding adjustments that need to be made in the context of the era of blind box emergence. The blind box market has expanded exponentially since 2015 and is expected to reach 30 billion by 2024. Not only are blind boxes widely accepted in China, but the consumer base is also diverse. Pop Mart, the hottest blind box toy company, has also made huge profits in the past few years. However, the lack of regulation in the blind box market has become a widespread phenomenon, with most blind box companies facing thousands of unresolved complaints on consumer websites, as well as the existence of some blind boxes that go against ethics. In this regard, the market should be clear regulatory requirements, the government should improve supervision, set a red line for the blind box market.

**Keywords:** Blind box, Market supervision, Generation-Z, Consumer View

## 1. INTRODUCTION

### 1.1. Background

In recent years, China has experienced a period of rapid development in the past few years with economic reform, opening up, and optimization of the economic structure. Both the economic level, social conditions, and people's lives have undergone radical changes. Especially in the 1990s to the first decade of the 21st century. The consumption level of Chinese people has increased. The emergence and application of the Internet have increased the impact of information on society. Global digitization is affecting and accelerating the development of human society. The development of human society. People are living in the information age. The Internet, Smartphones, and other technological products were born in this era [1]. The popularity of blind boxes is gradually coming into the public eye, especially the trendy toys led by Pop Mart, which, with its unique design sense, meets the consumer orientation and aesthetic preference of some young people.

The blind box attracts consumers with its cute appearance and uncertainty of consumption [2]. Meanwhile, Pop Mart attracts a large number of consumers and is the most famous popular toy company. It has different artists designing blind boxes with

different series and IP (intellectual property). For example, Molly and Pucky are attractive IPS of Pop Mart 2020.

With the development of the times, people's needs have evolved from low level physical needs to high level psychological needs. The "Z generation", as the "aborigines" of the Internet and new consumption, has become the main force of trendy consumption. They are the typical and pure "only generation", relatively lack of interaction with peers, and are more eager to express their emotional demands through circle socialization, and have a higher degree of acceptance of non-essential consumer goods that show their individuality and independence [3]. The market for blind boxes has been expanding and blind box companies have made huge profits from the business opportunities. The idea of hipster play to express individuality and self-expression is also recognized by more and more youth groups, and the number of teenage consumers is growing. The fast-growing blind box economic system has also led to the subsequent exposure of many problems, such as improper regulation and a mismatch between quality and value. This series of problems has sparked widespread concern from the masses to the central government.

## 1.2. Related research

Gao and Chen ask 10 questions to interview China's Generation Z, a young generation of Chinese born between the late 1990s and early 2010s, about their understanding of the blind box economy. With the development of society and technology, they are familiar with the Internet and willing to accept new things. The paper attempts to find out the reasons for the popularity of blind boxes among Generation Z in China [1]. Hill et al. research how retailers use mystery and people's curiosity to boost purchase motivation. Many firms intentionally restrict information about their products to intrigue consumer curiosity and drive purchase motivation. The research presents that moderate information could make consumers more curious. Consumers' purchase motivation was affected by curiosity directly or indirectly [2]. Hu studies the identity construction of the art player group from two aspects: self-identity and group identity. With the rapid development of the economy, people's living standards have improved greatly, and their entertainment choices in daily life have become more and more diversified. Art toys are then loved and sought after by many people. Players seek recognition and comfort in virtual communities through the evaluation of other players, and achieve self-identity building through imaginative and showy consumption [3].

The Mob institute overviews the development of the blind box in China in 2020. The report analyzes the pioneer companies of the blind box and main consumer groups. According to the analysis, the report believes that the market of the blind box still has ample room for growth and estimates that the market value of blind box in China would reach 30 billion in 2024 [4]. Chen uses Pop Mart as an example to evaluate the consumer psychology behind the Blind box industry. In many megacities such as Beijing, Shanghai, and Guangzhou; Blind box stores could be found in almost every mall. The research analyzed why more and more people are willing to spend money on Blind boxes. And what features satisfied consumers' psychology of curiosity, pursuing beauty, and desire of companion [5]. Iimedia research analyzes the blind box market of China in 2020. The report focuses on the main consumer group at blind box market, which founds that nearly 40% of consumer are Gen-z and their purchasing power keep increasing. This trend shows the great potential growing of Chinese blind box market [6]. Kaylene and Page study six generations of Americans growing up and their lifestyles and attitudes to understand their spending habits. Understanding the unique expectations, experiences, generational histories, lifestyles, and values of multiple generations is necessary to arrive at marketing understandings and strategies that are appropriate for each generation's characteristics and behaviors.

Therefore, salespeople can have appropriate practices in segmentation, product, service, and communication [7].

Wall Street Insight focuses on the changes in Pop Mart's share price in 2021 during the boom period, and then analyzes the growth trend of this business to find a way out. Pop Mart's share price peaked at HK\$107.337 in February 2021, then plunged to HK\$45.15 and lasted for more than half a year, dropping more than 100% from its peak. However, Pop Mart's overall retail revenue rose 75%-80% year-on-year in the third quarter of 2021, and the stock price rose to HK\$55.85. According to the report, if Pop Mart wants to maintain its high market value, creating a "trendy cultural community" is the only way to do so [8]. Chinese Consumer Protection overviews wild growth of the blind box economy has given rise to a lot of chaos, such as excessive formaldehyde, prize redemption disputes, and secondary sales. The report cites the complaints of Pop Mart, the "leader" of the blind box economy, which has more than 1,400 complaints on the China Consumer Protection Platform, mostly due to non-delivery, difficulty in returning goods, and quality problems without after-sales service [9]. Zhao and Xu review the development of the blind box industry. Research takes the most popular brand of the blind box as examples to discuss the marketing strategies, including uncertainty, hungry marketing, joint name and fan effect of IP, Demand-driven by social communication, etc. Research also discusses some shortcomings of the blind box like over marketing and inadequate supervision [10].

Ma and Xu research the market of the blind box in China and mentioned that the market lacks supervision. Some blind spots of regulation such as gambling, consumer fraud, private lottery, and illegal transportation could cause adverse effects to the development of blind box. The research analyzes several cases and gives suggestions about how to regulate the market [11]. Chinese Consumer News expresses a decision by the Chinese central government to restructure the blind box market. The Chinese government intends to increase regulation of blind box companies in order to eliminate consumer victimization [12].

Zeng studies the consumers' sense of experience with Pop Mart as a representative of cultural and creative products. Pop Mart is not only a trendy retail product, but also a multifaceted innovation and experiment around entertainment, transaction and socialization. Its long-term development has formed its own industry chain closed loop, so that new capital entering cannot pose a threat to it [13]. Priporas et al. use a qualitative approach to conduct a series of semi-structured in-depth interviews with 38 university students in the UK market. To explore Gen Z consumers' perceptions, expectations and suggestions for their future interactions in a smart retail environment. The findings show that smart technology has a significant impact on the experience of Gen Z

consumers and that this particular group of consumers is looking forward to the widespread use of a variety of new technologies, devices and electronic programs that will lead to smarter shopping and faster transactions[14].

### 1.3. Objective

This research focuses on the lack of supervision on the Chinese blind box market and gives suggestions about how to regulate the market. In the second part, the research introduces the macro environment of the blind box in China and use a pioneer company "Pop Mart" as an example to show the popularity of blind box in China. The third part mentions some problems and risks of the blind box market, which growing rapidly without good supervision. In the last part, the research gives three suggestions about how to establish a positive, healthy market of blind box.

## 2. BLIND BOX MARKET OF CHINA

### 2.1. Chinese blind box market has enough room for growth

As the economic growth in China, the consumer market becomes more and more diverse. Many new business models and industries arise, Blind box is one of the hottest industries. Blind box first came emerged in China in 2016, and with great capital investment in 2019, this industry entered a period of a big boost. More and more companies entered to blind box market and wanted to capture some market shares. Some pioneer companies, for example, Pop Mart, began to cooperate with some famous designers to create their own IP. At the end of 2019, the market size of designer toys in China reached 20.7 billion Yuan, increase 47.9% compared with 2018's data. And the blind box was a major part of designer toys, so the blind box industry also achieved a new milestone. According to the research and estimate from industry report, the Chinese blind box market will keep growing rapidly for 5 years. And the maker size of this industry will reach 30 billion yuan in 2024 [4].

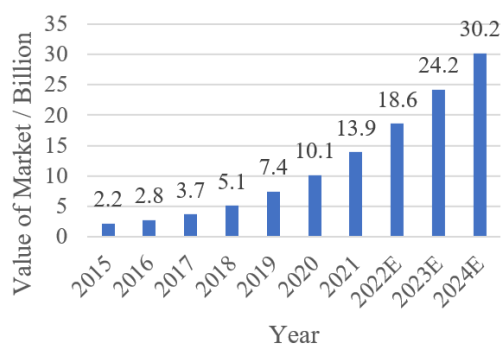


Figure 1 2015-2024 Chinese Market Size of Blind Box

### 2.2. Blind box gained widespread acceptance

The main consumer groups of the blind box in China are young white-collars and Gen-Z students [4]. These two groups have some same characteristics. First, their economic level could allow them to purchase blind boxes frequently. People in the White-collar class have higher salaries to support them spending money on buying the blind box. For Gen-Z students, most of them do not have much pressure from making a living. In this case, they could use their spare money to buy the blind box. Second, they are educated so that they could accept new things and phenomena quickly. That is why They are willing to pay for their interests and curiosity [5]. In 2020, Gen-Z become the main consumer of the blind box, accounting for nearly 40%, and 8.6% of the consumers are willing to purchase the blind box which the price above 1000 yuan [6]. Compared to the conservative Gen X and Gen Y, Gen Z is more accustomed to high technology and multiple sources of information. Gen Z is a global and diverse generation, coming from a wider range of backgrounds with different experiences and ideas. Accustomed to the Internet, Gen Z needs a sense of belonging and peer acceptance is very important to them, so they are more likely to be exposed to new and popular products like blind boxes [7]. With the fast growth of the blind box market, more and more young people were attracted by blind boxes and began to try them.

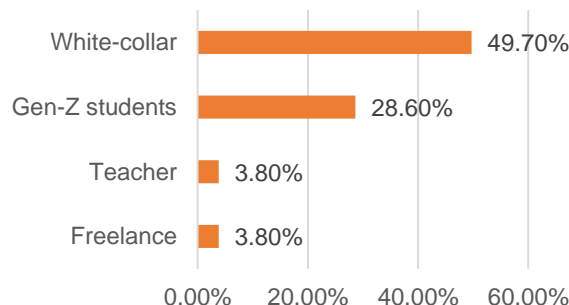


Figure 2 Segments of Consumers [4].

### 2.3. Pop Mart's Prosperity Status

Pop Mart is a pioneer of trendy toys in China, introducing the trendy toy "Molly" in the form of blind box sales after the launch of its e-commerce platform "Pa Fun". Pop Mart is China's tide play brand emerged around 2010, in its 2016 burst of fire before, there was a long time in the Chinese market has been in a lukewarm and embarrassing situation [3]. Molly's first series released in mainland China, a set of 12 blind boxes, priced at 708 yuan each, limited to 200 sets, was sold out in just 4 seconds on Pop Mart's T-mall flagship store, fully demonstrating the immense vitality of trendy toys. If the limited sales form is hunger marketing, grasping the psychology of consumers, then the blind box sales form is even better. Pop Mart, as a representative of

cultural and creative trendy life brands, integrates design, production, sales and derivatives development, and its main business covers trendy toys, creative home, fashion accessories and other aspects, aiming to create a new Lifestyle experience for urban youth. The various channels of Pop Mart online and offline continue to make efforts, and the revenue performance of retail stores, robot stores, box drawers, e-commerce and wholesale channels are quite excellent. With the concept of creating fun and imagination, Pop Mart concentrates on many interesting products, allowing customers to enjoy

shopping and shopping at the same time, and under the current personalized and segmented consumer demands, emerging brands like Pop Mart seem to be better than mature brands in content production. On November 1, 2021, Pop Mart, the industry leader in the hip-hop marketplace, disclosed its latest business status for the third quarter, with overall retail revenue up 75% to 80% year-over-year, which is estimated to be close to 2019 full-year revenue of 1.683 billion yuan, and not far from the revenue of 1.77 billion yuan in the first half of 2021[8].

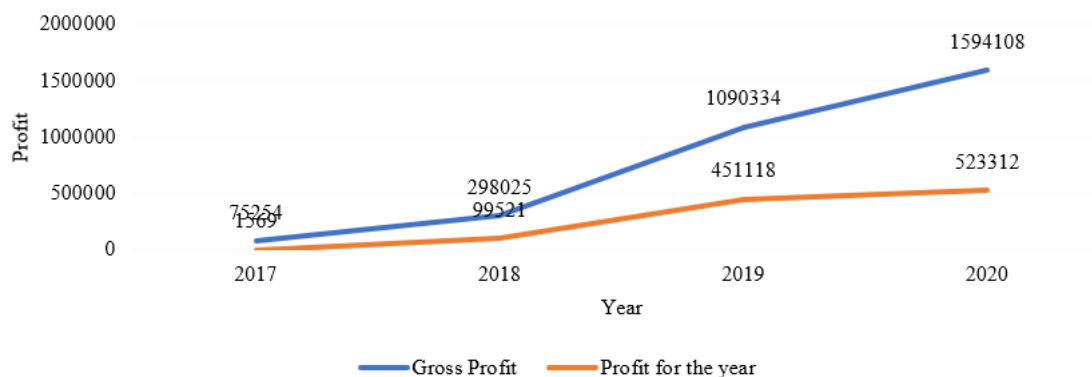


Figure 3 2017-2020 Pop Mart Sales Report [15].

### 3. LACK OF SUPERVISION IN BLIND BOX MARKET

#### 3.1. The chaotic image behind the popularity of Pop Mart

The novelty and excitement possessed by the blind box has attracted many young people to chase this trend. However, the wild growth of the blind box economy has also given rise to a lot of chaos, such as excessive formaldehyde, prize redemption disputes, secondary sales and other problems. Since entering August 2021, Pop Mart's share price has plunged several times to a low of HK\$51.05 per share, with a total market value of HK\$71.5 billion, compared to a market value of more than 150 billion at its peak, the market value evaporated more than 70 billion [9].

As the "leader" in the blind box economy, Pop Mart has more than 1,400 complaints on the China Consumer Protection Platform. These complaints can basically be grouped into three categories: no delivery, difficult to return, and no after-sales service for quality issues. Ms. Liang mistakenly purchased a product at Pop Mart Live, ordered a refund at the moment, had no response, and immediately approached customer service to request a refund [9]. Customer service has agreed and said registered on, but the next day still shipped, and then find customer service, customer service said there are more than 3,000 people in line, cannot solve the problem.

Of the 1404 complaints about Pop Mart, 1365 of them were not resolved, and the resolution rate was only 2.7%. In terms of complaint handling and after-sales service, Pop Mart is not very active, with the earliest unprocessed complaint dating back to January 2019. Consumer Protection has been actively contacting Pop Mart in the hope of coordinating the handling of consumer complaints, but phone contact has always gone unanswered, feedback through the official micro-blogging no response, and now feedback complaints through the official website email, but no response [9].

However, Pop Mart also has a lot of complaints on another platform. As of February 25, 2022, Pop Mart has also received a total of over 7,000 complaints on "Black Cat Complaint", which is a consumer service platform owned by Sina in China, including complaints about goods being swapped, false propaganda deceiving consumers, and obvious quality problems with blind boxes. As a famous company of tide play, while enjoying the dividends brought by the market and consumers, it should be stricter in product quality and service reputation, instead of ignoring the reasonable demands of consumers. When the blind box is popular around the world, it's also the peak of its development. However, the fact is there was chaos behind the market. The Chinese market should increase the supervision of the blind box industry.

### 3.2. Ethical problem of blind box

As the market of the blind box begins to flourish, many companies and industries notice the great profit of the blind box and want to enter the market. Most of them regard the concept of “blind box” as a distribution channel. In this case, the market of the blind box fills with different types of merchandise; such as apparel, cosmetics, electronics, etc. However, the market of the blind box still lacks regulations and not all products are compatible with the blind box model. Some people found a Loophole of the law and made use of it to make profits. For example, In May 2021, XINHUANET reported that some online stores sell “pet blind box” on several popular e-commerce platforms. The store owner said that consumers could have a chance to get some rare pets at a low price. Many consumers were attracted by this rumor and bought these blind boxes. But most stores just use the blind box as a tool to handle some pets with the disease, disabilities, or unpopularity. Those pet blind boxes were shipped to the consumers by logistics companies. Because of the weak health condition and adverse shipping environment, many pets died during the shipping. The rest of the pets that survive from tortures still have a high risk of abandonment by the consumers, because the characteristics of blind box determine that people cannot be guaranteed to acquire what they want. This social phenomenon shows that some stores owners, consumers, logistic companies, and e-commerce platforms have no respect for life. The value of life cannot be judged by money easily and cannot become the wagers of business. However, since the blind box was a new business model in the Chinese market, there are not enough regulations or specific laws to guide the market. Some events we could just condemn on the level of ethics. In order to push the blind box industry to become healthy and sustainable, regulations are indispensable.

## 4. DON'T LET THE BLIND BOX BECOME A BLIND SPOT OF REGULATION

### 4.1. Set the red line of the blind box

Not everything could be blind box. Many companies sell the unusual blind box in the name of innovation. However, some products, such as alcohol, cigarette, medicine, and living animal, have special features. They may cause health problems or ethical problems in the society [10]. In this case, the government should set red line clearly to guide and make sure the market of blind box has a positive development. Although the blind box is a new industry for regulators and there is no definite law to regulate the market, If the red line was crossed, the regulators could still make some punishments to lawbreakers under the current legal framework. For example, more and more minors began to try the blind box. Because the blind box could be purchased online or via vending machines, it is hard to prevent minors from

buying alcohol and cigarettes. According to Article 59 in the law of the People's Republic of China on Law on Protection of Minors, “It is prohibited to sell cigarettes, alcohol, and lottery tickets to minors.” [16]. The regulators could restrict or ban alcohol and cigarettes on the market of blind box.

### 4.2. Defining the border between blind box and gamble

As the market of the blind box becomes diverse, the types of the blind box also increased rapidly. Not only selling in retail stores but also selling online with no real box, which means that consumers have extremely limited information about the blind box [11]. The virtual blind box gives blind box providers too much power to control the ratio that consumers could actually get. One thing like virtual blind box is loot box in video games. People have chances to acquire character's skin or weapon by opening the loot boxes [11]. Many people spend huge money on those boxes so some countries' regulators started to pay attention to loot boxes. In 2018, at the 2018 Gambling Regulators European Forum, 15 gambling regulators from Europe and one from the US announced they will “address the risks created by the blurring of lines between gaming and gambling”. Therefore, regulators should also notice the blind box to prevent consumers from falling into the traps of gambling.

### 4.3. Accelerate the issuance of blind box market norms

In recent years, the blind box market has continued to heat up while also revealing many problems that have caused widespread concern in the Chinese market as well as from the government. The problem is mainly concerning no delivery, difficult to return, and no after-sales service for quality issues [9]. First, the government needs to clarify the criteria for identifying blind boxes, to ensure that the blind boxes drawn by consumers are value for money, to establish a monitoring mechanism for the quality of blind boxes and the use of materials, to ensure that the materials are reasonable and compliant, and that the value of the product matches the market price. Secondly, the probability of drawing a blind box needs a third-party monitoring mechanism, or the introduction of a corresponding legal policy to erase the opportunity for companies to use the relevant legal gaps to adjust the probability of drawing. In China 2022 two sessions, Shanghai delegation said that information such as the rules of extraction and the probability of extraction should be made public. Clearly operators to take a random selection of sales, should be a prominent way to publicize the rules of extraction, the number of goods put, the probability of extraction and other key information. In addition, the public's consumption of blind boxes should be mainly limited to small consumption in areas such as daily consumption, literature and entertainment,

and blind box products should not be disguised as gambling or lottery sales activities, and should not induce irrational consumption [12].

#### 4.4. Make blind boxes from niche to mass

From the case study of Pop Mart, it is clear that: the consumer body is iterating, from Generation X, Generation Y, to Generation Z, where personalized consumers are becoming the main contributors to consumption [13]. Generation Z seems to be the biggest marketing challenge of the future, they are highly educated and tech-savvy, innovative and creative, the first generation born in the digital world, and therefore it is the driver of innovation and change [14]. The healthy development of the blind box market is inseparable from the education and guidance of minors, as well as the cultivation of a rational educational outlook for the public. It is suggested that the education authorities and primary and secondary schools should study educational guidance measures for the consumption of blind boxes by minors. They should increase their efforts in the campus, surrounding areas, communities through classroom lectures, thematic activities, and pamphlets to prevent minors from going astray into the "blind path"[9]. With the progress of the times and the upgrading of consumption, the field of tide play will continue to innovate. With more and more popular brands, people are also paying more and more attention to the pursuit of individuality in psychological terms. It is suggested that the blind boxes go from niche hobbies to the actual needs of the masses, and increase the practical value and diversity of the products to make the blind box economy healthier [13].

### 5.CONCLUSION

Blind box is one of the outcomes of the digital economy, it provides a new business model for the consumer market. The value of the entire blind box market could reach a new milestone in the future. However, as the market of blind box grows rapidly and becomes diverse, more and more risks and problems spring up, such as Fraud, gambling, against of ethics, etc. Because the existing laws or regulations cannot supervise the development of blind box perfectly, those problems mentioned above could become "trojan horses" for the whole market. In order to establish a healthy market and guide the blind box market develop to a positive way, the government should advance with the times and pay attention to managing the blind box market. for instance, setting up the red line of blind box market, improving the laws or regulations of blind box, and protecting the rights of consumers. Of course, all those methods need Long-term plans and joint effort from many fields.

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