Business Strategy and Risk Analysis in Blind Box Economy - A Case Study of POP MART

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ABSTRACT
With the explosive popularity of blind boxes in China, more and more companies have started to develop the 'blind box+' business. Nowadays, the market has shown a phenomenon of "everything can be sold in a blind box" and blind box products gradually grow to the peak of consumption with some problems arising. This paper takes Pop Mart, a leading blind box company, as an example, using PEST analysis to explore some macro factors, SWOT analysis, and financial data analysis to study the internal ones, to reveal its business strategies and the risks involved, then proposes sustainable development practices to provide a reference for strategic adjustments of both Pop Mart and related companies in the context of the blind box economy.

Keywords: blind box economy, POP MART, SWOT analysis

1. INTRODUCTION
1.1 Context of Blind Box Economy
The blind box originated from the Japanese fukubukuro culture and is a fusion of garage kits and fukubukuro. In recent years, with the development of China's economy, the growth of the cultural industry, and the formation of the Z generation (the generation born between 1995 and 2009, also known as the 'Net Generation' and the 'Internet Generation'), the blind box market has grown rapidly under the impetus of the 'Internet+' and its sense of mystery and surprise. Besides, toys in the blind box have become a huge hit in the trendy toy industry today. Chinese trendy toy brands such as POP MART, 52TOYS, and TOP TOY have become the leading trendy toy companies in China, and will possibly push the blind box economy from one peak to another.

In 2020, the market growth of the Chinese trendy toy industry slowed down under the influence of the COVID-19 epidemic. However, as the situation of the epidemic in China gradually stabilized, the trendy toy market regained its vitality. The Securities Times reported that, according to the ‘2021 China Trendy Toy Market Development Report’ published by the Chinese Academy of Social Sciences, from 2015 to 2020, the compound annual growth rate of the Chinese trendy toy market reached 36%. Also, it is estimated that the scale of it will reach 47.8 billion CYN in 2022 [1]. The blind box toys, as an important form of trendy toy, also have huge commercial potential and are likely to continue to grow at a high rate in the future as well as expand the position of trendy toys in the Chinese cultural industry. Despite its success at present, there are some inherent drawbacks to the blind box economy which should be recognized and tackled properly.

1.2 Literature Review
A large and growing body of literature has investigated the reasons why Pop Mart has gained a large market share from the perspective of its marketing strategy, however, they analyzed with different logic. Huijin Rong (2022), for instance, by analyzing the marketing environment, reported that there are 4 reasons for the booming sales of blind boxes which are its target consumers and price, offline store marketing, online marketing, and the cooperation with other brands [2]. In addition, Yutong Shi (2021) used microeconomics, macroeconomics, and behavioural economics to study the economic factors which are helpful for the rise, the expansion, and the sustainable development of the blind box economy respectively [3]. By using research data from various securities, Qi Wan and Jie Liu (2022) analyze the existing advantages such as its low consumption threshold, complete IP closed-loop, and multi-channel sales model. Also, they addressed some problems of the blind box industry, proposing...
corresponding countermeasures and predicting the future development prospects of the Chinese blind box industry [4]. In terms of the innovation path of the business model under the blind box economy, Xinhang Ying, Yongsheng Xiang, Lai Wei, and Jianni Pan (2021) explored the novelty of Pop Mart from four aspects which are value proposition, value creation, value delivery and value acquisition to form a comprehensive competitive advantage, and provided ideas for the innovation adjustment of related enterprises under the blind box economy [5]. Moreover, Chengwen Wang and Chen Meng (2021) comprehensively studied the whole process of Pop Mart from its establishment to development from a historical perspective, and concluded that it can be mainly divided into 4 stages: established offline stores, independently developed new trendy toys, built up secondary market mechanism and carried out cultural construction on toys [6].

From the above literature, it can be seen that the analysis of the blind box economy at this stage is mainly from the perspective of the general macroeconomic environment to explore the marketing strategies of Pop Mart and there is less research on a comprehensive and specific analysis of its internal and external environment. This paper will break away from the single, traditional industry research method and build a research idea that integrates financial data analysis, PEST analysis, SWOT analysis, and theory from behavioural economics to improve the accuracy and comprehensiveness of the analysis of all aspects of Pop Mart's strategy so that this paper can provide more reliable suggestions on the strategic adjustments for the future development of POP MART, and offer ideas for the transformation and adjustment of Chinese trendy toy industry.

1.3 Research Significance

In recent years, the Chinese government has taken various measures to strongly support the development of the cultural industry, such as the Opinions on Promoting the Integrated Development of Cultural Creativity and Design Services and Related Industries and the Guidance on Promoting the Deep Integration of Culture and Science and Technology and so on [7]. These initiatives aim to increase the cultural confidence of the Chinese as well as their sense of cultural identities. Blind box trendy toys, as a kind of spiritual and cultural consumer goods, are increasingly recognised by young people because these toys fit the emotional and value needs of the ‘Z Generation’. The analysis of the reasons for the popularity of blind box trendy toys, the problems behind it, and the potential solutions are conducive to the sustainable development of the blind box industry as well as provide a reference for the artwork industry and the non-heritage cultural industry to further promote the development of Chinese cultural industry.

2. METHODOLOGY

2.1 PEST Analysis

PEST analysis is an analysis of the macro-environment, it is also called general environment analysis. The primary purpose is to help companies to investigate their external environment in four aspects including political factors, economic factors, sociocultural factors, and technological factors [8]. Here PEST analysis is used to explore the macro-environment of Pop Mart concerning these four factors.

2.2 SWOT Analysis

SWOT analysis, also known as situation analysis, was introduced in the early 1980s by a professor of management at the University of San Francisco and includes Strengths, Weaknesses, Opportunities, and Threats [9]. In this paper, the SWOT analysis will be utilized to analyse the strengths and weaknesses of Pop Mart and the opportunities and threats it faces, to help Pop Mart focus its actions and resources on the areas where there are more opportunities.

3. ANALYSIS OF POP MART’S ENVIRONMENT

3.1 External Environment of Pop Mart

Beijing Pop Mart Cultural Creative Corp., Ltd. was established in 2010, and on 11 December 2020, Pop Mart International Group Limited was listed on the Hong Kong Stock Exchange. As a leading trendy culture and entertainment company in China, Pop Mart’s operating income in 2020 and 2021 are ¥2,513 million and ¥4,491 million respectively, with a growth rate of 49.3% and 78.7%. Also, it is estimated that Pop Mart will develop at a high speed over the next 3 years, growing at 40.2% on average, as shown in Table 1. Together, this data show the enormous potential of Pop Mart.

<table>
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<tr>
<th>Table 1. Operating income, Net profit to Parent and the growth rates of Pop Mart from 2020-2024</th>
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<td>Operating Income (million yuan)</td>
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<td>Net Profit to Parent (million yuan)</td>
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Note: data from 2022 to 2024 are estimated.
3.1.1 Political Environment

As a new industry, the blind box trendy toy is not subject to many national policies. But also due to the lack of targeted laws as well as market supervision regulations, the hot sale of blind boxes has also given rise to a series of problems, causing some market chaos and controversies among consumers. On 12 January 2022, the Shanghai Municipal Bureau of Market Supervision issued the "Compliance Guidelines for the Operation of Blind Boxes in Shanghai", which is the first policy regulation for the blind box industry in China. This guideline regulated the pricing system of blind boxes, the range of products sold in blind boxes, the speculation in the secondary market and the after-sales protection of consumers' rights. In addition, it also put forward to establish a protection mechanism for minors, for example, minors under 8 years old should be prohibited to purchase the blind box products [10]. As most minors have not yet formed a correct view of consumption, the measure is mainly aimed at preventing minors from blindly consuming.

With the formulation and release of the first rules for the blind box industry, China will continue to introduce more policies in the coming years to regulate the operation and development of the blind box industry, and gradually establish a stricter management system for the blind boxes to ensure that the market operates under legal and compliant conditions.

3.1.2 Economic Environment

In February 2021, the Chinese government announced that China had been completely lifted out of poverty. With this as the cut-off point, China is gradually embarking on the road to common prosperity along with a continuously rising economy. At the national level, the growing dynamism of the commercial market and the development of new business models and formats have brought new business opportunities to various industries. In particular, in the cultural and entertainment consumption industry, the emergence of innovative entertainment markets such as the murder mystery game, trendy toy blind boxes, e-sports mobile games has enriched the forms of entertainment and met the consumption needs of our consumers. And at the individual level, as shown in Figure 1, the per capita disposable income of Chinese residents has been rising gradually at a steady rate in recent years, with the Engel coefficient showing a roughly declining trend. This shows that people are gradually increasing their level of spiritual consumption in addition to meeting their daily physical needs. The above two levels of analysis show that the macroeconomic environment in China provides a solid foundation for the development of trendy blind toy boxes industry.

3.1.3 Sociocultural Environment

With the continuous development of the society, emotional health has become one of the most indispensable health demands for young people who live in a fast-paced and stressful life. They are very concerned about their psychological needs, preferring to buy products for the purpose of regulating emotions, relieving stress or gaining a sense of belonging. As a result, blind boxes are attracting a large number of young consumers with their novelty, excitement, surprise and high value appearance. In the coming years, the increasing spending power of Generation Y and Generation Z in the market will inevitably provide more room for the blind box industry to grow. At the same time, it is important to note that the blind box, as an entertaining and cultural product, needs to be constantly conceived with new ideas and innovations as well as keeps up with the trends and values of young people.

3.1.4 Technological Environment

In the fast-moving information age, people are inseparable from their electronic devices and are bombarded with all kinds of information almost every minute of every day. The internet has brought many dividends to blind box industries: social media has provided more efficient and less costly channels for brand and product promotion; a virtual community for customers to exchange thoughts with each other; the rise of "live streaming" has allowed consumers to see products more visually; online stores allow consumers to buy what they want without leaving their homes, and so
on. However, the internet is a double-edged sword, bringing with it many benefits as well as additional risks. For example, negative reviews of a product can spread quickly among potential buyers, which can quickly reduce brand recognition and therefore directly affect sales. In addition, the issue of production technology is also something that the blind box industry needs to focus on. It needs to constantly improve production technology and upgrade production equipment to keep costs to a minimum while ensuring that the quality of the products meets consumer expectations.

3.2 Internal Analysis of POP MART

3.2.1 Strengths- Business strategy analysis

3.2.1.1 Online + offline multi-channel development

The sales channels of Pop Mart are mainly divided into two categories: online and offline. The offline one mainly contains retail shops, flash shops, robot shops, and exhibition sales, while online channels are mostly distributed in the official WeChat Mall, the Paqu App, the Tmall flagship shop, and other e-commerce brands. As can be seen from Figure 2, Pop Mart's offline retail shops were the main source of revenue in 2019, accounting for 43.9% of the total revenue, and the online channels, as well as the robot shops, have been on a roughly upward trend in terms of revenue share since 2019, especially the online channels, which grew from 32% to 41.8% in three years, even surpassing the offline retail shops. It is a major business strategy for Pop Mart to enter the market from offline shops, expand online channels and set up offline robot shops after establishing a brand effect.

3.2.1.1.1 Offline shops bring their own traffic

Pop Mart usually opens its offline shops in large shopping malls, which is more suitable than other channels to let more people know about it in the early stage of development. One reason is that large shopping malls have a wider range of visitors, including people from different age groups, various income levels, and with different preferences, which might be its potential customers. Meanwhile, the whole process of service in offline shops, from shopping guides to final checkout, can improve customers' buying experience.

3.2.1.1.2 Physical shops are more artistic

Pop Mart's products are different from general utility goods: the blind box itself does not cost much, so the premium comes mainly from the artistic value of the IPs, or what consumers perceive as appreciation value. In offline shops, consumers can immerse themselves in closed scenes, the artistic decoration of which can enhance the value of the blind box in the minds of consumers.

3.2.1.1.3 Online channels further enhance the shopping journey

After the brand effect has been created, the trendy toy blind box already has a certain value in the consumer's perception, and this is where the online channel becomes a way to expand sales. Online shops are more convenient, quicker, and easier to access than physical shops, allowing consumers to purchase the products they want without having to leave home. At the same time, the existence of trendy toy apps such as Paqu App not only provides a platform for consumers to buy trendy toy blind boxes but also creates a social circle of trendy toy lovers, increasing consumers' sense of belonging.

3.2.1.1.4 Offline robot shops create more possibilities for revenue boosting

In the current social context, with everyone claiming to be 'socially phobic' on the one hand, and the recurring epidemic on the other, the robot shop is a contactless way of selling that is increasingly in line with the needs of society. In the meantime, the robot shops are highly mobile and can be placed on underground platforms, shopping street intersections, and other high-traffic areas, which make the blind box trendy toys more accessible to the consumer market.

3.2.1.2 Price advantage

When it comes to trendy toys, people usually think of more expensive trendy toys such as gunpla—gundam plastic models and customised garage kits, whose prices range from a few hundred to a few thousand yuan, and ordinary people are not able to afford such entertainment
3.2.1.3 The inherent advantages of the blind box

The inherent characteristics of the blind box itself follow an important behavioural economics theory proposed by Daniel Kahneman and Amos Tversky in 1979: prospect theory. Firstly, people are obsessed with small probability events. Prospect theory states that people's risk preferences are different in the face of loss and reward: when it comes to reward, people are risk taker; when referring to loss, they are risk-averse. Secondly, there is reference dependence, that is to say, what people perceive as losses and gains are relative to a reference point. Thus, Pop Mart's use of the blind box model to sell trendy toys with a hidden item in it follows the prospect theory analysis of people's behaviour. Unlike a raffle, a blind box definitely contains a trendy toy, thus preventing people from being reluctant to buy a blind box due to a risk-averse attitude towards losses. Moreover, the fact that Pop Mart has a small number of hidden toys with a small probability triggers an appetite for risk and a willingness to spend more money in order to get the hidden ones, even if they know that the chances of success are tiny. Also, because of reference dependency, when someone around them gets a valuable and rare hidden doll, people feel they are at a loss and are more willing to gamble on something that is unlikely to happen, which means that they will spend many times as much money on the same series of blind boxes.

3.2.2 Weaknesses

3.2.2.1 Low utility, easily replaced

The practical value of the blind box itself is relatively low, and the pleasure that most consumers get from buying a blind box decreases dramatically the moment they open it, and as the number of purchases increases, the satisfaction of opening an additional blind box decreases according to the theory of diminishing marginal effects in microeconomics. Therefore, as the blind box trend continues to develop, it is likely that the popularity of blind boxes will decline significantly as consumers begin to rationalise their usefulness or when more innovative trends emerge.

3.2.2.2 Blind box toys lack soul and have low user stickiness

At this stage, Pop Mart relies on the economics of the blind box and the beauty of the dolls as the main means to increase sales but lacks the culture of them. Unlike anime figures, which are already well-developed and popular, Pop Mart's blind box dolls lack a complete storyline and a rich personality, resulting in dolls that only have external appearances but miss the internal characteristics that can extend their life cycle. As a result, after the novelty has worn off, the dolls might be left on the roadside.

3.2.3 Opportunities

3.2.3.1 Initial success at oversea should be seized to continue the advance

The recent launch of MEGA SPACE MOLLY x Keith Haring, the first artist co-branded model of the first MEGA Collection by Pop Mart, has been a great success in the overseas market. This is the first step in Pop Mart's attempt to enter the overseas market, and the victory meant that Pop Mart could continue to move deeper in this direction in the future. By fusing our culture with that of foreign countries and drawing on the best of both, it opens up a new path for Pop Mart to increase its revenue and to take our trendy culture out of China and into the world.

3.2.4 Threats - risk analysis

3.2.4.1 The biggest competitor: TOP TOY

Pop Mart operates mainly in blind boxes, while TOP TOY, Pop Mart's strongest competitor recently, has turned the tables on Pop Mart's single product offering, creating seven core categories covering art trend toys, Japanese manga figures, blind boxes, doll models, assembled models, and building blocks, with unit prices ranging from 39 yuan to tens of thousands of yuan. The range of products available here is a perfect fit for both entry-level and top trendy toy players. Pop Mart, which relies on blind boxes as its primary model, might be hit hard when these are no longer favoured by consumers, but TOP TOY can be better able to spread the risk across different categories and is more likely to go further.

3.2.4.2 Limited years of licensing for some IPs

Some of Pop Mart's products are developed under licensing agreements that are generally limited to 1-4
years. When the agreements expire and are not renewed, the pop-ups will not be able to appear on the market, which can damage both Pop Mart's immediate revenue and its long-term brand reputation.

3.2.4.3 Over-consumption in the secondary market is prone to policy sanctions

The secondary market has become a special, spontaneously formed marketing channel for Pop Mart, and its presence attracts a wider range of potential customers. The frenzied pursuit of hidden models by some consumers has contributed to the escalation of the secondary market for trendy blind boxes, but it has also encouraged the use of blind boxes as a means of investment by some unscrupulous individuals. On the trendy toy blind box exchange platforms such as Idlefish and the Paqu app, many blind boxes that originally cost around 60 yuan have been speculated to cost over 600 yuan. These unethical investment techniques have already attracted the attention of the relevant legislators, and once the secondary market is restricted by policy, it is likely to deal a blow to this natural marketing channel and diminish the enthusiasm of many blind box zealots.

3.2.5 Financial data analysis

3.2.5.1 Analysis by IPs

According to the data in Figure 3, Pop Mart IP revenue share shows an imbalance. The three giant private IPs: Molly, SKULLPANDA, and Dimoo account for 15.7%, 13.3%, and 12.6% of total revenue respectively, for a combined total of 41.6%. The other several private IPs accounted for a combined revenue share of only 16%, less than one-half of the combined total of the three largest private IPs.

3.2.5.2 Analysis by regions

According to the revenue by geographical region, from 2019 to 2021, the lower-tier markets, including new tier 1, tier 2, and other cities, are gradually increasing in year-on-year growth rate as well as revenue scale, and the growth rate exceeds that of tier 1 cities, which represents the effectiveness of Pop Mart's strategies in the lower-tier market. In 2020, revenue in tier 1 cities grew 12.3% year-on-year for retail stores, and new tier 1, tier 2, and other cities grew at 70.5%. In 2021, retail shops revenue in tier 1 cities increased by 60% on year, while revenue in new tier 1, tier 2, and other cities increased by 74%; robot shops revenue in tier 1 cities rose by 22%, while revenue in new tier 1, tier 2 and other cities expanded by 55%.

4. BUSINESS STRATEGY SUGGESTIONS FOR POP MART

4.1 Going Abroad and Penetrating to Lower-Tier in Parallel to Expand Potential Markets

According to the analysis above, the company's user base is no longer limited to first-tier cities, and the revenue share of new first-tier cities, second-tier cities, and other cities is increasing at a higher growth rate. Therefore, Pop Mart should continue to strengthen its marketing efforts in the lower-tier markets in the coming period, such as placing more blind box machines in the corresponding cities and setting up IP flash shops in large shopping malls. At the same time, Pop Mart's financial reports for 2020 and 2021 show that revenue outside of mainland China only accounts for 3% of total revenue for the year, as revealed in Figure 2. Therefore, the overseas
market is still an untapped and promising market for Pop Mart. It should continue to increase its brand promotion as well as product export to overseas regions. However, as the cultural perceptions of consumers in overseas markets are different from those in the domestic market, the aesthetic perspective of artwork and the design preferences of dolls are also different. As a result, exporting the marketing concepts and products directly from the domestic market to overseas will not be able to capture the overseas market. Pop Mart could start by reforming a few of the existing dolls that sell best in China, such as Molly and Dimoo, and enter the market with the adapted versions. For example, they can transform the dolls into new versions that not only retain the existing characteristics but also have aesthetic elements that suit different overseas markets. After completing the first step into the market, it can gradually increase the exposure of the different series of dolls overseas.

4.2 Expanding Consumer base with New Ips and Business Lines

Pop Mart’s private IPs Molly, SKULLPANDA, and Dimoo still account for the vast majority of revenue streams, while revenue from other private IPs, exclusive IPs, and non-exclusive IPs has been at a low level with no breakthroughs. Clearly, relying on the operating income from just a few IPs can not help Pop Mart achieve sustainable growth. It should increase its research and development efforts, continue to reform and innovate its dolls in response to the preferences and needs of the consumer base, and launch more new pop-up blind box trendy dolls. In addition, while maintaining a steady growth in sales revenue from blind boxes, Pop Mart should also refer to its competitor TOP TOY’s approach and develop a strategy of full category coverage in the trendy toy industry to diversify the risk of a single category and broaden its audience simultaneously.

4.3 Giving Cultural Connotations to Trendy Toys and Deepening Co-Branding Cooperation

As a kind of artwork, the trendy toy blind box value is reflected in what people consider to be its artistic value. Therefore, the cultural connotation of the dolls is the support to inject the vitality of Pop Mart for sustainable development. Pop Mart can try to develop application scenarios for the dolls, for example, by licensing the image so that the dolls can be showcased in films, movies, cartoons, and theme parks, building out a complete storyline for it and creating its worldview, attitude on life and values, and thus making the doll's personalities conform to the mainstream aesthetics of the consumer group. In addition, in recent years, cross-brand and cross-industry co-branding have gradually become a marketing method favoured by young people. This approach creates a new connotation and a new sense of experience for consumers by intermingling two otherwise unrelated brands. Therefore, Pop Mart can continue to look for industries and brands with potential collaboration value, further expand their awareness through co-branding, and drive consumption of trendy toys.

5. CONCLUSION

Through PEST analysis, SWOT analysis, and financial data analysis, it is clear that driven by various macro factors, the Chinese blind box industry has entered a peak period and the consumer base is expanding. These factors also bring opportunities and challenges to Pop Mart, as the industry leader, therefore, how to maintain its business strategies, prices, and other advantages while deeply analyzing and solving the problems of low practicality and low user stickiness of blind boxes so that it can continue to release the charm of the product to retain old customers and attract new ones, is the problem that Pop Mart needs to solve in the next few years. Similarly, Pop Mart's business strategies in all aspects can provide a sustainable direction for other cultural, entertainment, and even intangible cultural heritage industries.

REFERENCES


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