



About Blind Box Economy – Analysis of the Business Environment and Marketing Strategies of Pop Mart

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Abstract. As Blind Box has gained explosive popularity among young people in China and POP MART is the most successful company in this industry, its operation and marketing strategies arouse the wide attention of the market and are copied by its competitors. Therefore, this paper focuses on POP MART's development and its business environment and strategies, and conducts an all-sided analysis of POP MART, using PEST analysis to explore some macro factors affecting this company. STP theory is then used to help to make further research into how POP MART uses marketing strategies to reach out to its target customers and position itself in the market. Through all these analyses, this paper gives a comprehensive but also specific evaluation of POP MART, which reveals the uniqueness of its business mode as well as its flaws. It then proposes some practical and sustainable suggestions for POP MART and enterprises alike to adjust its operation in the current marketplace and make up for its weaknesses.

Keywords: PEST analysis, STP theory, POP MART, blind box

1 Introduction

1.1 Background Information of POP MART and Market Environment

POP MART, founded in 2010, is a fashion culture and entertainment brand integrating fashion merchandise sales, artist brokerage, derivative development and authorization, interactive entertainment and fashion exhibition hosting. After 7 rounds

of financing, it was officially listed on the Hong Kong Stock Exchange on December 11, 2020. POP MART has successfully established a service platform with Intellectual Property (IP) operation incubation, product development and production and chain retail as its main business. By December 31, 2021, POP MART has 295 offline directly operated stores and 1,611 robot stores in the Chinese mainland, deeply covering 103 cities across the country. In addition to expanding offline channels, POP MART also continues to expand online channels and has achieved great success. According to the prediction of iiMedia research and real-time data, the market of blind boxes and art toys is keeping on growing and still has great potential [1].

The toys sold by POP MART are not traditional toys aimed at young children, but Art toys. This form of toy refers to a kind of more cultural toy with varied brand styles and specific positioning, which are designed by artists and designers. Designers and artists often integrate their own artistic styles, design concepts and unique creative ideas into them, giving fashion toys more trend attributes, higher artistic value and collection value, thus attracting more young people to buy and collect [2].

Another feature of POP MART's products is that they take the form of blind boxes. blind box culture originated in Japan. Different toys from the same collection will be randomly selected by buyers in a blind box. The popularity of the blind box is due to its unique marketing model, which is that the blind box accurately captures consumer psychology by using the feeling of uncertainty and surprise [3].

Nowadays, the changes in the lifestyle, values and consumption view of young people in this new era, as well as their curiosity for new products and the improvement of their education level, make them want not only material enrichment but also spiritual enrichment [4]. At the same time, Jingyun Zhang et al. also found that at the present stage, consumer's demand tends to be personalized and quality-oriented, which means that both their rational and emotional needs require to be met [5]. The new consumer environment brings opportunities to POP MART and makes it more valuable to focus on POP MART's business model and learn from it.

1.2 Related Research

At present, a large number of relevant studies have explored the marketing strategies of POP MART or proposed an interpretation of the blind box economy. For example, Xiaoqi Jian's research focused on using financial data to study and analyze the internal situation of POP MART in order to reveal its business strategy and risks [6].

Cheng Chen et al. analyzed the unique advantages of POP MART from the perspective of the use of IP and put forward long-term opinions in this respect [7]. Chongfeng Wang et al., standing in the perspective of consumer demand, discussed the transformation of POP MART's business model with a factor view and fully affirmed that consumer demand is one of the most important factors driving the evolution of business at the present stage [8]. For the analysis of the blind box economy, Yitong Shi digs into the operation logic of its development, market incentives and multiple factors affecting the development of the blind box economy [9]. Most of the research above is conducted from a single perspective, or from a more grand perspective. PEST analysis and other methods were also used. But more specific research about POP MART's market positioning based on the evaluation of the overall business environment is still needed.

1.3 Research Object

To sum up, this paper starts with analyzing the internal macro environment of POP MART, and comprehensively uses PEST analysis, STP theory, the hierarchy of needs theory, and other tools, then further analyzes how POP MART achieves differentiation and market positioning in the marketplace, in order to infer the development direction and trend for POP MART and companies alike more objectively. At the end of this paper, more sustainable suggestions will also be put forward to help POP MART maintain its position or help with its transformation and upgrading.

2 PEST Analysis of POP MART

PEST is a general analysis of the macro environment. Its primary purpose is to help analyze the external environment for a company from four angles, including political factors, economic factors, social factors and technological factors [6].

2.1 Political Environment of POP MART

As a relatively novel form of toy sales in China, blind box products sold by POP MART haven't been subject to too many government regulations. Undoubtedly, the lack of market regulation will cause some problems. For example, blind box products

may include unqualified content or be unreasonably priced, which certainly infringe on the right of consumers. The after-sales problems of blind box sales are also controversial and lack regulation. Besides, the mess in the secondary market is also serious.

But so far, relevant regulations have been issued. On January 12, 2022, Shanghai Market Regulation Bureau issued the Compliance Guidelines for Blind Box Operation in Shanghai. As the first administrative ordinance on the blind box industry in Chinese mainland, it introduced relevant regulations on the contents sold in blind boxes, the pricing system of blind box products, and after-sales protection of consumers' rights and interests, and it further put forward regulatory advice on the secondary market. In addition, some rules have been proposed to regulate minors' consumption of blind box products, like prohibiting children under 8 years old from buying blind box products, aimed at helping minors establish a correct consumption concept [10].

With the first batch of administrative regulations on the blind box industry proposed, the blind box market is gradually turning mature and standardized. The market is realizing sustainable development in accordance with laws and regulations. However, relevant regulations will still need to become more detailed and comprehensive in the future for the healthy and long-term development of the blind box market.

2.2 Economic Environment of POP MART

China's economy has maintained a good momentum of growth in recent years with a steady increase in per capita GDP, which has brought about a constant rise in consumption levels and changes in people's needs. Maslow's Hierarchy of Needs divides needs from low to high into five levels: physiological needs, safety needs, social needs, respect and self-actualization. People pursue higher needs only when lower ones are satisfied. The economic development of our country encourages people to pursue the satisfaction of higher spiritual needs. This can be reflected in the downward trend of China's Engel coefficient, as shown in Fig. 1. For the market as a whole, new business opportunities, new products and new industries continue to emerge. Especially in the area of social entertainment, script killing, secret room escaping and other different forms of entertainment are developing. The analysis above can show us that under the macroeconomic situation of China, trend toys and

blind box businesses operated by POP MART have a considerable foundation of development.

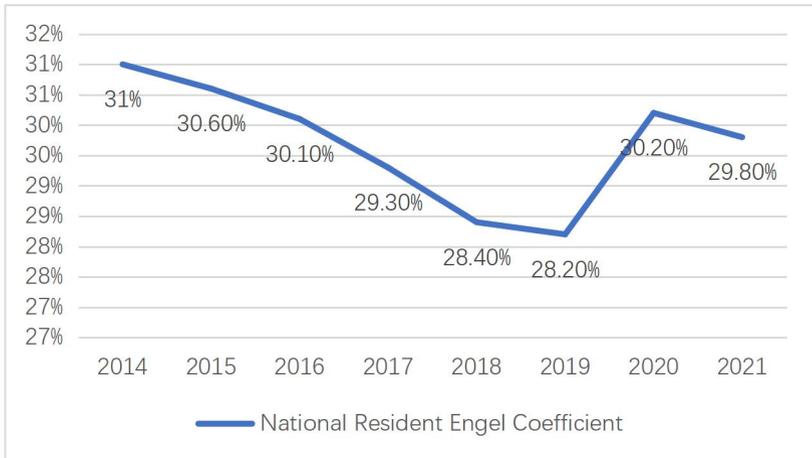


Fig. 1. National resident Engel coefficient of China from 2014 to 2021 [11]

2.3 Social and Cultural Environment of POP MART

As young consumers gradually have stronger consumption power, their consumption concept and lifestyle of pursuing the satisfaction of psychological needs prompt them to seek more self-satisfaction and emotional value. Young consumers tend to pursue individuation, self-entertainment and emotional resonance through consumption. Products such as blind boxes and art toys reflect consumer psychology in today's social environment. Through this form of consumption which contains social attributes, a sense of surprise and uniqueness, consumers realize their needs for emotion and belonging [12]. POP MART, therefore, transforms the niche needs of art toys into public demands. However, as a company producing cultural and entertainment products for young people, POP MART also needs to observe the market trend in real-time and make timely innovations so as to keep up with the changes in young people's needs and values.

2.4 Technological Environment of POP MART

The rapid development of information technology and the maturity of online shopping technology have brought many benefits to the product distribution pattern of POP

MART. The liquidity of information and the extensive use of social media provides an efficient and low-cost channel for the marketing and exposure of POP MART's products. At the same time, the online distribution channel greatly extends the sales network of POP MART and provides customers with a unique experience. This will be further discussed in the SWOT analysis part. POP MART can also enhance the connection between buyers and create a sense of belonging by building an online social platform. But at the same time, the convenience of information technology may also lead to the rapid spread of negative information and do harm to the image of the brand. In addition to information technology, the development of toy production technology and the establishment of the interconnected sales system have also guaranteed the distribution pattern of POP MART.

3 Analysis of POP MART's Marketing Strategies

STP theory focuses on three elements that form the core of a company's marketing strategies, which are market segmentation, marketing targeting and differentiation. It can be used to help analyze how POP MART uses marketing strategies to reach out to its target customers and position itself in the market.

3.1 Marketing Segmentation Strategies of POP MART

Market segmentation refers to the segmentation of consumers into groups with the same needs or characteristics, forming a series of market segments. The common segmentation methods include geographic factor segmentation, consumption behavior segmentation, social characteristics segmentation and so on. The analysis of the market segmentation strategy of POP MART shows that it mainly uses the following segmentation methods: demographic factor segmentation, psychological factor segmentation, behavioral factor segmentation and geographical factor segmentation. The specific segmentation methods are as follows:

Demographic factor segmentation: Based on the age factor, POP MART can distinguish consumers into young, middle-aged and elderly groups. Consumers of different ages naturally have different tendencies towards fashion toys and blind boxes. The second factor used to differentiate consumers is generation factors. Compared with age, the generation factor can better reflect consumers' consumption views, lifestyle and values, which makes it an important accordance for segmentation.

The third factor is the gender factor, which is based on the concept that consumers of different genders have different aesthetics and seek different values in and toy consumption.

Psychological factors segmentation: The psychological factors POP MART uses to segment consumers are mainly interests, hobbies and personality traits. The consumption of blind boxes and art toys itself is cultural entertainment consumption rather than necessity consumption, which fully reflects the interests and hobbies of consumers. For consumers with different psychological and personality traits, the emotional value and psychological satisfaction they pursue in consumption are also very different, so it is necessary to determine the target consumers through psychological factors segmentation.

Behavioral factor segmentation: POP MART conducts market segmentation from the perspective of behavioral factors mainly according to factors like interests of consumers(what consumers hope to obtain from consumption), frequency of use, and customer loyalty. The purpose is to comprehensively consider consumers' using and purchasing behavior, which is conducive to the comprehensive utilization of sales channels and marketing promotion.

Geographic segmentation: This segmentation method mainly guides POP MART's construction of distribution and marketing channels [13]. At the same time, different marketing strategies are needed to adapt to the different consumption power and concept between urban and rural consumers.

3.2 Market Targeting Strategies of POP MART

Marketing targeting refers to the actions that an enterprise conducts to determine which market segments to enter by evaluating the attractiveness of each market segment. The main consumer group of POP MART is young consumers between 18 and 35, among which the post-1995 generation is the most important blind box consumers, accounting for the largest proportion [2]. Consumers in this age group are more inclined to achieve self-satisfaction and spiritual comfort through consumption. This also means most of the targeted customers are from Generation Z. They have a tendency to try out new things and experiences. On the other hand, their cognition of the standard for consumption and of the way to set up a nice image isn't accurate enough, and they can be easily affected by external information, which makes them more likely to produce a herd mentality [12].

In terms of consumers' economic ability, although the unit price of POP MART's products is not exaggerated, it still requires a relatively better consumption power. Therefore 90% of POP MART's consumers have a monthly income of more than 8,000 RMB [2], which makes POP MART target its customers mostly in first- and second-tier cities geographically.

In addition, POP MART breaks down the stereotype that art toys are associated with males. It has gained a thoughtful insight into women's demand for fashion toys and the improvement of women's own consumption power [9]. Women are more autonomous, both psychologically and financially, and more willing to spend to please themselves [9]. As a result, women account for 75% of POP MART's customers, most of whom are young female white-collar workers [2].

Besides, consumers who are interested in art, ACG (animation, comics, games), and socializing are also the target consumers of POP MART.

Through behavioral factors segmentation, it can be found that the main benefit POP MART's targeted customers hope to obtain from blind box consumption is a pleasure. At the same time, consumers of blind box products usually have a high repurchase tendency and customer loyalty for the product, which reflects the characteristics of consumption of blind box products.

3.3 Differentiation and Market Positioning Strategies of POP MART

After market segmentation and target market selection, POP MART needs to determine a value proposition -- how to create differentiated value for the target market and what position it wants to occupy in the target market. Product positioning is the way consumers define a product based on its important attributes. It represents the position of a company's product relative to its competitors in the minds of consumers. Differentiation is the expectation that a company's products will hold a unique place in the hearts of consumers. The differentiation strategies used by POP MART are as follows.

Using IP as the Core of the Product. IP originally stands for intellectual property, and commercial IP is a symbol of connection and integration between products. It comes with its own traffic and has the characteristics of high recognition, strong liquidity, and a long liquidity cycle [7]. POP MART is fully aware of the individuation and attractiveness presented by IP. By June 30, 2020, POP MART has

already been operating up to 93 IPs. The IP operated by POP MART can be divided into proprietary IP, exclusive IP and non-exclusive IP. In terms of IP operation, POP MART has taken the following measures.

First of all, by signing contracts with popular designers to obtain authorization of their designs, POP MART increases the collection value of its products. POP MART operates on a similar model to a brokerage firm, turning designers' designs into products that will be further tested by the market. POP MART's most popular IP Molly series is the product of a contract with Hong Kong designer Mingxin Wang.

Secondly, POP MART will train its own designers and create its own IP. In order to help its designer focus on the designing part, POP MART also makes full use of production resources to control the quality and design of the product, its packaging, marketing and so on.

In addition to product marketing, POP MART also focuses on the marketing of its designers. POP MART builds a platform for designers and holds various exhibitions and salons to help designers get exposed. For example, on September 27, 2020, in POP MART Puhang Center Pop-Up store, the first fan salon was held. Professor Guo Bin from the Central Academy of Fine Arts shared the story of the tide play. Fashion designers and fashion media also came to the scene to interact with the fans [7].

Another key to POP MART's success with IP is that it captures the unique psychology of young people. Young people do not care about the connotation of IP, but the appearance and uniqueness of IP, which meets their pursuit of beautiful things and satisfaction of social needs. Based on this idea, POP MART focuses on the appearance design of IP rather than enriching the connotation of IP. This help POP MART update its IP faster and reduce the operating costs of IP.

Creating a Complete Industrial Chain. POP MART is an integrated fashion culture company and its operating range is not limited to the design, production and sales of art toys. As mentioned above, on the supply side, POP MART actively explores global artists, supports the operation and creation of IP, and the establishment and construction of a factory supply chain.

As at the supply side downstream, POP MART has launched a variety of retail channels, which include an offline experience store, robot store and Tmall shipping store, WeChat mini program "POP box machine" and an app "Pa Qv". While maintaining its brand image through offline stores, POP MART extends its sales network by using robot stores and online channels to reach out to more market

segments and consumers. The integrated use of both online and offline channels helps enrich consumers' shopping experiences.

In addition, POP MART is involved in the promotion of fashion culture. It held the Beijing International Fashion Toy Fair in September 2017 and the Shanghai International Fashion Toy Fair in April 2018, making a great contribution to promoting fashion culture in China.

Diversified pricing strategies. POP MART takes a progressive pricing policy. A single-blind box of 59 RMB is used as an entry-level product to attract consumers. When players are not satisfied with buying a single blind box each time, the entry-level lucky bag of 99 RMB, koi lucky bag of 299 RMB and booming lucky bag of 499 RMB all give them a chance to earn far more than a single blind box. Consumers can also buy a complete set of blind boxes for 709 yuan to collect a whole series at one time.

After increasing its market share through products of lower unit price, POP MART also launched limited high-end products with more than 10,000 yuan to meet the needs of consumers with greater needs.

As an interest-oriented product, blind box product's biggest crisis is that young people's interest may ebb tide, making it difficult to maintain a single business model. In 2022, the business model of POP MART was copied. Besides, young people's interest and spending power declined. This situation caused the stock price of POP MART to fall by 80%. To cope with this crisis, POP MART set up Inner Flow, an art collection institution, to return to the high-end market.

4 Suggestions for POP MART

4.1 Creating New IP and Developing New Business

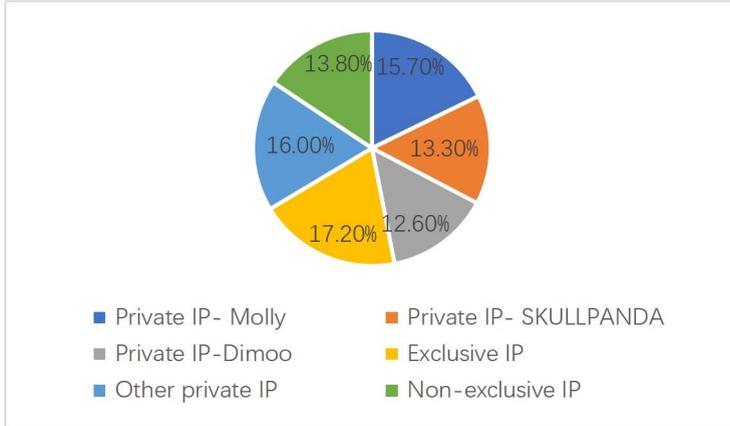


Fig. 2. The revenue share of different IPs [6]

As seen in Fig. 2, POP MART's IP revenue share is extremely uneven. The three most profitable private IPs accounted for 41.6 percent of total revenue. The other private IPs account for only 16 percent of total revenue. Therefore POP MART needs to operate more new IPs. By putting more research and development efforts and a better understanding of consumers' preferences, POP MART can introduce more new IPs to reduce the serious dependence on only a few IPs. At the same time, POP MART can also develop more businesses besides blind box and extend the source of income. Art toys can be more than just blind boxes and vinyl toys because a high reliance on a single business creates great risks.

4.2 Inviting Consumers into the Creation of Stories and Realizing True Personalization

Although there are no background stories set for POP MART's IPs, it can make its characters more alive and unique by encouraging consumers to re-create and interact with other buyers on social media. For example, plain Molly dolls that consumers can DIY by themselves are semi-customized services that are possible measures. Because

the industry threshold of blind boxes and art toys is too low, POP MART needs to maintain its uniqueness in the market to achieve long-term vitality.

4.3 Creating Reference Dependence and Enhancing Customer Retention

According to the prospect theory of behavioral economics, enterprises can create a reference point for consumers to compare, so as to give consumers different perceptions of benefits [9]. For example, when a buyer sees on social media that others have more sophisticated and more blind boxes, he(or she) will generate a negative perception. At the same time, people's perception of gain or loss is often based on comparison with reference points [9]. The psychology of getting rich with hidden edition encourages people to spend more money participating in the lottery rather than simply buying it on the secondary market.

Learning from this theory, POP MART should focus more on the operation of social media and the construction of sharing platforms. At the same time, more efforts should be spent on the diversity of material, as well as the particularity, rarity and specifications of the products, rather than on promoting conventional products constantly. Only by keeping consumers with negative perceptions and enlarging the fluctuation between positive and negative perceptions can keep consumers consuming in the long run.

5 Conclusions

This paper analyzes POP MART, the leading enterprise of the blind box economy. Through the use of PEST analysis, a preliminary understanding of the macro environment of POP MART and the developing basis of the blind box economy can be obtained. Then through the application of STP theory, this paper explores the marketing strategies of POP MART according to its macro environment. It reveals the uniqueness of POP MART but also exposes some of its flaws. POP MART does have its marketing quirks. However, its unitary business model and strong dependence on consumers' feelings of freshness have also brought a lot of potential threats. IP protocols and abrupt changes in market environments also contain risks. Whether the blind box economy can achieve sustainable development still needs further observation. In general, this paper not only considers the macro environment of POP

MART but also further discusses the marketing strategies of POP MART, which have strong comprehensiveness and reliability.

At the same time, this paper still has some limitations. It only focuses on the marketing strategy of POP MART. There is also a lack of analysis of POP MART's own strengths and weaknesses. Therefore, based on the PEST analysis of POP MART, other strategies of POP MART also require further analysis. A more comprehensive prediction about POP MART is worthy of attention as well.

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