

The Status Quo of Mystery Boxes in the Digital Market: A Case Study of Designer Toys POP MART in the Chinese Market

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Abstract. With the continuous development of the blind box industry, service problems have gradually emerged. For example, brands pay more attention to product design, but there are no obvious measures for service optimization. At present, most literatures are still analyzing the phenomenon and reasons for the popularity of blind boxes, but rarely analyze the service problems of blind boxes. This paper focuses on the discussion of the current situation of POP MART in the Chinese market by investigating its transformation into the digital market and the current issue toward the brand. Introducing the background of the designer toy and some possible explanations for why the designer toy is favored by the Z generation. Then discuss the current market situation and expectations. Moreover, this paper points out how the online channel and advertisement of POP MART help it generates numerous revenues and the problem underneath the surface, suggesting possible solutions to react to the decline in consumer.

Keywords: Mystery box, designer toy, POP MART.

1. Introduction

In recent years, the domestic toy market in China has experienced unprecedented growth, led mainly by the prosperity of designer toys. Among these, Generation Z favors mystery boxes, a novel way of selling commodities in invisible packets and creating an atmosphere of gambling for its content. Under this background, the following paper will focus on analyzing the current situation faced by the industry and future expectations based on the case of POP MART. Data from recent years indicate that the scale of the designer toy market has expanded from 6.3 billion yuan in 2015 to 29.48 billion yuan in 2020, accompanied by an average annual 36% rate of growth. At the end of 2020, the number of registered companies reached 506 in 2021 compared to 259 companies in the previous year, showing an overall growth of 95.37%. All the data above suggests the industry has flourished at once and experienced steady growth. This is mainly contributed by the booming of mystery box brands like POP MART, 52 toys, IP station, TOP Toy, etc. An individual mystery box's price varies from 50 to 200 yuan. Moreover, investigating its main consumers, youths between 18-24 years old contributed almost 32% of consumption, 25-29 contributed 26%, 30-34 contributed 20%, and other ages took the left 20%. Other than these, data had indicated that females born after 1995 are the main consumers in the market for designer toys [1].

One of the particular brands that this following paper will discuss is the leader of the mystery box industry: POP MART founded in 2010. Calculating based on the transaction of the industry in 2019, the CR5 for the designer toy was 22.8%. The market shares of the top five companies are 8.5%, 7.7%, 3.3%, 1.7%, and 1.6%, ranking from the highest company POP MART to the lowest [2]. At the initial stage of development, it was positioned as a trendy stationery retailer other than engaging in designer toy like the Molly series. The first brick-and-mortar store of POP MART opened in ECmall of Beijing. In 2015, the turning point of the company's target occurred, Wang Ning, the founder of POP MART, was inspired by the sales of Japanese mystery box's IP, Sonny angel, and employed the designer Wang Xinming in the next year, resulting in the creation of the figure Molly and the launch of the first mystery box series: Molly Zodiac. Since then, the company has officially transformed from a channel provider to the IP creator and operator. Since 2017, the whole industry chain of the designer toy had an unprecedented boom. At present, the company has built a comprehensive operation platform covering the whole industry chain of the designer toy in four distinctive areas: discovering

the talented artist, famous IP operations, attracting potential consumers, and promoting the culture of the designer toy. According to the data for 2020, POP MART possessed 93 IP in the Chinese domestic market.

Analyzing the current situation of the POP MART, the brick-and-mortar stores, and digital stores had sold out nearly 50 million designer toys in 2020, and the annual generating revenue had reached 2.51 billion yuan, composing 952 million yuan sales from the online channels (the proportion of online transactions continuously increase, from 94% in 2017 to 37.9% in 2020) [3]. Remarkably, the direct platform of online stores on social media of WeChat contributed to 460 million yuan of sales. In the first two quarters of 2021, the revenue generated online was 678 million yuan, explained by the rapid growth of membership from online platforms. Although POP MART reached its highest total market value of 150.4 billion HKD in the February of 2021, the current total market value was steadily dropped since the April of 2022 and diminished to nearly 51 billion HKD, facing the problem of violation of consumers' rights, retreating passion, and numerous factors [4]. The rise and down of POP MART leads people to question: What particular strategy makes POP MART distinctive from its competitors and targets its potential consumers? Under this background, the following paper will focus on the discussion of the sale promotion strategy in the digital market and current issues and drawbacks to analyzing its prosperity and dilemma with possible solutions.

2. Methodology

2.1 Current situation of POP MART and the sales channel

POP MART's sales channels are mainly divided into two categories: offline physical stores and online sales channels. Among them, offline channels mainly rely on the brand's brick-and-mortar stores and the brand's vending machines placed in shopping malls or crowded areas. On the other hand, online channels mainly focus on official stores such as WeChat's mini-program and Taobao. Other than establishing online and offline channels to reach its potential consumers with a more convenient method, the company also emphasize its advertising and consumer targeting ability. To be more specific, the POP MART not only creates new consumers but also maintains its present consumer, showing in the high repurchase rate that is 58% for membership in the platform of Tmall's official store [2]. The high investment in advertisement to raise its brand awareness contributed largely to its prosperity.

Briefly talk, the offline advertising strategy is direct and efficient to a degree. Like the distribution of vending machines in crowded areas like shopping malls and business zone. The vending machines its-self is an introduced method to attract potential consumers. Its features of automatic and convenience generate a considerable income flow for the company while reducing the cost of the labor force. Using this novel way, it not only provides consumers a more interesting way to select its favored product, but it is also establishing a vivid advertisement for its brand as the LOGO and company's related figure is shown on the machines. Similar to its physical stores, large figures such as the Molly series are always placed in front of the store, attracting attention and accumulating the company's presence. However, the main shifting of the company's goal is emphasizing establishing better online channels and advertisement of the product itself. From the annual report of POP MART in 2021, the online sale revenue increased 97.58% compared to 2020. The increase in online sales and revenue accompanied a massive investment in the advertisement of the brand and marketing management, which the total expenditure in 2021 is 1.576 billion yuan compared to only 0.922 in 2020 [5]. Both official data show the company's shifting goal in developing its brand in the digital market.

As mentioned above, WeChat's mini program is a particularly efficient channel to encourage consumption. WeChat's mini program POP MART invented a direct channel in the social media WeChat by creating a cyber vending machine that automatically generates a mystery box for the consumer. After the moment of paying, the machine will show the result of it and store it on the

consumer's display shelf that can choose when to deliver. This platform is important since it generates massive revenue and targets potential consumers directly.

2.2 The particularity of the platform

WeChat is one of the most popular social media for youths to communicate with their friends and provide a convenient only paying system: WeChat pays that can make direct payment without login another platform. From the data of 2018, about 74% of WeChat's users are youths that are 20-30 years old, which are main consumers of the designer toy. This can help POP MART reach their audience rapidly by inserting advertisement in WeChat's Moments. When the potential consumer is viewing through the advertisement, the ads will help them to jump into the mini-program and lead to further consumption by increasing viewing through the rich media ads in WeChat. Moreover, the official account of POP MART in WeChat is actively sending notifications of the new release and related messages to the follower in WeChat, hence conveying updated information to all the consumers.

2.3 Online coupons

One of the advantages to attract consumers online is the usually machines used by numerous e-commerce: coupon that provides a discount to encourage consumption. In the mini-program, POP MART offers coupons for new users, like a 19.9 yuan mystery box that was originally priced at 59 yuan. This considerable amount of discount encourages online consumption and attracts new consumers. Some of them will turn into loyal consumers if they are satisfied with the providing service. Other than attracting new consumers, the online channel will temporarily provide coupons to maintain its regular consumers and stimulate them to purchase more. This coupon is usually will show in the advertisement with an eye-catching size and color to notice the viewer the privilege of new to create future consumers with a first-time discount.

2.4 Additional function to increase gameplay

Another function that makes the online channel differ from the offline vending machines is that it increases the consumer's gameplay by creating the mechanism of Luck that is accumulated through daily interaction or special events. This value is useful in the POP MART as it can exchange disclosing context that directly reveals its inner or tips that help the consumers exclude some possibility for the next chosen mystery box, which increases the possibility of getting favored one for the consumers. This diverting function increases the consumer experience in online shopping. Other than providing better consumer benefits to attract consumers to purchase, numerous social media and ads have contributed to the increasing brand awareness that helps POP MART become well-known in the Chinese domestic market.

2.5 Advertisement of POP MART in the digital market

Traditionally, the advertisement is created by the company itself and distributed on multiple platforms to increase brand awareness, like the banner ads and rich media ads on social media like Weibo and Taobao or use live streaming to display its product. Since in recent years, people's way of receiving information turns into online video services like the Youtube and Bilibili of China, using life stream to advertise almost become the mainstream [2]. However, one of the particular distinctive ways to make designer toys like POP MART so popular among youths is the free advertisement that provides by the streamers and video producers. Take the platform of Bilibili as an example, some famous video producers recorded videos to share their outcome of the unpacking mystery box and share the result and enjoyment with the audience together. This becomes an extra way that generates viewing and brand awareness without paying those video producers wage, but efficient in promotion of the brand as the mystery box itself is designed to be diverting.

3. Methodology

3.1 Current situation faced by POP MART

All of the above account for the prosperity of POP MART in the Chinese market through its online service and advertisement. However, the future expectation of POP MART sharply declined in 2022 and pushing its development into a dilemma. In the April of 2022, the total market value of POP MART declined to 51 billion HKD. Moreover, from the financial report of July, POP MART faced the situation of increasing revenue but not accompanied by an increase in profit. Furthermore, when the company posted the notification of its financial situation, experts from the POP MART gave the estimate of the company's growth rate not lower than 30% but also suggested the net profit of 2022 will decline by nearly 35% compared to 2021. After this notification, the total market value of POP MART experienced a continuous decline, resulting in only 31.9 billion HKD total market on 25th July 2022 [6]. This rapid decline after prosperity leads people to question what is the current issue faced by the POP MART and the industry.

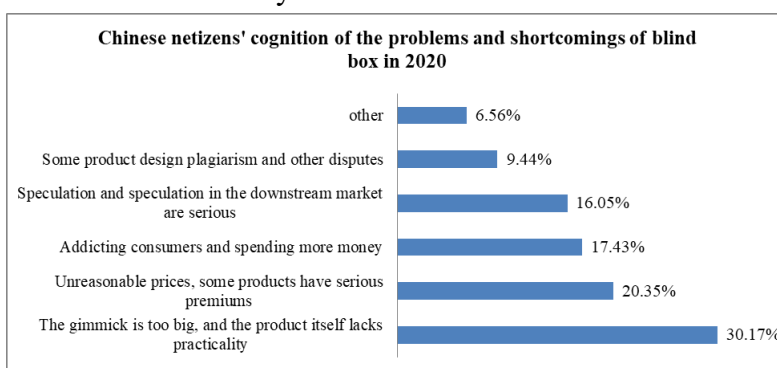


Figure 1. Chinese netizens' cognition of the problems and shortcomings of blind boxes in 2020

POP MART itself explained the decline of the net profit at the half of 2022 as the aggravating COVID-19 in cities like Beijing and Shanghai, causing the close down of the brick-and-mortar stores. Although the company itself is shifting toward the digital market, the physical store is also an important source of revenue. But other than the close down of the offline stores, the product itself POP MART is controversial in the Chinese domestic market, which explains the low confidence in the stock. A survey investigating Chinese consumer's attitudes towards the rapid loss of potential consumers indicates that 30.17% of participants complained about the disinformation and the lack of utility of the product itself, 20.35% consider the mystery box as over-priced, and 17.43% deems the mystery box itself is addicted and causing over-committing [5].

3.2 Current situation faced by POP MART

On 7th December 2021, POP MART was notified to pay a 200 thousand yuan fine for its disinformation about the quality of the product. Although the detail page marked that the 79 yuan mystery box of the stocking is made of 97% cotton and 3% spandex, the actual composition of the stocking was not qualified after analysis [7]. However, tracing back to the December of 2020, a Jinan consumer found out that the purchased mystery box had been unpacked once and the company reacted to this event by a layoff. The product quality is always a problem for POP MART. The overall price of the mystery box of POP MART increases in 2021 for the increasing price of the raw material and manpower, as the single price of the mystery box of SkullPanda and Vivcat series increased from 59 yuan to 69 yuan. However, after shifting its sale channel on the digital market, many consumers still report the inappropriate quality and flaws in the product.

3.3 Inferior quality related to its price

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3.4 Inefficient after-sale service

One of the problems shown in the online sale of the POP MART is the lacking of better sale service for the consumers. Furthermore, one of the consumers of POP MART had posted the awful purchasing experience on the Chinese social media Red, complaining for the special version of the Molly series that was priced at 1199 yuan had the problem of black spots on the product and coarse exterior [8]. This is not an exception for the POP MART. An inefficient after-sale service will lead to the problem of maintaining regular consumers due to the awful experience. Many consumers have concerns with the changing and returning service of it. In most case, the POP MART does not return for no reason and make little compensation for the quality problem, causing a decrease in the shopping experience.

3.5 Market saturation and the dissipated passion

The domestic market for mystery boxes reached its summit. New brands and IP continuously entered the industry and compete for limited market resources. On the other hand, the increasing supply is accompanied by a fading of enthusiasm toward mystery boxes. In recent years, the disinformation and lack of new forms make consumers' demand decline, as the overall online shopping decreased (after-sale, product quality, and shipping issues).

3.6 Delivering issue

The delivery and shipping of the product are one of the after-sale services for the consumers. However, the increase in online sales does not support promotion in delivery. Especially during the COVID period, the overall time spent in shipping the product has increased, causing the consumer harder to get their product.

4. Conclusions

POP MART undoubtedly is the leader of the designer toy that creates a new surge in the domestic market among youths. It catches the mentality of the Z generation and creates an unexpected boom in China. The success of POP MART is its distinct characteristic that developed a brand-new market in China and hence growth rapidly by this surge. However, as the competition in this industry increases, the profit is fading away if POP MART does not transform into an online channel. Targeting the digital market in China is a very successful decision by it and e-commerce is the future of designer toys. However, POP MART was experiencing a significant decline in expectation due to the service it provides to the consumer. Problems related to the quality of the product need to be solved to regain its reputation and attract new consumers. The following are ways that suggest by the paper. When the original IP shows a decline in people's attention and no longer attracts new consumers, the company can enlarge its consumer base by engaging in crossover IP. In this case, instead of inventing an original figure, the brand can design a figure based on the existed popular character, which usually is crossover with a famous game or animation that encourage the company to reach people who do not interested in the designer toy before but try for its favored character, leading them to turn into potential consumers. Unlike original IP, the crossover between different brands guarantees that the commodity already has a steady consumer base. Although the revenue will be shared among multiple sides due to the copyright

of the famous character or figure, crossover IP let the company extend its consumer base into other markets and generate further viewing and impression during the interaction.

Although crossover IP can generate considerable viewing and revenue for the company, the POP MART itself is popular for its original IP like the figure of Molly and Skullpanda. A large portion of the company's revenue is generated by the series of Molly. Therefore, instead of discarding the original IP, the POP MART needs to maintain its regular consumer for it. Indeed, consumers chase the favorable appearance of the toy. The figure tends to meet the esthetic of the public and consumers choose the most favorable one at the same price level, things like giving the mystery box a background story and world setting can encourage a better experience by making the figure more vivid and distinctive. It might be in the form of a story or video which aims to endow the figure with another meaning and increase the impression of this series, instead of a flat and artificial character. As mentioned above in the paper, POP MART has been sucked into the quality issue and poor after-sale service. Although the consumer pays for the figure of the mystery box, the lacking of related service and unguaranteed quality will harm its reputation, even causing the problem of disinformation. To maintain its current consumer base, more effort need to be invested into the inspection of the product quality and rapid response to the problem of the product. This is an important part for POP MART to maintain regular consumers and attract new consumers in the current situation of intensive market competition. The brand awareness for POP MART is high, but it also needs to be positive by providing its consumers better shopping experience.

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