

The Performance of China's Blind Box Industry During the Pandemic: A Case Study on Pop Mart

Yinxiao Lu^{1,a,*}

*¹Management School, The University of Lancaster, Lancaster, the United Kingdom, LA1 4YW
a. 15040340403@xs.hnit.edu.cn*

**corresponding author*

Abstract: The Chinese pop toy market is now in its golden period of development. Blind box, as one of its product categories, occupies the largest market share in the Chinese market, with Pop Mart being the representative company of the Chinese blind box industry. The purpose of this paper was to explore the reasons for Pop Mart's dramatic growth during COVID-19. It differed from previous articles in that it further analyzed the impact of the pandemic on consumers' psychology and their subsequent purchasing behaviors. Document, case, and data analyses were employed to analyze this article. The research concluded that the purchase of Pop Mart's blind boxes allowed customers to alleviate the negative emotions generated by the pandemic and facilitated the connection with society. The curiosity and desire for unknown products drove impulse and continuous consumption because of the gambling psychology. Besides, the interests and distribution of expenditure of consumers would also affect sales of Pop Mart.

Keywords: China's blind box industry, Pop Mart, COVID-19, gambling psychology

1. Introduction

The blind box economy has grown rapidly in recent years and a considerable number of studies have analyzed this industry by investigating Pop Mart, which is a representative company in the blind box industry. Previous papers have studied the future of the blind box industry in China, the marketing strategy of Pop Mart in terms of the marketing mix, and the optimization of Pop Mart based on IP reserves and co-branding [1-3]. However, the performance of Pop Mart in the COVID-19 period is underexplored. The purpose of this paper is to investigate the reasons for the rapid growth of Pop Mart's revenue during the pandemic.

For its research methodology, the document analysis was used to illustrate people's interest and consumption in the toy industry, especially blind boxes, and the development of Pop Mart in recent years. Case and data analyses were then combined to analyze Pop Mart's financial performance before and after COVID-19. With regard to its revenue growth, three aspects were discussed, namely demographics, gambling psychology, and the negative emotion during the pandemic.

From a macro perspective, this paper shows the public the specific development process of the blind box market in China, represented by Pop Mart, through data, and provides valuable experience for the future direction of other brands and blind box industries. From a micro perspective, it analyzes in detail the causes of economic growth in the COVID-19 period.

2. Introduction to the Blind Box Industry in China

2.1. Blind Box

The blind box refers to a range of toys from a variety of intellectual property (IP) or entertainment media. The toys are randomly packed in boxes where the items inside are a mystery to consumers. The only thing consumers know is which media or IP the toy comes from and what they may receive from the range [2]. As the largest segment of the toy and hobby market, toys and games accounted for 65% of its global revenue, namely US\$ 297 billion in 2019 [4]. By 2025, this segment is projected to increase by 25% to 35%. Regarding the toys and games segment, it can still be divided into several sub-segments. Amongst these, the pop toy market worldwide is showing rapid growth trends today, especially the Chinese market, which is in its golden age [5].

Moreover, the blind box, one of the product types in the Chinese pop toy industry, has grown very rapidly, from a market size of just RMB0.4 billion in 2017 to the largest share of RMB9.7 billion in 2021. According to Statista, it is predicted that the market size of the blind box will be as high as RMB42.4 billion in 2026 [6]. Pop Mart can be considered as a representative of the Chinese blind box industry, with the highest share of the Chinese pop toy industry at 8.5% in 2019. The following will introduce Pop Mart in detail.

2.2. Pop Mart

Established in 2010, Pop Mart is a pop cultural entertainment brand dedicated to cultural creativity, mainly producing and selling blind box toys, and its largest customer base is Generation Z. With the slogan “Ignite Passion, Bring Joy”, it is fully committed to its vision of “Creating Trends, Delivering Goodness” [5]. To satisfy the needs of diverse consumers, Pop Mart places emphasis on IP type enrichment and product diversification, as IP and creative design are the core drivers of the company’s development.

Pop Mart’s products can be divided into three main types based on IP, that is, propriety IPs (such as Molly, SKULLPANDA, and Bunny), exclusive licensed IPs (such as The Monsters and PUCKY), and non-exclusive licensed IPs. Besides, the products are distributed through an omnichannel approach. Customers can purchase toys through a variety of channels, such as retail stores, online shops, roboshops, wholesales, and others [5]. Following the continued expansion of its domestic and international business, Pop Mart has now explored 23 foreign countries and regions. By the end of 2021, it had a total of 288 offline shops and 1861 roboshops in China.

3. Business Performance of Pop Mart Before and During COVID-19

3.1. Before Covid-19

As shown in Figure 1, before COVID-19, Pop Mart was still in its early stages of development and its financial performance was not very strong. In 2017, its gross profit was RMB75 million, then grew to RMB298 million in 2018. Pop Mart’s financial performance was phenomenal in 2019, with gross profit surging to RMB1.09 billion.

	For the year ended 31 December				
	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	4,490,651	2,513,471	1,683,434	514,511	158,074
Gross profit	2,758,624	1,594,108	1,090,334	298,025	75,254

Figure 1: Financial performance highlights of Pop Mart [5].

3.2. During the Pandemic

Different from several companies whose economies have been severely affected by the pandemic, Pop Mart's revenues have been growing rapidly from the end of 2019 to 2021. Its gross profits were RMB1.59 billion and RMB2.76 billion in 2020 and 2021 respectively. Meanwhile, a year-on-year growth of 69.6% was shown in the adjusted net profit for 2021, which reached RMB1.002 billion, and the total revenue for the year 2021 came to RMB4.49 billion, marking a 78.7% increase in sales [5].

Despite the uncertainties of COVID-19, such as supply chain crisis, travel disruption, and other pressures, Pop Mart, with the efforts of its employees and the help of its partners, continued to accelerate its growth. It has continued to diversify its proprietary IP and maintained close strategic cooperation with international IP companies, such as Disney, Universal, Sanrio, NBA, and so on. Additionally, a high-end pop product line, the MEGA Collection, was introduced in 2021, with a total of nine models of 1000% SPACE MOLLY series, which has been highly welcomed by customers and provides a direction for future development. The next section will analyze the reasons for Pop Mart's steady revenue growth during COVID-19.

4. Reasons for Gross Profit Growth During the Pandemic

4.1. Negative Emotions During the Pandemic

According to Statista, numerous residents have experienced negative emotions and hardships during the period of the COVID-19 pandemic. For these respondents aged 18 and over, fear of the future, fear of going to hospitals, burnout, anxiety or depression, and loss of confidence was the main problems caused by the impact of the pandemic [7].

Khan and Kadoya mentioned that loneliness was more prevalent among younger people (under 65 years) than older people during the COVID-19 and was significantly higher in both groups compared to the pre-pandemic period. For younger people, their loneliness during COVID-19 would be influenced by gender, depression, and living conditions. That is, those who were female, lived alone, and did not have symptoms of depression prior to the COVID-19 were prone to feeling lonely. This was because social relationships were affected by the pandemic, and this made people who would not be lonely under normal circumstances prone to becoming lonely [8].

Besides, it was reported that the bandwagon luxury consumption behavior (BLCB) mediated the relationship between feelings of isolation and luxury brand purchase intentions or subjective well-being during the pandemic. BLCB means that consumers make brand purchases for both utilitarian and non-utilitarian (such as relevance and prestige) purposes. When customers consumed luxury brands in imitation of the reference groups that they admire, they would feel a connection with these people, which made them feel satisfied and happy and increased their intention to purchase luxury products. Meanwhile, both COVID-19 anxiety and social capital played moderating roles in the relationship between BLCB and subjective well-being or luxury brand purchase intentions. COVID-19 anxiety could harm this relationship [9]. Giovenco et al. mentioned that for personal reasons, namely pandemic-related anxiety, boredom, and irregular habits, an increase in tobacco use during quarantine was the most common phenomenon, although tobacco use decreased among some social users because of reduced social interaction [10].

Based on the above studies, during the pandemic, people may experience some negative emotions, such as anxiety, loneliness, boredom, depression, and burnout. For those who feel lonely, isolated, and bored, on the one hand, Pop Mart's blind box approach is a great way to spend time, entertain, and relieve stress. On the other hand, Pop Mart can be a social currency for consumers to connect with society/other people. When they draw the product they really want in the series or when they

draw a rare and hidden version of the product, they will want to share their joy on social media. This will enhance their image or social status to a certain extent and facilitate connections with others. Therefore, people will purchase Pop Mart's products during the pandemic.

4.2. The Psychology of Gambling

People's motivations for recreational gambling can be roughly divided into two types: the desire to obtain positive subjective stimulation and excitement, and the desire to relieve or escape from negative emotions (such as stress) [11]. Meanwhile, the expectation of a monetary reward for changing one's lifestyle through winning and the expectation of a social reward for social interaction and enjoyment through gambling promote gambling behaviors of people.

The reasons why people persist in gambling can also be broadly classified into two aspects. On the one hand, both positive and negative reinforcement of gambling can motivate the probability of gambling. That is, the excitement generated by winning money or the feeling of temporary relief from a negative state can lead people to continue gambling [11]. On the other hand, gambling contains unpredictability and its random ratio makes it impossible to predict when the jackpot will appear. The reason why gamblers are reluctant to stop gambling is that they believe that stopping the game will cause them to lose a chance to win. At the same time, people trust that a series of losses will be followed by a win. In addition, after investing a large amount of money, people will want to keep up the action [11].

As shown in Figure 2, researchers designed a pigeon experiment that resembled human gambling. The result showed that pigeons preferred suboptimal (high payoff but low probability) to optimal choices. That is, pigeons favored a more gambling-like choice of a 20% probability of 10 pellets and an 80% probability of no pellet per trail rather than a certainty of 3 pellets per trail, although the optimal choice on average yielded more pellets (mean=3) than the suboptimal choice (mean=2) [12].

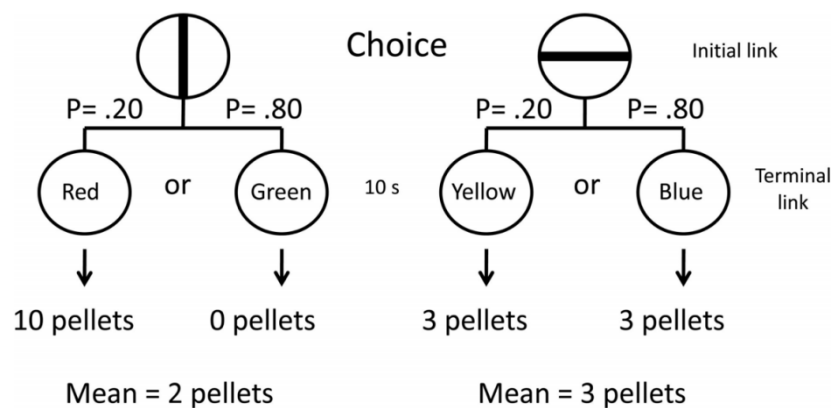


Figure 2: Pigeon experiment [12].

Extensive experiments have proven that many variables can affect the performance or choices of pigeons or people. The enrichment of the environment affected the choice of pigeons. Pigeons were less inclined to suboptimal selection when they were kept in a large cage with other pigeons than when they were kept individually. Then, when human inhibition was compromised by the depletion of self-regulation, they were more likely to choose alternatives similar to gambling. The ability to control attention, emotions, and behaviors can be classified as self-regulation, which is limited and dependent on a finite resource. And the depletion of this limited resource has an impact on subsequent regulatory behaviors [13].

In addition, it was found that frequent gamblers focused more on their wins and largely ignored the more regular losses. For example, for suboptimal choices, 10 pellets created a positive substantial contrast compared to the average expected 2 pellets, while 0 pellet had less of a negative contrast impact compared to 2 pellets. For optimal alternatives, 3 pellets appeared on each trail and there was no contrast. Therefore, because of the large positive contrast of the suboptimal choice, both participants and pigeons were inclined to overestimate the value of their wins. Finally, higher levels of impulsivity promoted the selection of suboptimal choices. When pigeons were highly motivated by food and were more impulsive, the attraction to gambling-like choices was enhanced [12,13].

In conclusion, customers of Pop Mart can be affected by gambling psychology. When they draw a hidden version of the product they want, positive psychology (such as excitement or a sense of luck) may motivate them to continue their purchase behavior. When they do not get the product they desire, they will also be reluctant to stop purchasing as maybe they will get what they want next time. Besides, because of the unpredictability of the blind box, there is a high degree of addiction to consumers' purchase behaviors. The increasing variety of products and IPs can promote customers' motivation to purchase and their impulsivity is likely to increase. Therefore, the enhancement of the attraction of the blind box promotes sales of Pop Mart. Eventually, the attention of Pop Mart's customers may be focused on getting the products they want or the hidden versions, while ignoring the other products they have already bought. Thus, unconsciously, they end up buying a lot of products.

4.3. Demographic Characteristics

The demographic characteristics of Pop Mart's customers play an essential role in its sales growth. As mentioned above, Generation Z is the main consumer group of the company, which is influenced by its consumption habits and preferences. For Generation Z, 64% of people's hobby or interest was watching animation films or shows, while proportions of those who like online shopping, online and mobile games, and ACG (anime, comics, and games) were 57.3%, 54.3%, and 25.9% respectively [14]. Regarding these people's perceptions of consumption distribution, besides groceries and clothing purchases, spiritual consumption (travel, reading, gaming) was the fourth largest consumer expenditure, accounting for 10.1%. People's expenditure decisions are increasingly influenced by fashion and trends, with 71.2% of Chinese Generation Z consumers willing to spend more than RMB1000 on games or anime by 2021 [15]. Therefore, the changing or apparent preferences and consumption expenditure distribution of Generation Z consumers have influenced the spread of Pop Mart products and their purchases.

In terms of the gender of Generation Z's blind box purchases, females (62.6%) had a higher proportion of purchases than males (37.4%) in 2020 [1]. The percentage of female users of Pop Mart's WeChat Mini Program was higher than males, with 55.2% compared to 44.8% [5]. On the one hand, females currently significantly affect the global economy, as the majority of consumer goods are purchased by them [16]. Therefore, women's increased purchasing power boosts sales of Pop Mart. On the other hand, according to Khan and Kadoya, women were more likely to feel lonely than men during the pandemic, which also contributed to the sales of Pop Mart where women were the main consumer group [8]. In addition, the expansion of the digital scale of users also facilitates customers to share the joy of purchasing. For example, when consumers draw blind boxes online, such as in Pop Mart's Mini Program, they can instantly share the results with their friends or WeChat moments. This brings a great deal of convenience and facilitates the social connection of customers.

5. Conclusion

The paper analyzed China's blind box industry and explained why Pop Mart's profits grew rapidly during the pandemic in terms of negative emotions during COVID-19, gambling psychology, and the demographic characteristics of its customers. The results showed that Pop Mart's blind boxes helped to alleviate the negative emotions (such as loneliness, anxiety, and boredom) caused by COVID-19. It also provided a social currency that facilitated association and communication with society and created a relatively positive social image. In addition, influenced by the psychology of gambling, positive reinforcement, relief from negative emotions, and the expectation of monetary rewards were all motivations that promote customers to draw blind boxes and make consistent purchases. The desire for hidden versions and curiosity about the unpredictability led to increased impulsivity and addiction. Finally, the interests and expenditure distribution of Generation Z and the increased purchasing power of women have played an essential role in Pop Mart's sales.

For its theoretical implication, this article further explores the influence of COVID-19 on the blind box industry and the utilization of gambling psychology in this industry, using Pop Mart as a case. This provides scholars with new insights to study the psychology of gambling and the pandemic. For its practical implication, this article offers several recommendations to marketing managers and operation managers in the blind industry, such as the creation of hidden versions of products and the development of digital programs. Meanwhile, its success also advises other companies on product positioning and target group selection.

This paper still has its limitation and directions for future research. On the one hand, it just investigates the blind box market in China, while other blind box markets remain underexplored. It can also study the particular impact of the strategic partnership with other brands or themed exhibitions on product sales and consumer perceptions of the brand in the future. On the other hand, the topic can be studied by the quantitative method, as this method provides more precise and reliable data.

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