

Research on Strategic and Financial Performance of Pop Mart

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Abstract: At present, with the continuous growth of per capita disposable income, China's consumption mode has undergone a comprehensive upgrade, and consumers have begun to pursue a more sophisticated lifestyle, and have begun to pay more attention to the spiritual satisfaction brought by goods. With the development of pan-entertainment market and social media, the trend culture has been widely popularized, and the trend toy market in China has ushered in rapid development. More and more enterprises have joined the trend play industry, and the trend play market is facing fierce competition. China's per capita GDP continues to soar, the consumption structure has changed, 90 and 00 have become the main consumer groups in the consumer market. Trend toys began to rise, Pop Mart as a representative of the trend toy industry, rose rapidly in a short period of time, and experienced two strategic transformations, leading the development of the trend play industry. This paper mainly analyzes the two strategic layout of Pop Mart in this era, that is, the centralized strategy and the diversified business strategy, and analyzes the impact of its strategic transformation on its financial performance from four aspects: debt paying ability, operating ability, growth ability and profitability.

Keywords: trendy toys, Pop Mart, centralized strategy, diversified business strategy, financial performance

1. Introduction

In the era of China's economic rise, with the change in consumption structures, the younger generation has become the main force in the consumer market. They are more enthusiastic about online consumption and occupy a great online discourse power and traffic highland in the mobile internet space. They have strong self-awareness, diverse values, rich interest circles, personalized lifestyle propositions, strong patriotism, and a high acceptance of domestic brands. They are willing to pay a premium for product design and features. The rise of trendy toys fully reflects this point. Pop Mart, as a typical representative of the domestic trendy toy industry, can rapidly rise in a short time and occupy a large market share. Its strategic development and layout have attracted widespread attention.

leading new trends. Since 2018, it has begun integrated development and achieved unprecedented results in its performance. So far, it has occupied half of China's trendy toy industry and is the largest and most profitable trendy toy enterprise in recent years in China. Pop Mart is a typical representative.

Studying its two strategic transformations and financial performance will help provide a reference for trendy toy companies and promote the development of the trendy toy industry.

2. Development Overview of Pop Mart

Beijing Pop Mart Cultural Creative Co., Ltd. was established in October 2010. Pop Mart initially adopted a similar model of “buyer shop”, using its offline channel advantages to select a variety of fashion products in the fashion market, and the best-selling IP was Molly. Most of the fashion products are sold in the form of blind boxes, and the blind box vending machine has been developed as a radar, by placing low-cost vending machines in major shopping malls to observe sales and predict whether it is suitable to open a store.

In 2017, after Pop Mart had a certain amount of traffic and fixed fans, it began to hold an international trend toy exhibition, enhance brand influence, deeply explore artists, and strive to accumulate core high-quality IP, open up the “IP supply chain - channel” model, and conduct joint internal incubation with multiple brands. The company has set up an internal creative design and industrial development team of more than 100 people, and the internal artists are deeply involved in the commercial design, development and processing of contracted IP, and carry out internal IP creation while accumulating industry design experience in cooperation. In terms of external mining, in order to ensure a steady stream of high-quality IP, the company has also set up an internal artist mining team of more than 20 people, actively looking for different styles of artists with commercial prospects around the world. In addition to promoting the trend culture, the International Fashion Toy Exhibition is also one of the most important ways to discover the talents of the company, The exhibition is held once a year in Beijing and Shanghai, inviting artists and fashion brands from all over the world to participate in the exhibition, and artists need to prepare limited styles of the exhibition in advance [1].

In addition, the company also cooperates with colleges and universities to jointly find local popular game designers. The company’s deep cooperation with artists from Hong Kong, Japan and South Korea and other places. In order to expand the territory for long-term development, Pop Mart cultural sea, overseas to adopt a combination of online and offline modes, while building an offline experience park [2].

3. Development Strategy

3.1. Initial Strategic Analysis (2010-2016)

From 2014 to 2016, Pop Mart’s strategic plan was to focus on trendy toys, sign a certain number of designers, use offline experience stores as the main sales channel, and sell products in blind boxes. The company aimed to open as many stores as possible to quickly seize the market and create a domestic trend for trendy toys.

After receiving its first investment, Pop Mart continued to expand rapidly at a speed of 3-5 stores per year. The signing of Molly brought huge revenue to Pop Mart, demonstrating the feasibility of this strategy.

In 2015, there were already more than 20 stores across the country. At the same time, Pop Mart continued to sign designers, introduce new products, buy out popular IP licenses, and produce a variety of hand-painted figurines. With the help of Molly, Pop Mart attracted a large group of loyal fans, and the introduction of new products also met the needs of more consumers, increasing product differentiation to some extent and expanding both store and consumer scale.

Due to the “giant country effect” in the Chinese market, homogeneity and large-scale replication of enterprises have broad market space. Pop Mart’s offline physical store model once mature can be quickly copied in similar spaces across the country, which not only reduces the complexity of scaling

but also achieves scale effects, improves operational performance, and reduces cost structures. This laid a solid foundation for future trendy toy operations.

Since 2014, Pop Mart has been influenced by sales models such as Japanese “fukutsu” and “nugunade” (similar to blind boxes), creating a blind box sales model. In this model, consumers can choose to purchase a series of products, but which specific product they will receive is not shown on the packaging. Only when they open the package can they see it. This marketing strategy brings tremendous surprises to consumers. This novel sales model has never appeared before in China and has attracted many consumers since its launch. Pop Mart promotes small and low-priced blind boxes as the main product first, attracting fans’ attention while expanding the fan base through the surprise and social attributes of blind boxes. At the same time, Pop Mart continuously expands the number and scale of IPs. Different IPs bring different emotional experiences to consumers through their original design, achieving the bundling of consumers and Pop Mart IPs. When consumers are familiar with IP images are combined with blind boxes, giving the original IP a sense of mystery and novelty, providing consumers with a more satisfying and joyful shopping experience. Various IPs also continuously launch new series of blind box products, continuing the emotional connection between consumers and products and causing consumers to enthusiastically engage in purchasing behavior. This provides a good foundation for further expansion and development.

3.2. Strategic Transformation (2017-2022)

3.2.1. Supply Analysis

It should Reduce costs and increase efficiency and open up the ‘IP-Supply Chain-Channel’ model. By being the first to break through the “IP-Supply Chain-Channel” model, Pop Mart helped establish scale advantages. The continuous demand for large orders provided a foundation for the company to enhance its ability to manage factories. Based on the popularity of trendy toy exhibitions and online pre-sale data, the company has strengthened its ability to predict new product sales momentum.

Pop Mart has strong anti-risk supply capabilities and based on its increasingly mature supply chain, Pop Mart’s top IP launches 1-3 new products every quarter. During the COVID-19 pandemic in 2020, the company had a small order volume, and with the market recovery after the epidemic, some of the company’s products were out of stock. In late 2020, the company signed a supply chain information technology company, Fule Technology, and with the company’s continuous optimization of the supply chain, the production cycle for incremental orders has been shortened to about three months. In May 2023, the company launched a total of 15 new blind boxes, reaching the highest level in nearly a year. The increasingly perfect supply chain system provides a guarantee for the company’s new product launch and sales.

3.2.2. Core Competition

The company’s rich IP reserves and mature commercial operation have built a good, closed loop. The rich IP reserve is the cornerstone of IP operation. Similarly, benefiting from Pop Mart’s mature IP commercial platform operation, Pop Mart has a head start in obtaining high-quality IP. Original IP incubation takes a long time and has high risks. Designers or studios tend to hand over IP to manufacturers who have matured and agentd IP. Designers are concerned about the commercial failure of their creations and undermine their creative confidence. They are also concerned about the excessive commercialization of IP and losing artistic integrity. The company’s “making stars” ability has been tested by many blockbusters, and with ample funding, the company’s pursuit and respect for art are also consistent with designers.

The company has rich IP reserves, far higher than its competitors in China. As of 2023H1, the company operates a total of 93 IP characters, including 12 self-owned IPs purchased and internally

studio-hatched, represented by Molly, Yuki, etc.; 25 exclusive contracted external artists' IPs, represented by PUKIY, SATYR ROORY, etc.; and cooperate with well-known third-party IP suppliers to re-create classic IP images, represented by Mickey, Little Yellow Man, Hello Kitty, etc. According to the statistics of Forrester Sully, in 2019, the number of IPs operated by Pop Mart was the same as that of the American company Hasbro, which had a century-old history, far ahead of Japan's Bandai and Europe's LEGO.

3.2.3. Brand Strategy

It should deeply mine the artists and collaborate internally and externally to enhance brand influence. As of H1 2020, the company has maintained close contact with over 350 artists worldwide and developed deep collaborations with 25 of them through licensing or intellectual property transfer agreements. Most of the collaborating artists originally worked in visual arts and design and received awards and recognition around the world in various art fields, including painting, sculpture, crafts, clothing design, and so on, and have a large fan base.

In terms of internal incubation, the company has formed a team of over 100 internal creative designers and an industrial development team. Internal artists are deeply involved in the commercial design and development of signed IPs, accumulating industry design experience through collaboration while creating internal IPs. As of H1 2023, the internal creative team has jointly incubated 9 original IPs, including Yuki, BUNNY, and Little Sweet Potato.

For external exploration, to ensure a continuous stream of high-quality IPs, the company has also established a team of over 20 internal artist explorers to actively seek out artists with different styles around the world. The international trend toy exhibition is not only a way to promote trend culture but also one of the most important ways for the company to discover new talents. The exhibition is held in Beijing and Shanghai each year, inviting artists and trend toy brands from around the world to participate. At the same time, artists need to prepare limited-edition designs in advance. By observing the foot traffic at the exhibition booth, sales at the exhibition, and feedback from the exhibition, the company can anticipate the trends and preferences of players and discover new artists.

To promote the trend of Chinese culture, the company has teamed up with the Central Academy of Fine Arts to hold a month-long lecture series on "trend, toy, and design".

In terms of third-party cooperation, the company collaborates with Disney, Minions, and other IPs that have a wide fan base. This may help broaden the user base. According to the Baidu Index, users who searched for "Pop Mart" keywords in May were mainly female users, with 52% of users aged between 20 and 29 years old. The third-party IPs have a higher proportion of users in other age groups than the company itself. At the same time, IPs such as "Naruto" have more male players than female players, accounting for over 60%. Cooperation with third-party IPs can help the company broaden the age and gender brackets of its users. At the same time, the company will launch collaborations between its own/exclusive IPs and third-party IPs to help convert players into "Pop Mart" brand fans.

3.2.4. Development Strategy

Similar to China's operational strategy, Pop Mart has adopted a multi-channel operating model that combines online, offline stores, and robot stores for its overseas expansion. The company has opened its own online stores for global users and has also established official flagship stores on Amazon and AliExpress. In terms of regional distribution, Pop Mart has dozens of offline stores in Japan and France and has also opened 2-3 physical stores in other regions such as South Korea and Singapore.

In August 2021, Beijing Pop Mart Theme Park Management Co., Ltd. was established, with business operations including urban park management, amusement parks, catering management, sports brokerage services, performance venue operations, etc.

In cooperation with Beijing Chaoyang Park, Chaoyang Park will authorize Pop Mart to use the “European Style” project and its surrounding streets and forests in the park. Located on East Fourth Ring Road in Beijing, it was founded in 1984, with a north-south length of 2.8 kilometers and an east-west width of 1.5 kilometers. The planned total area is 288.7 hectares, of which 68.2 hectares is water area and 87% is green space.

It is expected that the park will be completed and opened in September 2023. The reference model may be more like the Sanrio theme park in Japan, with IP image as the theme of scene experience, combined with tickets, catering, and peripheral derivative to realize IP fans’ conversion, which is helpful to maintain users’ enthusiasm and stickiness for IP. For Pop Mart, which has reached a certain scale of IPs and continues to improve its commercialization capabilities, it will be a cross-field attempt. The value of the IP hatch and output has been verified by Disney’s business model.

4. Financial Performance Analysis

4.1. Operational Capability Analysis

Overall, Pop Mart’s operational capability can be divided into two stages. The first stage was from 2016 to 2018. During this period, Pop Mart experienced its second strategic planning, expanding its scale, signing many IPs, forming core advantages [3], and carrying out cultural exports. It can be seen that after this change, Pop Mart’s operational capability continued to improve year by year, with the total asset turnover rate increasing from 1.13 in 2016 to 2.28 in 2018; the inventory turnover rate showed the same changing pattern during this stage; the accounts receivable turnover slightly decreased in 2017 and began to rise after 2018, indicating that Pop Mart’s capital operation capability continued to strengthen during this stage, and it had better control over the use of capital. The second stage was from 2019 to 2022, which was greatly affected by the epidemic. Based on a diversified strategy, a small adjustment was made to slow down the expansion of store openings[4]. The operational capability showed a downward trend, as shown in Figure 1.

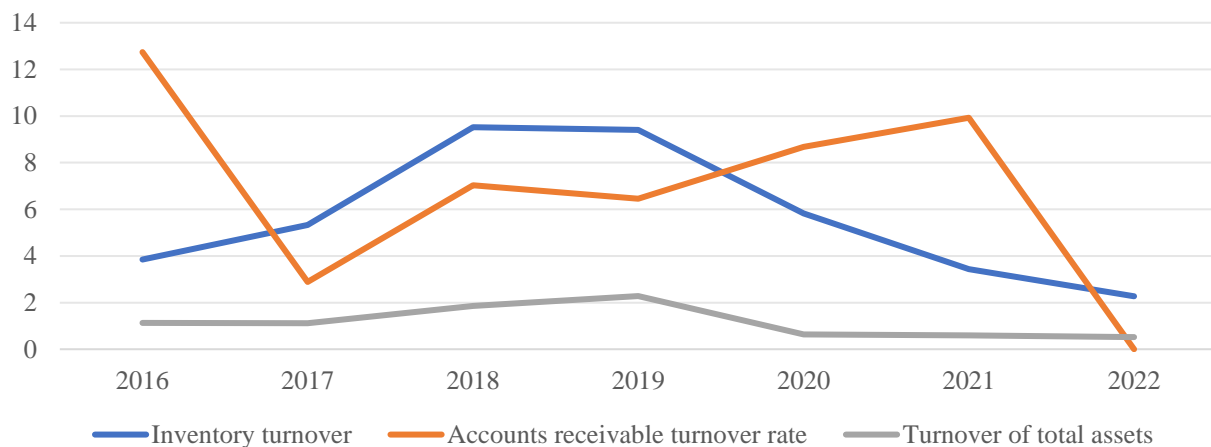


Figure 1: Operational capacity indicators of Pop Mart from 2016 to 2022.

The total asset turnover rate decreased from 1.58 in 2019 to 0.52 in 2022, which was basically in line with the industry average; the accounts receivable turnover rate showed the same downward trend in this interval, but compared with the total asset turnover rate and inventory turnover rate, the decrease was not significant, indicating that Pop Mart maintained strong bargaining power with upstream and downstream partners; the inventory turnover rate decreased to 2.27 in 2022, mainly due to the impact of the epidemic, some offline stores were unable to operate normally, inventory

management and delivery became more difficult, and some inventory accumulated. The company began to conduct promotional activities to adjust [5].

4.2. Analysis of Solvency

During the period from 2014 to 2016, Pop Mart was in its early stages of entrepreneurship and implemented a centralized strategy, expanding its scale. The trend of pop culture and the emergence of the toy industry provided favorable conditions for Pop Mart as a well-known offline experience store. The current ratio, quick ratio and cash ratio were all in an upward trend, and the asset-liability ratio and equity multiplier were relatively low, indicating that the enterprise had sufficient liquidity and strong solvency, and the property rights ratio was low, indicating that Pop Mart was adopting a low-risk, low-return financial structure at this time, which was in a stable expansion stage [6].

From 2016 to 2019, Pop Mart implemented a diversified competitive strategy. The current ratio, quick ratio and cash ratio showed significant fluctuations, with a sharp decline in 2016. The asset-liability ratio, equity multiplier and equity ratio all showed a significant increase. This was mainly due to the large amount of capital needed, such as signing a large number of IPs and building experience parks, with high costs that move some liquidity, resulting in lower solvency and higher financial risks for the enterprise.[7] After three years of development and precipitation, Pop Mart experienced an upturn in 2019 and reached its highest value in 2020, with the current ratio, quick ratio and cash ratio approaching 10, and the asset-liability ratio, equity ratio and equity multiplier decreasing. The solvency of the enterprise was strong. However, due to the impact of the epidemic, the solvency of the enterprise began to decline in 2020. Although it decreased to 4-6 in 2022, it remained higher than the values from 2017 to 2019 and showed a stable trend [8]. This indicated that the implementation of strategic transformation brought excellent development prospects to the company, improved solvency while increasing operating efficiency, and buffered the impact of the epidemic, as shown in Figure 2 and Figure 3.

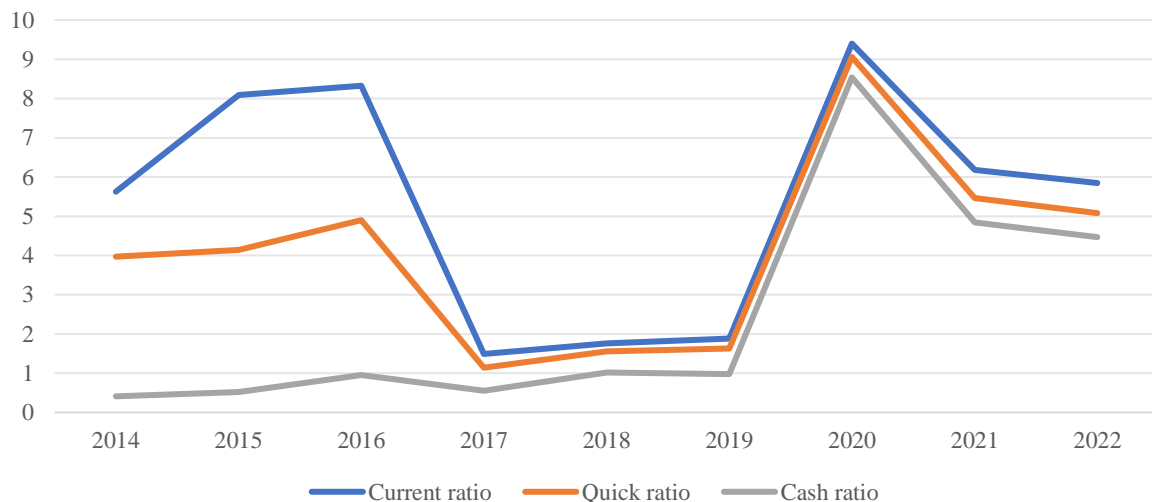


Figure 2: Short-term debt-paying ability indicators of Pop Mart from 2014 to 2022.

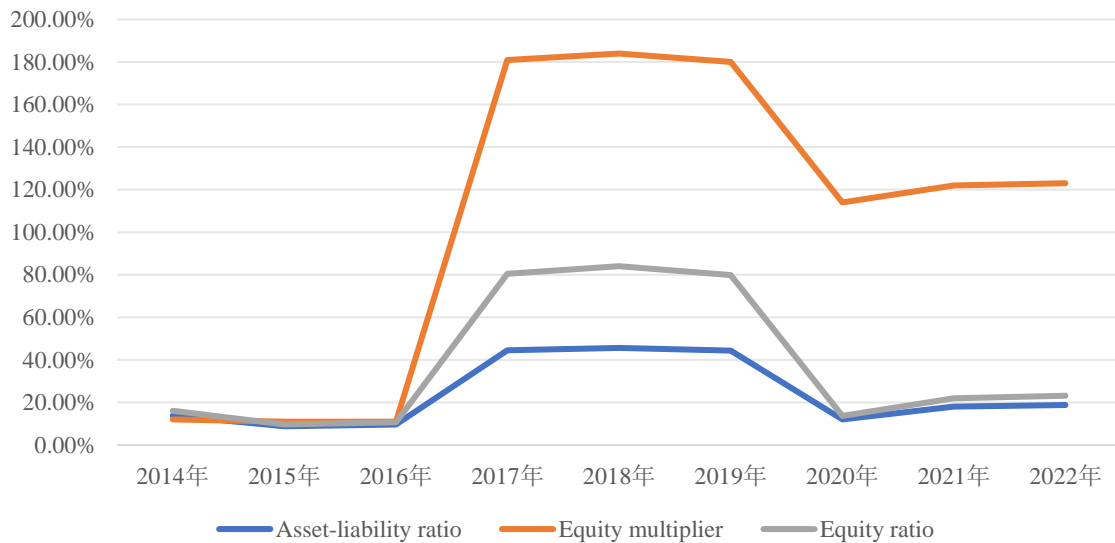


Figure 3: Long-term debt-paying ability indicators of Pop Mart from 2014 to 2022.

4.3. Growth Capability Analysis

Pop Mart was loss-making from 2015 to 2016. However, after implementing a diversified business strategy and an integrated industry chain business model based on blind boxes, Pop Mart achieved a leap forward in net profits and rapid growth. The net profit growth rate in 2018 was as high as 6,238.85%, and the net profit growth rate steadily declined from 2018 to 2020 [9]. According to the financial report, as shown in Figure 4. Pop Mart believed that the reason for the decline in net profit growth rate was that the product process and production quality level had been further improved, increasing product costs. In summary, although Pop Mart's total asset growth rate and net asset growth rate showed a year-on-year increase trend after implementing diversified business strategies and a full industry chain layout in 2017, the revenue growth rate exceeded 200% from 2018 to 2019, and the net profit growth rate boomed in 2018. However, due to the impact of the epidemic, the revenue growth rate sharply declined in 2020, and the net profit growth rate slowed down in 2019 and only grew at a rate of 16.05% in 2020. From 2020 to 2022, Pop Mart remained stable and continued to diversify its strategies, expand its business scope, and buffer the impact of the epidemic.

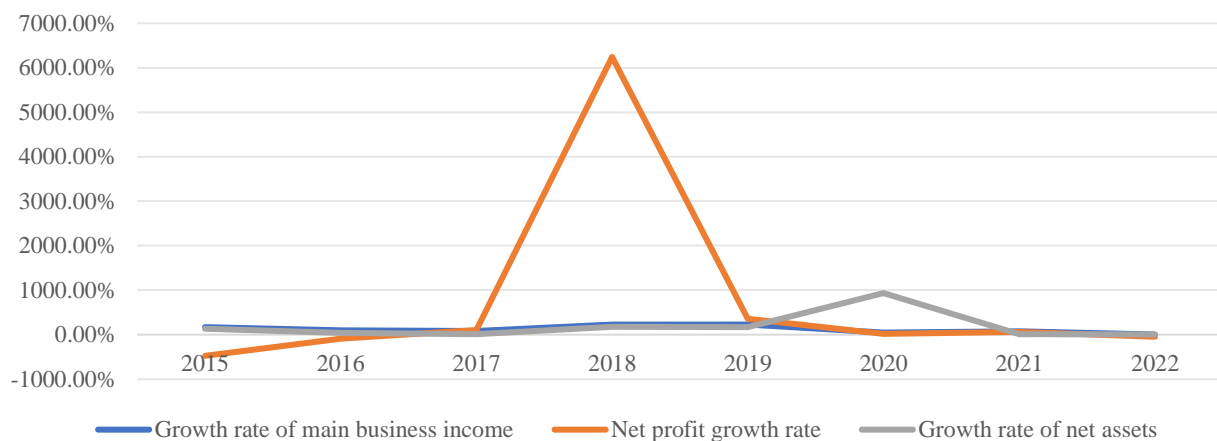


Figure 4: Development capacity indicators of Pop Mart from 2015 to 2022.

4.4. Profitability Analysis

In 2016, both the sales gross profit margin and net asset yield were negative. However, after implementing a diversified business strategy, the sales gross profit margin showed a rapid and stable growth trend. This was mainly due to the emerging trend of the toy industry, although performance showed a growth trend, the overall toy industry had not fully emerged, and the audience was limited. The cost of signing IPs such as Molly was high [10]. However, after implementing diversified business strategies in 2016, Pop Mart further broadened the audience and toys truly entered the public view. At this time, Pop Mart, as the industry leader, and the novel sales model of blind boxes brought tremendous profits. Since 2017, Pop Mart's sales net margin, sales gross profit margin, net asset yield, and total asset yield have been on the rise. According to Pop Mart's 2020 financial report, Pop Mart's independent product gross profit margin decreased from 71.2% in 2019 to 68.7% in 2020, mainly due to the improvement of product process quality, more complex product processes, and rising raw material costs resulting in a decrease in gross profit margin. Since then, Pop Mart has been in stable profitability from 2020 to 2022. However, optimizing the cost-income structure is essential for the future development of the enterprise. Based on strong profitability in the industry, Pop Mart can bring scale effects through diversified operations and full industry chain coverage business models, effectively improve operating efficiency, improve cost structure, and enhance the company's ability to control costs and expenses.

5. Conclusion

Pop Mart has undergone two strategic transformations. The first was from 2014 to 2016, when Pop Mart stopped selling other daily and miscellaneous products and began to mainly produce IP blind box products with Molly as the focus, implementing a concentration strategy to attract a large number of customers. Although the company was still at a loss, its performance showed a small upward trend and its debt-paying ability was relatively strong. From 2016 to 2022, Pop Mart implemented diversified business strategies, no longer satisfied with existing products. The trend of toys became popular in the public eye. Pop Mart used its diversified business strategies to stand out from the fierce industry competition and gain an advantageous position, becoming the pioneer and leader of the toy market. Its financial situation improved significantly compared to before the implementation of diversified strategies. Pop Mart developed corresponding strategies based on different environments, coupled with its novel marketing model, allowing it to expand rapidly in a short period. However, Pop Mart still needs to consider its long-term development issues due to the lack of background stories for its IPs, which may result in insufficient user stickiness [11].

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