





OLIVER WYMAN IMPACT

森宝积木
SEMBO BLOCK



Future sales strategy for SEMBO BLOCK

Oliver Wyman Impact - 2023 Mainland China Case Competition Case

Agenda

1 **Market Overview**

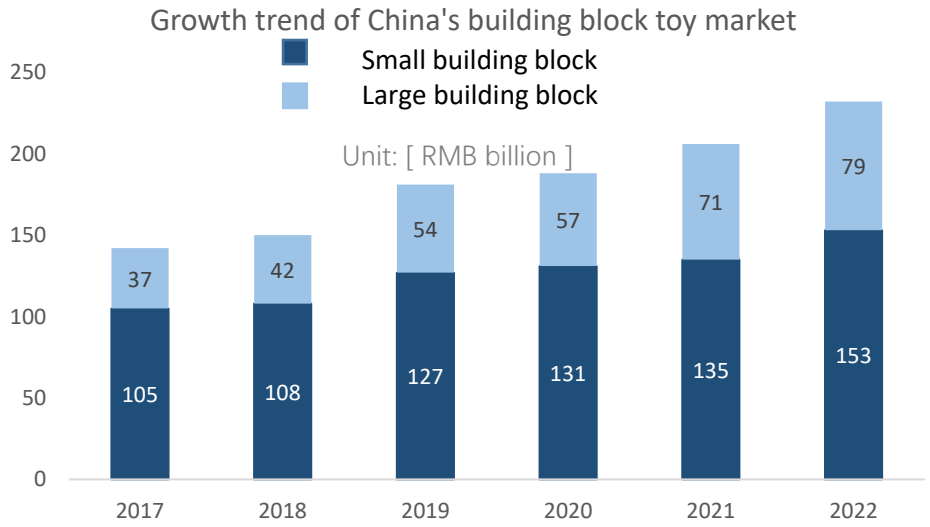
- China's **building block toy market** is growing steadily with stable momentum
- **Competition pattern** and **future development** trend of China's building block toy market
- **Target customers**: post-95s and kids

2 **Growth Strategy**

- **Strategy 1: Distinguish the brand image**
  - Start **STEAM education business** using new technology
  - **Sub-brand** launch
- **Strategy 2: Expand offline stores and optimize online channels**
- **Strategy 3: Omni-channel**
  - Coherent and absolute inventory integration

China's building block toy market is growing steadily with stable momentum

1 China's building block toy market maintains steady growth



The industry has grown steadily over the past few years owing to the growing audience of plastic building block toy products in China. From 2017 to 2022, the market size of China's plastic toy building block industry will increase from 14.2 billion yuan to 23.2 billion yuan, with a compound annual growth rate of 8.53% . In the future, China's building block toy industry still has considerable room for growth.

2 Environmental analysis of China's plastic building block toy industry —— Policy environment

In recent years, various national departments and local governments have successively issued relevant policies for the plastic building block toy industry. With the help of the policy, the plastic building block toy industry will usher in new development opportunities.

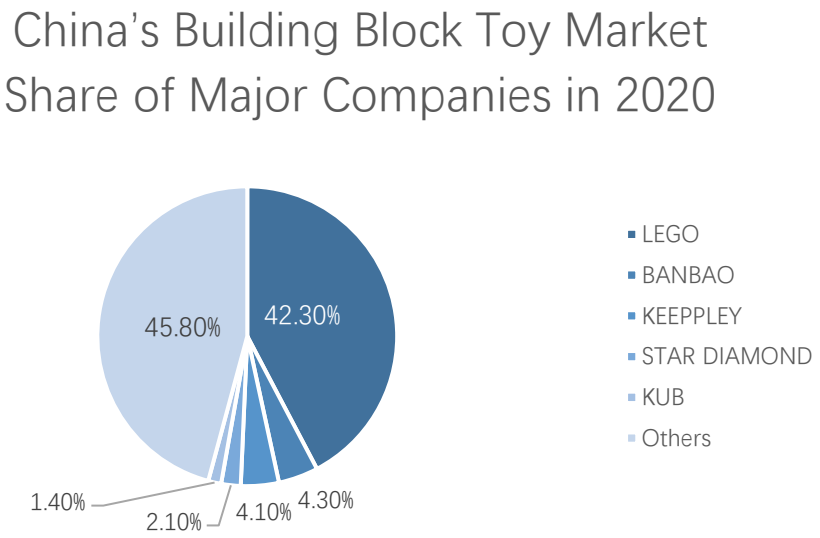
policy name	promulgation date	Promulgating subject	Influence
" Guiding Opinions on Promoting the High-quality Development of Light Industry "	Jun-22	Ministry of Industry, etc.	The opinion encourage various enterprises to create well-known building block toy brands.
" Notice on Printing and Distributing the Action Plan for New Pollutant Control "	May-22	State Council	The program establishes national standards for toy products, focus on the safe development of plastic building block toys.
" Opinions on Strengthening the Protection of Intellectual Property Rights "	Nov-19	General Office of the CPC Central Committee	Promoting the innovation of plastic building block toy enterprises, which is conducive to maintaining the intellectual property rights of building block toy enterprises.

3 External driving force of China's plastic building block toy industry

Consumption Upgrade		**From 2020 to 2021, the Engel coefficient will decrease by 0.4% , and the disposable income of residents will increase by 8.1% .**
Digital Innovation		**Digital innovation is leading the building block toy industry to embrace digital channels and digitization.**
Sales Channel Expansion		**Online and offline omni-channel sales empower the building block toy industry.**

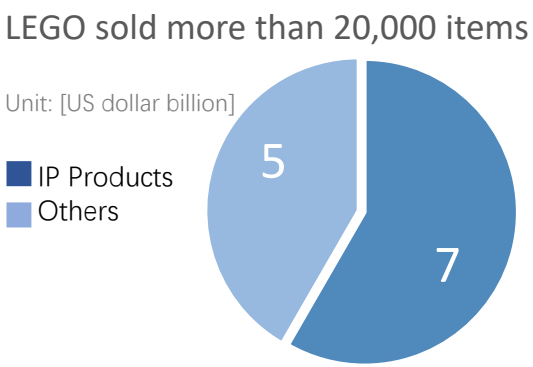
Competition pattern and future development trend of China's building block toy market

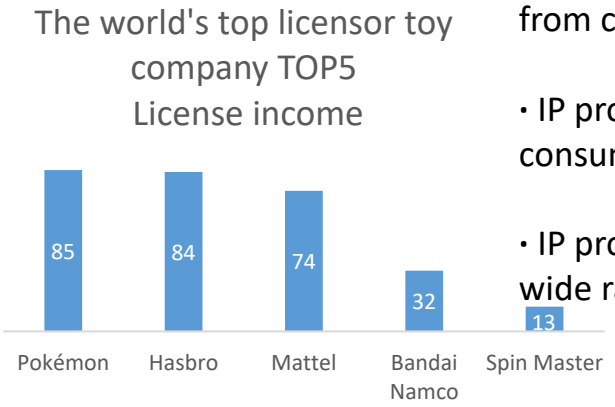
1 China Building Block Toys Market Share of Major Companies



According to the data, in 2020 , Lego will have a market share of 42.3% in China's construction toys market , and its leading position is solid. However, the market shares of Bangbao Puzzle, Enlightenment, Star Diamond, and Koubi are relatively low, none exceeding 5% .

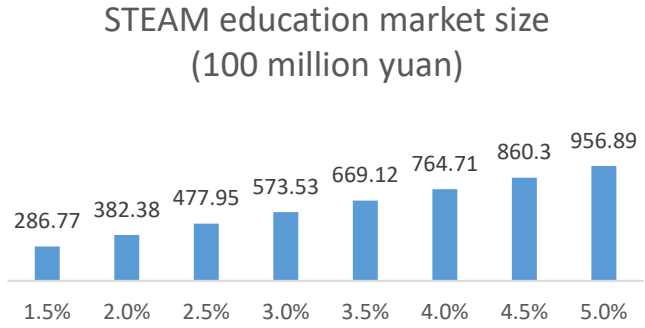
2 The homogeneity of traditional building blocks is serious, and building blocks + IP have become the mainstream of the market





- IP products are protected from counterfeiting
- IP products attract fans to consume
- IP products and toys have a wide range of audiences

3 Based on the characteristics of national conditions, building blocks + STEAM education has great potential



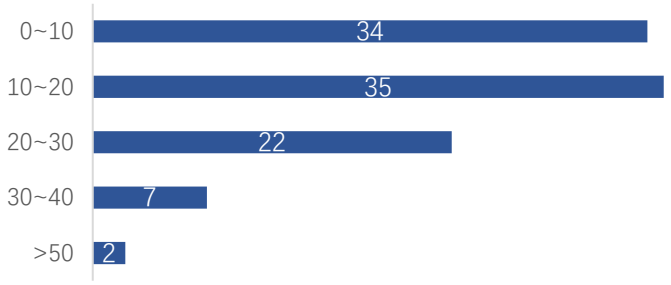
- Examination-oriented education has fallen back, and a new education market needs to be formed urgently.
- Quality education makes up for places, STEAM education is an important part. The scale of the domestic STEAM education market has grown steadily

Target customers : post-95s and kids

1 The target customers of SEMBO BLOCK should be post-95s and kids

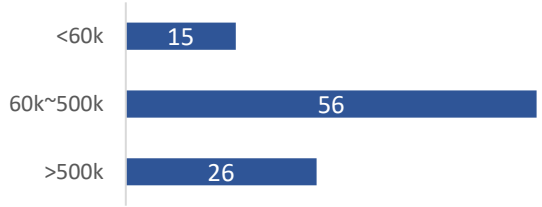
Post-95s	Kids
Profile: • Enthusiasm for sharing • Full of curiosity • With high confidence	Profile: • Focus on entertainment • Related to early education
Value: • Innovative • Fashionable • Good in value	Value: • Innovative • Educational

Sales of building block toys by age (%)



→ Value match

Sales of building block toys by family income (%)



→ Spending power

Middle class :
• Annual income: 60-500k

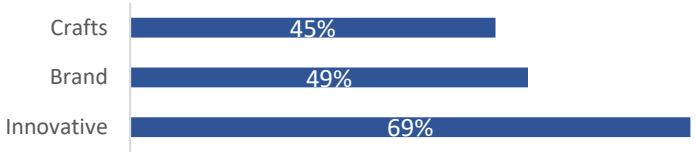
Profile:
- **Own certain wealth**
- **Independent consumption**
- **Kids' parents and post-95s**

Value:
- Good in value
- innovative
- Healthy

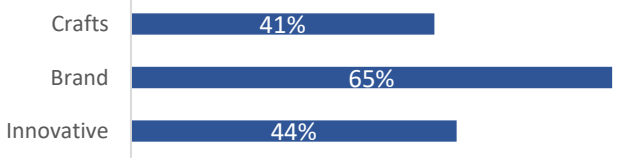
- Value match and spending power are criteria to determine target customers
- Post-95s and kids are segments to target

2 They care innovation, brand image and good in value

Post-95s



Kids' Parents



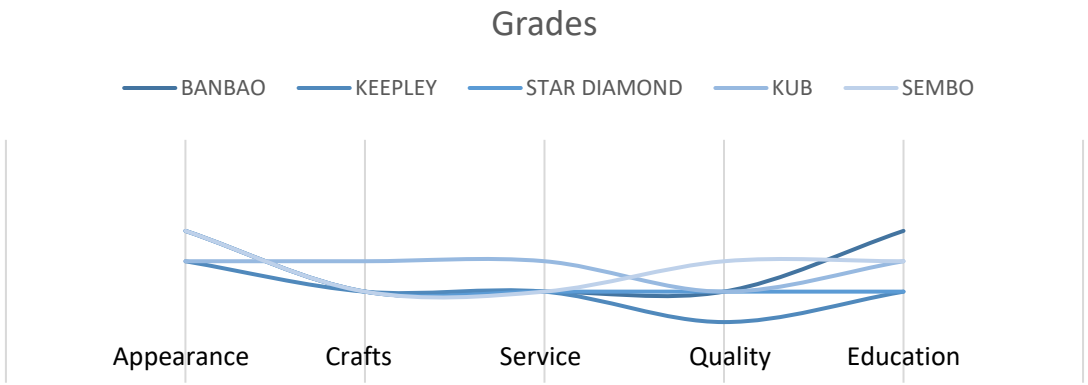
森宝积木
SEMBO BLOCK

3 Prefer omni-channel shopping



Distinguish the brand image by highlighting the core concepts and conduct diversified branding promotion

1 Domestic building block brand homogeneity is serious, and innovation in craft and image, as well as quality improvement, are the keys to breaking competitive barriers



2 People concern different aspects of brand and the concept of national tide and educational stands out

Consumer preference for toy selection



Main preferences:

National tide
Quality
Educational

Measure 1

➢ **Pursue excellence and innovation:**

· Perfect the crafts
· Innovate the way to build blocks
· Promote omni-channel shopping

Measure 2

➢ **Combine trends and traditions:**

· Purchase domestic popular IP
· Design China-chic IP
· Develop building block blind box

Measure 3

➢ **Focus on children's education:**

· Building blocks + STEAM education:
  · Graphical programming
  · Science experiment

Measure 4

➢ **Develop towards high-end:**

· Develop sub-brands which includes:
  · Customer-designed blocks
  · Private bespoke service

Start STEAM education business using new technology

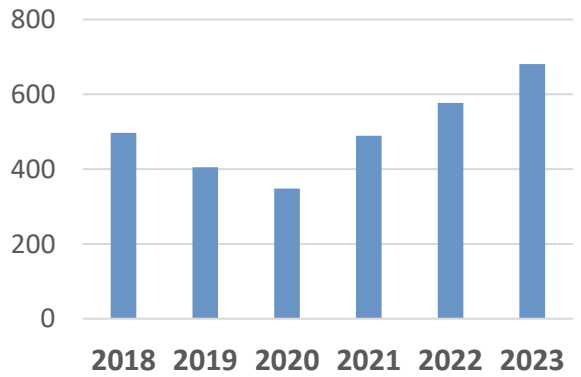
1 Introduction to STEAM education

- ✓STEAM education is a well-rounded training for future employment and industrial development.
- ✓Its core is to cultivate composite talents who can cross various disciplines and form efficient collaboration with teams.

- S • Science
- T • Technology
- E • Engineering
- A • Arts
- M • Mathematics

2 Potential market of STEAM education in China

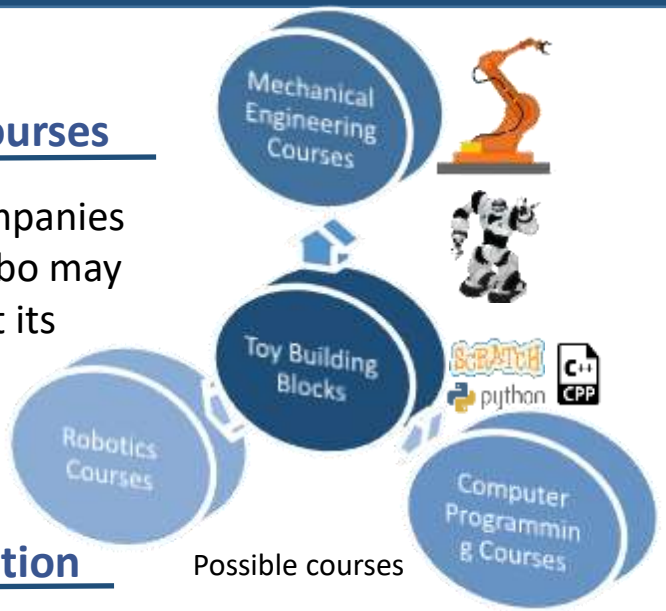
- ✓ The market awareness and acceptance has gradually increased
- ✓ The potential market size is rising rapidly.
- ✓ Other companies have not yet taken over the market.



Potential Market Size of STEAM Education in China, 2018-2023 (RMB Billion)

3 The company may cooperate with education companies for various courses

Lego is currently working with education companies to develop STEAM education programs. Sembo may also cooperate with other companies to start its STEAM education business.



Possible courses

4 New technology may be applied to develop block sets for STEAM education

By connecting to free app, consumers can race LEGO AR models, and make racetracks through the power of Augmented Reality.

Sembo's available products, such as *IRON BLOOD HEAVY EQUIPMENT* and *TECHNIAUE* → Applying technology like AR, VR and radio control → VR or AR mode and remote control for STEAM education



LEGO® Technic™ AR app

IP leading model has been squeezed， and China-chic leads a new way out

1 Hidden dangers brought by IP leading mode



Big IP owned by China has a smaller share of the global market, and SEMBO has even less of it.

IP leading increase the premium space

2 The new development brought by the China-chic



The scale of China-chic IP licensing market continues to expand guochao elements have been integrated into many aspects of Chinese products

3 Further deepening the blocks of the China-chic co-branding category to tap into the potential of the IP market

IP: Expand the China-chic IP category

Appearance: focus on the combination of Chinese elements and building block characteristics

Launch and iterate: launch the China-chic block and iterate based on customer feedback



Efforts required in this section

- **Enhance product value:** The design and manufacture of Guochao blocks requires higher technical content and process level, so it has higher product value and market competitiveness.
- **Educational significance:** Guochao block is not only a toy, but also can be used as an educational tool to cultivate children's imagination, creativity and hands-on ability. This educational significance can attract more parents to buy, bringing a wider market.
- **Expand the market:** Guochao building blocks can attract more attention from Chinese culture lovers and foreign tourists, expanding the potential and space of the building blocks market.

Sub-brand launch: Sembo is recommended to launch MyBlock to enter the high-end market

Competitor analysis

ENLIGHTEN & Keeppley



Star product: Jay Chou's Piano

- ENLIGHTEN: Founded in 1994, it launched sub-brand Keeppley in 2019.
- POSITIONING: Next-generation brand
- FOCUS: Genuine IP licensed, high quality and cost effective quality block toys.

LEGO Ideas IDEAS

- Fans: Fans can be LEGO designers and upload their ideas to the community.
- Internet: People can vote for their favorite ideas from fans.
- Product: Some fan creations will be made into official sets.

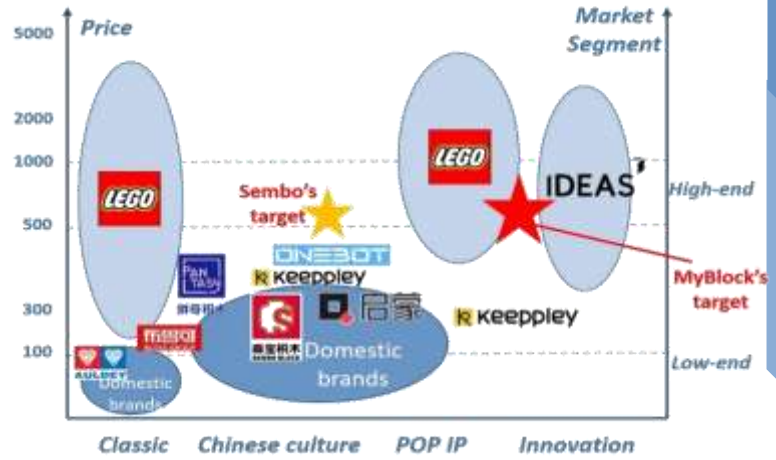


How LEGO Ideas works

Potential market for MyBlock

Feasibility of entering the high-end market

- ✓Domestic companies' products are highly homogeneous.
- ✓Few domestic companies have entered the high-end market.
- ✓Compared with LEGO, Sembo has more products with popular Chinese IP and Chinese cultural characteristics.



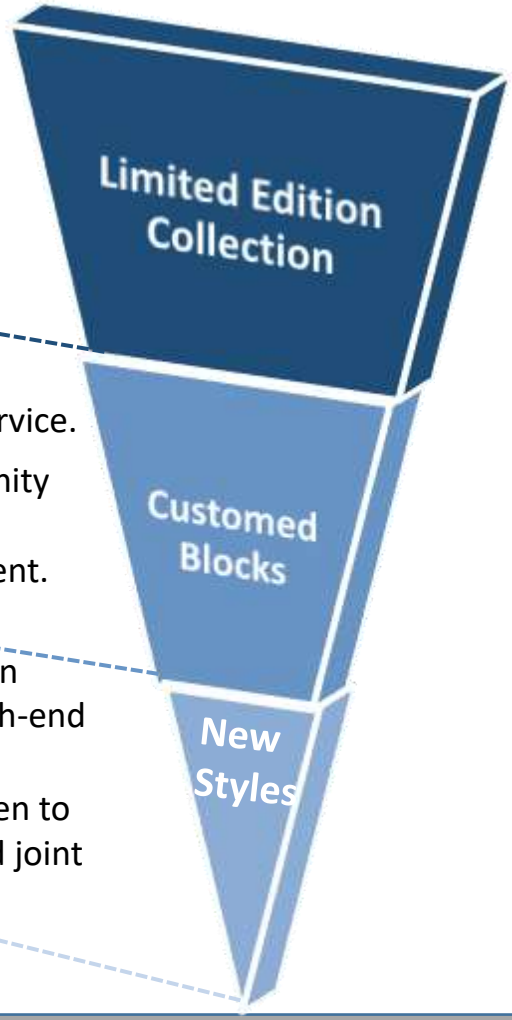
Enhance Brand Image

Increase Customer Loyalty

Innovation

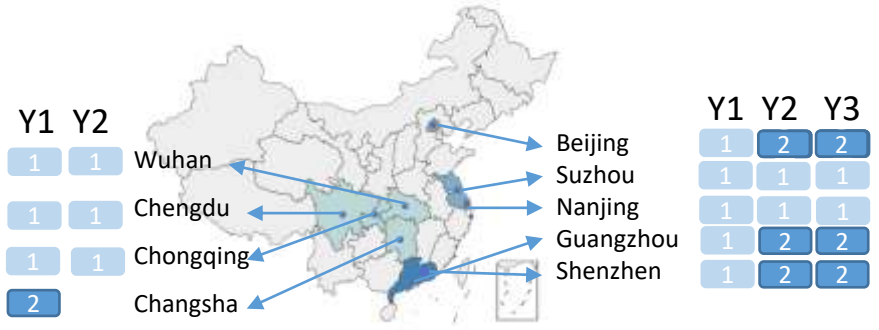
Key elements for MyBlock

- ✓Introduce limited edition products with popular IP, and enrich the collection value of block sets.
- ✓Provide customization service.
- ✓Build online fans community and collect their ideas to increase users' engagement.
- ✓Increase the investment in innovation to provide high-end products.
- ✓Invite artists and craftsmen to create unique shapes and joint structure for the brand.



Expand offline stores： A store system combining droid, pop-up and direct-sale store to stimulate sales

1 Open direct-sale stores to unlock potential in 9 upper tier cities



2 Rolling out droid stores for strong penetration in Tier 2 and below cities

Effectiveness

- ✓ Piloting and providing valid data
- ✓ Experience the economy, experience before you buy

Efficiency

- ✓ Holistic: a wide range of product lines
- ✓ Low upfront investment costs and high operational efficiency

3 10 pop-up stores in 10 cities to get access to target customer groups



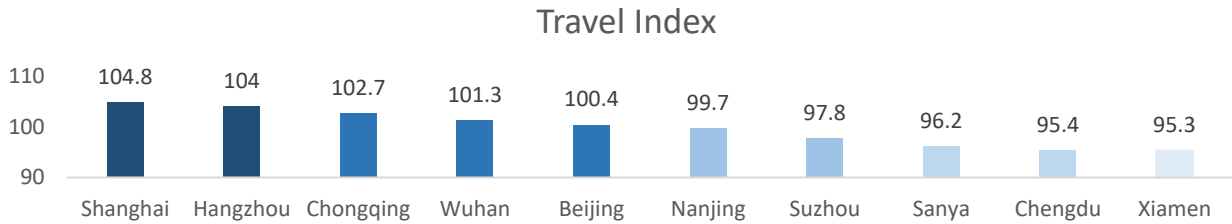




Select shopping centers and adopt multiple venues

Joint pop-up stores with other brands

Invite famous designers to build creative pop-up stores with buzz



Service exchange to deepen brand understanding

Experience oriented, with its own social buzz

High travel index cities with greater guest traffic

- Build brand awareness
- Test new markets
- Create personalized shopping experience
- Cost-effective marketing

Optimize online channels: KOL Initiative and livestreaming to catch the mobile-end shopping market and utilize extensive social platform

Overview

Detail

Impact

1 KOL initiative and platform push flow

Look for KOLs and celebrities who have a large following within post-95s and kids' parents

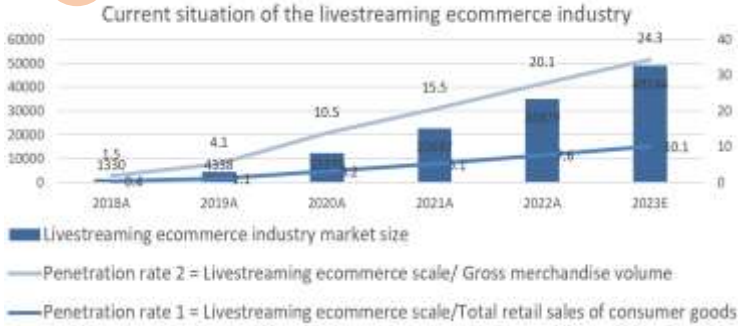
Collaborate with major platforms to achieve multi-channel push flow

Use Weibo & XiaoHongShu as major channels

- Promote engagement with the brand on social media
- Increase brand awareness and improve brand credibility
- Reach a larger audience at a lower cost

Seeding → Grassing

2 Livestreaming promotion



AI development reduces live streaming costs

Give some concessions to expand sales

- Pop-up interaction to understand consumer needs
- Boosting sales with the live streaming wave
- Enhancing product authenticity and consumer interaction

Grassing → Purchasing

3 Complete after-sales service

Provide more flexible timeslots for polish service

Send follow-up emails

Offer discounts and incentives

- Focus on SOP and UE
- Conduct post-sales staff training

- Good after-sales service can encourage consumers to buy from offline shops
- Increase brand awareness, drive repeat business and enhance consumer loyalty

Aftersales → Purchasing

Omni-channel: Coherent and absolute inventory integration

1 The combination of online and offline has largely achieved multi-channel sales

Ecommerce	• Online marketplace: T-mall • Direct sale: official store
Physical stores	• Brand store • Distribution store

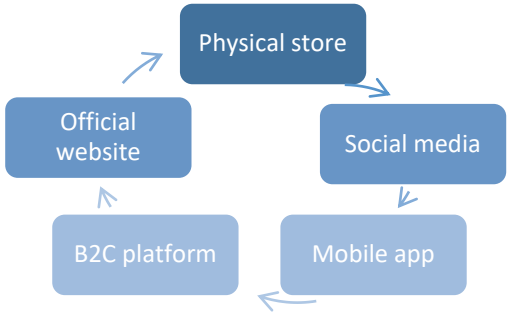
SEMBO's sales channels

2 There are three key differences between "multi-channel" and "omni-channel"

Criteria*	Multi-channel	Omni-channel
Consistency of customer experience	Uneven	Consistent
Level of integration	Low	High
Inventory systems of different channels	Independent	Mixed

* Kersmark, Malin; Staflund, Linda (2015). *OmniChannel Retailing Blurring the lines between online and offline.*

3 Agility is the key, and a hybrid sales model is a natural enabler



Enhance level of integration:

✓ Getting through the functions and data streams of different channels to eliminate boundaries

Coherent and absolute inventory integration:

✓ Mix inventory systems to allocate inventory availability and visibility across locations