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"Sneaker Frenzy" : The Paradox of Unlimited Demand and Restricted Supply

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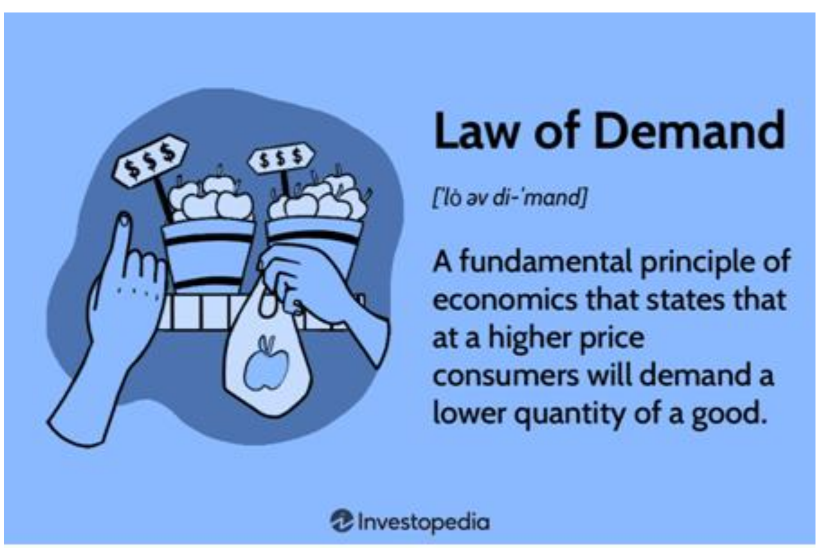
Economic concepts of Demand and Supply

"Economics" as it is perceived by the Economists, is the study of production, distribution, and consumption which have two acclaimed divisions, 'Macroeconomics' and 'Microeconomics'. While 'Macroeconomics' deals with the aspects of aggregate economic quantities, 'Microeconomics' deals with markets, consumers and businesses.

Demand is essentially the willingness and ability of consumers to purchase a particular quantity of a product or service at a particular "price"; and the Supply is the willingness of sellers to offer a given quantity of a product or service, for sale, at a given price.

Law of demand and supply is perceived as the theory which emphasises the interaction between sellers and buyers. While 'demand' is a confluence of 'desire'-desire to acquire; 'willingness'-willingness to pay and the 'ability'-ability to pay, while 'supply' in economic terms connotes the quantity of a specified good or service that is available to consumers .



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The theory of demand and supply, depicts how consumer preferences determine demand for commodities, while costs are the determining factors of the supply. Normally if one notices, fall in the price, it is either because the demand for the product has gone down or alternatively, its supply has gone up. Changes in supply and demand therefore leads to changes in output and prices.

It is an established economic principle that "Price" is dependent on the interaction between 'demand' and 'supply' components of a market.

In fact, the market price of a product is determined where the forces of demand and supply are just in balance.

This definite relationship between the market price of a commodity and the quantity demanded of the same, is considered as the demand curve.The supply curve on the other hand is the relationship be-tween the market price of the product and the quantity of that product that producers are willing to produce and sell.

It is a generally acclaimed fundamental of economics that higher the price of a product, more would be its supply as higher prices lead to greater revenue and profits. Business entities would, therefore, normally intending to generate more profits would tend to manufacture more such products that have higher prices. When the price is low- supply is low and when price is high-supply is high; is the law of supply as we normally understand. The law of demand, on the other hand, lays down that if the price is high, demand would be less. Correspondingly, the law of

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supply and demand explains how the relationship between supply and demand affects prices. While law of demand indicates fall in demand if the price rises and would rise if the price drops; the law of supply conversely propounds higher the prices, more the supply and lower the prices, lower the supply.

What if, defying the fundamental principles of economics, contrasting concepts emerge?

Is it, therefore, possible to conceive 'high price-low supply and high price- high demand', the answer is in affirmative.

Could sheer preference alone, overrule the concepts of cost and utility?

The answers is, again, in the affirmative, as is being emphatically witnessed through an insight of the over powering "Sneaker Story".

Preference, preference and only preference seems to be the sole reason for outcasting the otherwise conservative concepts of cost and utility, thereby ruling desire to acquire as the paramount determinator, diminishing rationality and at times, even the ability to a distant extent.

How did it all start?

It all started with a 6-feet-6, 22 year old, who had initially failed to make it even to his High School Basketball Team, but eventually worked his way up, to be acclaimed 'The Greatest Basketball Player Of All Time'.

Who was this talented young gentleman, one may ask?

It was none other than "Michael Jordan".

In the year 1985, Adidas and Converse were the prominent Sneaker Brands, dominating the sports shoes market. The brand Nike, had by then, lost its position and market strength. Despite no significant qualitative issue, the market share of nike products, particularly sneakers in the basketball division was fast depleting. An *out of the box* strategy was required to propel not just its growth, but even its sheer existence. It had become imperative for Nike to deliver something extraordinary to stay in the competition with other Shoe brands.

It was in this background that Nike's marketing team approached Michael Jordan, seeking his endorsement of special Basketball shoes which Nike was then contemplating to design, manufacture and market, not bearing its own brand name but the brand that was the name- JORDAN. This was then an extraordinary Marketing Strategy evolved by the people who were in helm of affairs of the Nike brand, to encash the unprecedented brand value of the man himself. This was a unique offer that came Michael Jordan's way around whom the other similarly placed

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brands were making a beeline to seek his endorsement with respect to their brands. Nike's offer was, however, unique in as much as, it was prepared to even let go of its own brand name and instead inscribed only 'AIR JORDAN' on the shoe. The offer was evidently differentiable from other offers that were in the pipeline then, and overwhelming even for a man of Jordan's stature, who accepted the offer. Hence was christened the name- AIR JORDAN.

Did the strategy work?

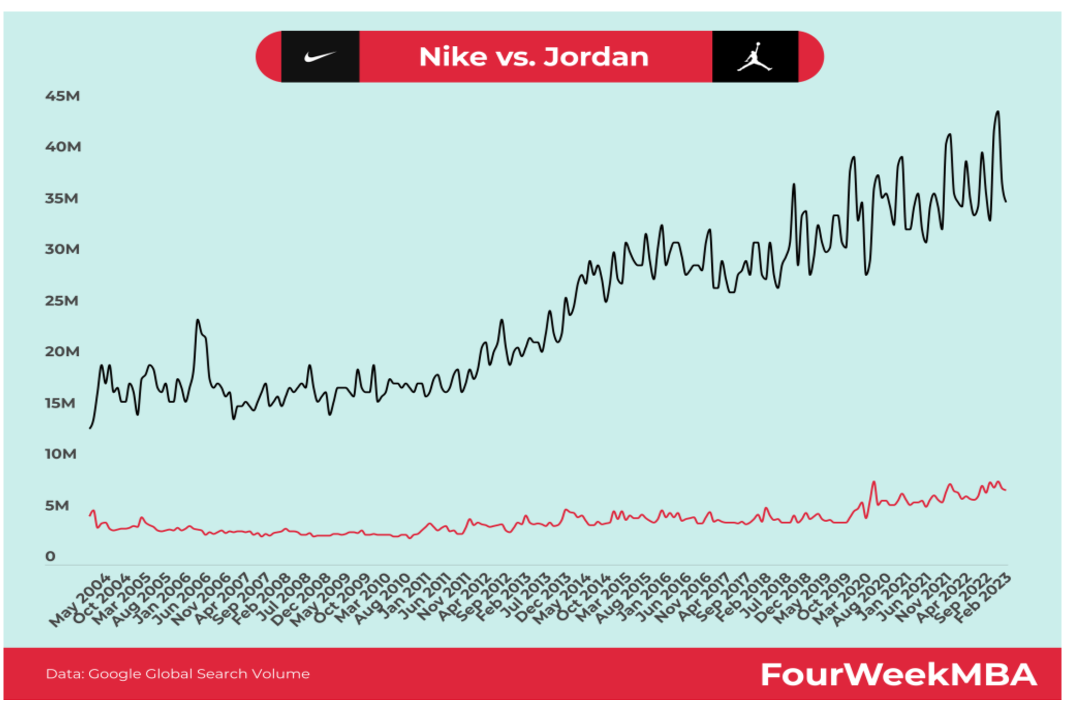
Yes, all ends up!

Nike and Michael Jordan, thus signed the deal in 1985 and the first Air Jordan pair was designed. It was the first time ever that the manufacturer's brand name was clearly eclipsed by an overpowering endorsing celebrity's name. Air Jordan became a rage and its acquisition- a dream fulfilled. The mad-rush to own a pair of Air Jordans, particularly amongst younger purchasers, at an unprecedentedly high price, defied logic.

This propelled the concerned marketing team to devise a corresponding strategy of limiting or restricting the 'Supply', apparently to let the purchasers and the intending purchasers, consider it a special, and prized possession. This aspect of restrictive, curtailed or limited supply was conceptualised and put into effect despite the fact that Air Jordan was a highly-priced product. The strategy of restricting the supply, when Air Jordans were easily fetching higher prices, completely contradicted the well-established marketing principle 'higher the price, more the supply', on one hand, and on the other hand even contradicts the principle of fall in demand if there is a rise in price. In the case of Air Jordans, the price does not matter and does not impact the demand.

In a sense, it was a pedestal that the name and the game of Michael Jordan sat at, having a distinct identity setting him apart from all who played and who were to come. This cult-like belief in the young American star was shared not only by each heart of every ardent lover of the sport and those who mastered it, but was valiantly expressed by Nike when the brand agreed to pay a $5000 penalty per game since the Air Jordan was majorly red in colour signifying the Chicago Bulls which opposed the NBA's rules dictating that all basketball shoes were required to have been at least 51% white. Such incidental costs eventually proved to be minuscule and negligible in the larger picture of the game since simply aligning with a trendsetter and larger-than-life athlete led to a phenomenal rise in the sale of Air Jordans, correspondingly leading to unimaginable and unreal profits. Thus, this partnership of Nike with Michael Jordan made the concept of utility while making a purchase, look irrelevant. The connect between the younger purchasers and Michael Jordan, their star, abnormally uplifted the market scenario in terms of the moolah, this association generated it was a win-win situation for both Nike and Michael Jordan.


Ahead of the Game:
Nike Rules the Sneaker World
Worldwide footwear sales of selected sports brands in 2022
$29.1B
$13.1B
$7.4B
$4.5B
$3.0B
$2.1B
$1.4B
* Nike's and Converse's fiscal year ends May 31.
** Skechers sales include apparel and licensing fees but are primarily made up of footwear sales.
Source: Company filings
statista


Nike vs. Jordan
45M
40M
35M
30M
25M
20M
15M
10M
5M
0
Data: Google Global Search Volume
FourWeekMBA

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Nike had paid $250,000 to Jordan for signing the deal besides gifting him a top-of-the-line Mercedes and a share in the profit from the sale of each Air Jordan shoe. It is conservatively estimated that the man himself has earned $1.972 Billion from the brand. The success & benefits of the deal were mutual. The Jordan brand earned $3.609 billion in the year 2020, $4.7111 billion in 2021 and a whopping $5.122 billion in 2022.

This Partnership Between Nike and Micheal Jordan lead to an unprecedented rise in the revenue and profits of Nike. In the year 1984 Nike was even struggling to Make $3 Million. Nike's own expectation when it signed the deal with Micheal Jordan, was to sell $3m worth of Air Jordans, within a span of four years period. Instead, shoes worth $26 Million were sold in the first year itself and what to talk about the sale, the revenue earned from Air Jordan Sales, in the year 2022 was $3 Million, every 5 Hours.

A mere association with Micheal Jordan paved the way for Nike to leave its closest competitor, Adidas, as well as its other competitors, in the dust. Nike's $40 billion in revenue over the last 12 months was 60% more than Adidas' and 43 times what it was before it collaborated with Micheal Jordan. Nike's market cap of $136 billion became three times the market cap of Adidas.

THE SNEAKER COMPANIES, by their endeavour of associating with top athletes, made sure that young consumers associate sneakers, as much with fashion as they do with sports. In order to derive constant returns, these sneaker brands rather than limiting their association with Sportspersons alone, enlarged the sphere of their branding partnerships, with key trendsetters in arts and entertainment to design and market sneakers. While Adidas roped in Kanye West to create the now infamous Yeezy Boost Sneaker, other star celebrities from the entertainment world including Rihanna, Kendall Jenner and Jay-Z too joined the bandwagon.

Moving on, the Brand Partnerships such as those between Nike and Michael Jordan were initially conceptualised and implemented by Converse back in 1921 by releasing an 'All-Star' basketball shoes series called the Chuck Taylor thereby merging lines of preference and inculcating such shoes in daily life rather than just on the court. This was one major reason for the immense boost in the global Sneaker Market, but it is certainly not the sole cause for such an increase. Dominating the global sneaker market, the men's luxury segment is growing at an ever-increasing rate fueled by people being able and willing to spend more on luxury goods due to an increase in disposable income. The shift to 'variety' from 'stagnancy' assisted by globalisation has led every individual to curate a lifestyle of choice and satisfaction instead of the rather-ancient concept of living for sustenance.

The strategy of restricting the supply, when such Sneakers were easily fetching higher prices, has further led to a strange phenomena known as the "Resellers Market".

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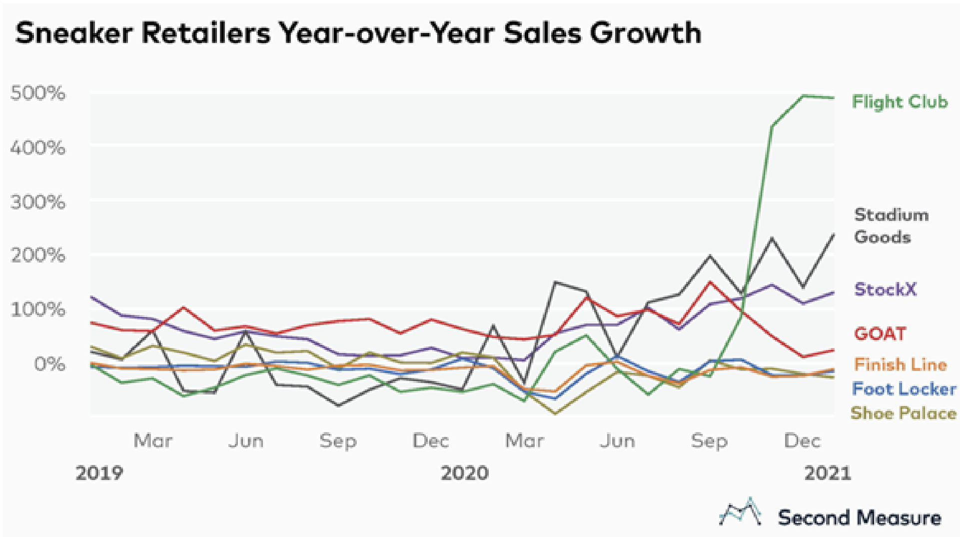
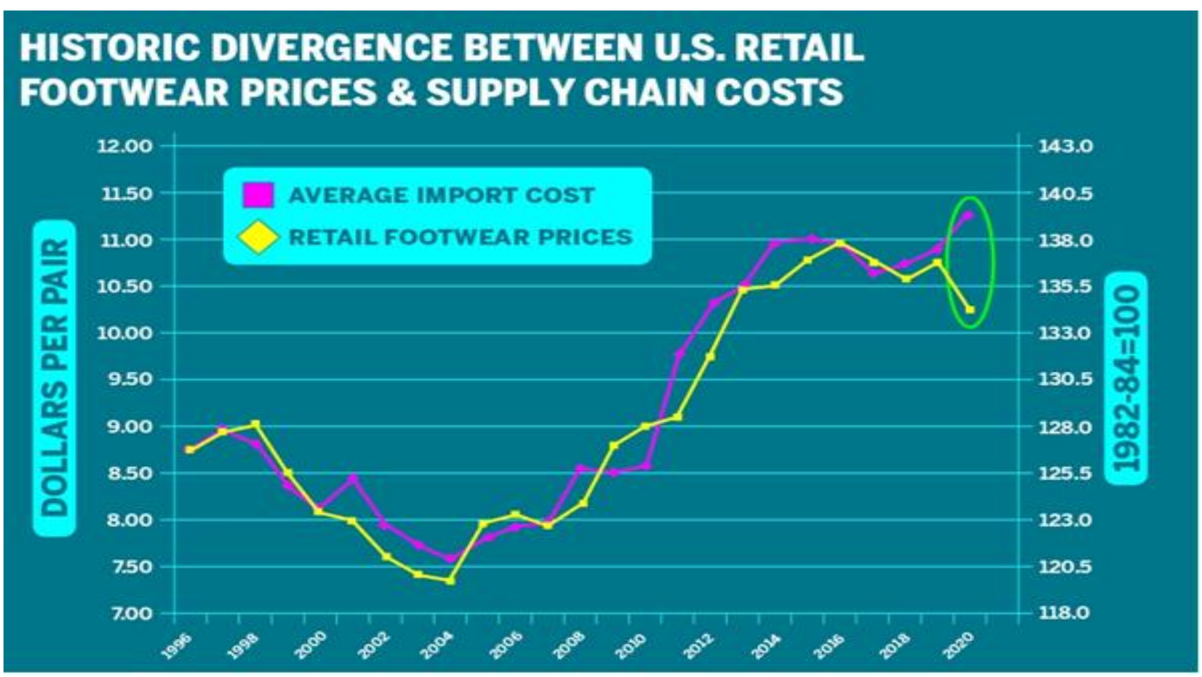


What is now being rampantly practised is the concept of Buying such Sneakers from the Manufacturer or the Authorised Retailer and then "reselling" for a much higher price. Mostly young entrepreneurs are getting involved in this line of business, where these popular products; acquisition whereof, has become a matter of prestige and pride; are purchased at a comparatively lower price and resold at a much higher price to the Enthusiasts who are available in abundance. Economists explain this mechanism as arbitrage. The reasonably estimated, composite value of Sneakers being resold, is in the range of $2 Billion per year.



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How does this mechanism work?

These Resellers, often addressed as ‘Sneakerheads’ resell only shoes that popular shoe manufacturers produce in limited or restrictive quantities. The said Resellers acquire these shoes, either by waiting in line at Retail Stores on the day that a new limited quantity shoe is introduced by a popular brand, or by buying shoes “online” using the software application called a bot. By the time a common customer intending to make a purchase, online, is able to make the decision regarding the purchase, reconfirming size etc. and then complying with the mandate of filling in his or her details, enter credit card information; these trained resellers, buy all of the newly-released shoes available on the site, using or rather misusing bot.

Although the Retail Stores selling these shoes, practise a Policy of limiting the number of shoes a customer can purchase, however in order to circumvent this limitation, the shoe Resellers succeed by deploying a number of people to make such purchase, on their behalf, on meagre commission. Although these popular brands often devise such rules regarding the number of shoes one can purchase, enforcing the rule, yet remains an issue. Having acquired the shoes, these Resellers, fully exploit the die hard syndrome of owning these scarce master pieces, at any price which are often, whimsically fixed, by the Resellers, completely trashing the well established economic principles of price fixing.

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These limited-edition sneakers enjoy the status of an asset just like stocks, bonds, or even gold, moreso since these can be bought and sold, in the secondary market, created by the Resellers.

To elaborate this further, lately the Luxury Brand "Dior" collaborated with Jordan Brand to market Air Dior– a version of six-time NBA champion Michael Jordan's first ever sneaker. The base product was priced at $2,000. Thriving on the policy of restrictive supply, only 8,000 pairs were made available for sale. As many as about five million people registered their interest, on a specific microsite, expressing their interest in the said product. However, when these sneakers entered the resale market, they were sold for a minimum sale price of $9,000, extending upto $38,000 per shoe. It proved that those spending $2,000 or more to buy the product also had an eye on making a profit by selling them to those who were prepared to pay much more.

These collaborations further expanded when one of the most Luxurious brands, "Louis Vuitton" joined hands with Nike and a limited edition of "LV Nike Air Force 1 ", of only 200 Louis Vuitton Nike shoes were brought to global online auction at Sotheby's in January 2022. The LV Nike Air Force 1 auction was an unqualified success raising $25.3 million.

Going back to the economic principles concerning the factors that attract or determine Price of a product, one would assume that the cost involved in the production, distribution and sale of the product would be the major factor followed by the demand perspective and then the level of competition. But the story on Air Jordans completely dislodges the aforesaid factors. In its case, it is the demand and only the demand that has been the predominant factor determining the price of each such masterpiece. In a usual scenario, any economist would have propounded that if the

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aim is to maximise profit in the long run, one should charge a lower price so as to acquire a greater market share by attracting a larger number of customers and if the competition is high then too, the prices should be lower to avoid losing customers to ones competition.

But are these otherwise well founded and established principles relevant in the context of the success story of Sneakers? The answer is in the negative.

It is therefore, this frenzy, this rage, this desire to acquire and own, this matter of pride and prestige which has surpassed all maxims and principles of economics, in this Intriguing, Inspiring and Overwhelming **Story Of Sneakers.**

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