

# Analysis of the Causes, the Influential Aspects and the Risk of Sneaker Speculation and Suggestion

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**Abstract:** Sneaker speculation is one of the most attractive economic phenomena. The purpose of the paper is to avoid too many consumers blindly following the trend to join the sneaker speculation and eventually causes financial lost due to the sneaker speculation trend being too hot. This study is one of the first few attempts to analyze every aspect of sneaker speculation and give youth suggestion on purchasing sneakers. First, this paper analyzed the cause and influential aspect of sneaker speculation, and made a preliminary analysis for readers who first enter the sneaker market. Second, the risk of sneaker speculation was analyzed. Then, suggestions for the youth to establish correct values and consumption concept were given. Finally, the conclusion suggested that the price of sneakers is too high over their value, consumers should buy sneaker rationally. Hopefully, consumers can establish a more rational consumption concept for consumers. More powerfully regulated sneaker market is necessary, so that the price of sneakers is more reasonable and affordable for consumers.

**Keywords:** Sneaker speculation, Sneaker culture, Sneaker resell, Sneaker consumption, Rational consumption.

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## 1 Introduction

In the 1980s and 1990s, with the vigorous development of Nation Basketball Association (NBA) basketball in the United States, the legends created by the countless great basketball players became a magic story among fans. And the sneakers accompanied the basketball players were also attached the commemorative

meaning. In Europe, America and Japan, to express the love for basketball and the worship to the idols, stars and young people who are keen on the street culture and the hip-hop culture had special passion for sneakers, and gradually took the sneaker collection as a hobby. This kind of hobby finally evolved into the sneaker culture, a specific popular form emerging with the huge influence of the basketball games<sup>[1]</sup>.

Since the implementation of China's reform and opening-up policy in 1978, the central government has regarded the development of the domestic economy as the primary goal for the next decade, and China's economy has developed rapidly, with an average annual economic growth rate of 8% -10%<sup>[2]</sup>. With the continuous development of the domestic economic level and the improvement of residents' living standards, many young people can afford the famous brand sneakers. After 1995, many international brands entered the Chinese market. Chinese people began to contact with the American NBA games, NBA stars and various advertisements for sneakers, which made the "sneaker culture" widely spread in China. The famous brand sneakers have changed from the original luxury commodities pursued by a small part of residents to the common goods with certain identity and status for the public<sup>[3]</sup>.

With the rapid development of the Internet and the scale expansion of young consumers, the cultural psychology of pursuing individuality has expanded at the social level. Under the trend of the cultural rejuvenation, the form of collections has transformed from the traditional antique calligraphies and paintings to new emerging types. Basketball is one of the most popular sports. The basketball players pursue high quality equipment. Businesses are more willing to invest in sneakers to shape their brand value, so that

it is easier to launch eye-catching sneakers. The new generation of young consumers would pay more attention to product quality, cultural connotation and brand attributes than a lower price. Sneaker speculation comes along with the prosperity of trend culture.

In particular, the American national rap culture was imported into China's cultural field around 2007, which triggers the youth of middle-income families to buy sneakers crazily. In the past 5 or 6 years, due to the intervention of a large amount of capital, sneaker has been gradually packaged into a market trend. By endorsement with celebrities, sneakers have gradually become a kind of decoration showing fashion trend, and the price was gradually elevated. For example, in TV program "The Rap of China", mentors and contestants have put on various kinds of sneakers. The audience's pursuit to sneakers was inspired, and the price of their shoes has risen sharply.

At the same time, sneaker speculation has slowly become the focus of the public<sup>[4]</sup>. Even some people who don't know anything about sneakers will hear about the sneaker speculation from the Internet. In addition, some experts of the financial field have studied the impact of the behavior of "sneakers speculation" on China's stock market, and analyzed the impact of the brand's operation on the financial market through using a well-known domestic brand as a case<sup>[5]</sup>. A large number of well-known sneaker blogger have also predicted the potential price fluctuation for some specific style sneakers, invisibly guiding consumers towards irrational consumption behavior. However, on October 16, 2019, Shanghai Branch of the People's Bank of China issued a financial briefing on the risk of sneaker speculation<sup>[6]</sup>.

The essence of capital is to chase maximum profit. This operational mode without any market norms and requirements has caused a great impact on the field of sneakers. It has also caused obvious negative effects and triggered the expansion consequences of the bubble. The so-called fashion, with a huge bubble, is only deliberately created by the brand. Once the capital is withdrawn from the bubble burst, the so-called personality will be greatly reduced.

In today's era of big data explosion and fragmented consumption, sneaker brands are trying to attract consumers' attention as much as possible, and subconsciously affecting consumers' choices. Behind this massive "sneaker speculation" phenomenon, there are many problems of irrational consumption of

sneakers.

In our work, the causes, influential aspects and the possible risk for the sneakers speculation would be analyzed systematically, and the reasonable suggestion for rational sneaker consumption would be provided finally.

## **2 The causes of the sneaker speculation and influential aspects analysis**

### **2.1 Analysis of the causes of the sneaker speculation phenomenon**

Once the commodity is changed into a brand, it will go beyond its physical characteristics. In the first few decades of the Chinese sneaker market development, brands are active in building their own brand value and the market price of shoes is the same as the sale price.

The price changes as the supply and demand of the market changes. In the free market, price fluctuations attract some arbitrage players' attention. In the sneaker speculation market, some people have also begun to specialize in resell activities. Many people specifically go to the franchised stores queuing to buy shoes, then resell on the secondary market to increase the price several times for arbitrage. The sneakers are not personal consumption or collection, but on "buy low and sell high", to make profit. Once this behavior becomes mainstream, more capital will come into the market for arbitrage. The shoes also changed from a consumer commodity to a speculative product.

First, the huge consumer group triggered the upsurge of the sneaker speculation. There are a lot of young consumers whose families are able to and willing to pay for their favorite sneakers. Since some of these young consumers' consumption concept is not mature enough, they will buy the sneakers no matter how high the price of the sneakers is. And sneaker resellers always take advantage of this immature consumption concept of young people to make higher profit.

In the early stage of the value formation of the young people, their consumption attitude has changed from the initial imitation to others to the internalization of one's own identity. These reasons make the sneakers fashion show obvious group characteristics. More and more younger students start to pursue expensive sneakers, especially junior school students. Some studies on fashion in China have shown that the younger the age, the more fashion consumption behavior, and the more friends, the stronger the concept of fashion

consumption. Interviews also show that most chasers start with teenagers whose values have not yet shaped and are easily influenced by others. At this stage, it is obviously unreasonable to pursue expensive sneaker consumption because of comparison or following the trend. Some sneaker resellers take advantage of the teenager's behavior to engage in speculative operations to raise the price of some of the sneakers. When they find that consumers can afford it, resellers start to hype all the sneakers.

Individualistic cultures also affect the price of sneakers<sup>[7]</sup>. When the sneakers were first born, they were popular in the NBA. The basketball stars made best performance in a game, and their outstanding performance in a certain game has attached the legendary color to the sneakers they worn. For example, in 1998 the Chicago Bulls played against the Utah Jazz, and at the end of the game, Jordan threw a last shot to win the game. The Air Jordan 14, worn at Jordan's feet, was also named "the last shot" and the price of the sneaker rose.

Second, sneaker technology has also become a driving factor in the sneakers speculation, like Nike's adapt technology sneakers. This kind of sneakers technology involves automatic stalking and shoe-bottom glow function. Although these technologies are less practical, they have a good gimmick for the sneaker speculation.

## **2.2 Influential aspects of sneaker speculation phenomenon**

There are three influential aspects involving the sneakers speculation: brands and brand direct agents, intermediate aspects, and consumers.

### **2.2.1 The source of sneakers speculation: brands and brand direct agents<sup>[8]</sup>**

They determine the sneakers' launch volume, collaboration or not (a brand and another brand or celebrity, etc. launch the product together), the sale method, and so on.

The first reason is the launch volume. Brands sometimes carry out hunger marketing by selling in very small volumes. When Adidas first launched the Yeezy 350 boost v2 Zebra (later referred to as "Zebra"), for example, there were about four stores in the U.S. participating in the sale of the sneakers, with only a few hundred pairs on sale in China. So when "Zebra" was just launched, its market price went directly above 10,000 Renminbi (RMB) (out of 1899RMB).

Then, Adidas began to restock "Zebra" for 3-4 times (approximately 400,000 pairs)<sup>[9]</sup>. The sneakers launched in 2016 were still restocking up until 2019, eventually selling prices sharply dropped to around 2,000RMB<sup>[10]</sup>.

The second reason is the collaboration. As the superimposition of personal images of celebrities and the brand images, the price of sneakers increasing obviously with the brand effect is enhanced. Stars and brands, such as rapper Travis Scott, high street brand Fear of God and fashion brand Dior, have all collaborated with Nike. Because of the cooperation with these famous brands, the sneakers' price in the secondary market is easier to rise.

The third reason is the selling method. For example, when Nike launches the sneaker-snatching application (APP) SNKRS, sneakers are usually sold on the APP without telling any consumer, which is called raid<sup>[11]</sup>. Raid can prevent sneaker resellers from buying a large number of sneakers on APP through using cheating programs, which has a certain inhibition on sneaker speculation. Direct agents sometimes make raids to suppress sneaker speculation.

### **2.2.2 Intermediate aspects: platform, sales shop, sneaker resellers, celebrities marketing**

Platform refers to the channels through which consumer could buy the sneakers<sup>[12]</sup>. The first type of platforms has a lot of merchants, and buyers directly buy sneakers from the merchant through the platform. The second type is a place acting as an intermediary role. Through browsing the sneaker put by the sellers on the platform, the consumers could decide to buy the sneakers without communication to the sellers<sup>[13]</sup>. The second type of platform generally provide an identification service. The sneakers are first required to sent by the sellers to the platform for identification, and the sneaker would sent to the buyer after confirming that the sneakers are authentic ones. The second type of platform has great impact on the sneaker speculation. In addition to offering trading services, these platforms also provide community services. Users can share their comments on a pair of sneakers and show their comments on the platform which can provide reference to other users. Comment sharers of them use this function to make misleading statements for the sneakers speculation. The platform provides consumers the opportunity to see these misleading statements.

The sale shop, as its name suggests, is the place where sneakers are lunched for the first time. It is possible for the sale shop to sell the sneakers to the

reseller with a higher price than the launching price in order to make higher profits<sup>[14]</sup>.

Sneaker resellers, as the main operators of sneaker speculation, have many ways to increase the price of the sneakers<sup>[15]</sup>. The first way is the misleading articles. After reading the misleading articles, readers would possibly make the wrong value judgment in the major platforms, Weibo, etc. Sometimes, the reseller would disseminate some misleading information about pricing increasing for certain sneakers<sup>[16]</sup>. It would entice the buyer to buy more sneakers from the resellers or keep the original held sneakers, which could make the buyer make a huge profit. Unfortunately, the sneakers will generally experience a price drop eventually. In order to speculate on the price of sneaker, the resellers may publish articles that devalue the sneakers and give readers a negative opinion of the sneaker. In such a situation, these consumers will sell their sneakers as soon as possible, and the reseller will possibly earn much money. When reseller keep a lot of these sneakers, they can raise the prices as they wish, and thus make a profit.

The fourth reason is celebrities marketing. The brand provides the celebrities free sneakers to obtain the celebrity effect. A year ago, for example, Air Jordan and Travis Scott collaboration, the hottest pair of Jordan 1s in the series, its price remained at around 10,000 RMB. As a co-name designed by Travis Scott himself, he has worn the sneakers on several occasions before the launch. His friends and family, such as Maroon 5 lead singer Adam Levine, wore a pair of Air Jordan 1 Travis Scotts on the 2019 Super Bowl halftime show<sup>[17]</sup>. And the Super Bowl halftime show is two or three months before the launch of the sneaker, which can show that brands have made a lot of groundside to make the sneaker price higher in the secondary market price.

### 2.2.3 Consumers

Consumers are the biggest trigger for the sneakers speculation phenomenon and also the biggest victims. The original launching price of a pair of sneakers was around 1000 RMB. Around 2000, most people could not afford a pair of sneakers of 1000 RMB, because the living standard at that time was relatively low. Few people would want to buy the sneaker even with half of the launching price. The improvement of people's living standard makes people pursue higher material requirements. Wearing 1,000 RMB sneakers has become normal. Some people take the risk of raising the price of some sneakers, and most buyers are still

willing to pay more money for their favorite sneakers. Then, the prices for more and more sneakers began to increase, and the price of a pair of sneakers after 5-6 times' premium is still considered to be equal to the sneakers' original value in some people's view. With consumers' endless compromise to the sneakers, the price of the sneakers keeps on increasing, which made some people not afford the expensive sneakers. Finally, these people lost their hobbies and became the victim of the sneaker speculation.

## 3 Risks of the sneaker speculation

In the sneaker speculation, where there is profit, there is risk. There are three kinds of possible risks: income risk, legal risk and financial market risk.

### 3.1 Profit risk

Sneaker resellers sometimes cannot accurately judge the price of a pair of sneakers. If the final price of sneakers held by a large number of resellers falls, the resellers will lose money. When the bubble of sneaker speculation expands too much and bursts, price of all sneakers would decline<sup>[18]</sup>. There will be a huge amount of resellers who experience financial lost greatly.

### 3.2 Legal risks

Nowadays, many resellers will sell futures and target hype for sneakers. Customers buy a batch of sneakers at a price lower than the market, but they will not receive them until a few months later. Due to the unstable supply, some resellers are unable to distribute sneakers to customers before the due time, which may cause some legal disputes.

Another legal risk is the counterfeit product risk. The negligence of some platforms in the identification section of selling sneakers would result in selling the counterfeit products, and the platform may take certain legal responsibilities for the sell of the counterfeit sneakers.

### 3.3 Financial market risk

At present, on a certain sneaker trading platform, which the money cannot be withdrawn in time after the user completes the transaction. This platform has a daily withdraw limit, and many users will rush to withdraw their money at 0 am the next day. Usually the users cannot withdraw cash at 0:05 due to the limit. The reason behind this is probably the lack of currency on the platform. For a long time, the platform is likely to exist illegal fund-raising activities.

## 4 Suggestions for rational sneakers purchase

When purchasing any item, consumer should follow a principle that value determines price. But the price of sneakers has already far exceeded its value. The official selling price of a pair of Jordan sneakers is generally around 1000RMB, indicating that the official manufacturers are producing at the standard of 1000RMB sneakers considering the materials, workmanship and the comfort. But in the secondary market, the price of such a pair of sneakers may reach 10,000 RMB. At this time, the price of this pair of sneakers has exceeded its value greatly, and such a high price is full of bubbles. Once the bubble bursts, the price of these sneakers will drop significantly. And some students may buy sneakers at a high price with a small amount of allowance, and once the price falls, it will cause a hit to the students' psychology. It is necessary for the youth to establish correct values and consumption concept. It's important for them to clearly distinguish whether the value of a pair of sneakers meets are consistent with the market price, and do not make blind impulsive irrational consumption.

## 5 Conclusion

This paper analyzed systematically the causes, the influential aspects and the possible risk for the sneaker speculation. Based on the above analysis, some suggestions of rational sneakers consumption and regulated sneakers market were provided. Nowadays, the sneakers have become a tool for profit making without any cultural characteristic, and decoration used by young people to show off. It is not the carrier used to inherit basketball culture any longer. Therefore, it is necessary for the youth to always be rational in joining in sneaker speculation or sneakers consumption.

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