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Irrational Consumer Behaviors in the Sneaker Market

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Abstract

This paper discusses the consumer behaviors from conventional theoretical studies to more recent irrational behavior studies. Then, we use a case study, the sneaker market, to illustrate how the consumer behave and what the factors to their behaviors. Then, from the perspective of the brand, this paper discussed the methods that can help the company make more money by studying the young consumers in the market, such as scarcity of sneaker, star effect, social media, and promoting information. At the end, the paper restates all the points made in this paper, and also it mentions the speculators in the market. Also, speculators and fluctuations in prices in the market are discussed form the perspective of the prospect theory.

Key words: Irrational consumer behavior; Sneaker market; Marketing

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INTRODUCTION

The purpose of this paper is to illustrate the conventional research on consumer behavior in recent ten years based on the principles of economics. Also, this paper will discuss what affects consumers when they are buying merchants.

The object of study is based on young people, especially focusing on people who were born after the 1990s. Young people comprise a lucrative market for many goods and influence adult spending patterns. Their consumption experiences presumably affect their pattern of adult consumer behavior (Moschis & Churchill, 1979). There are many factors that affect consumers when they are buying merchants. For example, the price of the merchant, the brand of the merchant, and the practicality of the merchant.

The value of this research can help us understand the irrational consumer behavior. Being a seller, brand usually leads consumers to buy more profitable and well-known merchants when the consumer is buying the same merchant between two brands (Moschis & Churchill, 1979). Between the practicability or brand of merchants, consumers usually consider more about the latter. People usually would consider the brand and price of the merchant first. Thus, the seller could have more profit by selling it (Moschis & Churchill, 1979). What is the value or meaning to those brands? Why can a well-known brand make more money than a normal brand? If consumers only know the quality of a few brands of the product, then the monopoly power of the product will be greater. For example, when a consumer wants to buy the sports equipment, the brand that they will be concerned with is Adidas and Nike since they are more well-known than other brands.

In this paper, we will discuss the traditional model of consumer behavior, which was first proposed by Marshall, and other contributions he made in the economic area. Also, this paper will show recent research based on irrational consumer behavior, which will illustrate the effect and the market in today's consumer behavior. This paper will specifically focus on the case in the sneaker market that will state irrational consumer behavior, combining with the prospect theory.

BACKGROUND

The consumer behavior is the research about the pattern of the consumers when they are buying the merchant.

Economics is the study of scarcity and choice. Every economic issue involves, at its most basic level, and the individual's choice is decisions about what to do and what not to do. Marshall's hypothesis states that when the price of supply increases, consumer's demand will decrease. Marshall states that the marginal utility determines the price of demand. The determination of the price of demand is linked to the marginal utility. Marshall states that the marginal utility determines the price of demand. As desire satisfaction increases, marginal utility will decrease, and marginal demand will also decrease. All of the above information is based on the situation of rational consumer behavior. Rational consumer means people who would follow the basic rule of economics (Krugman & Wells, 2006). For example, people always buy merchandise when they are benefiting.

When people maximize a certain benefit, if people encounter obstacles, the point people measure changes since from focusing on benefits and costs, people often do not care about how much they gain, and instead focus on whether there is a loss in costs. The pain brought by loss is much deeper than the pleasure brought by gain. Usually, the pain is two to four times as much as pleasure (Shafir & LeBoeuf, 2002). This occurs when people lose what they have and what they will have. The traditional economic model has a very important limit that everyone is rational. However, people are not always rational, when people have a long-term goal, but people are attracted by short-term temptations, which influence their consumption choices. Most of the consumers' choices do not follow the basic economic theories and these people's choices are irrational. With so many years of change, economists start to research irrational consumer behavior based on rational consumer behavior (Elliott, 2013). In the theory of Loss aversion, which refers to the belief that the benefit loss from giving up something is greater than the benefit gain from getting it, people's behavior violates the concept of rational consumer. On the other hand, when people are losing money, people are more willing to take risks (Kahneman & Tversky, 1984). And the experiment of the theory states that in a game people will get 100$ first, and there are two choices, (1) 50% of losing 100$ and 50% of keeping 100$; and (2) quitting the game with paying 50$. The result shows that most people choose to play the game even though there is 50% of getting nothing rather than pay 50$ and not attend the game (Kahneman & Tversky, 1992). Because people are loath to lose. In their mind, the 100$ is already their own. If someone is forced to take 50$ off, it is like cutting a part of their body from them. When people are in a state of losing money, people feel very reluctant and would rather take more risks. Consumer's behavior is not always rational, nor is irrational (Krugman & Wells, 2006).

Herd behavior is rational and irrational, which needs to be analyzed according to objective conditions. When people follow the herd in a situation that they are familiar with and also know with, in this type people are doing rational herding behavior. In contrast, when people follow the trend in a situation that they are not familiar with and do not know anything about it, that is irrational herding behavior. What is the most important thing about herd behavior? In fact, the most important thing is the information, exactly the completeness and accuracy of the information. Complete information is called data, accurate information is called knowledge. When people have enough information and knowledge, people will find that unconsciously people become the leader. When people blindly follow the group, and causes regretful consumer behavior, which forms the irrational consumption (Lin, Tsai, & Lung, 2013).

CASE STUDY OF THE SNEAKER MARKET

In the case of the sneaker market, there are many characters and specialties. The function of the sneaker also can show fashion except wearing them. The reason why the sneaker market exists is that there is fluctuation in the price and value of the sneaker. The price of the sneaker is unstable, and the value space is bargaining, which means it is changing all the time. The price of the sneaker is decided by the supply and demand of the market. The normal phenomenon in the sneaker market is that (1) price is high and demand is less. When the price of the merchant is much higher than its actual value, the consumer will not buy them, which means the demand is less. From the rational consumer perspective, they need to spend more money to buy the sneaker because the price is higher than its actual value. In their position they would lose money, so the demand will become less. (2) Price is high and demand is high. In the sneaker market, when the sneaker is given certain characteristics, the price will go higher. The certain characteristics means that sneakers are available in limited edition, in collaboration with another famous brand, and so on. With those certain characteristics, sneaker's prices will also go higher. Consumers will also buy them since in this situation, sneakers are not only shoes that they can wear, but also a fashion merchant that they can satisfy their vanity. Consumers are often affected by others. When they see other people wearing the sneakers that are in collaboration with other fashion brands, they will want to follow others to have their own fashion merchant. In this situation, when the price of the sneaker is high, the demand also goes high. (3) Price is low and demand is low. When a new sneaker comes out, the demand is low. This sneaker does not have any certain characteristics that talked above, so it is only one pair of shoes that they can wear. In consumer's perspective, they will think to buy this kind of cheap sneakers, rather than add money to buy the collaboration sneakers since they have fashion value. Even if the price of the sneakers is low, consumers will not buy them, which means the demand is low. These fluctuations of price are based on the demand and the supply of the market.

In the sneaker market, the demand is different. Different sneakers have different demands since different sneakers have different characteristics. This is one of the factors of the fluctuating price in the sneaker market. The main research objects of the sneaker market are the consumer and the price. The consumer in the sneaker market is mainly young people. According to statistics, 43.77% of respondents aged 18 to 29 years stated that they bought athletic shoes in the last 12 months[1]. In addition, the characteristic for young people to buy sneakers is fashion and vanity (Baena & Winkelhues, 2016). Young people are more willing to pursue this kind of fashion and satisfy their vanity. Nowadays, the sneaker has become a culture to pursue. More and more people start to follow the trend, and the market expands gradually.

FLUCTUATIONS IN PRICES

The change of price can lead the sneaker market into a special status. The factors that change the price in the sneaker market are variable.

The scarcity of sneakers can lead the price to go crazily higher. Some sneakers are limited on their supplies, and the limited version of the sneaker's market price often is much higher than its retail price. The small quantity of the limited shoes attracted the customers to buy, and also the limited sneaker has collection value, which also increases the price of the sneaker.

The star effect also has a huge impact on the price of the sneaker. To be more specific, the NBA player Michael Jordan endorses Nike, and he and Nike designed the sneaker called Jordan. When this sneaker came out, it was being snapped up. Michael Jordan wears them in the game and produces the star effect, and his fans start to buy the shoes that their idol designed. When more and more consumers buy the shoes designed by Jordan, the price also increases.

Social media is like an amplifier that expands the effect made by star effect and the scarcity of the sneaker. Social media combines them and produces a huge impact on consumers. Yeezy is one brand of Adidas company. His designer is Kanye West, and he always shows on social media with his sneaker Yeezy. Consumers can see in any place such as television, internet, and so on that super stars are wearing them, and they will want to buy the same sneakers as the super star. Also, consumers can see people around them who also wear the sneaker the same as stars do. Young people will follow the trend to buy the sneaker since the herding behavior that they see people are buying the sneaker, so themselves will also buy the sneaker. The impact brought from social media directly increases the demand and the price of the sneaker. The first version of Yeezy's supply is not big, and the retail price is 220$, and as time goes by and the quantity of goods decreases, the price has become very expensive, which is over 1500$.

The increasing price in the sneaker market is very appealing to those speculators. They realize that the fluctuations in the sneaker market can bring profit to them. They will buy those expensive sneakers, and then sell them with higher prices to the consumer in the second market for making money. The changing of price in the sneaker market led speculators to make profit, so more and more people joined and thought about how to make money from selling the sneakers.

PERSPECTIVE OF THE BRAND

From the point of view of the sneaker merchant, there are many ways that they can maximize their profit. They can make money by taking advantage of the mentality of consumers. The brand can focus on the four factors that illustrate above, the scarcity of sneakers, the star effect, social media, and the speculators in the market.

The scarcity of sneakers can increase the popularity of the new sneaker, which attracts more consumers to know and interest in this new product. Brands and companies can reduce the supply of their product since limited edition sneakers will be attractive to the consumers. Limited edition sneakers will also have the collection value, which can help the brand and company for selling their new sneaker.

The star effect to young consumers is huge. Therefore, when the brands are considering cooperating with a super sater, the area that they should consider is Pop stars, NBA players, or Hip-Hop stars. These super stars are more popular for young people, and also the consumer in the sneaker market is young people. However, the sneaker company should notice that when unpopular stars endorse the sneaker, it won't attract consumers. For example Nike would endorse Lebron James to sell the basketball shoes instead of a Jazz music star since they do not accord to the basketball area. Therefore, companies should choose the appropriate superstars to endorse their product.

Social media also can help the brand to increase their popularity. However, when the company considers promoting the new sneaker, they should focus on applications that young people would use. For example, consumers in the sneaker market are usually young people, and companies can choose Instagram or Snapchat instead of Facebook since there are not many young users. By promoting sneaker information on social media, companies can attract more people who do not know about sneaker culture.

[1] Purchase of athletic shoes in the U.S. by age 2018, Statista.

In the sneaker market, there are always speculators who try to make money by selling sneakers to the second market. Thus, the brand can reveal some information about the new sneaker before it is coming out. The purpose is that telling the consumers and speculators that this new sneaker is so popular now and the price would definitely go higher. Therefore, after the new sneaker comes out, more consumers and those speculators will buy the sneaker, and the price will go much higher than the retail price.

CONCLUSION AND DISCUSSIONS

This paper has discussed the studies on consumer behavior from Marshall to recent ten years. In this paper, we mainly studied the consumers in today's market. In today's world, brands and companies are the main director of the market. This paper studied consumers behavior and consumers characteristics when they consider purchasing a merchant by sneaker market, and also it gives suggestions to the brand and company to make more profit from the sneaker market. The limitation of this paper is that the consumers that are being talked about have to be young consumers, specifically consumers who were born after the 1990s.

There are always speculators in every consumer market, and for those speculators in a sense they fit into the Prospect Theory.

When faced with profits, people tend to be cautious and unwilling to take risks. In the sneaker market, the price is changing all the time, and if one pair of sneakers is high, in the future the price might go lower. Thus, for the speculators, they will tend to be cautious since they want to maximize their profit.

In the face of loss, people tend to be risked. The consumers in the sneaker market are willing to spend more money to buy sneakers from the second market, even though they need to spend extra money than the retail price. Therefore, for the speculators, they will take the risk for making more profit.

However, the sneaker market seems to have different consumer behavior than prospect theory, their essence is the same. Most people cannot get the Yeezy by 220$ of retail price since too many people are trying to buy them. They still will buy the Yeezy for 1000$, and that is because they expect the price will go much higher than 1000$ with uncertainty rate, then they will sell the shoes and make the money. According to the Prospect theory, in the face of loss, people tend to be risked. These traits give speculator's chance to earn more money in the second market.

In the future, economics will have more information to discuss the irrational consumer behavior that happened in every market. Consumers themselves are rational and irrational, and this paper studies young people's consumer behavior by studying the sneaker market. Thus, in the future people will definitely see more detailed descriptions of consumer behavior.

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