

The Influences of Pricing Based on Consumer Preference

—Taking the ‘Hype Shoes’ Phenomenon as an Example

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Abstract: In recent years, the phenomenon of “hype shoes” has attracted more and more attention. The “hype shoes” uses consumer preferences to make special pricing and make money on the price difference. To understand how consumer preferences influence pricing strategy, many studies have dissected consumer preferences from the producer’s perspective. In this paper, we analyzed whether a firm’s pricing strategy is reasonable from an economic perspective, and also clarify the importance of consumer preferences in business competition. There are many economic principles behind this phenomenon and it is worth reflecting on them. Studies have found that consumers’ age, gender, occupation and even body size can be used as pricing factors by businesses. Therefore, once a company has more information about a consumer, it can provide personalized services to the consumer, and on the other hand it may use big data discriminatory pricing (BDDP) to earn more money. Through the analysis of the “hype shoes” phenomenon, businesses should learn to correctly grasp consumer preferences and then raise pricing appropriately based on cost. Finally, businesses should know how to properly invest in market research to obtain more consumer data and ultimately adopt a successful pricing strategy.

Keywords: preferences, economic principles, market research

1. Introduction

In current days, a new term has emerged called “hype shoes”, which refers to changing hands to buy and sell sneakers, hyping and manipulating the price of shoes. The price of many famous brands’ sports shoes can reach several thousand yuan, and this phenomenon needs to be studied. For example, sneaker brands, shoe dealers, and various secondary market trading app platforms have elevated the so-called trendy shoes to a height that they should not have. In this circle of advocating limited edition sneakers, “shoe speculation” is naturally portrayed as an “investment windfall”, and “shoe speculation” is the “bible” and “holy scripture” for young people to get rich. Influenced by this set of words, there is a constant influx of new people into the “shoe speculation”. Therefore, in the eyes of young people who “speculate on shoes”, it is better to buy funds than to stock up on a few pairs of limited edition sneakers.

Existing studies mainly analyze from the perspective of producers, limiting consumer preferences to the demand level, but ignoring the brand effect and young people’s consumption concept. Nowadays, young people are increasingly pursuing personalization and different dressing, and are

more willing to spend money on showing their individuality than consumers of other age groups. If companies are not able to capture the characteristics of such consumers, they will easily be at a disadvantage in business competition. Therefore, it is necessary for companies to realize the importance of consumer preferences for pricing. This paper focuses more on the influence of different consumers' consumption perceptions on product pricing, and explored a new research direction.

2. Literature Review

Most of the previous studies are analyzed from the perspective of producers. They include two aspects: one is the impact of consumer demand on general commodity prices, and the other is the impact of producers' own productivity on commodity pricing. Han pointed out that, the price of commodities depends not only on commodity suppliers, but also on consumers [1]. The diversity of consumers' preferences determines their acceptance of different price levels. From the article Demand Differential Pricing in Civil Aviation Industry: Features and Applications, the demand differential pricing in the civil aviation industry mainly belongs to the second-level differential pricing, and its application requires airlines to strictly implement various restrictions. According to Poteshman, there is a suggestion for pricing --- only by fully understanding the characteristics of differences in consumer demand, and having the ability and right to implement differential pricing, can businesses truly understand and correctly use differential pricing, formulate reasonable prices, and conduct rational price competition [2]. Ren stressed that the consumer market is the basis and destination of all markets, and the ultimate purpose of organizing the market is to serve the consumer market [3]. Although these two types of markets have a common sales law, but the main body of the purchase is different, they have obvious characteristics and differences. Therefore, sales staff must master the sales laws of these two markets.

There also have many researchers who conducted experiments to prove that the value strategy is a typical approach to pricing based on an investment mindset. Ishikawa and Robertson stated that the value strategy needs to focus on three aspects: the total expected return must all come from the earnings or cash flow of the commodity itself; the expected return should not just consider the competitors, but should start from its own operation; if the investor wants to get an excess return or better return, it must reduce its own cost, and the excess return must be explained by low cost [4]. Except this, Yang also drew a conclusion after experiments that market demand is an important factor affecting the pricing of products and the price of enterprise products are directly affected by the market demand [5]. Demand pricing strategy is to determine the price of the enterprise's products according to the strength of the market demand reference system.

However, these documents are only limited to the perspective of producers, and fail to analyze from the perspective of consumers, governments and other more cryptic perspectives.

3. Consumer Preferences Have a Significant Impact on Prices

As early as the last century, some sports brands in developed countries in Europe and the United States have begun to set off price wars, the most representative of which is the sports shoe industry.

3.1. Positive Influence

Take Nike as an example, the price of its Air Jordan sports shoes has been high since its establishment in 1985. What puzzles people is why low-cost sneakers can fetch such high prices. In fact, it is not difficult to find the reasons, after an in-depth analysis of the background of the times. First of all, the Air Jordan 1 was no different from other sneakers at the time in terms of function, but it had a striking appearance --- black and red as the main colors. Since most of the other sneakers at the time were white, the innovative look of the Air Jordan 1 could undoubtedly make fashion-conscious people

favor it. In addition, the brand name of Air Jordan comes from the smashing NBA star --- Michael Jordan, which made basketball fans at that time crazy to pursue this sneaker.

In addition, different sizes of the same kind of shoe can lead to price differences. One can clearly see that among those shoes that meet consumer preferences, the prices are higher in the most in-demand sizes than that in the low-demand. For example, Li Ning, a local Chinese brand, sells Wade series sports shoes of all sizes. However, shoes in size 40 to 44 are the most expensive. That is because they have a large demand, and merchants increased their prices in pursuit of maximizing profits. Therefore, it can be safely concluded that the impact of consumer preference on price is significant because it conforms to the public's aesthetics, caters to their needs and increases the demand for a particular commodity.

3.2. Negative Influence

This “hype shoes” phenomenon can also lead to very serious negative consequences. Currently, more and more enterprises are using big data to analyze and evaluate consumers' personal characteristics, forming “consumer portraits” and implementing “precision marketing”. More individual companies use personal information to push personalized ads and use it as a basis for “big data discriminatory pricing” (BDDP). They record consumers' shopping data, then use the data to filter out the most popular products, significantly increase the price of such products, and continuously push similar products to specific consumers. For example, China's famous online shopping platform, “POIZON”, records consumer preferences while constantly changing the pricing of products to make a profit. In this era of big data, consumers' shopping data has been mastered by major online platforms, and the phenomenon of BDDP has become commonplace where customers' privacy is difficult to avoid.

4. The Economic Principles Behind Consumer Preferences

There are many other examples of the “hype shoes” phenomenon. In fact, it is not only large companies that use this pricing strategy, but many small businesses and even private workshops use “hype shoes” to increase the price of their goods and thus increase their profits. Through the previous description of the phenomenon, this “hype shoes” marketing method seems illogical, but in fact, contains a lot of economic principles, and is worth thinking about.

4.1. Supply and Demand Principle

First of all, from the point of view of sports shoes' market positioning, its main consumer group is young people. This group of people has one thing in common --- their pursuit of fashion. According to the China consumer report 2020: The many faces of the Chinese consumer, since 2020, young consumers have purchased more sports products than ever before [6]. Among sports brands that have developed a certain scale of sales, the proportion of post-95 consumers has increased by 11%, and the overall ratio of consumers who buy sports goods to general goods is 1.7, compared to 1.3 in the same period in 2019. Using the definition of the Willingness-To-Pay model, the main factors affecting the willingness to pay of such consumers are the following. One, young people's consuming attitude makes them willing to pay higher prices for their favorite goods. Second, young people usually do not have the idea of saving money, which makes their disposable income rise significantly. Finally, almost all young people have different degrees of comparison mentality, which will also drive them to buy fashionable sports shoes without caring about the price. It is the combination of these factors that makes young consumers' WTP (Willingness-To-Pay) seems so high. Therefore, after grasping such characteristics of this consumer group, businesses deliberately raised the price of those sports shoes that are popular among young people.

4.2. Principle of Pricing

In addition, from the perspective of the profit model, “hype shoes” has broken the original positioning of these products. Conventional sports shoes pursue the principle of “Cost-Based Pricing” and “Selling More for Less”. This means that the cost of conventional sports shoes is very low and the pricing is not high. Therefore, people will accept these reasonably priced shoes and buy them. At this point, the producer’s profit model is the difference between total sales and total cost. However, the shoes used for hype do not follow this profit model. The production cost of these sneakers themselves is almost no different from that of a regular sneaker. However, they conform to consumer preferences, so they are not subject to the usual supply and demand relationships. That is, although the price of such shoes is high, their demand is equally high. In this case, the profit model of “hype shoes” is to maintain relatively stable sales volume while pursuing a very high net profit on a single item. This model is very similar to the profit model used by luxury goods manufacturers, but mixed with the characteristics of necessity. Therefore, the pricing of “hype shoes” is neither based on cost nor entirely dependent on consumer preferences. In short, the profit model of “hype shoes” is very different from the traditional profit model of any other commodity.

5. Discussion

5.1. Large Institutions Usher in the Trend of Mergers

From the above analysis, it can be seen that the phenomenon of shoe speculation is not the result of the manufacturer’s unilateral, but is a phenomenon caused by consumers and manufacturers together under the action of various economic principles. Understanding this is beneficial to businesses to improve profits on the one hand, and to consumers to rationally analyze their shopping behavior on the other.

As described and analyzed above in relation to the “hype shoes” phenomenon, a merchant’s choice of pricing strategy is critical to profitability. The market pricing strategy for conventional goods does not involve much preference. Also, if the analysis is done only from the perspective of conventional goods, then the business will not have its own unique insights and will not have a head start in the competitive market. However, the “hype shoes” phenomenon can give businesses some special insights.

Businesses should first be aware of consumer preferences. The National Bureau of Statistics of China publishes the current year’s Consumer Trends Report every year, which systematically explains the different preferences of various types of consumers and forecasts the overall trends for the next year. Businesses can study the content of the report, especially if there is relevant information about their own industry. By using the findings and data in the Consumer Trends Report, businesses are able to make pricing strategies that benefit them. For example, after studying children’s consumption preferences, KFC introduced a marketing strategy of free toys with the purchase of a children’s package and raised prices on top of that. This strategy proved to be very popular among children, and KFC increased its sales significantly. In addition, grasping the herd mentality can also help businesses understand consumer preferences. Many young people have a herd mentality, and they will determine what they will consume based on what others are consuming. They do not even know their own preferences. For this type of herd mentality, businesses can create public opinion and publicity to attract them to buy their products. To take the simplest example, a live webcast with goods, by promoting the best-selling level of their goods to grasp the herd mentality of young people, thus successfully receiving more orders. In this way, the businesses can ensure a stable demand and gain the right to free pricing at the same time. Therefore, businesses should actively grasp consumer preferences.

Product pricing should also cater to consumers on the basis of cost. According to Alex, the pricing of any traditional commodity should be cost focused and cost oriented [7]. The profit model of “hype shoes” is similar to that of luxury goods, but it does not follow the exact pricing strategy of luxury goods. The pricing strategy of luxury goods is to decorate a product that is worth a lot of money and then sell it again at a higher price. However, sports shoes and luxury goods are completely different in terms of cost. The cost of a sports shoe is very low, and no amount of packaging can fundamentally take it out of the cost box. Even though many businesses will trim sports shoes like luxury goods, they can’t set the price as high as luxury goods. But businesses can still strive to maximize pricing by catering to consumer preferences. Nike’s approach in this regard is worth following. When Nike launches a new shoe, it is often priced inexpensively. However, Nike will later launch many new colorways of the same sports shoes, so that consumers will choose to buy the new model after comparing the old ones. This time, Nike will raise the price of the new shoes, so that the turnover can be guaranteed to rise. Not only that, Nike will also unite with some sports stars to launch the signature version of sports shoes. This allows Nike to attract consumers to buy while the price can be raised again. This reveals that businesses must know the cost of the goods they sell, and then decorate them to cater to consumers.

Finally, businesses should invest in market research properly. If a business relies only on secondary data such as the Consumer Trends Report, it will appear passive because its competitors will also adjust their strategies based on these secondary data. Therefore, businesses should conduct market research on their own. Through proper market research, businesses can obtain any type of data they want, including consumer profiles, fashion trends and market sentiment. With these data, businesses can develop a pricing strategy that is different from their competitors and thus seize the market first. Companies that have invested in market research have proven to reap the rewards. Chanel, a luxury goods company, invested in a large number of research projects before launching. It has analyzed its strengths and weaknesses and market positioning based on each of these projects. In the end, Chanel became the world’s highest market value of luxury goods company as expected. This shows that businesses should invest appropriate funds in market research.

At the same time, it is important to focus on protecting personal privacy as a consumer. In daily shopping, especially online shopping, it is important to ensure data security and enhance the concept of personal privacy. When using Internet software, especially when registering for platform membership, read carefully the relevant privacy policy and terms, understand the way, scope, purpose and basis of the operator’s handling of personal information. Consumers also have to consider the adequacy of its reasons for handling personal information and the necessity of providing personal information, and do one’s best to provide only necessary information.

6. Conclusion

The purpose of this paper is to analyze the impact of consumer preferences on firms’ pricing strategies. Based on a discursive and multi-perspective analysis, it can be concluded that the shoe speculation phenomenon is not a unilateral result of producers, but a phenomenon jointly caused by consumers and producers under the action of multiple economic principles. Consumer preferences do have a significant impact on prices and “Hype shoes” phenomenon utilized many economic principles. For businesses, only by fully understanding the characteristics of consumer preference, and having the ability and right to implement differential pricing, can they truly understand and correctly use differential pricing. This means that businesses can properly leverage consumer preferences to increase their profits in a way that captures consumer preferences, cost-based pricing and market research. At the same time consumers are able to realize the importance of protecting the privacy of their personal data. While, the phenomenon of “Hype shoes” does not apply to all age groups of consumers, so it shows that companies should not just focus on the age of consumers and ignore the

influence of other aspects, such as geographical and national conditions. Based on these conclusions, businesses need to pay attention to the scope of consumer preferences and take other factors into account in order to maximize their own interests.

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