

VP x Sneakers Industry Review

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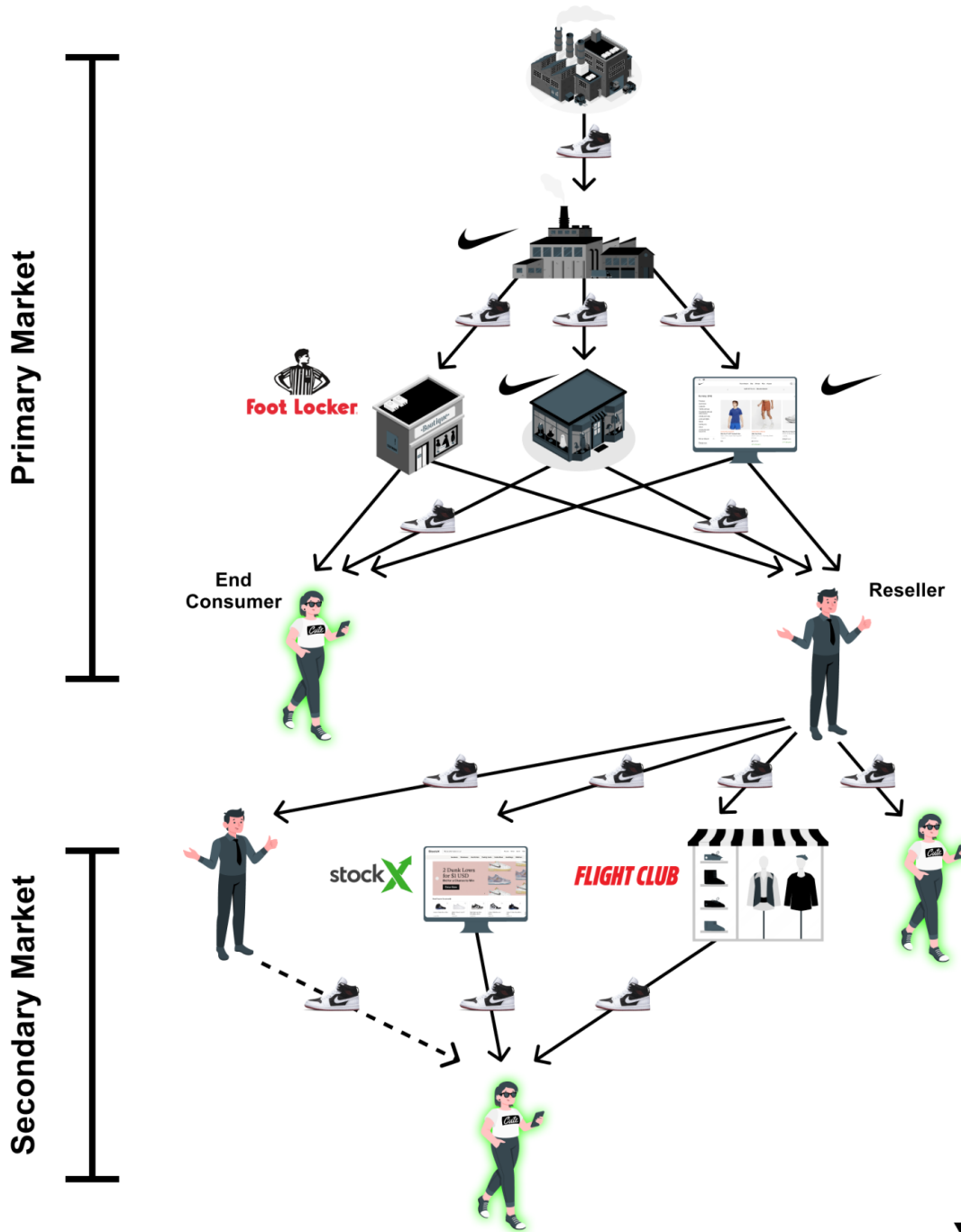
Sneaker Industry

The sneaker industry is a complex ecosystem made up of three main players: sneaker manufacturers, sneaker retailers, and sneaker resellers (and affiliate platforms). These players combined make up a \$85 billion Global Sneaker Industry (2022) with a CAGR of 7.2%, which is projected to grow to over \$130 billion by 2027. In this section, I will break down the three markets that make up the industry and highlight key players in each.

Sneaker Journey

The sneaker lifecycle from manufacturing to end consumer is complex and involves many players. After raw materials arrive at manufacturing facilities, sneakers are produced by third party *manufacturers* with outsource contracts from *brands* like Nike. The finished products are then shipped to Nike's facilities for distribution. The sneakers are diverted into two channels from here: some are sold directly through Nike's online and physical stores while others are sold to *wholesalers* at a discounted price. At this point, more common sneakers are bought by end consumers for wear, while higher value sneakers are bought by resellers. This is the primary market for sneakers. After this point, the sneakers enter the resale ecosystem. Resellers sell sneakers through multiple channels. First, resellers can sell their inventory directly to their personal clientele, who buy the sneakers for wear. Second, resellers can sell their inventory to someone via secondary market platforms like StockX. Third, resellers can ship their sneakers to consignment stores, who sell the sneakers to end consumers for the resellers via physical and online stores. Lastly, resellers can sell to other resellers, who go through the same channels to eventually get the sneakers in the hands of end consumers (see figure below).

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Sneaker Manufacturing Market

The Global Footwear Manufacturing market is valued at around \$200 billion with a CAGR of 3.2%, projected to reach \$220 billion by 2025. Key players include Yue Yuen Industrial, Belle International, and Li Ning Company.

Sneaker Retail Market (Online)

The Online Shoe Sales market is currently valued at \$22 billion with a CAGR of 6.5%, projected to reach \$28.7 billion by 2025. Key players include Nike, Adidas, Puma.

Sneaker Retail Market (Physical)

The US Shoe Stores market is currently valued at \$42.6 billion with a CAGR of 2%, projected to reach \$46.2 billion by 2026. Key players include Nike, Adidas, Puma.

Sneaker Wholesale Market

The US Footwear Wholesaling market is currently valued at \$35.7 billion with a CAGR of 1.3%, projected to reach \$37.6 billion by 2026. Key players include Footlocker, Champs Sports, Eastbay, Footaction.

Sneaker Resale Market

The Global Sneaker Resale market is currently estimated to be \$9 billion with a CAGR of 15.8%, projected to reach \$30 billion by 2030. Key players include resale platforms like StockX, GOAT, eBay, and consignment stores like Flight Club, Stadium Goods, Urban Necessities. Individual sneaker resellers are also a driving force for the market.

Notable Problems

Brands

Brands like Nike have long been supplying the secondary sneaker market as a marketing tactic to create “hype” around valuable drops. These drops can be collabs with Designers, Athletes, Musicians, or other celebrities. Nike’s Jordan brand makes up 96% of the sneaker resale market, and “sneakerheads” fervently rush to collect new drops for personal use or profit. Due to the high-value-sneakers’ low supply, sneakerheads use tactics like camping outside of retail stores, coding bots to scrape the web, bribing store workers to pre order, and in extreme cases even murder in order to gain ownership of certain sneakers. This creates “hype” around Nike’s Jordan brand, which in turn creates brand loyalty and increases revenue. However, it also means that fans of the brand likely won’t be able to gain access to high-value-sneakers at retail price, and face the choice of paying resale prices that are often 3-5x the retail price, or buying counterfeits to represent the brand. In the latter case, the consumers wish to use the brand’s product, but no revenue is going to the brand for buying counterfeit sneakers. This creates inefficiencies and turns away customers for the brand. Nike also gains no monetary value from its sneakers moving through the secondary market, even though the transactions are solely driven by Nike’s brand. As the NFT industry continues to grow, brands are looking for ways to participate in the market (as shown by Nike’s December 2021 acquisition of RTFKT). These brands lack a solution to tie their NFT products to their physical products, since existing technologies like NFC chips are prone to tampering and damages the fashion of the sneaker. Data is also a problem for brands, as they can only roughly estimate performance of sneakers after the primary market. These data points can be used to build predictive models to improve future sneaker designs/collabs.

Resellers

Sneaker resellers store and sell high-value-sneakers to consumers for profit. Being a sneaker reseller requires deep industry knowledge and connections, and the barrier to entry is high due to capital requirements, knowledge gap, and reputation. Individual resellers depend heavily on reputation - consumers come to famous resellers for their guaranteed authenticity and collection of rare sneakers. Thus, creating and maintaining a reputation of having authentic sneakers is vital to a reseller's business. This also means that novice resellers struggle to build up their authentication skillset and seasoned resellers can suffer tremendous loss from selling even one counterfeit sneaker. Resellers also need to individually maintain a large inventory of sneakers, as well as handling shipping/processing in house. This is a very laborious process that takes up the majority of a reseller's time. The reason that a robust central inventory management solution does not exist in the industry is because resellers lose control of their inventory when they store sneakers at third parties. Good examples of this are Consignment Stores like Flight Club, who receive sneakers from resellers and list them in their physical and online stores. When buyers are browsing through Flight Club, they are not aware of which pair of sneakers came from which resellers, and thus resellers don't benefit from reputation-building associated with personal clientele sales. Resellers also don't receive payment until the sneakers are sold through Flight Club, which can sometimes take years. The sneaker secondary market is often compared to the stock market, however, due to the nature of CPG products transactions are a lot less fluid than the stock market. NFTs may be a solution to increase fluidity.

Resale Facilitators

Sneaker resale facilitators help resellers with distribution and increase transparency in market value of sneakers. StockX is the biggest player in this space, with a mission of creating a “stock market for things”. Facilitators like StockX have mastered the process of authentication, achieving a claimed 99.97% accuracy. However, this is at the cost of a robust verification team. StockX alone has a team of over 300 sneaker experts whose sole purpose is to verify inventory authenticity. This expense is carried over to consumers, as StockX charges a 4.5% “Processing and Verification Fee”. In 2020, StockX recorded a gross merchandise value of \$1.8 billion, which translates to \$81 million in Processing and Verification Fees paid by the end consumers. This expense can be dramatically reduced with automated authentication processes. Resale facilitators are also looking to expand into the NFT space, but have yet to figure out the details with respect to intellectual property. This is seen by Nike’s January 2022 lawsuit against StockX for IP infringement, stemming from StockX’s announcement of its NFT products, a lot of which were associated with the Nike brand. Introducing NFTs to the resale market can increase fluidity of secondary market purchases, open new revenue sources for brands, resellers, and resale facilitators alike, and create more transparency in sneaker movement past the primary market. Physically embedded NFTs can solve the issue of IP and help push the rollout of sneaker NFTs.