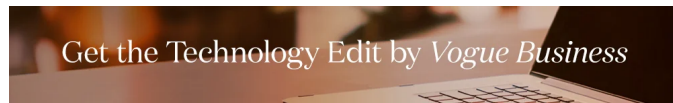


Lessons from sneaker culture's innovation playbook

By Maghan McDowell

8-10 minutes



A mobile game called Aglet that lets players buy, collect and trade digital sneakers drew 30,000 players in its first three weeks, selling out of all of the (digital) inventory of Yeezy Red Octobers. Three pairs of rare Yeezy Cheetahs were purchased by one player for a total of approximately \$200.

Founder Ryan Mullins, Adidas's former director for digital innovation and future trends, says his long-term vision for the game is to expand it into a fashion platform through which brands like Nike and Adidas can discover new talent as players design their own shoes. "I want to start with a niche that I know people are fanatical about — and that is sneakers," says Mullins. This spring, amid the [pandemic](#), Aglet secured \$1.8 million in seed funding.

The sneaker industry, which is [expected to reach](#) \$95 billion by 2025, is often a step ahead in [fashion-tech](#) adoption. This is partly due to a digital-first audience that is more receptive to new technologies. "Kids have grown up leveraging digital tools and their unique properties to propel [sneakers](#) and [streetwear](#) to never-been-seen cultural influence," Mullins says.

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Sneaker brands also have traditionally had an innovation mindset, says Aaron Levant, CEO of Ntwrk, a mobile [video shopping startup](#) backed by those including Live Nation and LeBron James. "The sneaker industry, especially brands like Nike, prides itself on product innovation. When the core ethos of your culture is innovation, then those things permeate through to other processes," he says. Ntwrk recently sold out of 500 editions of a digital-only augmented reality sculpture that resembles an Air Jordan for \$2.99 each.

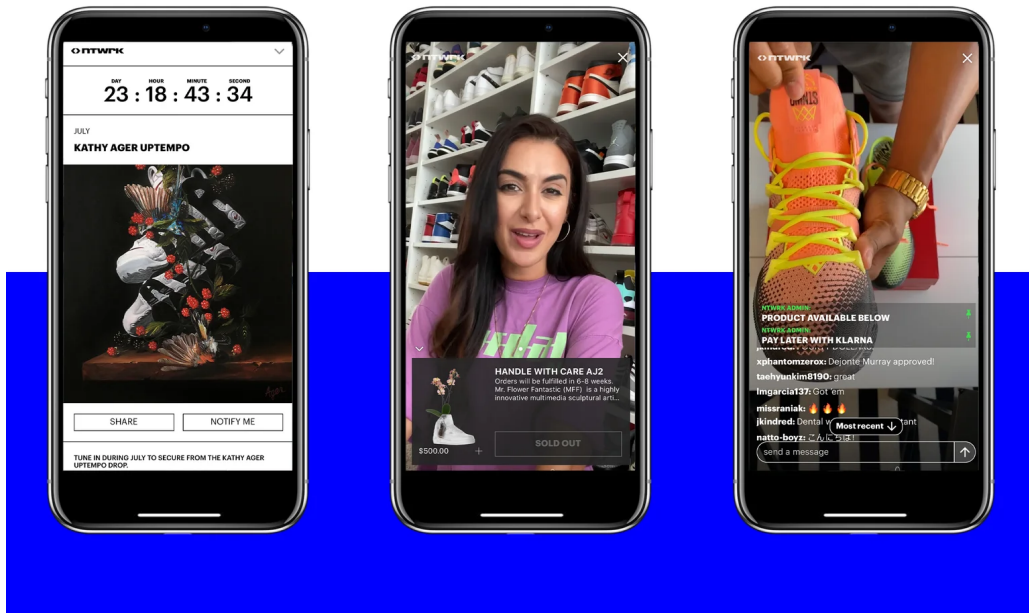
Many luxury brands are playing catch-up, Levant adds, and can learn from the sneaker industry. "If the big brands continue to view 'digital' as a website where you can purchase something as quickly as possible, they will be in trouble," Mullins says.

Go where the customers are

Levant says that when penetrating markets of passionate communities, especially millennials and Gen Z, it's important to "go to them" rather than trying to entice them to "come to you". He also advises brands to create a new, completely different environment for them entirely. For example, the Ntwrk app broadcasts live videos designed for Gen Z, in which they can comment on the host's content in real-time, or click to buy. In August, the Los Angeles startup will broadcast a mobile-only design and culture festival, with celebrity hosts, DJ sets and — naturally — sneakers, streetwear and other items for sale.

"They are streaming music, playing games. They have an enhanced digital ecosystem in multiple parts of their life — where it's probably more natural to integrate with these types of innovations," he says, adding that this could be as simple as [embracing social commerce](#) on Instagram, Snapchat or TikTok. For example, Belarus-based Wannaby, the creator of augmented reality sneaker try-on technology, just linked up with Snapchat to bring [AR commerce](#) to the platform's 229 million users.

Ntwrk promotes upcoming drops with a countdown clock and lets viewers comment during video streams, which promote only one, or a few, items at a time.



Levant points to the recent Louis Vuitton [collaboration with video game League of Legends](#), for which the brand created in-game skins, as an important step. “That was pretty shocking to me because sportswear brands have been late in moving into esports and gaming. It’s definitely still sneakers in the lead, but luxury is changing its ways”.

Treat digital items as valuable

Mullins says that sneakers and streetwear are an important “flex” even in digital spaces like the game Fortnite, where “skins are almost equally as important as your physical outfits in real life”. With Aglet, he sees digital sneakers as a way to acquire new users and build engagement and, similar to the AR sneaker sold by Ntwrk, it’s a way for players to own, interact with and share something that they might not have access to in the physical world. Aglet also has a limited supply of virtual shoes, and players can resell and trade them with other players.

Just like physical goods, Ntwrk’s digital-only products are sold in limited quantities. Levant compares this approach to selling prints of art as it’s a way to create value and urgency and to encourage a collector’s mindset.

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Wannaby’s brand clients report that users who use its AR sneaker try-on technology are twice more likely to make a purchase; one client reported an up to 30 per cent decrease in returns according to the company. “AR excels in telling the customers the story of the shoes and letting them interact with them,” says Wannaby CEO Sergey Arkhangelskiy, adding that the shoes act as a bridge to other product categories, which are in development. He’s even coined a term for it: “AR-keting”.

While Arkhangelskiy says he is “100 per cent sure that we will see the rise of purely digital and virtual fashion items”, he adds that it remains to be seen what the applications will be for brands — besides sharing to social media.

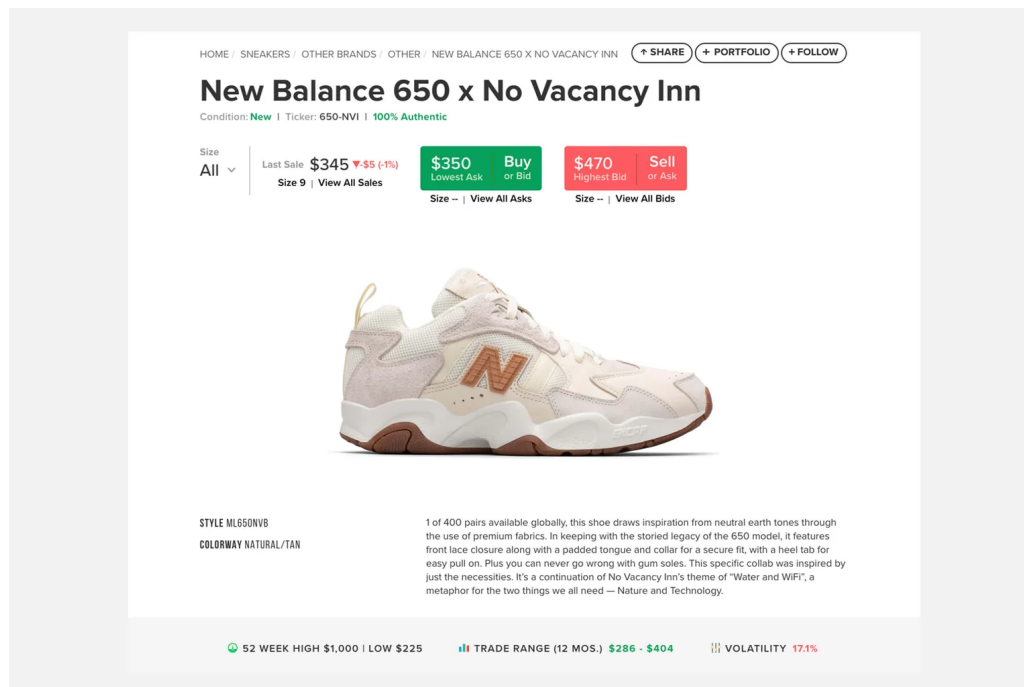
Rethink drops and pricing

On sneaker [resale site StockX](#), buyers place bids and sellers place “asks”, and when a bid and ask align, the platform places the transaction automatically. This leads to dynamic prices that reflect market value. The Detroit company has since expanded into “IPOs”, or initial product offerings, to release new products. Prices are determined through a blind auction in which buyers anonymously bid their highest price; the number of items in stock determines the final sale price. For example, if there are 20 pairs, the

top 20 bidders will win and the price for everyone, called the clearing price, is the 20th bid. May and June were the site's two biggest buyer months in the company's history, and this month it announced that it had surpassed \$2.5 billion in lifetime gross merchandise value as it expands to other categories.

StockX customers bid on individual sizes. This recent initial product offering garnered nearly 14,000 unique bids, with an average price of \$415.

© StockX



StockX's approach makes for fair drops and pricing in that they don't require people to be in one place at one time, physically or digitally, and items don't sell out, says vice president of global cultural marketing Tom Woodger. In May, the platform hosted an IPO for New Balance 650 X No Vacancy Inn sneakers; 92 per cent of the winners got a pair for less than they bid. The [clearing prices](#) ranged from \$325 to \$500 (depending on size) — the highest in StockX IPO history and three times the suggested retail price.

Luxury brands could use the IPO model as an alternative to discounting, with people bidding on the price they're willing to pay, Woodger says, but he cautions against drops that are too confusing. "Drop culture is becoming so mass that every brand is trying to stake a claim within it," he says. "There are too many trying to overcomplicate and play in the space unnecessarily."

Woodger recommends that brands iterate on the format of drops to keep customers engaged, rather than creating negative experiences, such as when bots claim all the shoes or products are sold out. Last month's collaboration between Dior and Jordan Brand is [one example](#): customers selected one item to buy and a Dior store from which to pick it up. If their entry was chosen, they received a QR code to pick it up, tied to their ID.

"Luxury is learning that it's not about price; it's about value. People are willing to pay what they deem the value to be, and so the price almost becomes irrelevant."

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