Research On Nike's Business Strategy from The Perspective of Behavioral Economics

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Abstract. This study examines Nike's business game strategy through the lens of behavioral economics, focusing on its collaboration models, historical evolution, and competitive advantages. By analyzing Nike's limited-edition collaborations (e.g., Strawberry Dream Series, Off-White) and experiential retail practices (e.g., Nike Training Lab), the research reveals how Nike leverages scarcity effects, social identity signaling, and emotional utility to drive consumer decisions. Utilizing case studies and secondary data analysis, the paper demonstrates that Nike's success stems from transforming products into "social capital" and "emotional tokens," which amplify perceived value beyond functionality. Conclusions highlight strategic implications for brand-codependency dynamics and irrational consumption patterns in the sportswear industry. This hole study is all based on the data and theories that is true statistical and widely recognized by the academic community. The background of this research is set in 2025. For the integrity of this paper, all data collection and subsequent analysis are only based on historical data up to August 20, 2025.

Keywords: behavioral economics, Nike collaboration strategy, scarcity effect, identity expression, emotional consumption.

1. Introduction

1.1. Research Background and Research Topic

When Nike was founded, it only had an initial capital of 1,000 US dollars and even start with selling Japanese shoes. Now, however, it has become one of the most popular brands among young people, with the widest audience and the greatest popularity. Its classic styles such as the Jordan series and the Air Force have created one marketing miracle after another. Meanwhile, Nike's collaborations with other varieties of brands have also influenced the popular trend, making a hole generation’s people follow it, chasing it. This research will explore the logic behind various decisions of this brand from the perspective of behavioral economics and analyze the application of psychological concepts in its marketing strategies.

1.2. Research aims and Significance

This study aims to systematically analyze Nike’s strategic use of behavioral economics principles—such as scarcity effects, social identity signaling, sunk cost effect, and emotional utility—to make itself popular, enhance market power and finally lead to lucrative. By examining specific cases like the market share competition with Reebok, the research seeks to analysis the mechanism through Nike transforms products into instruments of fashion trend and emotional symbol. The significance of this work is twofold: academically, it contributes to the combination of marketing strategy and behavioral theory; practically, it offers actionable insights for brands aiming to navigate irrational consumption patterns and foster codependent consumer relationships.

1.3. Research Methods and Structure

Methodologically, this research employs a qualitative case study approach supported by secondary data analysis. Quantitative sales data, consumer engagement metrics, and historical campaign performances are utilized to evaluate the efficacy of Nike’s behaviorally informed tactics. The paper is structured into five sections: following this introduction, a literature review synthesizes key concepts from behavioral economics and brand strategy; a methodology section details data sources and analytical techniques; a results section presents findings from case analyses; and a conclusion discusses theoretical and managerial implications. Throughout, the focus remains on data-driven interpretations of Nike's strategic evolution up to mid-2025.

2. 1960s to the 1980s

2.1. The Early Development of Nike

In 1964, athlete Phil Knight and his coach founded Nike, which has been called as Blue-Ribbon Sports at that time. In the initial stage of development, this was just an unknown company with an investment of only 1,000 US dollars. (500 dollar from Phil Knight and 500 from his coach Bill Bowerman). 1972, they corporate with Japanese company (0) by selling Japanese design shoes in US. But with the rise of yen (Japanese currency), the cost of human resources has also risen significantly. Coming to the end of the corporation with Japanese company, Nike start to develop their own athletic shoes. 1975, Nike started to set its company in South Korea and China, which is the first case in the industry, critically slowing down the cost of production. By using the money saved from production, Nike start to put more time and investment on the development of new product; at this period, Nike is owning the biggest part of the market sharing for sports shoes.

2.2. The First Defeat

Going forwards to 80s in 20centry, another sports shoes brand Reebok develop quickly by shifted its industrial focus not only to professional sports shoes but also into the circle of young people who are more in pursuit of fashion trends. Reebok identified the female market and the trend of aerobic exercise that Nike had overlooked. At that time, Nike was focused on providing professional equipment for male athletes, while Reebok launched the Reebok Freestyle, a shoe specially designed for aerobics, which is a popular trend at that period. It features soft leather and a fashionable ankle strap design that available in both high-top and low-top styles perfectly meeting women's demands for the combination of fashion and functionality. This pair of shoes quickly became a cultural phenomenon. At that time, when sports shoes were generally bulky and not breathable, the comfort and fashion sense of Freestyle were revolutionary. It has even surpassed sports equipment and become a fashionable item on the streets. Reebok has successfully redefined sports shoes from professional sports equipment to fashionable lifestyle products. This strategy was a great success. Reebok's sales soared from 130 million US dollars in 1983 to 1.4 billion US dollars in 1987, and it surpassed Nike in sales for the first time in 1987, becoming the world's top sports brand. This was the most painful defeat in Nike's history.

2.3. Business Transformation

Nike is well aware that it is difficult to surpass Reebok in terms of "fashion" and "comfort" in a short period of time. Therefore, it has doubled its investment on other aspect: technological innovation, halo effect and star power. The regret (pain or other negative effect) people feel when facing losses is far greater than the joy they experience when obtaining the same number of gains (loss aversion). Decisions depend on reference points. In 1987, Nike developed a new product Air Max 1. Its most distinctive feature is that it directly presents the technology to consumers through the visible Air cushion window. Before this, the reference points for the "value" of sports shoes were vague concepts such as "comfort" and "durability". But this time, Nike has implanted a brand new and extremely strong reference point that through showing consumer "technological sense" and "shock absorption protection" through the "visible air cushion". When consumers saw this window and were told that it was proof of "more shock absorption protection", their reference point changed. Nowadays, shoes without visible air cushions are subconsciously regarded as "possibly lacking sufficient protection", and choosing such shoes means possibly losing a sense of "security" and "technological guarantee". Nike is not selling "gains", but taking advantage of consumers' mentality of "avoiding losses" - "Don't let your feet suffer the the injuries because you didn't buy Air Max 1!".

In addition, the Air Max series has officially transformed Nike into a brand that not only offers professional sports shoes but also provides a trendy symbol of daily casual comfort. Based on the mental accounting theory, which is that People tend to psychologically group different amounts of money into different "accounts", each with its own budget and consumption rules. For instance, the money for meals and the money for clothes are separate, Nike successfully shifted sports shoes from the "sports equipment account" to the "fashion accessories account" and "self-investment account" through powerful marketing (especially the collaboration with Michael Jordan). The price people are willing to pay for "functional sports equipment" is limited, but the price they are willing to pay for "fashion items" or "cultural symbols" that "express their personal style" and "integrate into a certain circle" is much higher. A pair of Nike shoes is no longer merely a tool for playing basketball; it is also a symbol of fashion and a label of "cool". Consumers are willing to pay their money for it that far exceeds that of traditional sports shoes because they have used up the budget in another mental account.

2.4. Scarcity and Halo Effect

Signing Michael Jordan, the then rising superstar, was Nike's most successful decision. Jordan was not only an athlete but also a cultural icon. People, especially the young, will unconsciously imitate the behavior of their idols, believing that "what Jordan wears is the best." This is because in an uncertain environment, people tend to guide their own behavior by observing the actions of others, especially in subjective and social domains (such as what is "cool"). Furthermore, scarcity effect means that the scarcer an item is, the higher people consider its value to be. The NBA banned Air Jordan from wearing it on the court because it did not comply with the "uniform Dress Code" and fined him for each game. However,Nike happily paid the fine for Jordan and used this as the core to carry out a sensational advertising campaign "NBA ban it!" (NBA Banned!) ". The official "ban" immediately endowed this pair of shoes with legendary color and extreme scarcity (not everyone can own them, and not even everyone is allowed to own them). This greatly stimulated people's rebellious mentality and possessiveness. In order to purchase a pair of limited-edition Air Jordan, consumers need to invest a great deal of time, energy and attention in tracking information and queuing up to make a purchase. All these investments are "sunk costs". Once these costs have been invested, consumers' evaluations of this pair of shoes will irrationally increase to prove that their previous investment was worthwhile. This has formed an extremely strong brand of loyalty and enthusiasm.

2.5. New Era for Nike

According to psychological theory, the human brain can only remember 7 bits of characters in a short period of time, such as an irregular string of numbers like 1345689, and the excess part will be forgotten or even affect previous memory, same as English words. Thus, in 1988, Nike launched the epoch-making advertising slogan "Just Do It". This slogan is no longer confined to professional athletes but calls on all the general public with a sportsmanship. It is brimming with strength, determination and self-actualization, perfectly responding to Reebok's "fashionable casual" image and repositioning the brand at the spiritual level of pursuing excellence and challenging oneself. Easy for remembering and also strong in feeling. Coming back to the commercial war with Reebok, this became a competition of a higher dimension than fashion. By the end of the 1980s, Nike had successfully reversed the situation with technological innovation, top-tier endorsements and a strong brand narrative, regaining the top position in the market and laying the foundation for its global dominance in the 1990s. Reebok, however, has gradually been left behind by Nike due to its excessive reliance on the single trend of aerobic exercises and insufficient subsequent product innovation.

3. From the 1990s to the Present

3.1. 1990s: Global Expansion and the Experience Economy

In the 1990s, Nike shifted from just being a “athletic only” brand to becoming a big part of popular culture. They used ideas from behavioral economics to shape their strategies, which helped them become a leading name in the industry. First, Nike has introduced anchoring; by introducing technologically advanced and visually striking shoes such as the Air Huarache in 1991 and the Cross Training line, Nike set a high reference price that framed consumers’ expectations of quality [1]. Advertising emphasized innovation and exclusivity, making the higher price appear justified. Simultaneously, Nike leveraged loss aversion in campaigns that highlighted the risk of injury or inferior performance when athletes failed to choose the “right(their)” shoes, appealing to consumers’ stronger motivation to avoid losses than to seek equivalent gains [2].

Besides, capturing the trend of experience economy where consumers pay premiums for memorable brand interactions rather than simple services and goods, [3] Nike launched the NikeTown in 1997, a concept offering product experiences, live events and athlete appearances. Nike’s financial report shows the success of this strategy: annual revenue rose from about USD 2.2 billion in 1990 to roughly USD 9.2 billion by 1997 (NIKE Inc., 1997 Annual Report). The brand also invested heavily in global athlete endorsements, including Michael Jordan’s continued campaigns and Tiger Woods’s landmark golf sponsorship in 1996, reinforcing halo effect, social proof and the perception of Nike as the essential choice for serious athletes.

3.2. 2000s: Personalization and Digitalization

In the 2000s, Nike moved decisively into digital technology and consumer corporation design, deepening customer attachment through key behavioral economics mechanisms. The launch of Nike iD (later change to Nike by You in 2019 april) around 1999 allowed consumers to design their own shoes by selecting colors, materials, and personal inscriptions. This practice directly followed the endowment effect, in which people spent more time and energy to items they have customized or feel ownership of [4]. By investing their interest and creativity, customers became less price-sensitive and more emotionally favour to their personalized products.

In 2006, Nike partnered with Apple, and took Nike+ iPod onto the stage, a platform that tracked running data, enabled users to share results and compete with each other’s. This strategy combined network effects, where each new user increases the value of the platform [5], with sunk cost dynamics: runners who accumulated months of data and achievements were reluctant to abandon the system because they think it is destroying all their effort even, they are not originally meant to [2]. Nike’s financial disclosures show that these innovations contributed to steady growth. By fiscal 2008, the company reported over USD 18.6 billion in revenue, nearly doubling 1997 levels (NIKE, Inc., 2008 Annual Report). The Nike+ ecosystem also created a foundation for future digital commerce: by 2010, it had millions of active users globally, demonstrating how digital personalization could translate into loyalty and repeat purchases.

3.3. 2010s: Scarcity and Hype Collaborations

In the 2010s, Nike utilized celebrity collaborations and sporadic drops as a tactic, leveraging a few principles of behavioral economics to dominate sneaker culture. With the SNKRS app released in 2015, Nike was able to control product drops through random raffles and timed drops, creating artificial scarcity that resulted in increased perceived value [6]. Apart from by riding on peoples' interest and social media, cooperations like The Ten with Off-White designer Virgil Abloh in 2017 and Travis Scott x Air Jordan in 2018 both leveraged herding, since social media created buzz around celebrity endorsement and peer response [7]. When the fans notice their beloved rap icon collaborate with a reputable brand. People will be buying the product not only due to how it looks, but also because they are following the fashion or even just buying the product just to fund the celebrities, Consumers also spent on these limited drops, practicing mental accounting: sneakers were not just apparel but investment assets [4]. The resale market gives some Off-White and Travis Scott products worth selling six or more times over retail price within hours. Figures for Nike document the impact: through fiscal 2019, Nike Direct revenue—driven by strong digital platforms like SNKRS—increased 16% year-over-year, with digital commerce up 35% (NIKE, Inc., 2019 Annual Report).

3.4. 2020s: Immersive Digital Strategy and Sustainability

2020s saw Nike embracing sustainability and immersive digital through the adoption of ethical appeals and cutting-edge technology in order to sustain growth. In 2020, Nike's Move to Zero campaign incorporated products made from recycled materials and showed a carbon-neutral future. Such a strategy leverages the warm-glow effect, where consumers feel moral satisfaction due to sustainable shopping [1]. Nike reported that revenue in fiscal year 2023 from recycled-content products was approximately one-quarter of revenue, and e-commerce sales accounted for 26% of the company (NIKE, Inc., 2023 Annual Report).

Nike also continued to invest in its partner ecosystem, teaming up with AMBUSH, Tiffany & Co., and expanding partnerships with Travis Scott. These partnerships made identity signaling easier: customers use limited-release sneakers as a signal for cultural capital and values [8]. Concurrently, the launch of the. Swoosh platform and digital design studio RTFKT acquisition helped Nike sell virtual sneakers as NFTs as a move towards satisfying young customers' need for a feeling of exclusivity and ownership of an imaginary product. Present-bias limited-time virtual drops prompt immediate conduct out of fear of loss [9]. Additionally, the early 2020 COVID-19 pandemic brought an unforeseen shock to Nike's businesses and consumer markets.

Store closures worldwide and plant shutdowns generated short-term top-line losses and inventory problems, while lockdowns accelerated consumers' shift to home fitness and online commerce. Nike hastened to spend capital in its direct-to-consumer digital channels—investments in online sale capacity, the SNKRS and Nike apps, and services such as curbside pickup and contactless delivery—aiding the offset of losses in wholesale and physical store channels. Nike tried to make its supply chain more flexible. They did this by focusing on better manufacturing, making inventory easier to see, and improving health and safety at their stores and factories. During the pandemic, things changed fast. It sped up their plans to go digital. It made experiences and convenience more important. It also showed they need to be quick in their marketing, sales, and product choices. People’s habits have changed too. They focused more on what’s good now. They wanted comfort, safety, and familiar brands. This helped Nike’s products that show their brand, and their online platform become more popular. In doing so, Nike positioned itself as an environmental steward and virtual reality leader, cementing its brand in environmentally conscious and tech-conscious consumers' minds. These efforts also created switching costs that its competitors have thus far been unable to replicate.

4. Conclusion

This research tracked Nike's corporate history from modest beginnings to world dominance today, using behavioral economics principles to every turn and twist in its roller-coaster life. Anchoring and loss aversion were used repeatedly by Nike to re-anchor consumer reference points, whether 1980s revival in full swing across Reebok or 1990s internationalization through Air Max line's publicity-billed Air technology and interactive NikeTown store concept. In the 2000s, the company created customer loyalty from endowment effects and network effects by Nike iD customization and Nike+ running digital platform that created sunk costs that built loyalty. The 2010s were characterized by scarcity marketing, herding behavior, and mental accounting through off-limit collaborations such as Off-White and Travis Scott that commodified sneakers as money and culture assets. As Nike transitioned into the 2020s, it integrated warm-glow philanthropy, identity signaling, and present bias into its sustainability initiatives like Move to Zero and into its metaverse initiatives like. Swoosh, transforming physical and virtual products into badges of social capital and environmental consciousness.

Throughout these two decades, Nike demonstrated that consumer decision-making is not always most rational. In addition to turning shoes into "emotional tokens" and "social capital," Nike kept rivals, like Adidas, whose dependence on a single partnership (e.g., Yeezy) demonstrated the risks of less diversified behavioral strategies, at bay. Nike's success demonstrates how behavioral primitives—scarcity, status signaling, and ownership psychological premium—are deliberately incorporated into product form, price, and promotion in order to propel long-term growth.

Despite the large historical data, two fundamental limitations are inherent in this study. First, this study is based exclusively on publicly available financial information and secondary data and thus lacks access to data relating to Nike's internal decision metrics and proprietary customer information. In the absence of primary experiment or survey data, causal strength between the discrete behavior constructs and observed resulting sales outcomes is quasi-inferential. Second, it is taking worldwide markets and lead product lines to market; differences between them on a per-region basis—i.e., differences between Asian, European, and emerging market consumer psyches—are not analyzed in detail and could provide additional richness.

Follow-on research can build on these results by conducting quantitative consumer research in an effort to gauge the differential impact of scarcity messaging, identity cues, and warm glow appeals on purchase intent across cultures. Another domain to investigate would be where ownership and virtual world behavior bias intersect—i.e., how blockchain boots or metaverse assets extend sunk-cost commitment and endowment effect. Looking at how Nike's marketing strategies change over time, especially compared to competitors like Adidas, Puma, or some of the newer direct-to-consumer brands, would really help us understand how behavioral economics might influence sportswear marketing in the next couple of years.

This study suggests that understanding the mindset behind Nike's success shows that future branding won't just rely on new tech. Instead, it'll focus more on deep insights into what people feel, see, and relate to. The idea is that emotional connections and personal experiences will matter more than practical features or functions.

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