

# Lecture Handout: Retailing in Times of Soaring Inflation

## 1. Motivation

- Inflation has re-emerged globally after decades of stability.
- Japan offers a unique research opportunity after 30 years of deflation.
- Little marketing research exists on how firms and consumers adapt to inflation.
- This review (Dekimpe & van Heerde, 2023) summarizes what is known and unknown.

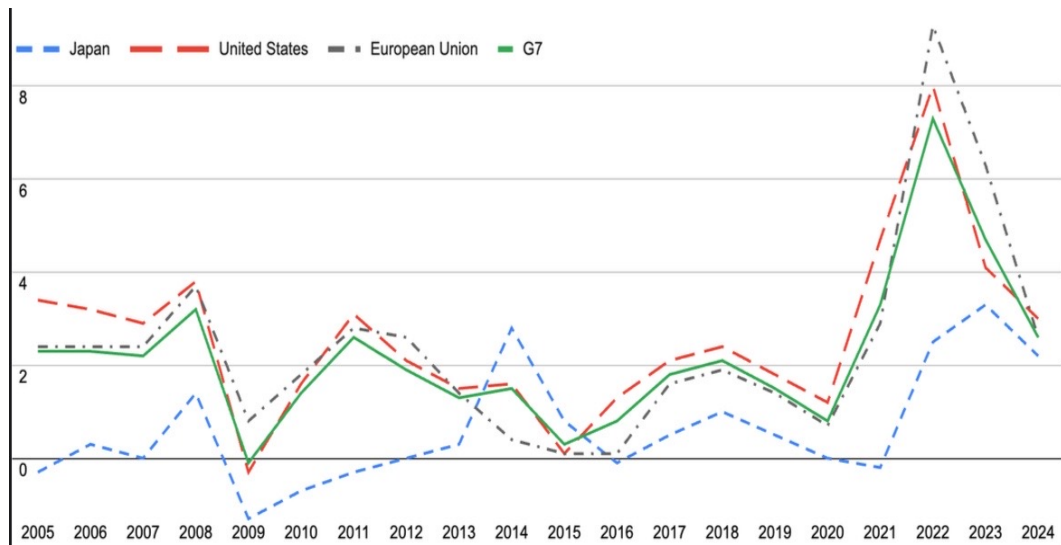


Figure 1. Global inflation trends (2005–2024) for Japan, the U.S., EU, and G7. Japan's inflation remained structurally lower than peers until a post-2022 surge.

## 2. Literature Review Summary

### 2.1 Definition and Background

- Inflation = sustained increase in overall price level (CPI-based).
- Public inflation = average cost-of-living change.
- Recent drivers: pandemic policies, supply disruptions, war in Ukraine.

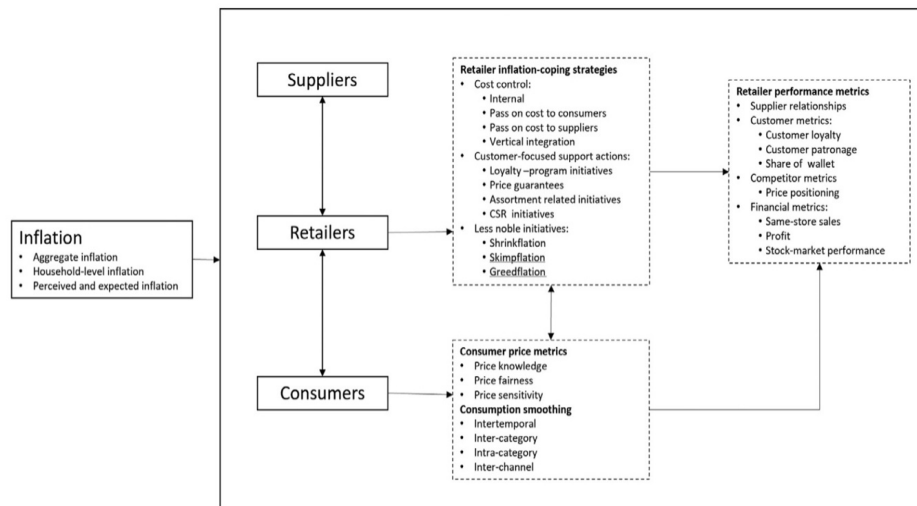


Fig. 2. The Effect of Inflation on the Retailer Ecosystem.

Figure 2. Retail ecosystem under inflation (Dekimpe & van Heerde, 2023). Inflation influences suppliers, retailers, and consumers through both cost transmission and behavioral adaptation. Key mechanisms include shrinkflation, skimpflation, and consumption smoothing.

## 2.2 Challenges of High Inflation

• Firms face rising input costs, margin pressures, and uncertainty. • Consumers face declining real income and behavioral changes.

## 2.3 Household-Level Inflation Heterogeneity

• Each household experiences unique inflation depending on its spending basket. • Kaplan & Schulhofer-Wohl (2017): large heterogeneity across U.S. households.

## 2.4 Inflation Perception & Expectations

• Consumers often overestimate inflation (D'Acunto et al., 2023). • Heavily influenced by salient, frequently purchased goods.

## 2.5 Price Fairness and Sensitivity

• Price fairness affects purchasing behavior (Bolton & Alba, 2006). • Inflation increases price elasticity by about 1% per +5.6% inflation (Bijmolt et al., 2005).

## 2.6 Retailer Coping Strategies

• Shrinkflation, skimpflation, loyalty programs, and CSR are key responses. • 'Greedflation': excessive price increases can harm consumer trust.

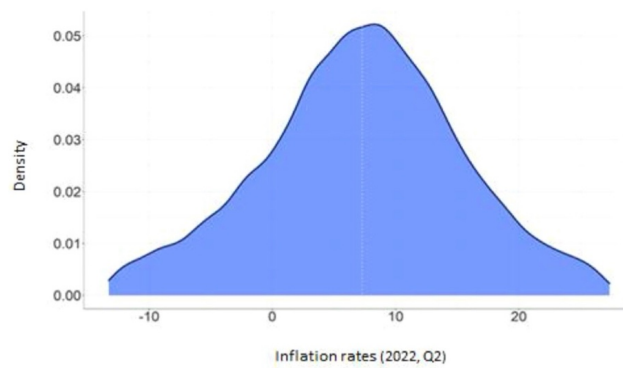


Fig. 3. Heterogeneity in German household-level inflation rates.

Source: Beck (2022).

), calculated by the Bureau of Labor Statistics (BLS), represents a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. A first key insight emerging from that research is that consumers may have limited ability to store and recall specific prices (see also Estelami et al. 2001), and even succumb to inflation (see also Dekimpe et al. 2023). Even within one country, inflation varies widely by household due to differing consumption baskets.

#### Reference:

Dekimpe, M. G., & van Heerde, H. J. (2023). Retailing in times of soaring inflation: What we know, what we don't know, and a research agenda. *Journal of Retailing*, 99(3), 322–336.

# Future Research Agenda

## 3.1 & 3.2 Consumption Smoothing and Inflation Heterogeneity

**Background:** Inflation widens the gap between prices and wages, reducing real income. Consumers adapt via consumption smoothing across time and product categories (Dutt & Padmanabhan, 2011). Household inflation rates differ by spending patterns (Kaplan & Schulhofer-Wohl, 2017).

**Research Gap:** No prior cross-country analysis using micro-level purchase data has compared Japan and the U.S. in terms of smoothing behavior. Japanese consumers may show distinct adaptation patterns.

**Method:** Use scanner panel data (2020–2022) to examine smoothing intensity by household income, demographics, and inflation exposure.

## 3.3 Optimal Customer Retention Strategies under Inflation

**Background:** Firms face dual customer attrition risks: (1) behavioral change from real income decline, and (2) dissatisfaction from price increases. Cost pass-through appears as nominal hikes, shrinkflation, or skimpflation (Dekimpe & van Heerde, 2023).

**Research Gap:** Empirical studies on long-term effects of shrinkflation in Japan are scarce. Fairness and loyalty dynamics remain understudied. Links between inflation strategies and loyalty mechanisms are unclear.

**Method:** Combine scanner data and survey data to compare three firm strategies: (a) nominal price hikes, (b) shrinkflation, and (c) loyalty compensation. Analyze fairness perceptions (Bolton & Alba, 2006), cognitive dissonance, and word-of-mouth impacts.

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