

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.

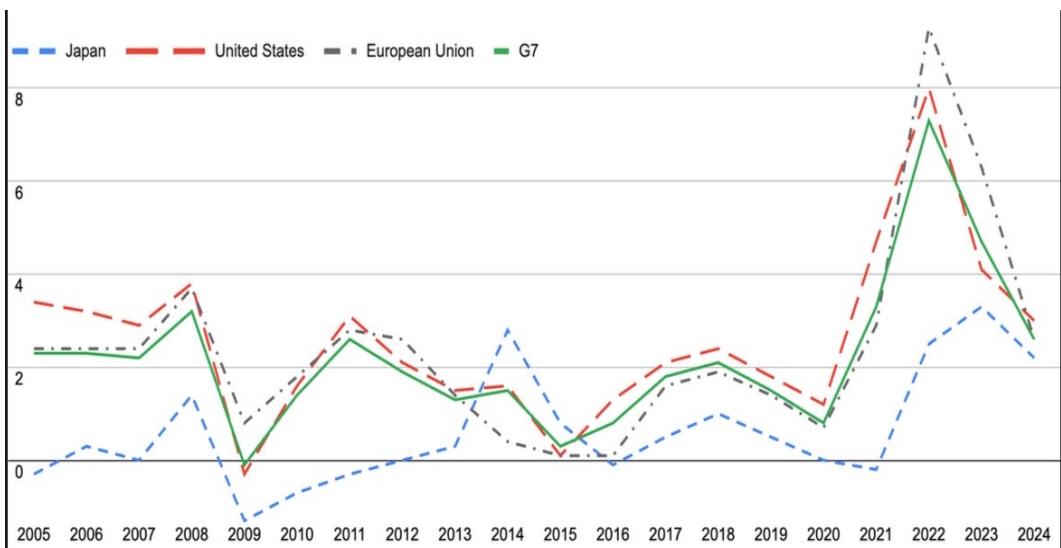


Figure 1. Global inflation trends (2005–2024) for Japan, the U.S., EU, and G7. Japan's inflation remained structurally lower than peers until a post-2022 surge.

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.

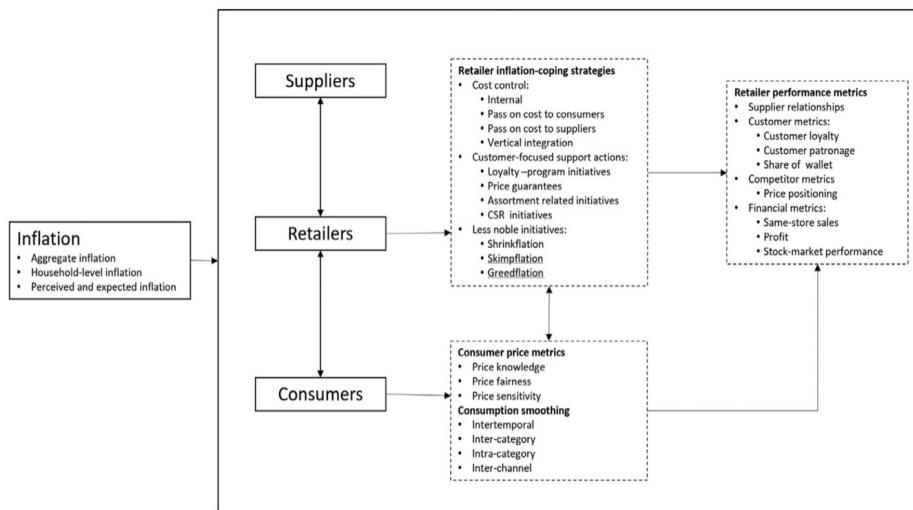


Fig. 2. The Effect of Inflation on the Retailer Ecosystem.

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.

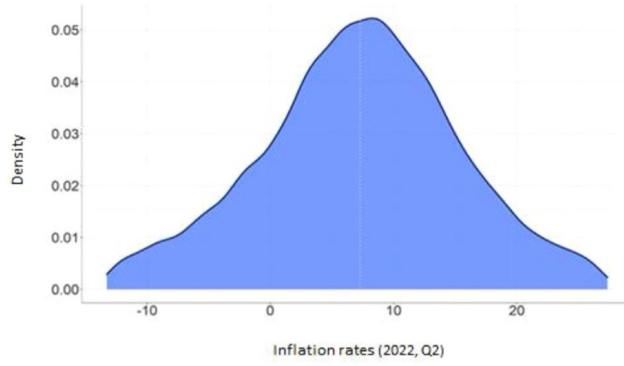


Fig. 3. Heterogeneity in German household-level inflation rates.

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. Figure 3. Heterogeneity in German household-level inflation rates (Beck, 2022). 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.

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.