

# Navigating Inflation: Strategies and Adaptations in Marketing to Address Changing Consumer Behavior and Price Sensitivity

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*Abstract: Inflation has surged globally, reaching levels not seen in decades. This rise follows the pandemic's disruptive economic effects and is driven by factors such as expansionary policies, pent-up demand, supply-chain disruptions, and cost pressures due to factors like adverse weather and geopolitical events. While inflation was historically higher in the 1970s and 1980s, recent decades of low inflation have left consumers, manufacturers, and retailers unprepared for the current shock. Academic research offers limited guidance on managing marketing in inflationary periods, creating a pressing need to explore this gap.*

## INTRODUCTION

This paper aims to outline what is known, unknown, and essential to study further in inflation-focused marketing. We examine prior research and insights on income reduction, acknowledging the distinct challenges of today's inflation. Through an Empirics-First approach, we identify common coping strategies in retail, supported by relevant literature to interpret patterns, suggest best practices, and highlight potential risks. This article seeks to spark new research into the marketing impacts of extreme inflation—a pressing global issue central to retailing and the supply chain.

### Common consumer behaviours

Inflation affects different segments of society in diverse and profound ways. Extended periods of high inflation can shape people's outlook on life and influence how they interact with brands. Eldar Shafir, in *Scarcity: Why Having Too Little Means So Much*, notes that people often cut back on expensive activities, which can leave them feeling that they're missing out. Brands must respond to this shift by addressing consumers' evolving emotions and behaviors. During inflationary times, consumers become highly price-sensitive, especially those with lower incomes, who are most affected by rising prices for essential items. Many consumers will shop

around for the best deals on staples, while others cut back on non-essentials or seek cheaper alternatives. This shift creates both challenges and opportunities for brands, as consumer loyalty becomes contingent on value offerings.

Luxury consumers, too, are adapting, choosing to invest in “hard assets” like real estate rather than making purchases that visibly display wealth. In times of economic stress, blame is often assigned, with media contributing to the perception that large corporations are profiting from inflation. This has fueled mistrust toward big brands, as consumers grow wary of practices like product shrinkage, price bundling with little real savings, or cost increases on core products. Brands engaging in these tactics are likely to face public backlash, underscoring the need for transparency and value-centered engagement

The convergence of geopolitical tensions, economic strain, and resource shortages has driven inflation to unprecedented levels. Russia's invasion of Ukraine, rising economic tensions between the US/Europe and China, adverse weather conditions, and a surge in electronics demand have all contributed to severe shortages in essential production inputs, including raw materials, food ingredients, packaging, computer chips, energy, transport, and labor. As these input costs increased, inflation surged, reaching levels unseen in recent decades (IPLC, 2022).

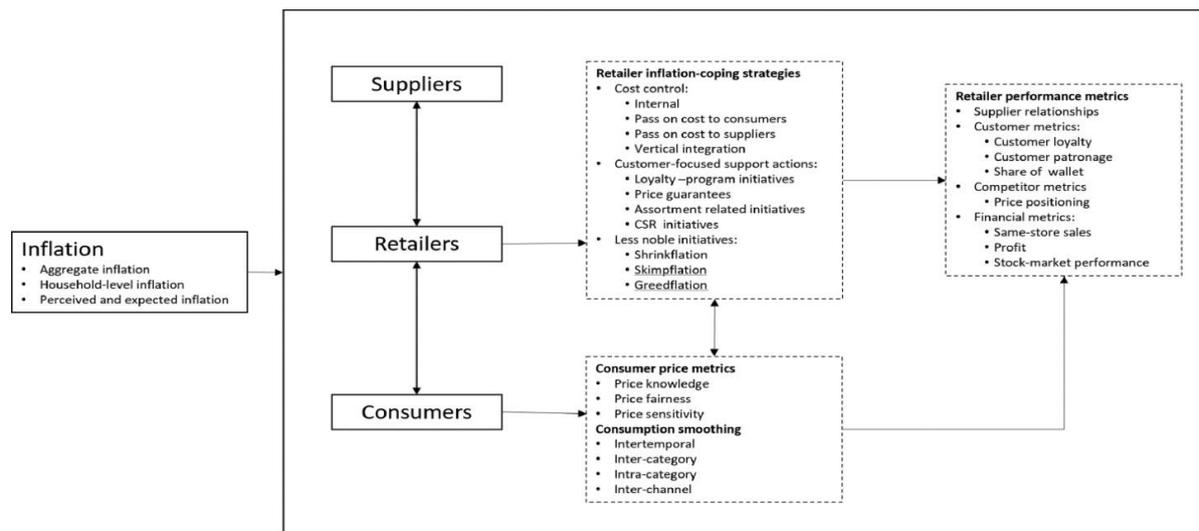
A McKinsey & Company survey showed that by mid-2022, inflation was the primary concern for 53% of European consumers, far surpassing issues like the invasion of Ukraine, unemployment, extreme weather events, and even the Covid-19 pandemic (Bazzoni et al., 2022). By the year's end, inflation had also become the top concern among 43% of European executives, mirroring similar sentiments from executives in North America, Latin America, India, and the Asia Pacific region (Condon et al., 2022).

Though current inflation levels are not historically unprecedented, similar peaks having occurred in the 1970s and 1980s, decades of low inflation have left both consumers and executives unprepared, prompting significant disruption across the retail ecosystem. Retailers, situated at the core of distribution channels, have faced mounting pressure to balance rising wholesale costs while preserving customer loyalty, competitiveness, and profitability. Recognizing that directly passing on cost increases would alienate already price-sensitive consumers,

retailers have implemented a range of strategies to navigate inflation, spanning both overt and subtle measures.

### Drivers and Strategies

This paper explores these diverse strategies, delving into the impacts of inflation on retail and identifying the approaches that have proven most effective in balancing consumer expectations with the realities of inflationary pressures.



Choosing a pricing objective and associated strategy is an important function of the business owner and an integral part of the business plan or planning process. It is more than simply calculating the cost of production and adding a markup (Roth 2007). Therefore, assigning product prices is a strategic activity and the price or prices assigned to a product or range of products will have an impact on the extent to which consumers view the firm's products and determine its subsequent purchase. However, it is less clear how pricing activities can be guided by the marketing concept. Certainly, customers would prefer paying less, in fact, they would even prefer to pay nothing but it is simply not feasible to give products without price (Sagepub.com 2009). An organization that does that will run dry and out of business and would not be able to create value for the customers. Subsequently these constitute problems that have provided a purpose for this research and they will be discussed subsequently. The crux of this study is to understand the extent to which customers perceive the cost oriented pricing strategies of firms. It is dangerous to assume that customers perceive a particular pricing strategy as fair; furthermore it is

also out of place to state that customers believe that whatever price is set is a reflection of the cost of producing a product. Backman (1953) points out that "...the graveyard of business is filled with the skeletons of companies that attempted to base their prices solely on costs". More so, other pricing strategies used by competitors also interfere and have an effect on products. Another problem is rooted in consumers not understanding the value-based pricing strategy of the firm and it is a strategy that is adopted by a few firms (Hinterhuber 2008). If a firm thinks it is communicating value via its prices and customers on the other hand do not perceive value as relating to the set prices then the pricing objective of the firm is defeated. Lastly the only constant thing which is change especially in the technological environment has also posed its own challenges within the corridors of pricing strategies. The web has come into existence and businesses have gone online and pricing of products and services have also taken another form. Presently, the exposure of customers to online and offline prices have a significant influences on their purchase decisions. The new technologically advanced distribution channels permit anyone to

receive the most up-to-date multimedia information on the best connections, and at the best prices (Keller 1996).

#### Pricing Strategies

Typically, pricing strategies that are investigated in the marketing literature consist of analyzing aggregated prices (Tellis 1986). For consumer goods, this is applicable unlike the several types of disaggregate pricing strategies that are utilized to promote products as favorably as possible (Eliashberg et al 1986). These consumer products usually have small prices that are paid up at once. Disaggregate pricing means paying in bits for instance reframing a ₦500 expense into ₦1.40 a day expense diminishes the enormity of the expense, and therefore, eases the decision process for the consumer. This however does not apply at all to consumer goods therefore appropriate pricing strategies which are aggregate must be adopted to ease the decision making process of consumers. Traditional pricing strategy by definition is incapable of harmonious associations, but it needs to become a more socially conscious, collaborative exercise. Bertini and Gourville (2012) stressed that businesses should look beyond the mechanics of just fixing prices they feel is suitable for a Electronic copy available at: <https://ssrn.com/abstract=3122351> International Journal of Research in Management, Science & Technology (E-ISSN: 2321-3264) Vol. 2, No. 2, August 2014 Available at [www.ijrmst.org](http://www.ijrmst.org) `2321-3264/Copyright©2014, IJRMST, August 2014 90 product having estimated cost and profit still relevant but no longer sufficient and recognize that harmonization of the way they generate revenue can open up opportunities to create additional value. This study therefore has dual purposes which are to assess the effect of pricing strategies on the purchase of consumer goods and how the advent of online pricing interferes in the above.

A)Conceptual Framework A key assumption in economic theory is that consumers tend to rather intensively process the prices of products they buy. Here we intend to intensively explain the various aspects of pricing.

B) Pricing objectives xenfeldt (1983) cited in Avlonitis and Indounas (2005) stated that pricing objectives provide irections for action, —to have them is to know what is expected and how the efficiency of operations is to be measuredl.

Objectives can be short term and long term. According to Weber (2000) a firm ought to decide upon the objectives of pricing before determining the price itself and some of the main objectives are as follows:

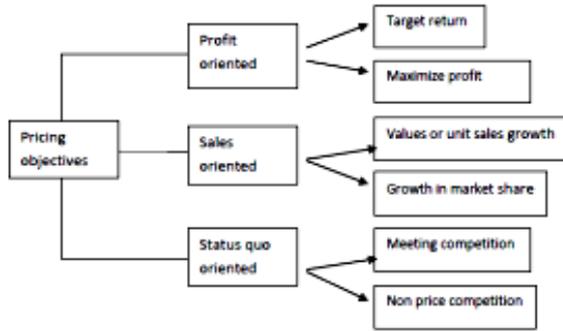
1)Achieve target return on investment or on net sales Kotler and Armstrong (2008) described this as building a price structure designed to provide enough return on capital used for specific products so that the sales revenue will yield a predetermined average return for the entire firm. This objective is usually used by most firms for short run periods (Ezeudu 2005) whereby a percentage markup on sales is set. This set percentage covers anticipated operating cost plus desired profit for the year.

2) Stabilize prices Another pricing objective could be to stabilize prices. This is mostly found in industries where there is a market leader and prices fluctuate frequently. "Price leadership does not necessarily imply that the objective of stability is reached by having all firms in the industry charge the same price as that set by the leader (Stanton 1981). It only means that some regular relationships exist between the leader's price and those charged by other firms" (Sean 2005).

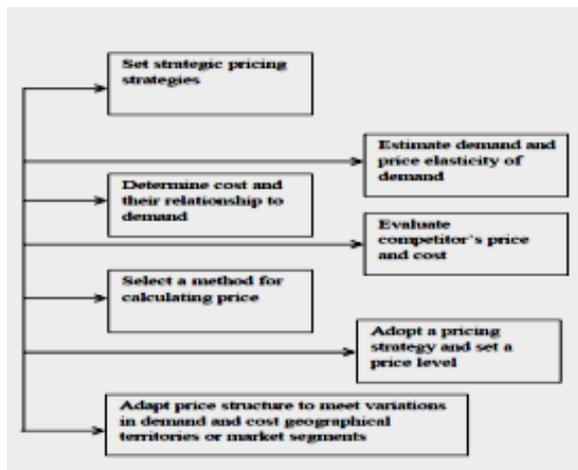
3) Maintain or improve target share of the market Most companies have their pricing objective to be to increase or maintain market share (Stanton 1981). Increased market share is a result of effective long term pricing strategies. Any firm who has this as a pricing strategy must be ready to operate and plan on the long run. It is quite different from target return which might be deceptive because a firm could be earning but losing market share gradually (Lancaster, et al., 2002).

4) Meet or prevent competition Lancaster, et al., (2002) stated that organizations may try to meet up with competition by reducing prices or even prevent it by adopting what is called 'follow the leader' policy (a policy whereby companies price products based on competitor's price).

5) Maximize profits This pricing objective is used by countless firms. The problem with this goal is that it is often connected in the public mind with profiteering, high price and monopoly although there is nothing wrong with it (Ezeudu 2005). If the profit is high due to short supply in relation to demand new capital will be attracted into the field.



B) Price Setting Decision Process The step by step process in the diagram below presents a logical approach for setting price.



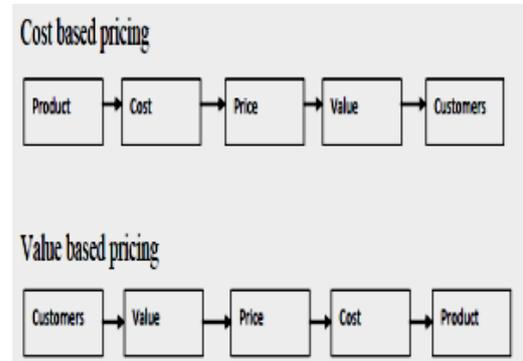
C) Importance of Price Decisions According to Munroe (2003), pricing a product or service is one of the vital decisions management makes. Pricing has been viewed as the major pressure point for managerial decision making hence its importance. Munroe examined the environmental pressures that allowed for an increased pressure on the importance of pricing. The importance of pricing can be examined with faster technological progress, proliferation of new products, increased demand for service, increased global competition, the changing legal environment, and economic uncertainty.

D) Three Levels of Pricing Management The pricing puzzle is more manageable when taken in pieces. Price management issues, opportunities, and threats fall into three distinct but closely related levels (Michael and Robert 1992): 1. Industry strategy 2. Product/Market Strategy 3. Transactional Strategy.

This can also take two forms. 1) Going rate pricing: it is setting a price for a product or service using the prevailing market price as a basis. Going rate pricing is a common practice with homogeneous products

with very little variation from one producer to another, such as aluminum or steel (Kevin, et al., 2004). Going rate pricing is a pricing strategy where firms examine the prices of their competitors and then set their own prices broadly in line with these.

Going rate pricing is most likely to occur where:



1. There is a degree of price leadership taking place within a particular market.
2. Businesses are reluctant to set significantly different prices because of the risk of setting off a price war, which would reduce profits to all firms.
3. There is a degree of collusion taking place between firms. If there is one price leader and firms are tending to follow the prices set by the price leader, then they will often feel frustrated that they are not able to mark themselves out by reducing their prices.

To compensate for this, they may try, through their marketing strategy, to establish a strong brand identity. This will enable them to differentiate themselves from the competition

2) Competitive bidding: the most usual process is the drawing up of detailed specifications for a product and putting the contract out to tender and potential suppliers quote a price that is confidential to themselves and the buyer(sealed bids) (Jobber 2004). All other things being equal the buyer will select the supplier that quotes the lowest price. It is used mostly when firms bid for jobs (Kevin, et al., 2004).

3) Demand based pricing: Demand based pricing looks outward from the production line and focuses on customers and their responsiveness to different price levels (Brassington and Pettitt 2006). They are prices based on the customers' demand for a product. Here prices are set with demand and market considerations in mind (Lancaster and Withey 2005; Holbrook, 1994). When this method of pricing is

used the price set must be in line with the customer's perception of the product or it will be priced too high or too low for the target market (Farese, Kimbrell and Woloszko 2003).

4) Value based pricing: Customer value-based pricing uses the value that a product or service delivers to a segment of customers as the main factor for setting prices (Hinterhuber 2008). Customer value-based pricing is increasingly recognized in the literature as superior to all other pricing strategies (Ingenbleek et al 2003).

International Journal of Research in Management, Science & Technology (E-ISSN: 2321-3264) Vol. 2, No. 2, August 2014 Available at [www.ijrmst.org](http://www.ijrmst.org) 2321-3264/Copyright©2014, IJRMST, August 2014 88 A Review of The Effect of Pricing Strategies on The Purchase of Consumer Goods 1Dudu Oritsematosan Faith, 2Agwu M. Edwin 1Covenant University, Ota, Ogun State, Nigeria 2 Senior Lecturer in Strategic Management and Marketing, Covenant University School of Business Ogun State, Nigeria

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