Inflationary Realities, Shrinkflation Strategies: Business Unveiled

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Abstract

Since the onset of the pandemic in March 2020, global supply chains have been severely impacted. Preceding this, the intense protectionism and trade tensions between the USA and China in 2018 and 2019 had already diminished trade volumes on the Western front. The invasion of Ukraine by Russia in February 2022 further disrupted supply chains, creating a ripple effect that shook economic stability. This tumultuous series of events triggered a worldwide wave of inflation, resulting in an increase in the prices of goods and services across various categories. The inflationary surge had a profound impact on family budgets, adversely affecting the standard of living for many. To combat this, the majority of central banks responded by raising interest rates, causing a sharp increase in the cost of borrowing. Faced with these challenges, producers from large, medium, and small enterprises found themselves compelled to make their products more affordable, aiming to alleviate the financial strain on consumers. In the era of consumerism, producers found themselves under pressure to provide relief to end-users. The adopted strategy involved reducing the size or weight of products while maintaining the same price. This tactic, known as shrinkflation, became a psychological game to offset the inconveniences of inflation. Consumers, although paying the same price, received less for their money. While some organizations embraced this strategy, others considered it a serious ethical breach. Some consumers accepted the reduction while others, particularly those with conservative views, felt aggrieved by what they perceived as a moral compromise.

Keywords: Uncertainty, Shrinkflation, Consumer reaction, Affordability, Quantity Squeeze.

Introduction

Inflation, an economic drawback, becomes particularly concerning when it escalates without any signs of abating. Debates among economists from various schools of thought have ensued over the years, with some opinions suggesting that moderate inflation can be beneficial for an economy. It is often viewed as an indicator of robust effective demand in the market, deemed preferable to deflation, which signals a lack of demand and, if prolonged, may lead to recession. Inflationary trends can be confined to a specific economy or become a global phenomenon. The various types of inflation come with fancy terminologies like crawling inflation, walking inflation, and galloping inflation, each denoting different intensities in the rise of price levels. Two prominent types are demand-pull and cost-push inflation. Demand-pull inflation occurs when aggregate demand surpasses total supply in the market. According to Keynes’s hypothesis (1936), this situation arises when there is an excess of money chasing too few goods. Graphically, the demand curve shifts rightward while the supply schedule remains unchanged, resulting in an increase in the price levels of goods. Inflationary trends can be confined to a specific economy or become a global phenomenon. The various types of inflation come with fancy terminologies like crawling inflation, walking inflation, and galloping inflation, each denoting different intensities in the rise of price levels. Two prominent types are demand-pull and cost-push inflation. Demand-pull inflation occurs when aggregate demand surpasses total supply in the market. According to Keynes’s hypothesis (1936), this situation arises when there is an excess of money chasing too few goods. Graphically, the demand curve shifts rightward while the supply schedule remains unchanged, resulting in an increase in the price levels of goods.

Historical evidence reveals the strategic incorporation of shrinkflation into the decision-making processes of businesses. In the latter half of the 20th century, the concept of shrinkflation gained prominence as manufacturers grappled with escalating costs related to labour, raw materials, and transportation. Faced with these challenges, businesses adopted the practice of reducing the size or quantity of their products while maintaining consistent pricing. This allowed them to offset growing expenses without an immediate hike in prices, ensuring the preservation of profit margins.

One of the earliest and most notable instances of shrinkflation occurred in the chocolate sector during the 1980s. Numerous chocolate bar producers downsized their products while keeping prices and packaging unchanged, sparking public interest and debate. Throughout the 1990s, various consumer goods underwent shrinkflation. Toilet paper rolls, snack bags, and cereal boxes, among other items, were resized while retaining their original packaging design. The trend persisted into the 2000s, impacting a diverse range of products, including snack food packages, coffee containers, and even domestic cleaning supplies. Consumers often had to stay vigilant to these alterations, realizing that they were receiving less for the same price. The 2010s witnessed an increased focus on shrinkflation as consumer awareness rose, fuelled by the widespread use of social media and online forums. Consumers began comparing the sizes of newer, smaller products with their predecessors, leading to criticism of the approach as a covert means for manufacturers to raise prices discreetly. In recent times, the global economy has witnessed a convergence of key events, profoundly influencing consumer behaviour. These events, combined
with the growing awareness of shrinkflation, underscore the intricate dynamics between businesses and consumers in navigating economic challenges and maintaining market competitiveness.

The global landscape has witnessed significant shifts in economic dynamics and consumer experiences due to the COVID-19 pandemic, the prolonged Ukraine crisis, and the looming threat of global inflation. Amidst these developments, a noteworthy phenomenon has emerged, commonly referred to as "shrinkflation," reshaping consumer goods and raising concerns related to economic justice and stability. From late 2019 to the present, the far-reaching impacts of the COVID-19 pandemic have disrupted economies, societies, and daily life worldwide. Lockdowns, travel restrictions, and supply chain disruptions led to reduced output, labour shortages, and increased demand for specific commodities. The delicate balance of supply and demand was disrupted, triggering inflationary pressures in numerous nations.

Simultaneously, the protracted crisis in Ukraine and the associated geopolitical tensions have further complicated the global economic landscape. Geopolitical uncertainties have resulted in market volatility, influencing commodity prices, currency exchange rates, and investor sentiment. Rising tensions can lead to increased business expenses, subsequently impacting the costs of products and services. These events have collectively fuelled growing global concerns about inflation, defined as a persistent increase in the overall level of prices for goods and services. Inflation erodes currency value, diminishes purchasing power, and poses a threat to economic stability. To counteract the consequences of inflation and stimulate economic recovery, central banks worldwide have implemented various monetary policies, including low-interest rates and asset purchases. The effectiveness of these interventions remains a subject of ongoing debate, raising questions about their ability to address the complex challenges posed by the current economic landscape.

Amidst the turbulence of current times, a novel economic phenomenon known as "shrinkflation" has emerged, reflecting a strategic adjustment by producers. In shrinkflation, the size or quantity of a product is reduced while maintaining the same price. Customers, often unaware of this subtle alteration, continue paying the usual price for seemingly unchanged goods. However, in reality, they receive less for the same money, resulting in an elevated cost per unit. Shrinkflation is driven by various factors, including disruptions in supply chains, escalating commodity prices, and labour shortages, all contributing to increased manufacturing costs. Faced with the challenge of sustaining profitability amid rising expenses, manufacturers employ the tactic of downsizing products to safeguard profit margins. This practice capitalizes on customers' limited ability to immediately discern these changes, allowing businesses to manage escalating costs without overtly raising prices.

The emergence of shrinkflation prompts both economic and ethical considerations. On one hand, businesses adopt such strategies as survival tactics to navigate economic challenges. However, when customers eventually realize they are receiving less for the same price, it can lead to a sense of deception, eroding trust in brands and diminishing their willingness to opt for certain products. Furthermore, the compounding effects of shrinkflation and inflation contribute to an overall increase in the cost of living, disproportionately affecting disadvantaged groups with lower disposable incomes. This exacerbates income disparity and poses challenges for economic growth. The complex interplay of economic necessity and ethical considerations surrounding shrinkflation underscores the delicate balance businesses must strike to navigate turbulent economic conditions while maintaining consumer trust.

**Objective of the study**

The objectives of the study are identified as below.

a) To showcase the shrinkflation trend practiced during soaring inflation and economic stagnation.

b) To describe about the reaction of consumers in connection with shrinkflation tendency.

**Research Methodology**

The research undertaken follows a descriptive and analytical approach, emphasizing qualitative inquiry and a grounded understanding of reality. It predominantly leans towards positive economics rather than normative economics, steering clear of personal biases and preconceived notions. There was no survey conducted, so the research relies on secondary data from reliable sources. The data underwent meticulous analysis and interpretation, adhering to ethical considerations and a commitment to unbiased exploration. This research delves into the economic theory pertinent to inflation, steering away from social media and networking site opinions. It represents an epistemological exercise, unearthing real facts related to shrinkflation, a phenomenon that, while relatively recent, has seen widespread use during economic turbulence. The study elucidates the reasons and outcomes of shrinkflation explicitly, offering a valuable reference point for further exploration. While not exhaustive, this research suggests potential avenues for future investigations, including long-term studies tracking changes in consumer perspectives, international comparisons of regulatory actions, and analyses of alternative pricing schemes emphasizing fairness and transparency. The study establishes a robust theoretical framework for understanding shrinkflation, considering consumer behaviour, economic implications, and regulatory issues. The insights
Shrinkflation, the practice of reducing a product's size or quantity while maintaining its price, has gained popularity in response to inflationary pressures in the consumer goods sector. This phenomenon, triggering small price increases for consumers, has become a focal point for economists, marketers, and consumers due to its implications on consumer perceptions, pricing strategies, and broader economic consequences. This literature review aims to provide a concise overview of existing research on shrinkflation, exploring its origins, impacts, and implications for various stakeholders. The causes of shrinkflation encompass rising manufacturing costs, increased expenses for raw materials, and inflationary pressures. Manufacturers may opt to shrink a product's size or quantity to safeguard profit margins without overtly raising prices, thereby mitigating the risk of consumer backlash associated with direct price hikes. This literature review serves as a valuable resource for understanding the dynamics of shrinkflation and its multifaceted effects on the economy, offering insights into the considerations of different stakeholders in this evolving economic practices.

Economists such as Roberts (2007) propose that shrinkflation serves as a strategy to navigate escalating costs without overtly increasing prices. The success of this approach hinges on consumer perceptions, with research by Charlebois and Nguyen (2017) suggesting that consumers tend to be more responsive to price changes than alterations in product size. Producers may seek to exploit this bias by discreetly reducing product sizes, as consumers may be less likely to notice these adjustments. Contrarily, studies by Piqueras-Fiszman and Spence (2012) and others indicate that consumers can still detect changes in package sizes, potentially influencing their purchasing behaviour. Shrinkflation, therefore, presents consumers with a nuanced impact. While it may evoke a sense of diminished value as buyers receive less for the same price, successful execution of shrinkflation without consumer awareness could minimize its influence on consumer behaviour. This duality highlights the complexity of the relationship between shrinkflation, consumer perceptions, and brand loyalty.

According to Gorton and Choi (2009), customers tend to overlook minor variations in product size, resulting in a subdued reaction. To mitigate potential harm to consumer perceptions caused by shrinkflation, manufacturers employ various marketing and communication techniques. Essential elements in managing customer expectations include packaging design, labelling, and messaging. Grunert et al. (2015) emphasize that open communication is crucial to maintaining customer confidence and reducing perceptions of dishonest business practices. Shrinkflation extends its influence beyond individual consumers, potentially impacting broader economic factors such as inflation rates and consumer purchasing power. Economists like De Melo et al. (2020) suggest that policymakers need to consider shrinkflation when estimating inflation rates and formulating economic strategies. Regulatory organizations may also need to scrutinize packaging practices to ensure transparency and prevent consumer deception. This intricate phenomenon, known as shrinkflation, results from a convergence of economic and consumer behaviour elements. Its widespread use raises concerns regarding consumer perceptions, pricing strategies, and broader economic implications, highlighting the need for comprehensive examination and regulatory consideration.

Shrinkflation, a tactic used by manufacturers to address cost concerns, relies on customer comprehension and response. Research indicates that mitigating potential adverse effects on brand loyalty and trust hinges on open communication and consumer education. Further investigation is needed to assess the long-term impacts of shrinkflation on economic indicators and consumer behaviour in the evolving consumer product market.

**Theoretical Construct**

This article delves into the multifaceted nature of shrinkflation, examining its implications on economic policy, inflation measurement, and consumer behaviour. The literature review aims to provide a comprehensive overview of shrinkflation research by analysing the works of various scholars. Shrinkflation's impact extends beyond consumer reactions, resonating with broader economic policy concerns. Jackson (2017) suggests that shrinkflation allows businesses to safeguard profit margins amidst escalating manufacturing costs. However, Adams and Turner (2019) caution that prolonged and widespread shrinkflation could potentially erode consumer confidence, influencing purchasing habits.

Consumer perception plays a pivotal role in understanding the effects of shrinkflation. In a survey-based study, Smithson et al. (2018) found that a majority of customers expressed unfavourable sentiments when confronted with size reductions in their favourite products. Conversely, Johnson and Baker (2020) argue that different product categories exhibit varying levels of consumer tolerance, emphasizing the need for a nuanced understanding of consumer behaviour. The critical factor in assessing shrinkflation's impact lies in how consumers perceive it. As indicated by Smithson et al. (2018), most consumers react negatively to size reductions in their preferred products. In contrast, Johnson and Baker (2020) contend that certain product categories may face a higher risk of consumer backlash, underscoring the importance of a nuanced understanding of consumer behaviour.
Zhao and Liu (2022) offer a global perspective on shrinkflation, examining patterns in developing countries, diverging from previous research focused on specific markets like the United States and the European Union. This comparative analysis clarifies differences in shrinkflation prevalence and its impacts on diverse consumer demographics. The complexity of shrinkflation, concerning consumer perceptions, economic consequences, and policy considerations, is underscored from a theoretical standpoint. The growing discourse, influenced by various authors, emphasizes the need for a multifaceted approach to comprehend shrinkflation's implications. Future research could delve into psychological factors influencing customer behaviour and explore potential long-term effects for firms and economies as markets continue to evolve.

Shrinkflation: An instrument for Survival

Shrinkflation, a portmanteau of "shrink" and "inflation," captures the economic interplay where the size or weight of a commodity diminishes due to inflationary pressures. When inflation surpasses tolerance levels, it detrimentally affects the economy, impacting individuals and shaping market sentiment. Inflation erodes currency value, curtails purchasing power, and strains family budgets, compelling behavioural changes among consumers. Despite economic challenges, individuals find it challenging to curtail consumption, especially for essential commodities. During times of inflation and economic stagnation, there's a shift towards reducing conspicuous consumption while maintaining essential needs. This behavioural change influences market dynamics, posing challenges for sellers as rising unsold stocks become a concern. Market equilibrium, determined by the intersection of demand and supply, establishes equilibrium price and quantity. The demand schedule reflects customer preferences, dependent on various factors like commodity and relative prices, consumer income, preferences, seasonality, climate, media influence, population, and market trends. Amidst inflation, buyers may exhibit herd mentality, prioritizing conformity over scrutinizing quantity changes. Few buyers delve into product ingredients, associating smaller quantities with reduced adulteration. Sellers, adhering to market equilibrium principles, set prices influenced by factors like production costs, technology, government policies, sourcing, labour market conditions, and entrepreneurship. Competitive pressures may lead to price wars, prompting sellers to lower prices to retain consumer bases. Sellers, however, grapple with constraints related to input costs and market conditions. The prevalence of shrinkflation reflects a nuanced economic phenomenon shaped by consumer behaviour, market dynamics, and broader economic conditions.

In a competitive market, sellers respond to rivals’ activities, and this section delves into shrinkflation as a strategic maneuverer. It explores how sellers use shrinkflation to maintain prices while gaining a potential competitive advantage. Real-world case studies in sectors like packaged foods and personal care illustrate how sellers employ this tactic to navigate competition. Understanding consumer reactions to shrinkflation is crucial for merchants seeking to minimize backlash. The section delves into the delicate balance between perceived value and affordability, offering insights into sellers' perspectives on consumer psychology in navigating this intricate economic strategy.

The article scrutinizes merchants' methods in managing customer expectations and mitigating negative perceptions through consumer research and polls. The intricate interplay between manufacturing costs and pricing decisions is pivotal for sellers. Fluctuations in raw material costs, shipping expenses, and administrative overheads may necessitate adjustments in product size. This section explores how sellers navigate these challenges, collaborating with suppliers to enhance supply chain efficiency. Vendors employ diverse strategies, from innovative packaging to updated marketing, to enhance customer approval. The article underscores the nuanced tactic of shrinkflation in sellers' arsenals, shaped by economic, competitive, and consumer-focused variables. The study delves into the rationale behind shrinkflation from the sellers' viewpoint, highlighting their ongoing challenge of balancing profitability with customer expectations in evolving marketplaces. Some regulatory bodies advocate transparency through clearer labeling, requiring producers to prominently display size reductions on packaging. Governments consider regulations mandating price-per-unit or ounce disclosure alongside the overall price, empowering consumers to make informed choices and encouraging a more discerning marketplace. Consumer awareness, label scrutiny, and understanding price-per-unit metrics empower consumers to counteract shrinkflation, fostering a marketplace where businesses prioritize value and quality to maintain customer loyalty.

Globally, various economies have adopted shrinkflation. In the United States, a common example is the reduction in size of popular chocolate bars like Hershey's and Toblerone, with unchanged pricing and packaging.

In the United Kingdom, certain toilet paper brands have maintained pricing and packaging but reduced the number of sheets per roll. Similarly, in Australia, snack producers have lightened potato chip packets, offering fewer chips at the same price. In Japan, some instant noodle manufacturers have trimmed noodle or topping weight without adjusting prices. In Canada, coffee companies have opted to sell smaller packages, providing consumers with less coffee at the same price. Similarly, in Brazil, yogurt makers have downsized their yogurt cups, offered a reduced quantity while kept prices unchanged. South African potato growers commonly offer smaller bags of potatoes without adjusting the cost. In Mexico, soft drink producers...
have reduced bottle sizes without altering prices, resulting in consumers receiving a diminished quantity of liquid for the same cost.

Businesses may quietly manage rising manufacturing costs or maintain profit margins through shrinkflation, avoiding immediate customer backlash to price hikes. Although each reduction may appear minor, they accumulate over time, impacting customers' wallets. To ensure optimal value, customers are encouraged to stay vigilant and verify product dimensions.

**Results of the shrinkflation approach**

Inflation poses a challenge for ordinary households, severely impacting family budgets. Citizens grappling with inflation may seek a convenient solution, leading to compromised consumption and reluctant acceptance of lesser quantities. Producers can counter inflation by employing a clever tactic—instead of raising prices, they reduce product weight. Items like biscuits, butter, coconut oil, and essential foods undergo weight reduction to alleviate inflationary pressure. While some consumers may not object, gradually adapting to reduced quantities, conservative individuals vehemently oppose this strategy, feeling aggrieved. Opposition to such duplicity is evident, with some taking legal action to condemn this deceptive practice.

In the food industry, shrinkflation is prevalent, with companies frequently reducing the weight or size of items such as cereal boxes, chocolate bars, and chip bags while maintaining the original packaging design. This results in customers getting less product for the same prices. In personal care and toiletries, items like shampoo bottles, soap bars, and toothpaste tubes often undergo shrinkflation, maintaining the same packaging while containing less product. Cleaning products, such as dish soap and laundry detergent, also exhibit shrinkflation, with apparent container dimensions unchanged despite reduced product volume. In the beverage industry, particularly for juices and soft drinks, some producers reduce container sizes to cut production costs while keeping prices consistent, contributing to the prevalence of shrinkflation in various consumer goods. In the fashion industry, textiles and apparel may experience shrinkflation, where clothing items like pants or shirts may slightly shrink while maintaining the same label size. Household products, including containers for food storage, aluminium foil, and garbage bags, have also been affected by shrinkflation. The concept sparks debate among economists, consumers, and businesses, with some viewing it as a legal tactic for maintaining profitability amid rising costs and others as a dishonest practice eroding customer confidence. Notably, factors beyond shrinkflation, such as technological advancements, changing consumer preferences, and production innovations, contribute to variations in product sizes over time, as evidenced in historical records spanning decades.

**Strategies to Tackle Shrinkflation in an Economy**

Shrinkflation, where product size decreases without a price reduction, poses risks to consumers and the economy. Policymakers can mitigate this by implementing measures for consumer protection, transparency, and ethical business practices. Proposed solutions include mandatory product labelling to inform consumers about size reductions and regulating price increases to prevent businesses from exploiting shrinkflation as a pretext for price hikes. These steps aim to safeguard consumers, promote transparency, and ensure fair business practices, addressing the challenges posed by shrinkflation in the economy.

Implement public awareness campaigns to educate consumers about shrinkflation's impact on purchasing power, encouraging informed decisions. Set quality standards to ensure size reductions don't compromise product quality or safety, with manufacturers responsible for compliance. Foster market competition to discourage businesses from using shrinkflation to boost profits without providing meaningful value to customers.

Implement user-friendly reporting systems for customers to expose shrinkflation and dishonest practices. Regulators should actively investigate and enforce penalties against implicated corporations. Enforce pricing transparency by mandating businesses to disclose cost breakdowns, aiding consumers in product comparisons. Consider adjusting the Consumer Price Index (CPI) to accurately reflect changes in purchasing power affected by shrinkflation. Strengthen antitrust laws to prevent monopolistic practices, ensuring businesses face competition and discouraging the use of shrinkflation without regard for consumers. Strengthen consumer protection laws to provide clear remedies, including compensation or refunds, for those affected by shrinkflation. Governments can mitigate negative impacts by implementing these policies, balancing consumer interests with a favourable business environment to foster confidence and economic stability while ensuring fair market operations.

**Conclusion**

In times of economic turbulence, desperate measures are often deemed necessary. Economic cycles, including peak prosperity, recession, trough, and recovery, dictate the stability of a nation or the world. During economic expansions,
central banks may reduce interest rates to boost liquidity and stimulate activity, as seen during the 2008 financial crisis and the 2020 pandemic. The subsequent pandemic and the Ukraine war disrupted global supply chains, exposing vulnerabilities in overdependence on China and Europe's oil dependence on Russia. This disruption led to supply chain bottlenecks, causing shortages of essential commodities, daily goods, and semiconductor components. In response, producers faced a dilemma: absorb higher costs, reduce profit margins, pass expenses to buyers, or employ shrinkflation—selling products at unchanged prices but with reduced weight or size. Shrinkflation becomes a mental game, avoiding direct price hikes but leaving consumers with less than before. The COVID-19 pandemic, the Ukraine crisis, and global inflation threats have made shrinkflation a complex reaction to economic challenges. While it enables businesses to adapt to supply chain interruptions and rising costs, it raises ethical concerns and amplifies the impact of inflation on consumers. Balancing company sustainability, consumer trust, and economic stability becomes crucial as the global economy grapples with these issues.

Shrinkflation directly affects consumer purchasing power, eroding the value received even with unchanged prices. This covert inflation reduces the real purchasing power of consumers' salaries, impacting their standard of living. As more products experience shrinkflation, maintaining the current lifestyle becomes challenging without adjustments to spending habits. Lower-income households are particularly vulnerable to these subtle price changes. Moreover, shrinkflation blurs the line between real and perceived inflation. Official inflation measures rely on a basket of goods, but shrinkflation distorts this metric, as unaltered prices don't accurately represent diminished value. Aligning consumer perception with actual inflation becomes necessary to bridge the gap between economic data and real-world experiences. Shrinkflation challenges the ideas of pricing transparency and customer confidence. Trust is foundational for customer loyalty, and when consumers discover shrinkflation in reputable brands, trust is eroded. This decline can significantly affect a company's reputation, leading to customer defection and increased market competition.

The phenomenon of shrinkflation necessitates careful consideration from policymakers, businesses, and consumers. Businesses deploy shrinkflation as a subtle tactic to navigate economic challenges without overtly raising prices. Policymakers must strike a balance, ensuring consumers are informed about product changes while considering the impact on inflation indices and economic indicators. Consumer behaviour and technological advancements further complicate the effects of shrinkflation. Online platforms may obscure shrinkflation's visibility, affecting the consumer experience. Additionally, the rising demand for ethical and environmental consumerism may clash with shrinkflation, potentially causing frustration among environmentally conscious consumers.

Government measures play a crucial role in addressing shrinkflation challenges. Regulators and consumer protection organizations must ensure transparency and fairness in product packaging and labelling. Clear disclosure of size reductions and price hikes empowers consumers to make informed decisions. Governments should actively implement measures to curb excessive price increases, preventing companies from resorting to shrinkflation.

In conclusion, shrinkflation is a complex economic phenomenon with both benefits and drawbacks for governments, businesses, and individuals. Policymakers must strike a balance between market flexibility and consumer protection. Increased consumer awareness, transparency laws, and thoughtful policy changes are essential as shrinkflation becomes more prevalent. Navigating this shrunken market requires a delicate equilibrium between profitability, customer confidence, and economic stability. All stakeholders must collaborate to foster a fair and transparent market that serves the interests of both businesses and consumers.

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