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## Shrinkflation: A Defence Strategy

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### Abstract:

The following exploratory article, by a high schooler, seeks to understand shrinkflation, problems created by it and consumer psychology by drawing an analogy between the practice of 'hidden inflation' by companies and a fullback defender in football/soccer (the author plays that position).

### Introduction

As the bell rang (in 2022), indicating the end of my school day, I made the ritual run towards my canteen to buy my favourite pasta. As I grabbed my pasta and ate it swiftly, I noticed being able to finish it quicker than I used to. Was it that I was hungry, or did I actually notice something unusual in the quantity? Fast-forward a year, through research, I've come to the realisation that the quantity had in fact slowly decreased while the price was the same. Even you may have noticed something similar in many of the products that you have either bought during your monthly grocery shopping or while eating out. It is not your imagination but an actual practice undertaken by manufacturers and producers in face of inflation.

I am a fullback defender football player, and my main task is to prevent opposing players from advancing on the field and scoring goals. One might ask what the correlation is between me being a fullback defender and the quantity of pasta being served in my canteen. There is quite a lot of correlation between the two. Just like the fullback's responsibility falls under the umbrella of defence, the companies often use the strategy of 'shrinkflation'.

My friends and I have often joked about there being less food served for the same amount of money. We have seen this occur in Cadbury's chocolates and packets of potato chips. This is actually an economic phenomenon known as shrinkflation. The British economist Pippa Malmgren is credited with coining the term in 2009 (Team).

This practice of reducing the quantity while either keeping the same price or increasing it is a rather common practice adopted by companies as a defence against inflation, and it serves a similar function as a fullback defender position in football.

Inflation refers to a general increase in the prices of goods and services in an economy over a period of time, leading to a decrease in the purchasing power of a currency. It is commonly expressed as a percentage change in the average price of a household's consumption of a basket of goods and services. When inflation occurs, each unit of currency buys fewer goods and services than it did before. It affects the ability of consumers to buy either the same amount of goods or of the same brand, or to re-juggle what they can buy. The impact of inflation on consumers, especially the large segment of population which monitors its budget, is understandable. For

example, when I asked my househelp, I learned that they don't buy groceries on a monthly basis but buy them for a few days. Instead of buying a 1 kg packet of dal, they would buy from the open section. So inflation directly hurts them. But 'shrinkflation' is more subtle ("Inflation: Prices on the Rise").

## What is Shrinkflation?

Shrinkflation is a term made up of two separate words: shrink and inflation. The "shrink" in shrinkflation relates to the change in product size, while the "-flation" part refers to inflation—the rise in the price level. Shrinkflation, a phenomenon observed in consumer goods and retail, involves a reduction in the quantity or size of a product while keeping its price constant (Charlebois). This strategic response to rising production costs is prevalent in the food industry and beyond.

From a company's perspective, shrinkflation is a useful way to boost or maintain profit margins without drawing too much attention. The process of shrinkflation creates a false sense of price stability in the minds of the consumer, which can sometimes be comforting for the consumer. Sometimes a sudden increase in a product can be alarming and a drastic change for the consumer, while a decrease in the quantity of the product little by little without it being evident is preferred by the consumer (Beyond Inflation Numbers: Shrinkflation and Skimpflation | St. Louis Fed).

Shrinkflation was quoted as "inflation's ugly cousin" or the inflation one is "not supposed to see, *the hidden inflation*," in the report published in June 2022 by ResearchGate. Shrinkflation is an ethical dilemma that can be considered a deceptive practice if done incorrectly, but it can be considered a good business practice if done correctly with proper communication to consumers (Wood). Since shrinkflation impacts consumer perceptions, expectations, and responses to changes in product sizes, packaging serves a critical role in shrinkflation. Shifts in packaging size or design can affect how consumers perceive and respond to shrinkflation because packaging is a tangible and visual representation of the product.

Value perceptions among consumers are closely linked to a product's size and aesthetic appeal. Consumers tend to associate a product's size with its value, according to research by Smith and Jones (2018), and shifts in packaging size can have a big impact on how much a product is perceived to be valuable (International Journal of Retail & Distribution Management). Customers may feel that packaging has less value when shrinkflation leads to alterations to it. This could make them dissatisfied and cause them to reconsider their purchases.

## Shrinkflation in India

Even though Indian consumers may not be aware of the term shrinkflation they're familiar with the phenomenon. India has been experiencing retail inflation. In June 2022, the inflation was at 71%, and before that, in April 2022, it was at a 95-month high at 7.79% (Jacob et al.). As an efficient response to economic challenges, shrinkflation has been adopted by many Indian companies due to the rising cost of labour, transportation, and raw materials.

From MNCs to local businesses, all have been practising shrinkflation. The food industry is one of the most notable sectors in India where shrinkflation has been observed. Some examples from India of most commonly used products are illustrated below. Parle G is one of the most commonly bought biscuits in India because of its affordability. It is also a preferred choice of biscuits that I have seen my neighbours buy to feed the stray dogs.



Figure 1: What is shrinkflation? (Ganesh)

### Shrinkflation as a Fullback Defender

Similar to how football players change their strategy during a game, corporations also adapt their marketing strategies in response to challenges. Think about how a football player alters their strategy depending on the opponent they are facing. In the world of business, this is known as shrinkflation. It's similar to when companies reduce the size of goods while maintaining prices in order to overcome economic challenges.

While playing football, imagine yourself having to choose between going for the ball or staying back. That mimics what companies do when they use shrinkflation. After evaluating the risk, they decide whether to alter the size of what they're selling. Companies want to ensure that they can continue to turn a profit while reducing customer dissatisfaction. In order to stay in the game of business, companies must make smart decisions with shrinkflation, as players do during a game (Sinha).

Similarly, as fullback defenders work and coordinate with teammates to build a strong defence to stop the opponent team from scoring, companies too require teamwork from different departments to make any strategy employed successful. In the case of shrinkflation, departments such as marketing, production, etc. have to work together seamlessly in order to make the launch of their product successful, just like in football, where the defenders have to coordinate with the midfielders and attackers in order to help score a goal for their victory ("The Modern Full-back: Explained - the Coaches' Voice"). The packaging barely changes when companies reduce the quantity. The consumer will need to read the 'quantity' carefully to be fully aware of the change.

A defensive strategy aims at preventing negative outcomes. In shrinkflation the strategy of reducing the quantity a little while maintaining the price creates an illusion of stability. In a way it can be called gaslighting of consumers. Being a highschooler, millions like me don't dig deeper why our chocolate bar is getting just a little bit smaller or simply joke about this change being our imagination. But we continue to buy the same chocolate bar because of us being used to its taste.

## Psychological Factors Shaping Consumer Reactions

So far, it's been about the manufacturers but what about the consumers? Are consumers aware of common brand down-sizing or 'hidden inflation'? It would be easier to say yes. It would be easier to say that Indian consumers are becoming more conscious of shrinkflation as a result of conversations about these practices on consumer forums and social media. But the reality is a mixed bag of awareness and ignorance.

Sometimes companies use perceptual biases like size quantity illusions by tricking our brains into thinking that bigger packaging contains more stuff inside, even if the quantity is the same as smaller packaging (Niosi). Consumers affected by this phenomenon might not readily notice shrinkflation taking place, as they are used to associating larger quantities with bigger packaging. Trust and brand loyalty are critical elements of how a consumer perceives shrinkflation. When loyal consumers notice shrinkflation taking place, it might lead to their trust in that brand being eroded, which ultimately could lead to losing loyal customers. In situations like these, consumers can feel deceived, leading them to reassess their loyalty. In order to prevent from losing customers, the changes in packaging are barely noticeable as mentioned previously.

Sometimes a lack of awareness arises from the fact that humans are creatures of habit. Habitual grabbing of everyday household products without ever paying much attention to their size and quantity also leads to consumers being able to miss subtle changes in the quantity of products (Krishna). For example, my mother is used to buying groceries from a specific chain store. She is familiar with the layout of the store and knows where the products are placed. She shared that she has a mental list of products that she needs to buy, and her focus is on simply completing the chore as soon as possible. In the process she hasn't really noticed the differences. And this is also because our purchasing power is more.

However, social media has led to increased conversations and awareness on how companies are gaslighting customers through shrinkflation<sup>1</sup>. It was just a matter of someone posting a sample of shrinkflation and the conversation then snowballed. Slowly the news channels also picked it up in 2022. Here it was the social media that helped other people become aware of shrinkflation, which might in the long run end up causing more harm to the companies than good. In the same vein, another sneakier defensive practice that has been adopted by companies is skimpflation. It is much harder to notice. Skimpflation occurs when businesses, facing increased expenses, choose to diminish the quality of a product or service, resulting in consumers receiving less value for the same price. In this, elevated prices and rising costs contribute to a decline in living standards for consumers. Skimpflation differs from inflation in the way that although prices do not rise directly, but the consequence is an indirect necessity for consumers to spend more for the same level of service they previously enjoyed (Benveniste).

But one question remains... If the practice of shrinkflation is not new then why suddenly it seems to be more noticed by customers? The answer is simple... timing. People are now more price-sensitive in their purchases due to the ongoing inflation in food and general rising cost of living. There was increasing awareness of the practice from 2023, a year after the outbreak of Russia-Ukraine conflict.

<sup>1</sup> To refer to some Insta accounts exposing shrinkflation see:

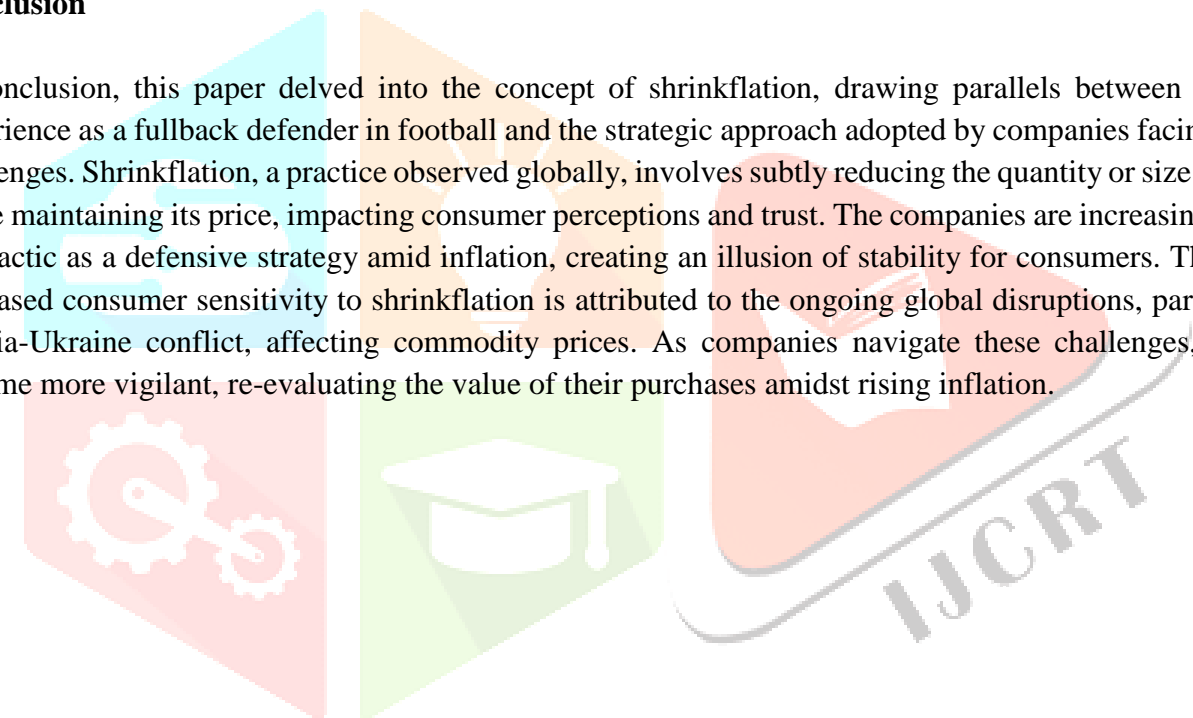
<https://www.instagram.com/massimilianodona?igsh=MTVmaml6ODU3MXV6dg==>

Russia and Ukraine are major producers of commodities, including oil, natural gas, wheat, barley, sunflower oil, corn, and fertilizers. Disruptions in these regions have led to a substantial increase in global prices for these commodities as these two countries collectively contribute nearly one-third of the world's wheat and barley, over 70% of global sunflower oil, and are significant suppliers of corn. The conflict has led to rising costs not only in food but also energy and raw materials. For example, prices of chicken increased in India as India imports from Ukraine the de-oiled cakes used in chicken feed (Chadha).

Thus, in order to protect their interests, the companies have increasingly adopted the defensive practice of shrinkflation. But this is also the time when people's own salaries are not increasing. Companies bet on the shopping skills of people to only notice the price and rarely the quantity. But as inflation rises, people are becoming more vigilant about their consumption and whether they are really getting the value of their products. Stumping people with a few ounces of a drink or 10 grams of a product might not seem like a lot from a consumer point of view, but manufacturing companies make and sell millions of products in a year. This translates into millions of products from which a few ounces are taken out or a few grams are cheated off. The profit they make in the long run is impactful.

## Conclusion

In conclusion, this paper delved into the concept of shrinkflation, drawing parallels between the author's experience as a fullback defender in football and the strategic approach adopted by companies facing economic challenges. Shrinkflation, a practice observed globally, involves subtly reducing the quantity or size of a product while maintaining its price, impacting consumer perceptions and trust. The companies are increasingly utilizing this tactic as a defensive strategy amid inflation, creating an illusion of stability for consumers. The timing of increased consumer sensitivity to shrinkflation is attributed to the ongoing global disruptions, particularly the Russia-Ukraine conflict, affecting commodity prices. As companies navigate these challenges, consumers become more vigilant, re-evaluating the value of their purchases amidst rising inflation.



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