



STRATEGIC MARKETING OR A HIDDEN INFLATION TOWARDS CONSUMERS: AN EXPLANATORY STUDY ON THE SHRINKFLATION

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Abstract

As we are in the era of global marketing, the competition among various companies has become more intense. Marketers now use a variety of techniques to seize the best opportunities in the industry and ensure their long-term success. One of the marketing techniques that companies employ to boost earnings in a market that is getting more and more competitive and to offset rising manufacturing costs is shrinkflation. The price and quality haven't changed, despite the product being somewhat smaller. In this study, the researcher tried to figure out, conformity regarding shrinkflation strategy, Consumers who are already stretched thin by inflation continue to buy independent of their awareness of it or willingness to pay for it. This is because their consumption patterns and attitudes vary greatly depending on their social background, consumer knowledge, and urban or rural lifestyle Given the gap in existing packaging and consumer protection laws, additional laws requiring manufacturers to indicate fill levels or to announce downsizing could increase consumer attention to size changes and improve consumer welfare

Keywords: shrinkflation, consumer welfare, strategic marketing.

Introduction

Inflation is a major concern for consumers and manufacturers alike, and shrinkflation is an innovative way to mitigate the rise in input costs. Companies reduce the size of a product while keeping the price untouched, allowing them to bear the brunt of higher input costs.

Meaning of shrinkflation marketing strategy

In the consumer-packaged goods industry, firms can increase unit prices by decreasing

package content, a practice known as Shrinkflation. Since consumers tend to underuse information on product size, they may fail to notice size changes. consumers are insensitive to size decreases, despite their preference for larger package sizes. This differential sensitivity to size suggests that downsizing exploits consumer inattention. With full information, consumers would switch to larger packages. The British economist Pippa Malmgren coined shrinkflation in 2009. Shrinkflation is the practice of downsizing

a product while maintaining the MRP or final price. It can also be seen as an alternative to increasing the prices of products.

- *Shrinkflation is not illegal as long as the net weight, final price, etc, are labeled on the product.
- High production costs and market competition play a major role in adopting shrinkflation in business. The aim is that the average customer won't notice the change and won't realize they're getting less value for their money.
- *Customers annoyed at reduced products may turn to other brands, but those other brands may have also practiced shrinkflation.
- *It is an unfair practice that encourages duplicity and is against the general interest of the customers. The practice is termed hidden inflation and can be dangerous for brands¹

Shrinkflation is defined as the practice of reducing the size of a product while maintaining the sticker price. It proliferates in times of increased inflation since companies must tackle rising costs for ingredients, packaging, labor, and transportation. (Durbin, 2022) it is a prime example of the stakeholder theory vs shareholder theory. Both sides have excellent arguments, where the stakeholder theory followers are trying to keep profits up during this time of high inflation and economic stagnation, whereas the shareholder theory followers find the practice to be dishonest and deceptive. This is essentially the organizational vs consumer perspective as well, but some firms in Japan and other countries refuse to follow this practice for the sake of doing the right thing.

¹Explained: What is Shrinkflation & Why FMCG Companies are Opting for It? Nidhi Jacob, fact checker 7 July 2022

Governments have played a significant role in shrinkflation as well through* President Trump's Trade War with China and President Biden's apprehension to reverse any of those policies. Another key factor is the deal President Trump was able to broker between Russia and Saudi Arabia to prevent oil prices from dropping, which is something we are currently seeing the side effects of. The last piece the summary will touch on is the massive effect of the Russian invasion of Ukraine on the global economy. Europe, the US, and many other countries are facing the side effects of this war, and time will tell how it will affect the global economy. The supply chain has been greatly affected by the labour charge the price increase of raw materials, and the attempt to meet government policies to reduce food waste by 2030. Another factor why most chocolate companies are practicing shrinkflation is because the price of cocoa has skyrocketed since the Côte d'Ivoire government, with assistance from EU policies, has cracked down on illegal cocoa plantations. It is an ethical dilemma considered a deceptive practice if done incorrectly. It can be considered a good business practice if done correctly with proper communication.

THE HIDDEN INFLATION

Shrinkflation was, quoted as "inflation's ugly cousin" or the "inflation you're not supposed to see" The Hidden Inflation, June 2022 published by ResearchGate. It is the practice of downsizing a product while maintaining the MRP or final price. It can also be seen as an alternative to increasing the prices of products. *4Shrinkflation is not illegal as long as the net weight, final price, etc, are labeled on the product. High production costs and market competition

³Shrinkflation: Ethical Dilemma, Deception or Good Business Bryan E Wood (2022)

play a major role in adopting shrinkflation in business

Since the FMCG market is highly competitive, producers aim to reach a middle ground that keeps them from losing customers while maintaining their revenue growth. For a better understanding, here are some examples of shrinkflation:

- ❖ *5Reducing the size of a chocolate bar from 55 grams to 50 grams and the price remains the same.
- ❖ Shrinking the size of a cold drink bottle from 800 ml to 750 ml but the MRP is unchanged.
- ❖ Haldiram has reduced the size of its alloo bhujia packet from 55 grams to 42 grams.
- ❖ The Vim bar reduced the size from 155 grams to 135 grams
- ❖ Reducing the quantity of Wheel detergent powder from 115 grams to 110 grams

4 Shrinkflation refers to the tampering of a product while maintaining retail price
Sangeeta Taak ,Bajpai,The Hindu September 22,2022

5 Popular Food And Drink Products Are Shrinking; Here Are 15 Real-Life Examples From Supermarket Shelves. [online] BuzzFeed. Liscomb, M., 2022.

REVIEW OF LITERATURE

INDIAN PERSPECTIVE

Subhojt Sarkar (2022) “Inflation how it is impacting Indian FMCG industry” In this study the findings businesses are choosing shrinkflation in the hopes that consumers won’t immediately notice the decrease in the number of products.

Many significant FMCG companies have chosen shrinkflation. Firms such as Hindustan Unilever, Nestle, Dabur, P & G,

Coca-Cola, and Pepsico have adopted this method.²

Sneha Kumari (2022)” In-depth shrinkflation what brands lose by reducing product size” examined and determined Brands typically cut product sizes as inflation levels rise to offset increases in the cost of raw materials But over time, it doesn’t benefit brands or is it preferable to raise prices for consumers.

Singhal, M. R. (2016)“New Queen of the Market” Study on Growing Power and Influence of Women Consumers in India. The author’s recent work focuses on how female purchasers behave, the motivations behind comparable behavior, and the many strategies and arrangements used by firms to entice these new buyers. Her paper is structured as a framework for further experimental reviews and relies on secondary information sources. According to her, women are the primary decision-makers and buyers of the majority of consumer goods

Saleh Ramzani et al. (2018) “Shrinkflation from Consumer’s Perspective: An Exploratory Study Using Crystal Products in Egypt” investigated what transpires when customers become aware of a decrease in the size of a good or service unit. Also, the authors made the supposition that the buyer would remain loyal to the goods regardless of whether the quantity was scaled back or not. Their study relies on a survey of 74 people, conducted using a drop off method, with an organized and self-regulated survey to quantify consumers’ perspectives on three distinct topics, product knowledge, satisfaction, and their awareness of price reduction. Their study findings show that consumers’ beliefs about shrinkflation are not entirely positive.

INTERNATIONAL PERSPECTIVE

Bryan E Wood (2022) Shrinkflation: Ethical Dilemma, Deception or Good

Business. This paper discovers that there is an ethical dilemma for shrinkflation and it is a prime example of the stakeholder theory vs shareholder theory. The major finding of the study shrinkflation is an ethical dilemma that can be considered a deceptive practice if done incorrectly it can be considered as a good business practice if done correctly with proper communication to the consumers. The paper by the author aims to have an extensive exploration of shrinkflation in the worldwide financial climate. The main objective of this study is to explain shrinkflation's moral perspective and the factors that contribute to it.

Chloe Jensen Kristen Fang, Amanda Grech, and Anna Rangan (2021) 'Trends in sales and Industry perspectives of package sizes of carbonates and confectionery products'. The purpose of this study was to identify market trends and provide food industry views for shifting soda and confectionary food package sizes from 2005 and 2019. The major findings are consumers barely monitor the package sizes of discretionary foods and beverages and recognize the reasons for changing and particularly reducing package sizes.

Goodman, David(2020) 'The UK hit by shrinkflation as Brexit eats into chocolate portions' study reveals that consumers dealing with stealth price rises. According to the Office of national statistics, research confirmed that chocolate bars are fertile ground for shrinkflation, seeing 25 chocolate products shrinking against just five that grew.

Aylin, Murat Bas, and Duygu sahlan(2019)" consumers awareness, acceptance and Attitude towards functional foods in Turkey" study shows that socio-demographical characteristics such as age, education, income levels, and prices are the important indicators that influence consumer awareness and consumption of functional food.

Lisagoller "Shrinkflation affects manufacturers, Retailers, and consumers" Retailers and suppliers must prepare for

new pragmatic shopping habits. Several popular CPG brands exhibited signs of shrinkflation across the food and beverage, personnel care, and pharmacy categories.

James Brown, and Roy Williams(2017)' In their article "Are business right to shrink their products, but not their prices" in this article discussed more than 2500 products are decreased in size in the past five years often with no corresponding drop in price, in the open discussion first author opinion was to improve their profit margin or protect against rising manufacturing costs, a business can directly increase price cut promotion or shrink the product but the second one was not in favor of shrinkflation strategy. Shrinkflation is a risky move and trying to fool consumers by paying the same for less quantity rather than if the product offers improved quality or value consumers may willing to pay more for less of it.

Golovacheva, K. S. (2016); In the paper titled "(Un) fairness of shrinkflation: the role of consumer-, firm-, and market-related factors", tried to resolve the issue of bundle scaling back, commonly known as shrinkflation. He found that the problem is not particularly important because it directly affects customer loyalty and company organizations. The paper involves a situational-based analysis in which he tested how shopper suspicion, contenders' way of behaving, and expressed strong expectations influence the apparent fairness of bundle cutting back (shrinkflation). Additionally, it was also found that the past discoveries regarding the results of seen shamefulness are upheld with the application to bundle cutting back.

Metin C, akira, Joseph V. Balagtas 2013 "Consumer Response to Package Downsizing: Evidence from the Chicago Ice Cream Market "In this article investigate the extent to which consumers have different managerial implications of package downsizing. Our main finding is that consumers are less responsive to package size than to price; the demand

elasticity concerning package size is approximately one-fourth the magnitude of the demand elasticity concerning price. This result implies that marketing managers can use downsizing as a hidden price increase to pass through increases in production costs, that is, the cost of raw materials, and maintain, or increase, their profits.

Haymarket (2010) "Sector insight chocolate Confectionery" in this article commodity-price inflation has had a significant effect on the wider chocolate market and put margins under pressure. Consumers' increasing ethical consciousness is leading to a fair trade future for many chocolate confectionery manufacturers.

Discussion from Literature Review /Research Gap

Even though several studies were conducted with regard to shrinkflation's impact from the Western perspective, only a limited study was conducted separately from the Indian perspective.

STUDY OBJECTIVE

- ❖ Assessing the term shrinkflation as it applies to the market and industry is the purpose of the current study.
- ❖ To figure out the effects or outcomes of implementing Shrinkflation

RESULT ANALYSIS METHODS

For this study, the researcher used a secondary research strategy to compile information from records of journals, magazines, other websites, and other papers. The authors have read much in literature and some have collected data after extensive research, which aids in drawing strong conclusions that are pertinent to the subject

⁶ "Product Downsizing and Hidden Price Increases: Evidence from Japan's Deflationary Period." Asian Economic Policy Review, Imai, Satoshi, and Tsutomu Watanabe. 2014

Shrinkflation Approach in India

In India, top food companies such as Hindustan Unilever, Nestle, Britannia, Coca-Cola, Pepsi Co, Dabur, and Procter & Gamble (P&G) have adopted this business strategy. One example of this is Nestle, which has reduced the net weight of a Maggie packet from 80 grams to 55 grams "As inflation increases, prices rise and this could cause overall consumption in the market to dip drastically," Vivek Kaul, author and economic commentator told *Fact Checker*. Retail inflation hit an eight-year high of 7.8% in April 2022. The depreciation in the Indian rupee added to the inflation woes. The rupee hit an all-time low of Rs 77.68 against the US dollar in May 2022. This resulted in consumer durable goods getting costlier in the country. Other factors such as the Russia-Ukraine war, and COVID-induced lockdowns in China also played key roles, said Kaul.* Several major FMCG companies have opted for shrinkflation. Firms such as Hindustan Unilever, Nestle, Dabur, P&G, Coca-Cola, and Pepsico have adopted this method.³

*According to news reports, Haldiram has cut down the size of its *aloo bhujia* packet to 42 gm from 55 gm. Nestle has reduced the quantity of Maggi from 80 gm to 55 gm. Soap brands like Vim have cut down the size of their soap to 135 gm from 155 gm. News agency Bloomberg has reported that amid rising costs of edible oils, grains, and fuel, Britannia and Dabur have both chosen the path of shrinkflation. Several chief executives of the top FMCG companies in India have said that the operating environment has become extremely challenging due to the sharp rise in inflation. This is causing a drastic decline in consumption across the board.

Inflation across the globe is mostly because of the Russia-Ukraine war that caused

⁷ Popular Food And Drink Products Are Shrinking; Here Are 15 Real-Life Examples From Supermarket Shelves. [online] BuzzFeed. Liscomb, M., 2022.

supply disruption and rising costs in the energy basket. The world, which was opening gradually after the Covid-19 pandemic, faced the sudden wrath of the war, causing serious economic issues around the planet. Russia's invasion of Ukraine has also led to several strict sanctions by Western countries, leading to supply disruptions and rising prices in the commodity basket

Companies researching shopper mentality determined that their customers would perhaps begin to look for substitute products if confronted with yet another price increase... Rising production costs

are generally the primary cause of shrinkflation. Increases in the cost of ingredients or raw materials, energy commodities, and labor increase production costs and subsequently diminish producers' profit margins. Reducing the products' weight, volume, or quantity while keeping the same retail price tag can improve the producer's profit margin. At the same time, the average consumer will not notice a small reduction in quantity. Thus, sales volume will not be affected.

Data Analysis of Shrinkflation in the CPG Industry especially the food sector

S.No.	Product Name	Product Qty Earlier(gm)	Product Qty Now(gm)
1	Parle-G	140	110
2	Nestle's Maggi noodles	80	55
3	Cadbury Dairy Milk chocolate	250	180
4	Haldiram's Aloo bhujia	55	42
5	Snickers chocolate	58	48
6	Nestle's coffee	100	90

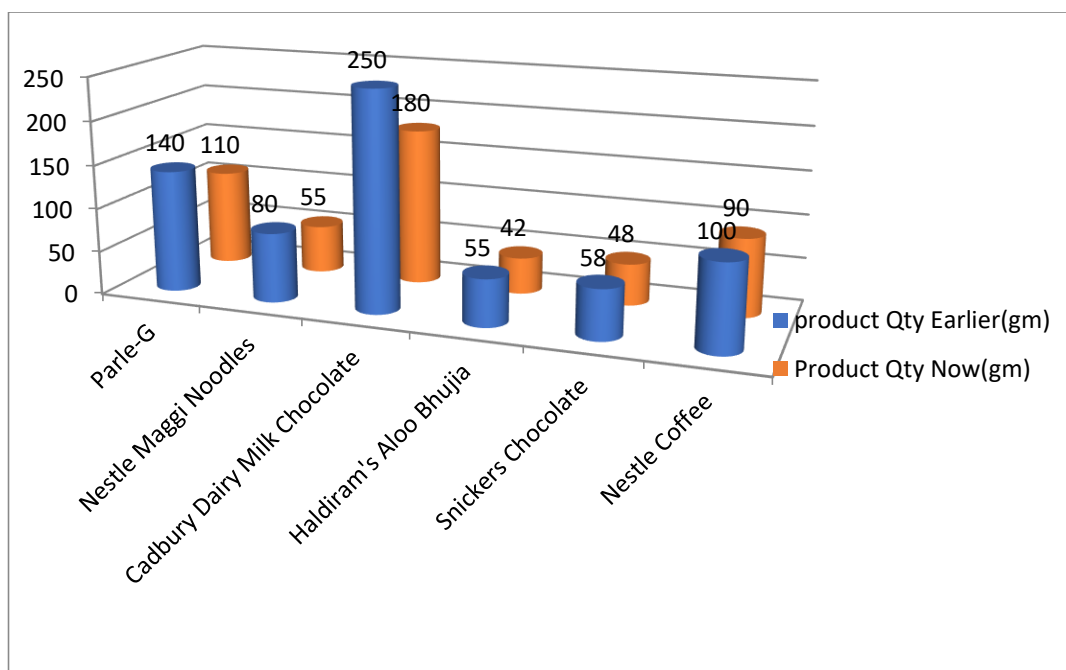


Table:1 Shrinkflation in CPG Industry especially food sector.

The diagram and the previously mentioned figure suggest that the most well-known FMCG brands are implementing the Shrinkflation strategy within their product lines to increase sales. Customers highly appreciate businesses like Parle-G, Aand others that can be found in most homes.⁴ Parle-G first sold 140g of its biscuits, but later lowered that amount by 30g of each box and began selling 110g of biscuits at the same price of Rs. 10/-. On the other hand, the most well-known snack business, Haldiram, began selling the same product in a 42gm box without raising the price when it first offered 55gm for Rd. 10/- to increase profits. Not at all Other businesses, like the telecom and beverage industries, as well as many others, are also experimenting with the idea of shrinkflation by placing fewer quantities of their goods and services on the market. Customers rely on brand loyalty and are swayed by advertising that doesn't emphasize the quantity delivered to them for a given good or service. As a result, it's simple for businesses to cut the quantity and boost their profit margin.

Recommendations

Companies are constantly trying to make bigger returns in markets that are becoming increasingly competitive. Faced with the pressure to make more revenue, companies could charge more for their products without changing them, Customers seeing a price increase without an increase in product size will be put off. If the price stays the same, a customer will likely keep buying the product, even if it's shrunk slightly. The aim is that the average customer won't notice the change and won't realize they're getting less value for their money. Customers annoyed at reduced products may turn to other brands – but those other brands may well have practiced shrinkflation too. It is an unfair

practice that encourages duplicity and is against the general interest of the customers. The practice is termed hidden inflation and can be dangerous for brands

The constant application of this strategy can result in the decline of a brand It negatively affects consumers who are already frustrated by rising costs. The negative impacts of the shrinkflation marketing strategy are increasing dangerously in many parts of the world. This study should be beneficial for chocolate consumers, distributors, and service providers and also for the government to formulate appropriate policy decisions.

CONCLUDING REMARKS

The practice of shrinkflation occurs across a wide range of products and represents one strategy that firms use to increase unit prices. When consumers underuse size information or ignore unit prices, downsizing represents a hidden price increase. This study would be helpful to understand whether the customers are aware of the shrinking strategy. Apart from this, it would help the concerned authorities to have an idea about customer acceptance of this strategy.

A clear marketing strategy should revolve around the company's value proposition, which communicates to consumers what the company stands for, how it operates, and why it deserves its business. Consumers may not notice subtle changes in packaging, or read the fine print on the size or weight of a product. When customers aware and start to contribute stop shrinkflation, it can be completely disappeared.

⁵You're not imagining it, Maggi to Vim bar— FMCGs are getting smaller. Shrinkflation is here. The Print Misra, S. 2022, May 21.

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