PEAK POTENTIA
focus. explore. balance

ACADEMIC RESEARCH PAPER

on SHRINKFLATION: UNDERSTANDING PRODUCT DOWNSIZING

by *Anvay Suri*

Shrinkflation: Understanding Product Downsizing
By Anvay Suri

Abstract

In today's world of tight budgets and economic ups and downs, "shrinkflation" is a hot topic. It's all about how businesses make products smaller but don't lower the price. They do this to keep their profits up when making things cost more. This paper looks into shrinkflation, its history, and what it means for consumers. We'll also see how, strangely, shrinkflation can sometimes help consumers. We'll look at how shrinkflation and the Consumer Price Index (CPI) are connected. So, let's dive into this sneaky economic trick.

What's Shrinkflation?

A good example of shrinkflation is: a chocolate bar that was 100 grams might now be 90 grams but costs the same. These tiny changes can add up for consumers and the economy.

How Did Shrinkflation Start?

Shrinkflation, a term that emerged as consumers began to notice products getting smaller, has a long history in the business world. While its origins are unclear, companies have been utilizing this strategy for quite some time, and its popularity has surged in response to economic challenges. Consumers have become accustomed to these size reductions, making it an attractive option for companies seeking to discreetly manage rising production costs. This economic maneuver relates to how products are bought and sold and is closely linked to the state of the economy. In prosperous economic times, businesses can command higher prices for their products. However, during economic downturns when production costs increase, raising prices significantly is not a viable option as consumers would resist. This is when shrinkflation becomes a valuable tool, enabling companies to maintain profitability even as their costs escalate.

Why Is It Happening More?

The rise of shrinkflation has to do with a bunch of money factors. Stuff like higher costs for materials, energy, workers, and getting things from one place to another has made companies reduce the amount of stuff you get in a product. Inflation is when things get more expensive, and problems in the supply chain are making it worse. Companies don't want to raise prices too much because consumers will stop buying, so they pick shrinkflation instead. It's even more common during times of high inflation.

How Shrinkflation Works

Shrinkflation isn't the same for everything. Companies use it differently for various products. They make things smaller, have less of it, or skimp on the quality of the product. This happens with many things we buy, from food and drinks to stuff in our homes and electronics. The changes are so tiny that people might not notice them right away.

Why It Can Be Good for You

You might think shrinkflation is all bad, but there are times when it's good for consumers. Companies do it to avoid raising prices. This means you might get less of something, but it won't cost you more. You still get the same product at the same price you're used to. When the other choice is a big price hike, shrinkflation can be better for your wallet.

How Your Brain Plays a Part

Shrinkflation has a lot to do with how people think. In many cases, you won't notice a small change in the size of a product. That's because shrinkflation is sneaky. Small reductions in size or quantity might not catch your eye until you look closely at the packaging. Long-standing products often provoke the strongest customer backlash when they undergo size reductions, as it contradicts the loyalty they have developed[1].

People are more concerned about how much things cost rather than how big or small they are. That's why they're more likely to spot price increases than changes in product size. What's going on in your head has a big role in why shrinkflation works.

Where You See Shrinkflation

Shrinkflation isn't limited to just one type of product. It happens in a bunch of industries. Food and drinks are big targets for shrinkflation, especially when the cost of materials goes up. Household items like cleaning stuff and paper goods get smaller too. Electronics makers sometimes reduce quality while keeping prices steady. It's not everywhere, but shrinkflation happens in a lot of places. Whether it's toilet roll or a bag of crisps, the practice, which mostly happens during times of inflation, shows up in shops around the world. Recently, French supermarket Carrefour put stickers on products to warn consumers when a packet's contents have gotten smaller without a corresponding price decrease[2].

What Others Say

To understand shrinkflation better, we need to look at what experts and research say. They've studied how people react to shrinkflation, how it impacts the economy, and what it does to things like the CPI.

What the Experts Say

Experts have looked at shrinkflation from all angles. They study how people act, what it does to the economy, and how it shows up in things like the CPI. They found that most people don't notice small changes in the size of a product. They care more about the price going up. This sneaky nature helps companies keep making money without upsetting customers.

Reports from the Field

Reports about shrinkflation look at how common it is in different industries, especially in food and drinks. They talk about why companies use shrinkflation, like the cost of making things and how much other companies charge. Learning about the challenges in each industry helps us understand why shrinkflation is happening. A few historical examples of shrinkflation include: Consumers used to buy coffee in a 1-pound can. But a 1988 report shows that the brand Chock full o'Nuts® reduced the amount of their coffee in a 1-pound can to 13 ounces; by 2003, the brand had further reduced it to 11 ounces of coffee. Similarly, ice cream businesses used to sell their ice cream in 64-ounce containers. Then, beginning around 2008, they shrunk their containers to 48 ounces[3].

Expert Opinions

US-based Mark Stiving, the chief pricing educator at Impact Pricing, an organisation that educates companies on pricing, says companies use shrinkflation to raise prices "less painfully". According to Edgar Dworsky, a former US consumer rights lawyer and founder of Consumer World, a recurring pattern emerges: When products get smaller due to shrinkflation, manufacturers respond by introducing new, larger versions with creative names, leading consumers to pay higher prices. This trend is evident

---

[1] https://www.theguardian.com/australia-news/2023/aug/02/shrinkflation-groceries-packaging-size-decrease-brands-

[2] https://www.bbc.com/worklife/article/20230922-shrinkflation-isnt-a-trend-its-a-permanent-hit-to-your-wallet

[3] https://research.stlouisfed.org/publications/page1-econ/2022/12/01/beyond-inflation-numbers-shrinkflation-and-skimp-flation

in products like toilet paper, which has been shrinking for decades. As rolls reduce in size and become noticeable to consumers, manufacturers introduce larger sizes and label them as “double,” “triple,” or “mega” rolls. Even in today’s era of shrinkflation, Charmin’s “super mega” rolls are also diminishing in size[4].

The Connection Between Shrinkflation and the Consumer Price Index (CPI)

What’s the CPI?

The Consumer Price Index (CPI) is a big deal in economics. It’s a way to see how the cost of living is changing over time. The CPI looks at how much we’re paying for things like food, clothes, housing, and getting around. It’s important for a few reasons.

First, it helps people, companies, and policymakers know how the cost of living is going up. This helps them plan their money, budgets, and what they need to do.

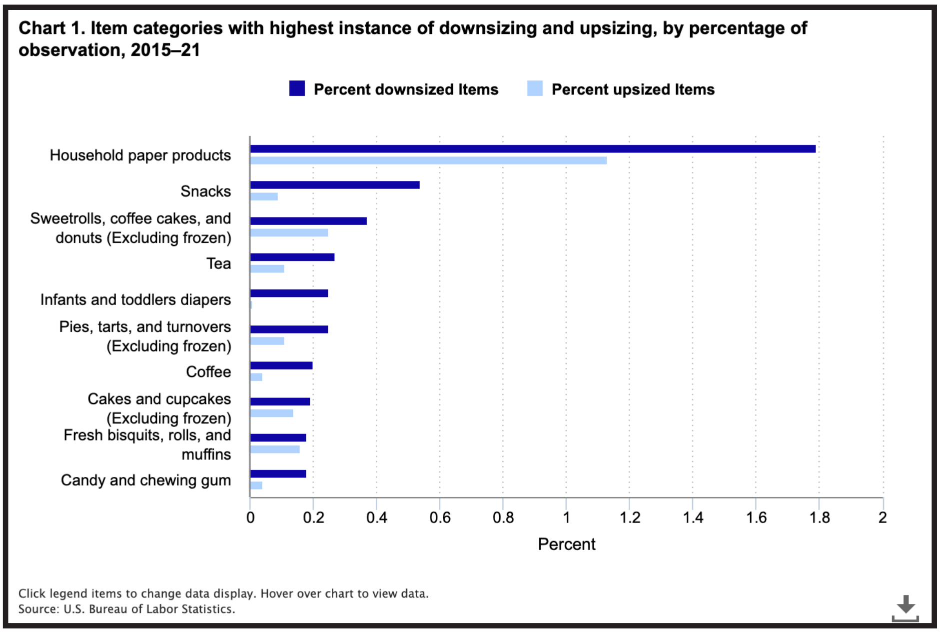
Second, big banks, like the Federal Reserve, use the CPI to make money decisions. If things cost too much, they might raise interest rates to keep it in check. On the other hand, they could lower rates to make people spend more if costs aren’t going up enough.

Lastly, lots of stuff, like government programs, jobs, and retirement plans, are connected to the CPI. This makes sure payments and wages keep up with prices, so people can still buy what they need.

Shrinkflation and the CPI

Shrinkflation and the Consumer Price Index (CPI) are linked because they both deal with the price and size of things people buy. The CPI looks at how the prices of a fixed set of goods and services change over time. It’s all about measuring inflation, or how much prices are going up. So when companies use shrinkflation, the cost of the stuff you buy goes up even if the price isn’t changing. This messes with the CPI because it makes it look like things are getting more expensive than they are. That’s why we need smart folks to adjust the CPI to show the real inflation rate. CPI economists track identified downsizing and upsizing in the CPI sample each month. Chart 1 illustrates the item categories in the CPI sample that exhibited the highest number of both decreases and increases in observations from January 2015 to December 2021. Among these categories, household paper products demonstrated more instances of both upsizing and downsizing than any other.

[4] https://www.bbc.com/worklife/article/20230922-shrinkflation-isnt-a-trend-its-a-permanent-hit-to-your-wallet



Fixing the CPI

To make sure the CPI tells the truth about inflation, economists make some changes. They check products for size changes and report what they find. Then, they figure out the price for a standard amount, like an ounce or a pound, to account for the size changes. This helps the CPI show the right price changes for consumers.

How Much It Matters

Shrinkflation might seem like a big deal when it happens to one product, but it doesn't do much to the overall inflation rate. It's like a speck on the whole inflation picture. Shrinkflation has about a 0.01% impact on the Consumer Price Index (CPI) every year. So, while you might spot it in a product here and there, it doesn't shake up the whole economy[5].

Conclusion

Shrinkflation is a sneaky trick that businesses use to deal with rising costs. You might feel the pinch when your favorite stuff gets smaller, but it's better than paying way more for it. Shrinkflation is about finding a balance between making money and keeping customers happy.

The small changes in product size can be hard to spot, but they're all part of the game. Your focus is usually on how much things cost rather than how much you're getting. That's why companies can pull off shrinkflation.

The practice of shrinkflation messes with the Consumer Price Index (CPI), which is important in the world of money. The CPI helps us understand how much we need for everyday things. When shrinkflation makes stuff more expensive, it makes the CPI look like prices are shooting up. But smart folks are on the case, making sure the CPI tells us the real story.

In the end, shrinkflation is a unique way that businesses cope with financial ups and downs while still delivering products to you. As we move through this complicated world of money and business, shrinkflation keeps things interesting for researchers, economists, and everyone who's out there

[5] https://www.bls.gov/opub/btn/volume-12/measuring-shrinkflation-and-its-impact-on-inflation.htm

shopping.

Growing Awareness and Future Implications

Consumer awareness of shrinkflation is on the rise, fueled by news, consumer groups, and social media. Shoppers are becoming more vigilant, scrutinizing product sizes and making comparisons. This increased awareness is pressuring companies to be more transparent.

While consumer groups play a crucial role in this trend, it's part of a broader movement where people demand fairness and openness from businesses. However, spotting shrinkflation remains challenging. The practice is subtle, and size reductions can go unnoticed, especially when packaging changes accompany them.

To address this, governments and consumer protection groups are taking action. They aim to ensure consumers are informed when products change, potentially through clearer product labels or regulations on allowable size reductions. These measures are intended to safeguard consumer interests and promote fairness in the marketplace.

Looking ahead, shrinkflation is likely here to stay, with its impact influenced by consumer perception, regulations, and economic conditions. As consumer awareness continues to grow, companies may adopt more transparent approaches to communicate size changes, attributing them to factors like inflation. They may also compensate for reduced sizes with additional product features.

Governments and consumer agencies will maintain efforts to keep consumers informed, enforce clear labeling, and ensure fairness in business practices. Shrinkflation's prevalence may fluctuate with economic ups and downs, as it remains a strategy for companies to maintain profits while keeping prices stable.

In summary, the future of shrinkflation will be shaped by consumer perceptions, regulatory developments, and economic factors, reflecting the ongoing adaptation of businesses and consumers in the modern marketplace. While it may be a subtle aspect of shopping, shrinkflation adds an intriguing dimension to the consumer experience.

Works Cited

The Guardian. (2023, August 2). Shrinkflation: Groceries and packaging size decrease as brands (https://www.theguardian.com/australia-news/2023/aug/02/shrinkflation-groceries-packaging-size-decrease-brands-)

Bureau of Labor Statistics. (n.d.). Measuring Shrinkflation and Its Impact on Inflation (https://www.bls.gov/opub/btn/volume-12/measuring-shrinkflation-and-its-impact-on-inflation.htm)

Investopedia. (n.d.). Shrinkflation] (https://www.investopedia.com/terms/s/shrinkflation.asp)

BBC Worklife. (n.d.). Shrinkflation isn't a trend, it's a permanent hit to your wallet (https://www.bbc.com/worklife/article/20230922-shrinkflation-isnt-a-trend-its-a-permanent-hit-to-your-wallet)

Business Insider. (2021, July). Shrinkflation is hitting grocery stores – and your favorite snacks may be next (https://www.businessinsider.com/shrinkflation-grocery-stores-pringles-cereal-candy-bars-chocolate-toilet-paper-cadbury-2021-7)

University of Illinois Urbana-Champaign. (n.d.). Shrinkflation: A Hidden Consumer Trend (https://blogs.uofi.uillinois.edu/view/7550/771661501)

Corporate Finance Institute. (n.d.). Shrinkflation (https://corporatefinanceinstitute.com/resources/economics/shrinkflation/)

Federal Reserve Bank of St. Louis. (2022, December 1). Beyond Inflation Numbers: Shrinkflation and Skimpflation (https://research.stlouisfed.org/publications/page1-econ/2022/12/01/beyond-inflation-numbers-shrinkflation-and-skimpflation)

Purdue University Extension. (2022, June). Shrinkflation: What is it and how do I handle it? (https://extension.purdue.edu/news/county/porter/2022/06/shrinkflation-what-is-it-and-how-do-i-handle-it.html)

Index

Source:https://www.bls.gov/opub/btn/volume-12/measuring-shrinkflation-and-its-impact-on-inflation.htm

Table 1 displays the total index difference between the published CPI and the research indexes for all the commodity and services index and for the eight major groups in the CPI from 2015–19. The all commodity and services index shows a total difference between the published CPI and the research index of 0.05 percent over 5 years, which indicates that product size changes (upsizing and downsizing) increased the CPI all commodity and services index by 0.01 percent per year. The food and beverages index showed the largest difference (+0.21 percent), followed by housing (+0.05 percent) and other goods and services (+0.02 percent). The indexes for apparel, education and communication, medical care, recreation, and transportation showed no difference at the major group level.

Commodity and services major groups	Production index total percent change, 2015–19	Research index total percent change 2015–19	Difference between Research and Production	Average difference per year
All Commodity and services	9.44	9.39	-0.05	-0.01
Apparel	-3.90	-3.90	0.00	0.00
Education and communication	1.04	1.04	0.00	0.00
Food and beverages	5.63	5.42	-0.21	-0.04
Other goods and services	10.90	10.88	-0.02	-0.00
Housing commodities and services	14.31	14.26	-0.05	-0.01
Medical care	15.91	15.91	0.00	0.00
Recreation	5.81	5.81	0.00	0.00
Transportation	4.36	4.36	0.00	0.00

Source: U.S. Bureau of Labor Statistics.

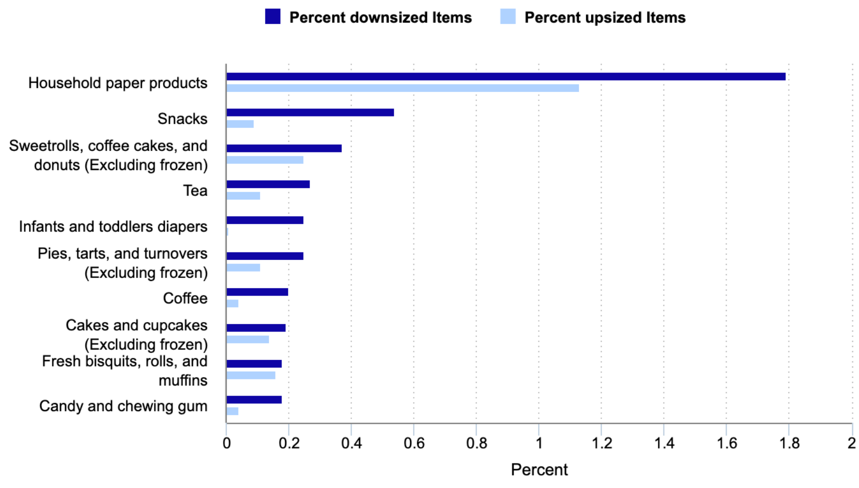
Table 2 focuses on the indexes where downsizing and upsizing significantly impacted item categories. Indexes that experienced the largest price increase due to downsizing were baby food (+2.81 percent); snacks (+2.64 percent); fresh biscuits, rolls, muffins (+1.59 percent); candy and chewing gum (+1.35 percent), and household paper products (+1.30 percent). Snacks, such as potato chips, saw frequent downsizing of their snack packs from 4.5 oz. to 4.25 oz. and an 8 oz. bag declining to 7.5 oz. Conversely, canned fruits and vegetables saw an increase in the research index as the effective price decrease due to upsizing was removed from the research indexes. The average total difference across all categories during the time period was 0.08 percent.

Item Categories	Production index total percent change, 2015–19	Research index total percent change, 2015–19	Difference Between Research and Production
Baby food	8.09	5.27	-2.82
Snacks	0.55	-2.09	-2.64
Fresh biscuits, rolls, and muffins	3.41	1.82	-1.59
Household paper products	5.56	4.35	-1.21
Household cleaning products	1.52	0.85	-0.67
Canned fruits and vegetables	1.45	2.71	1.26
Uncooked ground beef	-7.12	-6.49	0.63

Source: U.S. Bureau of Labor Statistics.

Chart 1 displays the item categories with the most downsized and upsized observations in the CPI sample from January 2015 to December 2021. Household paper products experienced upsizing and downsizing more than any other category in the sample with 716 total reports during 2015–21. While that sounds substantial, it is only about 3 percent of the price observations for that category during the 7-year period. Snacks experienced the largest number of size changes for food items, with a total of 509, followed by sweetrolls, coffee cake, and donuts, tea and pies, tarts, and turnovers. For food items, 2.9 percent of observed prices experienced downsizing and upsizing.

Chart 1. Item categories with highest instance of downsizing and upsizing, by percentage of observation, 2015–21



Click legend items to change data display. Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

Chart 2 shows the total reports of upsized and downsized items for each month in the CPI sample from 2015–21. For context, there are approximately 100,000 goods and services priced each month in the CPI. Early 2015 and 2016 observed the highest number of reports for downsized items. During that time, potato chips, baby food, and paper towels saw a significant amount of downsizing.