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# Shrinkflation

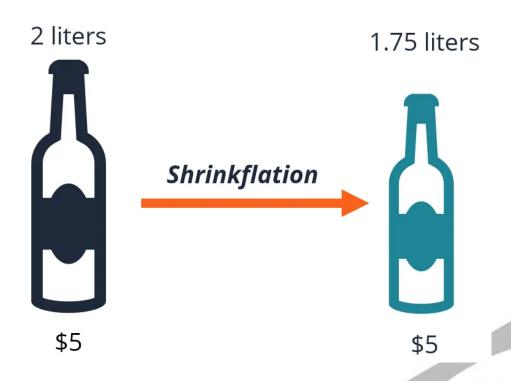
# Why in News?

Due to rising costs many companies are practising "Shrinkflation".

# What is Shrinkflation?

- Shrinkflation is the practice of reducing the size of a product while maintaining its sticker price.
  - It is a form of hidden inflation.
- Raising the price per given amount is a strategy employed by companies, mainly in the food and beverage industries, to stealthily boost profit margins or maintain them in the face of rising input costs.
- Shrinkflation is also referred to as package downsizing in business and academic research.
- A less common usage of this term may refer to a macroeconomic situation where the economy is contracting while also experiencing a rising price level.
  - Macroeconomics is the study of the behaviour of a national or regional economy as a whole.
  - It is concerned with understanding economy-wide events such as the total amount of goods and services produced, the level of unemployment, and the general behaviour of prices.
- Nowadays, shrinkflation is a common practice among producers. The number of products that undergo downsizing increases every year.
  - Large **producers in the European and North American markets rely on this strategy** to maintain the competitive prices of their products without significantly reducing their profits.
- At the same time, shrinkflation can frequently lead to customer frustration and deteriorating consumer sentiment regarding the producer's brand.

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# What are the Major Causes of Shrinkflation?

- Higher Production Costs: Rising production costs are generally the primary cause of shrinkflation.
  - Increases in the cost of ingredients or raw materials, energy commodities, and labour 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.
- Intense Market Competition: Fierce competition in the marketplace may also cause shrinkflation.
  - The food and beverage industry is generally an extremely competitive one, as consumers are able to access a variety of available substitutes.
  - Therefore, producers look for options that will enable them to keep the favour of their customers and maintain their profit margins at the same time.

# UPSC Civil Services Examination, Previous Year Questions (PYQs)

#### Q. With reference to inflation in India, which of the following statements is correct? (2015)

- (a) Controlling the inflation in India is the responsibility of the Government of India only
- (b) The Reserve Bank of India has no role in controlling the inflation
- (c) Decreased money circulation helps in controlling the inflation
- (d) Increased money circulation helps in controlling the inflation

#### Ans: (c)

#### Exp:

- Controlling inflation is the responsibility of both the Gol and the RBI.
- Decreased money supply helps in controlling inflation as people have less money to spend.
- Increased money supply does not help in controlling the inflation, rather it increases inflation.

#### Source: WEF

PDF Refernece URL: https://www.drishtiias.com/printpdf/shrinkflation

