Social Sciences Journal of Policy Review and Development Strategies | **SSJPRDS**
p-ISSN: 2488-9636 | e-ISSN: 2488-9628
Volume 6, Number1 August, 2024

Shrinking Value: The Impact of Shrinkflation on Consumer-Packaged Goods in Nigeria's Inflationary Economy

[1]Jamila Shu'ara, [2]Emmanuel Oladele Olaolu & [3]Nkem Okpa Obaji
[1&2]Department of Marketing, Baze University, Abuja
[3]Department of Project Management, Al-Muhibbah Open University, Abuja

Article DOI: 10.48028/iiprds/ssjprds.v6.i1.07

Abstract

This study explores the impact of shrinkflation on Nigerian consumers' purchasing decisions in the context of recent economic challenges, including the removal of petrol subsidies and currency devaluation. As consumers face declining purchasing power and rising inflation, manufacturers have increasingly turned to shrinkflation—reducing product size or quantity without lowering prices—to manage costs while maintaining price points. Through a qualitative conceptual research design and an extensive literature review, the study reveals that shrinkflation significantly affects consumer perceptions of value, leading to potential shifts in brand loyalty. However, it also helps businesses navigate economic difficulties by controlling costs. The study offers valuable insights for stakeholders in the consumer-packaged goods sector on how to adapt strategies during economic hardship, ultimately deepening our understanding of market dynamics. The study includes helpful suggestions for stakeholders in the consumer-packaged products sector and deepens our understanding of how markets function in times of economic hardship.

Keywords: *Shrinkflation, Buying strategy, Consumer-packaged goods, Downsizing, Brands*

Corresponding Author: *Jamila Shu'ara*

Background to the Study

Globally, consumers are facing content reduction of quantity in Consumer-Packaged Goods (CPGs) and other manufactured products. This is done through reduced content and sizes of packaged goods such as cereals, beef rolls, beverages, noodles, pasta, powdered products, and more. Shrinkflation is a sequential procedure of either decreasing the product size or quantity or asking for a higher price against offering the exact quantity the company previously sold to its customers (Singhal & Gupta, 2023). This phenomenon, characterized by the reduction in product sizes while maintaining prices, has become a source of concern among many Nigerian consumers. This is because in this situation, consumers find themselves paying more for less quantity product which further depletes their purchasing power.

Since the inauguration of the present administration, Nigerian consumers are facing unprecedented economic hardship, arising from the newly introduced economic reforms. The removal of fuel subsidy, currency devaluation and the multiple foreign exchange (FX) windows among other recent reforms, all exert increased pressure on Nigerian consumers and businesses on how to maximize limited budgets. Prices of goods and services have been an uptrend in Nigeria with 24.08% as the rate of inflation for July 2023 - the highest recorded in decades as observed by Verraki (2023). According to the National Bureau of Statistics (NBS) (2024), the inflation rate in January, 2024 rose to 29.9%, its highest since 1996. This inflation is mainly driven by the prices of food and non-alcoholic beverages. Nigeria's currency exchange rate further plummeted to Naira (N) 1,900 to USD ($) 1 as at March, 2024. This has created unprecedented implications for consumers and businesses.

When consumer prices spiral out of control, it affects every segment of a business. As a result of the current inflation, many businesses in Nigeria incur higher utilities costs, higher energy cost, higher equipment cost, higher transportation costs and higher costs of rent or lease. High inflation has forced Nigerian consumers to reduce planned spending on goods. This situation has also resulted in companies and businesses downsizing or even to shutting down plants due to low sales and patronage. Amidst governments' intervention to reduce the high costs of doing business in Nigeria, tough industry competition is being introduced in the market as part of strategies to stimulate purchases. Okoh (2023), noted that manufacturers and brand managers of *consumer-packaged goods* (CPGs) have embarked on product downsizing and "shrinkflation" practices to modify both refill and sachet packs of consumer brands into reduced sizes. This is in order to offset rising costs and survive the current headwinds of high inflation and challenging business environment while keeping prices unchanged.

Statement of the Problem

In Nigeria, shrinkflation has become an established strategy for CPG firms, but little is known about how it affects consumer purchasing patterns and long-term brand impression. The issue that this study attempts to solve is the paucity of thorough understanding regarding the perception and reaction of Nigerian consumers to shrinkflation in their purchasing choices. The problem statement draws attention to the dearth of thorough knowledge regarding the perception and response of Nigerian consumers to shrinkflation in consumer-packaged goods (CPG) purchasing decisions. This knowledge gap is closely related to the study's variables, which include brand loyalty, customer perception, purchasing behavior, and businesses' acceptance of shrinkflation. It is against this backdrop that this paper examines shrinkflation as a buying strategy for consumer-packaged goods in Nigeria. It also discusses the concept of shrinkflation, factors responsible for the adoption of shrinkflation strategy by companies, and its impact on consumers of packaged goods in Nigeria.

Shrinkflation

Shrinkflation is a word that is coined from "shrink" and "inflation." Rosalsky, 2021 notes that the word was introduced by Economist Pippa Malmgren in 2009. It describes the subtle shrinking of product sizes, with either stagnant or escalating prices. In economics, *shrinkflation* is the practice of reducing size or quantity of a product while its shelf price either remains the same or has a slight increase, Fakoyejo (2019). In some cases, it implies lowering the quality of a product or its constituent ingredients while maintaining the old price. Liberto (2021), adduced that the practice of shrinkflation reduces the size of a product while the sticker price remains the same. It is a surreptitious tactic adopted by businesses to increase profit margins or maintain them during periods of rising cost of production because companies must factor the rising costs of ingredients, packaging, labour and transportation into the sticker price and still maintain a profit margin. According to Press (2022) shrinkflation is a marketing strategy and the main goal is to reduce the size or quantity of a product so that it can retain higher sales and earn more profits with the same economies of scale. Gupta and Vaidya (2022) note that shrinkflation enables organizations to expand their competitive edge and productivity by reducing operational expenses and this is often utilized following expansion.

Why Companies adopt Shrinkflation as a Market Strategy

Shrinkflation is a strategic response to economic pressures and market dynamics to maintain profitability while minimizing negative consumer reactions. In reaction to high cost of production, manufacturers of consumer-packaged goods either out rightly increase price or reduce volume or value of the product. In Nigeria, manufacturers hardly present strong justifiable reasons for product price increases because consumer needs are taken for granted, given the level of corruption and regulators' connivance in the market. Rufus (2022) argues that companies are turning to "shrinkflation" as they grapple with rising costs of production heightened by high cost of electricity, uptick in fuel prices and the ripple effects on transportation and operational costs.

In Nigeria, the public power supply is unreliable, so manufacturers use private Electricity Generators powered by the costlier alternatives of Automotive Gas Oil (diesel) and Liquefied Natural Gas in the production of *consumer-packaged goods* (CPG). Since the petroleum downstream sector became deregulated, the high cost of Diesel and Gas has added to the cost of production of FMCG and this unfortunately is passed to the consumers. Scholars like Durbin (2022), Fakoyejo (2019), Liberto (2021) and *Vivek (2017) in different studies, espoused that factors* responsible for the adoption of shrinkflation as a marketing strategy by manufacturing companies to include:

1. **Cost Management**: When the cost of raw materials, production, transportation, or labour increases, it creates a dilemma for manufacturing companies, to either raise prices of products or reduce costs. Shrinkflation is therefore a convenient fallback position that allows companies to manage rising costs of production without increasing the retail price of products, which may discourage the price-sensitive consumers.
2. **Creating Positive Consumer Perception**: Many consumers are more sensitive to price changes than to quantity changes so by slightly reducing the size of the product but keeping the price the same, companies maintain an illusion of price stability, thus avoiding the negative perception associated with price hikes.
3. **Holding a Competitive Edge**: In highly competitive markets, maintaining a lower price is crucial and shrinkflation helps manufacturing companies stay competitive by offering products at the same price as their competitors, even if quantity is slightly reduced.
4. **Maintaining Brand Loyalty**: Manufacturers often believe that loyal customers will continue purchasing their products as long as the price is stable, even if the size decreases, and the reduction is subtle and not easily noticeable. This is important to maintaining brand loyalty and repeat purchases.
5. **Stable Profit Margins**: Reducing the size of a product while keeping the price the same may improve profit margins; this can be particularly appealing to shareholders and investors looking for consistent financial performance.
6. **Adapting to Market Conditions**: In markets where price elasticity is high, and consumers are likely to switch brands or stop buying a product due to price increases, shrinkflation is a way to adapt to market conditions without losing customers.
7. **Regulatory Considerations:** In some regions, there might be regulations or cultural expectations regarding price stability. Shrinkflation allows companies to navigate regulatory or cultural landscapes without triggering negative reactions.
8. **Maintaining Psychological Pricing Levels**: involves the use of strategies that maintain the price point that consumers are used to. The use of shrinkflation helps manufacturing companies keep the pricing of products within psychological price levels, to avoid the mental distortion consumers may face with price increases.

Shrinkflation as a Buying Strategy for Consumer-Packaged Goods in Nigeria

Shrinkflation is a marketing strategy employed by consumer-packaged goods companies where the size or quantity of a product is reduced while maintaining its price (*Vivek, 2017)*. This strategy allows manufacturing companies to mitigate rising production costs without directly increasing prices, thereby minimizing consumer resistance. These scenarios reflect the situation in many Nigerian market as manufacturers manipulate prices to remain in business or keep the product relevant to the consumers' budget.

In Nigeria today, inflation and high cost of living are making manufacturers resort to "shrinkflation" as a marketing strategy to retain the loyalty of consumers of their products. When cost of production increases, companies try to cut operational costs by reducing the quantity or quality of a product while maintaining the price. Consumers are keenly focused on the price of goods and less aware of the small changes to the size or volume and quality of products **(Rufus, 2022). Since consumers are primarily focused** on the price of goods; the small changes in product size, volume or quality does not deter them from making the same purchase decisions.

Shrinkflation as a buying strategy for consumer-packaged goods has become very obvious in the current high-inflation market situation of Nigeria. While the prices of some of these products may remain the same, the reduced size may not be obvious to regular consumers (*Reena, 2017).* An unchanged price means that most consumers will not immediately notice the higher unit price as they are more deterred by increase in prices than by reduction in pack sizes, and some would rather have a smaller package at the old price than the old package size at a higher price (*Smialek, 2024).*

Fakoyejo (2019), observed that several companies in Nigeria have been using shrinkflation for years as a market strategy, he explained that "Pepsi" and "Coca-Cola" effectively utilized this strategy in 2015 until "Bigi" and "Big Cola" disrupted the market, and reversed both brands into default setting. Manufacturers pass on the costs of production to their customers in a manner that is not usually noticeable.

In Nigeria, manufacturers of consumer-packaged goods have over the years employed shrinkflation to stay afloat as brand loyalists are often absent-minded while purchasing goods. The shrinkflation strategy is less visible to non-discerning consumers since the difference is small or un-noticeable unlike price increments which are easily detected by consumers. Occasionally, manufacturers of consumer-packaged goods opt for shrinkflation over fears that price hike will provoke consumers to switch loyalty to their competitors. Okoh (2023) reports that because Nigeria's inflation is much higher than the official figures reported, brands adopt shrinkflation in response to the high rate of inflation constantly affecting cost of production, with the assumption that smaller and lighter product sizes go unnoticed by consumers as long as prices remain stable.

Okoh (2023) also reports the gradual shrinking of consumer-packaged goods by manufacturers in the current decade; a phenomenon that has made many brands remain competitive. Okoh cited the examples of popular brands of Biscuits and Crackers which had seven pieces in a pack; however, over the years, the number of the pieces in the pack dropped significantly and the slices became leaner and today, the company has arrived at the magic number of three slices. Okoh (2023) stressed that, apart from biscuits, the manufacturer of a popular brand of packaged peanut is successfully selling air to consumers who have termed it 'a*irbag'* due to the excessive air used to replace the product inside the pack. The list appears endless as a popular brand of Sardine, which initially had four pieces of fish in the tin but now juggles between three and two pieces.

Rufus (2022) reports that buying Powdered Milk Refills and Cornflakes is like buying 50% content and 50% air. When the consumer feels the bag, it feels full, but when it is opened, it is all air and little content. Okoh (2023) notes that content reduction strategy prevents consumers from achieving maximum utility on the purchased product. This has led to consumer distrust in the market dynamics put in place to resolve Nigeria's challenging economic environment. None the less Haupt (2022), opines that the strategy of shrinkflation has over the years become very effective in maintaining customer loyalty while also enabling manufacturers to increase their profits.

Impact of Shrinkflation on Consumers of Packaged-Goods in Nigeria
As economic disruptions, inflationary pressures, continue to erode the purchasing power of consumers across the globe, consumers have raised concerns about the outrageous reduction and rationing in the product offerings of popular consumer-packaged goods brands. Consumer rights' advocate portend that it is wrong for companies to practice shrinkflation without public information notifying consumers. Prasain and Pandey (2022) assert that shrinkflation is cheating, while Weinstein (2022) conclude that shrinkflation is the worst corporation idea in years, stating that it is a deceptive practice, inherently dishonest to consumers.

In Nigeria, even if inflation is nipped, consumers will continue to pay the same or high prices for smaller quantities as shrinkflation has become a new normal. Shrinkflation has led to customer frustration and reduced consumer loyalty on many consumer goods and brands because consumers get less for the same price. This is frustrating because consumers see the buying capacity of their hard-earned money gradually deplete each time they go to purchase. With prices going up and sizes going down, it becoming increasingly difficult for consumers to maintain a reasonable standard of living. Similarly, Ojabello (2024) opined that shrinkflation impacts negatively on consumers as they pay more money for fewer product contents and this further erodes purchasing power and household budgets. This is particularly hard on the psyche of Nigerian consumers, who were encouraged to buy in bulk to gain the advantage of economies of scale but are now faced with the sad reality of shrinking sizes of basic groceries and limited budgets.

The impact of shrinkflation on consumers include:

i. **Reduced Value for Money**: Consumers perceive shrinkflation as a reduction in value for money on purchased goods since they receive less quantity for the same price. This may ultimately lead to dissatisfaction, frustration and consumer apathy.
ii. **Perpetual Inflationary Effect:** Shrinkflation is a subtle form of inflation because while prices remain the same, the amount of product received decreases, effectively increasing the cost per unit. Over time, this contributes to inflation.
iii. Perception of Deception: Some consumers may feel deceived when they notice that the size of a product has decreased without a corresponding decrease in price. This leads to negative publicity and erodes trust in the brand.
iv. Budgeting Challenges: For consumers who budget expenses based on the quantity of goods purchased, shrinkflation disrupts budgeting strategies. Consumers may need to adjust spending habits or allocate more funds to maintain the same level of consumption.
v. Impact on Low-Income Consumers: Shrinkflation disproportionately affect low-

income consumers who use packaged goods (soaps, beverages, milk, sugar, etc) for daily needs. Any reduction in quantity without a corresponding decrease in price strains already tight budgets and force difficult trade-offs.

vi. Shift in Brand Loyalty: Consumers who get purchase dissonance as a result of shrinkflation become less loyal to the affected brands and are more inclined to switch to competitors offering better value for money. This leads to loss of market share for the brands engaging in shrinkflation.

vii. Demand for Alternatives: Shrinkflation may drive some consumers to seek alternatives, such as buying in bulk, opting for store brands, or switching to products that offer better value or larger quantities for the same price.

viii. Regulatory Response: Shrinkflation may attract regulatory scrutiny especially where consumers perceive it as deceptive or unfair market strategy. Regulatory bodies may intervene to ensure transparency and protect consumer interests. Shrinkflation portends significant implications for consumers; affecting purchasing power, perceptions of value and brand loyalty.

Research Methodology

This study employs a qualitative, conceptual research approach to examine the impact of shrinkflation as a buying strategy for consumer-packaged goods in Nigeria. This methodology allows for a thorough examination of the shrinkflation phenomenon in Nigeria's consumer-packaged goods market, drawing on existing research and data to provide insights into its causes, manifestations, and impacts. The conceptual approach enables the development of a theoretical framework for understanding shrinkflation in the Nigerian context, which can inform future empirical research and policy discussions.

The methodology consists of the following components:

Literature Review, where an extensive review of existing literature on shrinkflation, consumer behavior, and the Nigerian consumer-packaged goods market was conducted. This includes academic journals, books, industry reports, and reputable news sources. Key sources cited in the study include works by Verraki (2023), Okoh (2023), Singhal & Gupta (2023), Rosalsky (2021), Fakoyejo (2019), and Liberto (2021), among others.

Secondly, Secondary Data Analysis was investigated whereby the study analyzes secondary data from various sources, including:

National Bureau of Statistics (NBS) reports on inflation rates, Economic reports on Nigeria's currency exchange rates, and Industry analyses of consumer-packaged goods market trends

Thirdly, Case Study Analysis was examined whereby the study studied specific cases of shrinkflation in the Nigerian market, as reported by industry observers and researchers. This includes examples from various product categories such as biscuits, crackers, packaged peanuts, sardines, powdered milk refills, and cornflakes (Okoh, 2023; Rufus, 2022).

Fourthly, conceptual framework was developed based on the literature review and secondary data analysis, to understand the factors driving shrinkflation in Nigeria and its impacts on consumers. In addition, the research critically analyzes the implications of shrinkflation on various stakeholders, including consumers, manufacturers, and regulatory bodies. This analysis considers economic, social, and ethical dimensions of the shrinkflation strategy.

Finally, the study synthesizes findings from the literature review, secondary data analysis, and case studies to provide a comprehensive understanding of shrinkflation as a buying strategy in the Nigerian context.

Findings

The outcomes of the study showed that:

Shrinkflation has become a prevalent strategy among consumer-packaged goods manufacturers in Nigeria, particularly in response to rising production costs and inflationary pressures (Okoh 2023). Also, the practice is observed across various product categories, including biscuits, beverages, canned goods, and powdered products Hawkes & Harris 2011). Furthermore, consumers are often more sensitive to price changes than to quantity reductions, making shrinkflation an effective short-term strategy for manufacturers (Kotler, & Keller 2016; Veresiu & Giesler, 2018). Similarly, the impact on consumers includes reduced value for money, budgeting challenges, and potential erosion of brand trust. Additionally, low-income consumers are disproportionately affected by shrinkflation, as it strains already tight budgets for essential goods (Stiglitz, 2019). Moreover, the strategy may lead to shifts in consumer behavior, including brand switching and seeking alternatives like bulk buying or store brands (Grewal, Ailawadi, Gauri, Hall, Kopalle, & Robertson (2011).

Conclusion

The aim of this study is to examine the impact of Shrinkflation on Consumers of Packaged-Goods in Nigeria. Shrinkflation has emerged as a significant trend in Nigeria's consumer-packaged goods market, driven by economic pressures and the need for manufacturers to maintain profitability. While it allows companies to navigate challenging market conditions without overt price increases, the practice has far-reaching implications for consumers. The subtle nature of shrinkflation often goes unnoticed in the short term but can lead to long-term erosion of consumer trust and value perception. As Nigeria grapples with economic reforms and inflationary pressures, the balance between manufacturer sustainability and consumer welfare remains a critical concern. The findings of this study highlight the need for transparency, consumer awareness, and potential regulatory oversight to ensure fair market practices in the face of economic challenges.

Contributions to Knowledge

The study has contributed to knowledge by:

Providing a comprehensive analysis of shrinkflation in the context of Nigeria's consumer-packaged goods market. Also, it has provided insights into the interplay between economic reforms, inflation, and marketing strategies in developing economies. It has equally highlighted the specific manifestations and impacts of shrinkflation across various product categories in Nigeria. Similarly, it has contributed to the understanding of consumer behavior and brand loyalty in the face of subtle pricing strategies. Finally, it has expanded the discourse on ethical marketing practices and consumer rights in challenging economic environments.

Recommendations

The study recommends the following:

i. Manufacturers should prioritize transparency in their pricing and packaging strategies to maintain consumer trust.
ii. Regulatory bodies should consider implementing guidelines for clear disclosure of product size changes to protect consumer interests.
iii. Consumer education programs should be developed to increase awareness about shrinkflation and its implications on purchasing power.
iv. Companies should explore alternative cost-saving measures and innovation in product development to minimize reliance on shrinkflation.
v. Government policies should address the root causes of high production costs, such as improving power supply and stabilizing currency, to alleviate pressure on manufacturers.
vi. Consumer protection agencies should monitor and report on shrinkflation practices to ensure fair market competition.

Suggestions for Further Study

Since the study is a conceptual study, empirical research is needed to quantify the extent of shrinkflation across different product categories in Nigeria.

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