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The Price is Right? Consumer Preferences for Food Manufacturer Responses to Increased Input Costs

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Introduction

When input prices for food products go up, food manufacturers can respond in several ways, including increasing prices, reducing the size of the product (now sometimes called 'shrinkflation'), reducing the quality of the product (now sometimes called 'skimpflation'), or accepting slimmer margins. None of these responses are new. However, media reports have shown that consumers feel strongly about these response mechanisms, especially as they pay closer attention to their food budgets, and that they may find certain reasons for food price increases more or less acceptable (Eastlake, 2024; Holger, 2024; Smialek, 2024; Selyukh, 2024).

Here, we utilize the most recent results from the Gardner Food and Agricultural Policy Survey to evaluate U.S. consumers' preferences for how food manufacturers might respond to increased input costs and investigate what reasons for price increases consumers find acceptable.

We find that consumers say they prefer price increases to other options, perhaps due to its transparency. Consumers also think reductions in quality should be the least preferred response. Finally, we show that consumers find some reasons for price increases by food manufacturers more acceptable (e.g., increased ingredient, labor, or energy/transport costs) than others (e.g., increased profitability), and about 15% of consumers thought there was no acceptable reason to increase prices.

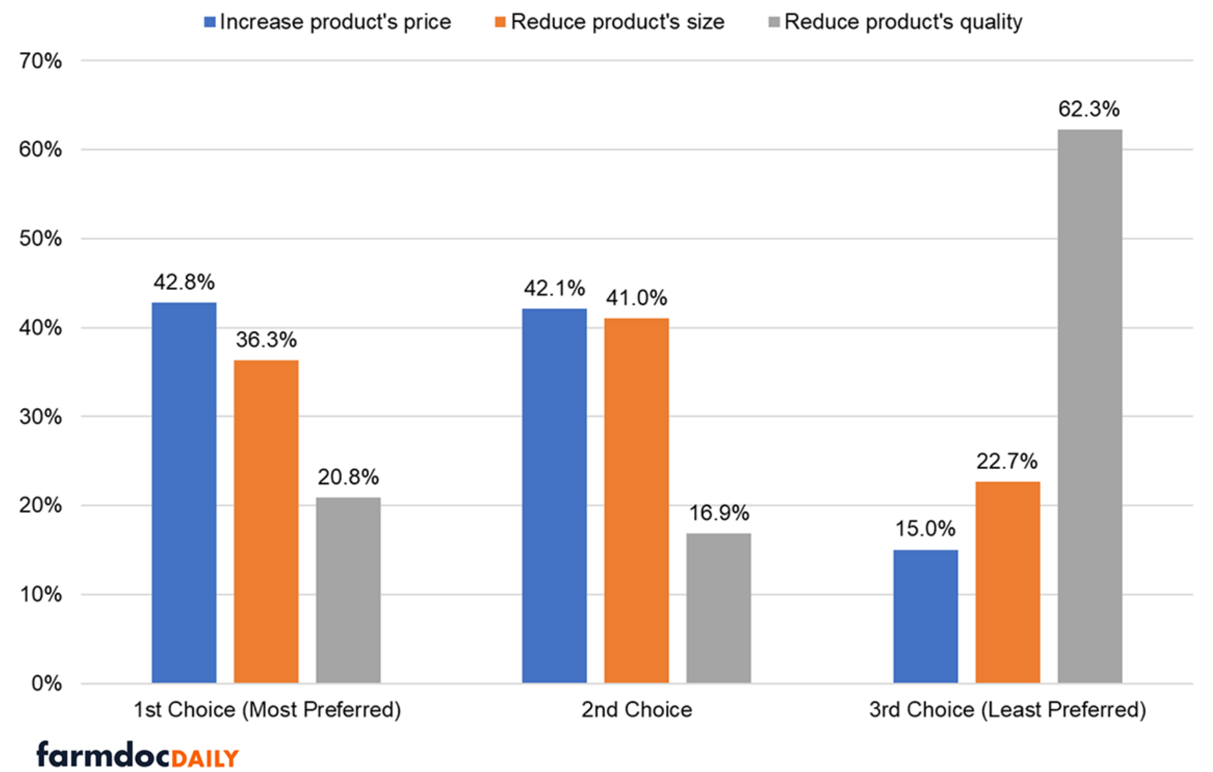
Methods

Results discussed here come from the ninth wave of the Gardner Food and Agricultural Policy Survey (GFAPS), which was conducted online in May 2024. Each wave, GFAPS surveys approximately 1,000 U.S. consumers about their perceptions of the food and agricultural issues and policies. A new panel of participants is recruited to participate in the survey in each wave, and participants are recruited to match the U.S. population in terms of gender, age, household income, and geographic region.

Results

We asked participants to suppose a food manufacturer was facing increased costs and to rank three possible responses (increase product's price, reduce product's size, or reduce product's quality) from most preferred (1st) to least preferred (3rd). Figure 1 shows these results. We find that 42.8% of consumers most preferred a price increase in response and 36.3% most preferred reducing the product's size. The majority of consumers (62.3%) thought reducing the product's quality was the least preferred response.

Figure 1. Consumer Preferences for Possible Food Manufacturer Responses to Increased Costs



Given that price increases were the most preferred food manufacturer response, it is also particularly useful to understand what types of price increases consumers find acceptable. Table 1 presents these results. Here, we find that over half of consumers thought increases in prices to cover higher costs of ingredients (54.6%), employee wages (54.2%), and energy or transportation (52.1%) were acceptable. Consumers were less supportive of price increases for higher profitability (18.9%) and a segment of consumers (14.7%) thought there was no acceptable reason for food manufacturers to increase prices. These responses were similar to how consumers felt about reasons for increased prices at other points in the food system too, including restaurants and grocery stores (see *farmdoc daily*, June 17, 2024 for discussion).

Table 1. Respondent Views on Acceptable Reasons for Price Increases

Reason for Price Increase	% of Participants who Indicated Reason was Acceptable
Higher cost of ingredients	54.6%
Higher cost of energy or transportation	52.1%
Higher cost of employee wages	54.2%
Higher profitability	18.9%
None	14.7%

Note: Participants could select multiple reasons, thus the responses do not sum to 100%.

Although we find that selling a smaller product for the same price (i.e., 'shrinkflation') was a commonly preferred food manufacturer response to increased costs, so-called 'shrinkflation' also appears to be top of mind for many consumers. We asked participants to indicate how worried they were about this phenomenon, from very worried to not at all worried. Results are presented in Table 2. We find that the vast majority of consumers were at least somewhat worried. While this practice is not new, the concern is likely driven in part by the topic's increased saliency in politics and the mainstream media (Eastlake, 2024; Holger, 2024; Smialek, 2024; Selyukh, 2024).

Table 2. Extent to which participants were worried about 'shrinkflation' in food products

Very worried	33.5%
Somewhat worried	50.9%
Not very worried	12.4%
Not at all worried	3.1%

Conclusions

As input prices increase, food manufacturers respond in a variety of ways. Recently, media reports have shown that consumers are frustrated by many of these responses including increased food prices, 'shrinkflation', and 'skimpflation' (e.g., Smialek, 2024). Finding effective ways to manage higher input costs without affecting demand or profit margins is top of mind for many food manufacturers. Here, we utilize results from the Gardner Food and Agricultural Policy Survey to investigate consumer preferences for how a food manufacturer might respond to increased input costs.

Our results show that consumers said they generally preferred food manufacturers to respond to input price increases by increasing a food product's price and were least supportive of responding by reducing product quality. While 'shrinkflation' was top of mind for many consumers, it was less preferred to price increases. Additional research is needed to understand the drivers for these preferences. For example, some news stories have reported that consumers would like to see increased transparency from food companies making these changes (e.g., Eastlake, 2024), which may explain why more visible changes, like price increases, would be preferred to less visible changes, like quality reduction. Food manufacturers are likely to utilize non-price responses when they expect consumer demand to be more sensitive to a price increase than to a decrease in quantity or quality, both of which may go unnoticed.

We also investigate what reasons food manufacturers might increase prices that consumers find 'acceptable.' Here, our results indicate that the majority of consumers thought increasing prices to reflect increased costs of ingredients, labor, or energy/transport were acceptable, indicating that perhaps food manufacturers could improve consumer perceptions of food prices with clearer communication about the impacts of input costs. Additionally, we find that about 80% thought increased profitability was not an acceptable reason to increase prices. This is in line with recent media reports that have highlighted frustration by both consumers and politicians for what they believe are excessive profit margins (e.g., Selyukh, 2024). Finally, we find that some consumers (about 15%) thought there was no acceptable reason to increase food prices.

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