

Incredible Shrinking Potato Chip Package Teaching Notes

What Are the Relevant Facts?

1. Due to a 25 percent increase in raw potato prices, Julie, a potato chip brand manager, would need to raise her potato chip prices about 15 percent in order to maintain margins of 5 percent. This would necessitate a price hike of \$.24 on the most popular 7.5 oz. size.
2. Julie is evaluated solely on the basis of monthly profits.
3. Historical data shows that downsizing, i.e., holding price constant while decreasing net weight, is a popular strategy in Julie's industry as well as in other packaged goods industries.
4. Julie fears that raising the price to cover the increased cost would incur the bad will of her loyal customers, who would view the price hike as unfair.
5. Julie is worried that competitors might maintain their prices and incur a short-run loss.
6. Past industry data indicates that buyers might not notice a package size reduction.
7. Julie believes that consumers don't usually examine the net weight label on subsequent purchases.
8. Julie's boss, Dave, the Marketing Director, indicated that downsizing is a very common practice in this and other packaged goods industries.
9. According to Dave, downsizing marketers are aboveboard in clearly labeling products regarding weight, serving size, price, and quantity.

What Are the Ethical Issues?

1. Are consumers deceived, i.e., misled, by [downsizing]?
2. What is the marketer's duty to inform customers about price and size changes?
3. Should it be the buyer's responsibility to check weight, price, quantity, and serving size?
4. How can Julie compete if most or all of her competitors downsize their products?
5. How can Julie achieve an acceptable balance between her need to make a profit for her company

and herself and her need to maintain the trust and fair treatment of her customers?

6. What constitutes fair treatment of customers regarding significant price hikes?
7. Is it proper to downsize if many others in the industry are doing it?

Who Are the Primary Stakeholders?

1. What is the appropriate level of analysis (systemic, corporate, individual) to use in identifying the appropriate stakeholders?
2. Who are the primary stakeholders?
 - Julie
 - Dave
 - All of Julie's customers
 - Stockholders in the company
 - Julie's competitors
3. What are Julie's responsibilities to the various stakeholders?

What Are the Possible Alternatives?

1. Raise the prices to cover the increased costs.
2. Downsize the product so as to maintain margins.
3. Maintain the price and incur a short-run loss.
4. Accept a smaller than 5 percent margin by either raising the price slightly and/or downsizing the product slightly.
5. Suggest flagging the package with "reduce," or some similar wording, for six months following the downsizing.

What Are the Ethics of the Alternatives?

- Ask questions based on a "utilitarian" perspective (costs and benefits). For example:
 1. Which possible alternative would provide the greatest benefit to the greatest number?
 2. How would costs be measured in this vignette? How does one quantify potential loss of customer goodwill?
 3. Do the benefits of maintaining profits outweigh the costs of losing customer goodwill?

- Ask questions based on a “rights” perspective. For example:
 1. What does each stakeholder have the right to expect?
- Ask questions based on a “justice” perspective. For example:
 1. Which alternative distributes the benefits and burdens most fairly among the stakeholders?
 2. Which stakeholders carry the greatest burden if Julie decides to downsize?
 3. Which alternatives demonstrate a fair process? Fair outcomes?

What Are the Practical Constraints?

1. Julie needs to consider the ramifications on her career if she decides not to downsize.
2. Julie might not be able or willing to look for another job at this point in her career.
3. There might be state laws which prohibit downsizing.
4. What would happen if Julie took a given course of action and the competitors didn't?

What Actions Should Be Taken?

1. What actions should Julie take?
2. Which ethical theories (utilitarian, rights, justice) make the most sense to you as they relate to this situation?