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## Shrinkflation: An Overview of Causes, Impacts, and Consumer Perceptions

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### Abstract:

*Shrinkflation refers to the reduction in product size or quantity while maintaining the same price. It is a decision often made as a response to rising production costs and inflationary pressures. This thesis explores the prevalence of shrinkflation in India, examining its underlying causes, socio-economic impacts, and consumer perceptions. The study highlights how companies in sectors like food, beverages, and fast-moving consumer goods (FMCG) adopt shrinkflation to maintain profit while facing inflation. But sometimes it is often linked with deception as it lacks transparency to the consumer about reduction in quantity. This study uses mixed-methods approach which has quantitative and qualitative data. The paper tries to investigate the underlying factors which contribute to shrinkflation, its effects on consumers. It tries to study public's awareness and attitudes towards this practice. By analysing consumer awareness and regulatory frameworks, the research focuses the need for greater public education and policy interventions to address the adverse effects of shrinkflation on Indian households. Furthermore, it examines the role of regulatory mechanisms such as the Consumer Protection Act in safeguarding consumer interests and promoting transparency.*

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**Key Words:** *Shrinkflation, Quantity, Consumer, Causes, Effects.*

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### Introduction:

Shrinkflation is also known as "stealth inflation" or "downsizing". It is a strategy where manufacturers reduce the size or quantity of a product while keeping its price the same. This allows companies to deal with rising production costs without directly increasing prices. The practice is adopted by firms because consumers are more price sensitive than quantity. In India, shrinkflation has become increasingly prevalent due to rising inflation, supply chain disruptions, and intense market competition. In recent years, Indian consumers have increasingly faced the problem where everyday products shrink in size while their prices remain unchanged. This shrinkflation is a form of hidden inflation that allows manufacturers to cope up with rising production costs without explicitly raising prices. Shrinkflation has become particularly prevalent in India's price-sensitive market, where direct price hikes could reduce the consumer demand. There are various factors that cause shrinkflation like rising cost of raw materials, wages, transportation fees, and competitive market. This strategy helps firms in inflationary situation by

maintain profit margin. Simultaneously, it often deceives consumers who may not immediately notice the reduction in product size. Over time, however, shrinkflation can lead to frustration and mistrust among buyers, especially as it disproportionately affects essential goods critical to household budgets.

#### **Literature Review:**

**Agarwal, R. (2021). Shrinkflation and Product Quality in the Indian FMCG Sector:** Agarwal (2021) explores the relationship between shrinkflation and product quality in India's Fast-Moving Consumer Goods (FMCG) sector. The study highlights how companies resort to reducing product size to cope with rising production costs, often leading to a perceived decline in quality. This shift in product size and quality perception can influence consumer satisfaction and brand loyalty, particularly when the change is not transparent.

**Gupta, M., & Mishra, V. (2020). Consumer Perceptions on Shrinkflation in India:** Gupta and Mishra (2020) investigate consumer perceptions of shrinkflation in India. They found that consumers are increasingly becoming aware of shrinkflation practices. While some view it as an unfair pricing strategy, others accept it as a natural response to economic pressures. The study emphasizes that consumer trust can be damaged if shrinkflation is perceived as deceptive.

**Kumar, S. (2020). Impact of Rising Raw Material Costs on Shrinkflation in India:** Kumar (2020) delves into the impact of rising raw material costs on shrinkflation in India. The research identifies that as the costs of raw materials rise, companies reduce product sizes rather than increase prices directly. This strategy helps maintain profit margins but can lead to decreased consumer satisfaction and brand value over time.

**Kumar, V., & Joshi, A. (2020). Brand Loyalty and Shrinkflation: Indian Consumer Behavior:** Kumar and Joshi (2020) examine the interplay between brand loyalty and shrinkflation in India. They argue that consumers' loyalty to brands can be tested when companies implement shrinkflation. While loyal customers may tolerate the reduction in product size, price-sensitive consumers may switch to alternative brands, affecting overall sales and market share.

**Patel, R., & Reddy, P. (2022). COVID-19 and Its Impact on Shrinkflation in India: A Supply Chain Perspective:** Patel and Reddy (2022) focus on the impact of the COVID-19 pandemic on shrinkflation in India. The pandemic caused disruptions in global supply chains, leading to shortages of key raw materials. As a result, companies in India resorted to shrinkflation to mitigate the increased costs of production and supply chain challenges. The study explores how these supply chain issues influenced pricing and product sizes.

**Raj, S., & Joshi, A. (2021). Consumer Adaptation to Shrinkflation: The Indian Context:** Raj and Joshi (2021) analyze how Indian consumers adapt to shrinkflation. The study shows that while shrinkflation might initially lead to dissatisfaction, consumers gradually adjust their buying habits. They become more price-sensitive and often seek alternatives, such as larger packs or local brands, to maintain perceived value.

**Sharma, R. (2021). Consumer Behavior in the Face of Shrinkflation: A Study of the Indian Market:** Sharma (2021) examines changes in consumer behavior in response to shrinkflation in India. The study finds that consumers are becoming more discerning when it comes to evaluating products and prices. This increased awareness has led to greater price sensitivity, with many opting for store brands or products that offer more transparent value for money.

**Singh, S., Verma, R., & Gupta, P. (2021). Inflation, Currency Depreciation, and Shrinkflation in India:** Singh, Verma, and Gupta (2021) explore how inflation and currency depreciation contribute to the rise of shrinkflation in India. The depreciation of the Indian Rupee has increased the cost of imported raw materials, forcing manufacturers to reduce product sizes to

maintain their profit margins. The study emphasizes how macroeconomic factors, like inflation, play a role in shrinkflation.

**The Indian Retailer. (2022). The Rise of Shrinkflation in India's FMCG Market: A Detailed Analysis:** This report (2022) provides an in-depth analysis of shrinkflation in India's FMCG market. It documents the prevalence of shrinkflation across various consumer goods categories, with a particular focus on packaged foods and beverages. The report notes that shrinkflation has been widespread due to inflationary pressures, but some businesses have managed to avoid it by absorbing increased costs.

**Verma, R. (2019). Inflation and Its Effects on Pricing Strategies in India: A Study on Shrinkflation:** Verma (2019) examines the effects of inflation on pricing strategies in India, with a specific focus on shrinkflation. The study finds that inflation leads businesses to employ shrinkflation as a way to offset the cost increases without directly raising prices. Verma discusses how this strategy can be both beneficial and harmful, depending on the consumer's perspective and the level of transparency in the process.

#### **Objectives:**

1. To explore the underlying causes of shrinkflation in India, including economic factors such as inflation, rising production costs, and supply chain disruptions.
2. To analyse the impact of shrinkflation on Indian consumers.
3. To assess the regulatory responses to shrinkflation in India, highlighting potential policy measures and the role of government and regulatory bodies in addressing this phenomenon.

#### **Research Methodology:**

The paper is based on primary and secondary data. Primary data is collected from 68 respondents with the help of survey method. Secondary data is taken from official publication of Consumer Price index by the Ministry of Statistics and Programme Implementation. The data is analysed with the help of various statistical tools using MS Excel.

#### **Causes of Shrinkflation in India:**

Several factors contribute to shrinkflation in the Indian market:

**Rising Input Costs:** Increased costs of raw materials (e.g., wheat, sugar, oil) and packaging materials force companies to reduce product sizes.

**Inflation:** High inflation rates erode profit margins, prompting companies to adopt shrinkflation. The retail inflation for April surged to an eight-year high of 7.8 per cent, while the inflation in the food basket touched 7.86 per cent in April.

**Consumer Price Sensitivity:** Indian consumers are highly price-sensitive, making shrinkflation a less noticeable alternative to direct price increases.

**Competitive Market:** The fast-moving consumer goods (FMCG) sector in India is highly competitive. Companies avoid raising prices to retain market share.

**Regulatory and Tax Pressures:** Changes in GST rates and packaging regulations can increase financial burdens on companies.

**Currency Depreciation:** The Indian Rupee has seen periods of depreciation against major currencies like the US Dollar. This reduces the purchasing power of businesses importing raw materials.

**Global Supply Chain Disruptions:** The COVID-19 pandemic had a significant impact on global supply chains, leading to shortages of key materials and goods.

**Fast-Moving Consumer Goods (FMCG):**

FMCG are products that are sold quickly and at relatively low cost. They are essential items that consumers purchase frequently, making them a crucial part of our daily lives.

**Key Characteristics:**

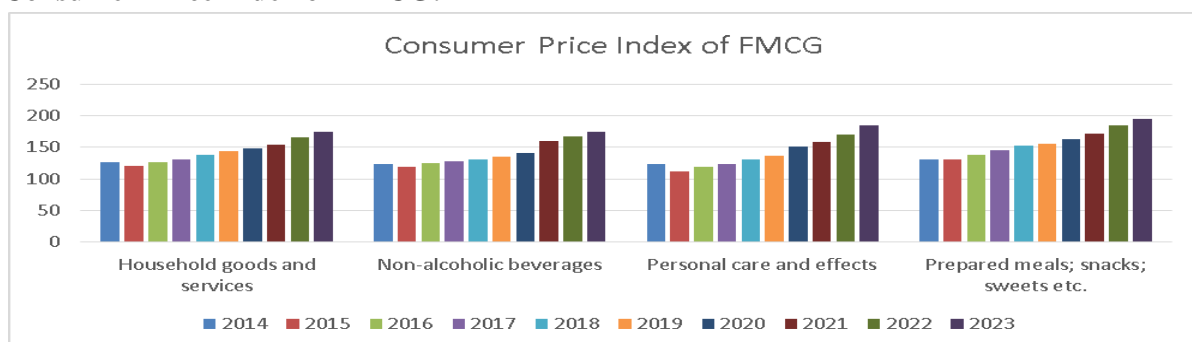
- **High Turnover:**
  - FMCG products move off store shelves rapidly due to consistent demand.
  - This high turnover rate is a defining characteristic of the industry.
- **Frequent Purchases:**
  - Consumers buy these products regularly, often daily or weekly.
  - This frequent purchasing behavior drives the high sales volumes.
- **Low Unit Cost:**
  - FMCG items are typically affordable, making them accessible to a wide range of consumers.
  - This low cost contributes to the high volume of sales.
- **Short Shelf Life:**
  - Many FMCG products, especially food and beverages, have a short shelf life.
  - This necessitates efficient supply chains and inventory management.

**Examples of FMCG:**

<b>Food and Beverages:</b>	<ul style="list-style-type: none"> <li>○ Packaged foods (e.g., cereals, snacks, canned goods)</li> <li>○ Beverages (e.g., soft drinks, juices, bottled water)</li> <li>○ Dairy products (e.g., milk, yogurt, cheese)</li> <li>○ Fresh produce (e.g., fruits, vegetables)</li> </ul>
<b>Personal Care:</b>	<ul style="list-style-type: none"> <li>○ Toiletries (e.g., toothpaste, soap, shampoo)</li> <li>○ Cosmetics (e.g., makeup, skincare products)</li> <li>○ Over-the-counter medications (e.g., pain relievers, vitamins)</li> </ul>
<b>Household Products:</b>	<ul style="list-style-type: none"> <li>○ Cleaning supplies (e.g., detergents, disinfectants)</li> <li>○ Paper products (e.g., toilet paper, paper towels)</li> </ul>

**Importance of FMCG:**

- **Economic Impact:**
  - The FMCG industry is a significant contributor to global economies, generating substantial revenue and creating numerous jobs.
  - It fuels retail and distribution sectors.
- **Consumer Essentials:**
  - FMCG products fulfil basic consumer needs, ensuring access to essential items for daily living.
- **Retail Driver:**
  - FMCG products are a primary driver of foot traffic in retail stores, attracting customers and generating sales.

**Consumer Price Index of FMCG:**

Data Source: [Ministry of Statistics and Programme Implementation | Government Of India](https://www.statistics.gov.in/)

The graph illustrates the Consumer Price Index (CPI) of Fast-Moving Consumer Goods (FMCG) from 2014 to 2023. This includes categories like household goods and services, non-alcoholic beverages, personal care and effects, and prepared meals, snacks, and sweets. The CPI measures the average change in prices consumers pay for a basket of goods and services. The upward trend of CPI in all FMCG indicates that prices are increasing over time.

This CPI trends correlate with potential reductions in product size or quantity within the FMCG categories. There has been reduction in sizes and quantities of FMCG.

#### Examples of Shrinkflation in India:

Shrinkflation is evident across various product categories in India:

<b>Food and Beverages:</b>	<ul style="list-style-type: none"> <li>○ Biscuits: Parle-G has reduced the weight of biscuit packs.</li> <li>○ Chocolates: Cadbury Dairy Milk has reduced chocolate bar sizes.</li> <li>○ Snacks: Lays and Kurkure have reduced the weight of their snack packs.</li> <li>○ Noodles: Maggi has reduced the weight of instant noodle packs.</li> <li>○ Soft Drinks: Coca-Cola and Pepsi have reduced bottle sizes.</li> </ul>
<b>Personal Care:</b>	<ul style="list-style-type: none"> <li>○ Soaps: Hindustan Unilever has reduced the size of Lux and Lifebuoy soap bars.</li> <li>○ Shampoos and Toothpaste: Colgate and Dove have reduced the quantity in their tubes and bottles.</li> </ul>
<b>Household Products:</b>	<ul style="list-style-type: none"> <li>○ Detergents: Surf Excel and Ariel have reduced the quantity in detergent packs.</li> </ul>

#### Impact of Shrinkflation:

Shrinkflation has several implications for consumers, companies, and the economy:

- **On Consumers:**
  - Reduced Purchasing Power: Consumers get less for the same price, reducing their purchasing power.
  - Erosion of Trust: Consumers feel cheated when they realize they are paying the same for less, leading to a loss of trust in brands.
- **On Companies:**
  - Short-Term Relief: Shrinkflation helps maintain profit margins without directly increasing prices.
  - Long-Term Risks: Overuse can damage brand reputation and lead to consumer backlash.
- **On the Economy:**
  - Inflation Measurement Challenges: Shrinkflation complicates inflation measurement, as the Consumer Price Index (CPI) may not fully capture reductions in product sizes.
  - Regulatory Scrutiny: Government and consumer protection bodies are increasingly scrutinizing shrinkflation practices.

#### Survey on Shrinkflation in India:

The survey done with 68 respondents across different consumer categories of age group 18 and above. Most respondents were between 18-25 years (36.8%) and 25-34 years (32.4%). The sex ratio is almost balanced with 51% males and 49% females having majorly graduate or post graduate degree. Most respondents were students (58.8%), followed by salaried private sector employees (14.7%).

It covers different aspects of shrinkflation, including: Awareness of shrinkflation, Perceptions of shrinkflation, Impact of shrinkflation on purchasing decisions and Whether companies should be required to inform consumers about shrinkflation.



**Key findings from the survey:**

Awareness of Shrinkflation:	<ul style="list-style-type: none"> <li>▪ 69.1% of respondents had not heard of the term "shrinkflation," indicating low awareness.</li> <li>▪ Those who were aware learned about it through social media (19.1%), news articles (19.1%), friends/family (22.1%), or personal observation while shopping (19.1%).</li> </ul>
Perception of Shrinkflation:	<ul style="list-style-type: none"> <li>▪ 79.4% of respondents believe shrinkflation is a common practice in the market today.</li> <li>▪ 80.9% have personally noticed shrinkflation in products they regularly buy- ParleG, Marie Gold, Lays, Toothpaste, Britannia cakes, Maggie, Cadberry Dairymilk, Vim bar, Shampoo, Vaseline, Cosmetics, Etc</li> <li>▪ 55.9% find shrinkflation acceptable if prices remain the same, while 20.6% think it's unfair and deceptive.</li> <li>▪ 41.2% perceive companies practicing shrinkflation negatively, losing trust in the brand.</li> </ul>
Impact on Purchasing Decisions:	<ul style="list-style-type: none"> <li>▪ 27.9% of respondents switch brands or products due to shrinkflation, while 20.6% buy less of the product.</li> <li>▪ 33.8% say it doesn't affect their decisions, and 17.6% are not sure.</li> </ul>
Economic Impact:	<ul style="list-style-type: none"> <li>▪ 61.8% of respondents are not sure if shrinkflation contributes to inflation or economic issues.</li> <li>▪ 23.5% believe it does not contribute, while 14.7% think it does.</li> </ul>
Consumer Behaviour:	<ul style="list-style-type: none"> <li>▪ When noticing shrinkflation, 55.9% continue buying the product, while 30.9% switch to a different brand.</li> <li>▪ 45.6% of respondents always compare product sizes and prices before purchasing, while 44.1% do so sometimes.</li> </ul>
Regulation and Preferences:	<ul style="list-style-type: none"> <li>▪ 78.4% think companies should be required to inform consumers about shrinkflation.</li> <li>▪ 47.1% would prefer a price increase over a decrease in size, while 29.4% would not.</li> </ul>

The respondents believe that government should actively take initiatives regarding increasing the awareness of people by-

**Transparency and Labelling:**

- Governments should enforce clear labelling that informs consumers about any reductions in product size, price increases, or ingredient changes.
- It should be Mandatory to disclose size reductions and price-per-unit information on packaging to help consumers make informed choices.

**Consumer Protection and Awareness:**

- Governments should run public awareness campaigns to educate consumers on shrinkflation and its impacts.
- Legislation should protect consumers against deceptive practices like misleading packaging and unclear product sizes.
- Strengthening consumer protection laws and ensuring fair competition in the market are essential.

**Price and Quantity Regulations:**

- Policies should be introduced to regulate price increases and product size reductions, ensuring that businesses maintain fairness and transparency.
- It should be mandatory for companies to disclose any changes in product size or quality.

- Regulators should monitor and report significant size reductions to prevent misleading practices.

**Corporate Accountability:**

- Enforce stricter advertising regulations to prevent misleading claims about product value and penalize companies that engage in deceptive shrinkflation practices.
- Companies should be held accountable for their actions regarding shrinkflation, and any deceptive pricing or packaging should be met with penalties.

**Market Competition and Economic Interventions:**

- Encouraging competition and supporting local brands could help maintain fair pricing in the market.
- The government should monitor inflation and market behaviour, making adjustments to ensure fair competition and protect consumers from inflated prices or reduced product sizes.

**Inflation Control:**

- Many responses suggest that controlling inflation at the macroeconomic level would reduce the need for shrinkflation. By stabilizing prices, the pressure on companies to reduce product sizes would diminish.
- Some advocate for reducing taxes and GST to ease the inflationary pressure on businesses.

**Stricter Regulations and Inspections:**

- Governments should implement strict regulations to control shrinkflation practices and conduct regular inspections to ensure compliance.
- Any changes to product sizes, pricing, or ingredients should be announced publicly and clearly.

**Legal Actions and Consumer Rights:**

- Consumers should be empowered to file complaints through consumer forums if companies fail to disclose shrinkflation practices.
- Laws should be established to protect consumers from deceptive shrinkflation practices, offering legal avenues for redress.

**Conclusion:**

Shrinkflation, the practice of reducing product sizes or quantities while keeping prices unchanged, is a prevalent phenomenon in India, driven by rising input costs, inflation, and competitive market dynamics. This practice has significant implications for consumers, companies, and the broader economy. Regulatory bodies and consumer organizations are increasingly scrutinizing shrinkflation, while consumers are becoming more aware of and reactive to these changes. Companies may face growing pressure to be transparent about product sizes and quantities, as consumers are likely to demand better value for their money. Although shrinkflation is widespread across various product categories in India—particularly in food, beverages, personal care, and household products - it remains a controversial practice that impacts consumer trust and purchasing behaviour.

Consumer awareness of shrinkflation is relatively low, with many unfamiliar with the term itself. However, a majority of respondents in surveys have noticed shrinkflation in their daily purchases, indicating that its effects are being felt even if the concept is not widely understood. Consumer reactions to shrinkflation are mixed: some find it acceptable as long as prices remain the same, while others view it as deceptive and unfair. This divergence in perception has a direct impact on brand trust, with a significant portion of consumers (41.2%)

losing trust in brands that practice shrinkflation. On the other hand, a smaller segment understands it as a business necessity, though this does not outweigh the negative sentiment.

The demand for greater transparency from companies is strong, with most consumers believing that businesses should clearly communicate changes in product sizes or quantities. Additionally, many consumers express a preference for price increases over reductions in product size, as they perceive this approach as more honest and straightforward. As regulatory bodies and consumer organizations continue to scrutinize shrinkflation practices, companies may need to adopt more transparent strategies to maintain consumer trust and loyalty. In summary, while shrinkflation is a common response to economic pressures, its controversial nature and impact on consumer behaviour highlight the need for greater transparency and fair practices in the market.

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