

***SHRINKFLATION AND ITS EFFECTS: A STUDY FROM THE
CONSUMER'S PERSPECTIVE***

Project submitted to ST. TERESA'S COLLEGE (Autonomous), ERNAKULAM

Affiliated to

Mahatma Gandhi University, Kottayam

In partial fulfillment of the requirement

For the degree of

BACHELOR OF ARTS IN ECONOMICS

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CERTIFICATE

This is to certify that the project “**Shrinkflation and its Effects: A Study from the Consumer’s Perspective**” submitted in partial fulfillment of the requirement of B.A Degree in Economics to Mahatma Gandhi University, Kottayam, is a bona fide record of work done by the project group under my supervision and guidance.



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DECLARATION

We hereby declare that the dissertation (Shrinkflation and its Effects: A Study from the Consumer's Perspective) submitted by us for B. A Degree in Economics is our original work.

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CHAPTER 1

Introduction

1.1 Introduction

In economics, shrinkflation, also known as the grocery shrink-ray, deflation or package downsizing, is the process of items shrinking in size or quantity, or even sometimes reformulating or reducing quality, whereas prices remain the same or increase. The word is a portmanteau of the words shrink and inflation. The word "shrinkflation" has been coined by economist Pippa Malmgren.

Shrinkflation allows companies to increase their operating margins and profitability by reducing costs whilst maintaining sales volume. Often, it is an alternative to raising prices in line with inflation. Consumer protection groups are critical of the practice. (Simplified UPSE)

Shrinkflation is a rise in the general price level of goods per unit of weight or volume, brought about by a reduction in the weight or size of the item sold. The price for one piece of the packaged product remains the same or could even increase. This market situation may not affect inflation measures such as the Consumer Price Index or Retail Price Index, i.e. might not increase the cost of a basket of retail goods and services.

The shrinkage effect is a hidden cost and indicates that actual inflation is higher than reported inflation. Due to this nature of shrinkflation, it isn't possible to determine the inflation level of countries accurately, even though many countries are trying to adopt methods to include downsized products into the inflation estimate. (Liberto, Daniel 2021)

Manufacturers try various strategies to beat the rising costs such that they protect their profit margins with growth. Herein comes, shrinkflation, essentially a 'content reduction' strategy, viz., reducing the size of a product while the price remains the same.

So how is shrinkflation helping the marketers? Market research surveys have clearly shown that consumers are more focused on price rises, the aspect most noticeable to the consumer. Strategies for attracting consumers have often found that consumers, given a choice between a bigger sized product with a price hike and a smaller product size with little or no change in price, consumers almost always opt for the latter.

It is abundantly clear that the price of a product is more noticeable than the size or weight of the pack. With rising costs of inputs, shrinkflation is here to stay. Businesses will continue downsizing products to keep themselves relevant to consumers. What then should a consumer do, you ask? Caveat Emptor,

or 'let the buyer beware'. The best way to combat Shrinkflation is to keep oneself aware, get the opportunity to look around for competitive products, and shop wisely. (Jain, Akhil 2022)

Consumer advocates are critical of shrinkflation because it has the effect of reducing product value by "stealth". (O'Byrne, Mark)

The reduction in pack size is sufficiently small as not to be immediately obvious to regular consumers. (Sewraz, Reena 2017)

An unchanged price means that consumers are not alerted to the higher unit price. The practice adversely affects consumers' ability to make informed buying choices. Consumers have been found to be deterred more by rises in prices than by reductions in pack sizes. Suppliers and retailers have been called upon to be upfront with customers. They should be legally obliged to notify shoppers when pack sizes have been reduced. (Studman, Anna 2018)

Corporate bodies deflect attention from product shrinkage with "less is more" messaging, for example by claiming the health benefits of smaller portions or environmental benefits of less packaging. ". (O'Byrne, Mark)

1.2 Review of Literature

Shrinkflation hits India's Snacks as Firms Struggle with Costs; May 13, 2022, 11:37 IST; from 'The Economic Times'.

This paper studies the increase in shrinkflation due to surges in India's inflation. It states that Indian companies have moved to shrinkflation to cope with the higher input prices due to the increase in India's consumer prices above the Central Bank's upper limit. The only way to take a price increase is to reduce the volume in certain price-point packs. Determining the impact of shrinkflation on overall consumer prices might be difficult to quantify.

Why is Getting Less with Shrinkflation Preferable to Paying More? April 24, 2022; 9.18 pm IST; from 'The Economic Times'.

This paper depicts why getting less with shrinkflation is preferable to increased prices. Consumers are aware that inflation has caused the prices of items to spike in the wake of COVID-19. But while groceries are going up in price, in some cases, their sizes are also shrinking. The phenomenon is known as Shrinkflation. While most shoppers don't examine their purchases, the fact is that they may be paying the same amount — or in some cases, even more — for less product. Also known as

downsizing, shrinkflation can hit your wallet hard, if you're not an informed consumer. The price of gas, groceries and other consumer goods has risen steadily in the last few months, causing sticker shock for some shoppers. The consumer may see shrinkflation as a cash grab by major manufacturers. However, industry experts say that it's just one of the ways companies cope with higher costs fueled by inflation, shortages and supply chain snarls. To avoid being tricked into spending more, industry experts advise shoppers to keep an eye on a product's net weight or price per ounce.

Ethical Dilemma, Deception, or Good Business? July 7, 2022, 20:22 IST; by Bryan E. Wood
(Published Date: June 28, 2022)

This research paper explores the ethical standpoint of shrinkflation and its root causes. It sheds light on how government intervention policies, trade wars, the pandemic, and the Russian invasion of Ukraine have played a role in shrinkflation. Perspectives of both the consumers and organizations to see if they differ or if they are the same are scrutinised. This paper also studies global supply chain management, how it has been affected by government intervention, and what it is doing to combat this with labour shortages and increasing costs of materials. It does a comprehensive study on shrinkflation and the global economic environment. Some economists argue that shrinkflation is nothing new. Manufacturers often adjust the packaging, and even though it is an illegal approach, it keeps them alive in the market while some argue that shrinkflation is a good business if practiced correctly and the consumers are informed.

What is Shrinkflation? – Causes, Effects, & Examples; March 1, 2022, by Aashish Pahwa.

This research paper deals with shrinkflation, its causes and effects in India. It states that shrinkflation is the process of downsizing the quantity and quality, reformulating and removing an ingredient from a product. Companies often use this to avoid raising prices and losing customers. Many companies have decreased their product quantity. The reason behind shrinkflation is increased cost, competition, and changing demand. It gives rise to hidden inflation as the price of a product doesn't change, but the quantity does. This makes the consumer think that producers are defrauding them.

On the other hand, companies argue that shrinkflation is necessary to maintain the quality of their products. Shrinkflation may be more affordable, but it makes the consumer lose trust due to the seemingly unfair trade practices of companies.

Shrinkflation: What is Shrinkflation and its Economic Impact? By Faisal Khan- 30 January 2019

(Published in Technicity)

This paper investigates the effects of inflation, shrinkflation and their economic impact. Shrinkflation is usually restricted to the food & beverage industry. Most consumers are much more prone to checking the price variation. The producers, therefore, use this strategy to keep customers buying their products, albeit at a higher unit price without them noticing. Shrinkflation has been most striking in the UK in recent times. With the drop in the value of the Pound, retailers in the UK face rising input costs. With the price competition increasing among the supermarkets, they resorted to reducing pack sizes post the 2008 financial crisis & government's push toward healthier products & smaller portion sizes are some other reasons shrinkflation has become such an established trend in the UK.

Technology Power the FMCG Sector's Future Growth in India September 9, 2019; by Parimal Shah.

An increase in disposable income and a shift toward a consumption-driven society have helped India's FMCG sector scale up new growth paths. People are more conscious about consuming healthier and herbal foods. So there is a great tilt toward marketing such products. FMCG is the fourth largest sector in the Indian economy where the personal care and household segment account for 50 per cent of the market, while healthcare and food and beverages account for 31 per cent and 19 per cent of the market in the sector. The role of internet has increased in India, leading to growth in the FMCG market. This trend is expected to further gain pace over the coming decade. The Indian economy is the fastest growing economy in the world and digitalization has brought about tremendous transparency within the markets. The new government has taken fabulous initiatives in digitizing the Indian economy. Thus, the increase in technology in the Indian economy leads to a higher growth in the FMCG sector.

Shrinkflation: Niti Gupta

This paper illustrates what shrinkflation is, with some examples, causes, implications, advantages and disadvantages. It states that an increase in manufacturing costs and a strong level of competition in the market are the reasons for shrinkflation. This phenomenon helps to cope with intense competition and also helps to maintain profit levels even after the increase in input cost. However, it is against the general interest of customers and unfair to them. It gives rise to hidden inflation and maligns customer trust. Hence, shrinkflation is a powerful strategy by producers, though it may lead to adverse effects.

Shrinkflation: Daniel Liberto, updated on December 15, 2021, Reviewed by Michael Boyle and fact-checked by Diane Costagliola

This paper studies Shrinkflation by portraying how raising the price per given amount is a strategy employed by companies, mainly in the food and beverage industries, to stealthily boost profit margins. Changes are limited to a small range of products, yet are still enough to make accurate measures of inflation more difficult to gauge. Shrinkflation runs the risk of turning customers away from product or brand if they notice they are getting less for the same price.

FMCG Industry in India, 24 July 2022 18:43 IST, Indian Brand Equality Foundation (IBEF) - FMCG Industry in India and Industry Report published on March 2022 (updated May 2022)

This research paper deals with the size of the FMCG markets in India and their growth over the past years. The FMCG market grew 16 per cent in FY21, the fastest ever seen in the past nine years. Growth was seen at a faster pace in rural India than in urban India. Rising digital connectivity in the cities and rural areas is driving the demand for FMCG (through e-commerce portals). This research paper highlights some of the developments made in the FMCG markets over the years. The Government has allowed 100 per cent Foreign Direct Investment (FDI) in food processing and single-brand retail and 51 per cent in multi-brand retail as well as provided major initiatives to promote the FMCG sector in India. This research paper is based on secondary data. To conclude, the FMCG sector in India hails the fourth largest sector, with household and personal care accounting for the major section of the sales of the same in India.

How is shrinkflation helping FMCG companies tide over rising input costs? 24 July 2022 18:17 IST by Krishna Veera Vanamali, published on 18 May 2022, 07:00 IST (Updated on May 18, 2022, 12:06 IST)

This report investigates the struggles of FMCG companies. They have now resorted to 'shrinkflation' to cope with the increased input cost, without passing on the price burden to consumers. This report highlights that as consumers try to manage their budgets in the current high inflationary environment, FMCG companies are resorting to time-tested and innovative ways to mitigate unprecedented input cost rises. Companies are going for a mix of direct price hikes and grammage cuts. Their first step during high inflation is to try and absorb the costs. When a company is heavily exposed in terms of revenue to certain price points, tinkering with them is a competitive risk that could result in a loss of market share. To conclude, although companies incorporate a range of tactics to overcome inflationary pressures, they have no option but to go for grammage cuts for smaller packs so they do not lose out on market share in a competitive segment where significant volumes are dependent on price-sensitive consumers.

1.3 Statement of Problem

Shrinkflation is a form of hidden inflation. Instead of increasing the price of a product, something that would be immediately evident to consumers, producers reduce the size of the product while maintaining the same price. Though the absolute price of a product doesn't rise, the price per unit of weight or volume has increased. The reduction in quantity usually goes unnoticed by consumers (or at least that is what the manufacturer hopes). In the Indian market, even though shrinkflation is very much present, it is not as immense as in the global market. Our study attempts to find out the number of Indian products undergoing the process of shrinkflation.

To cope with the market competition by maintaining profit levels, many companies in India have adopted the process of shrinkflation by cutting down the size or quality of products while keeping its price the same. Some companies have openly declared shrinkflation in their products. Yet some companies are not ready to reveal their tactics. Hence, it is necessary to understand the awareness level among consumers on the process of shrinkflation happening around them and its impact on their demand for the commodity. It is crucial to know whether the consumers are willing to buy the same products at the same rate with the reduced quantity or if they have shifted to other alternatives.

1.4 Objectives

1. To inspect the categories of Indian products affected by shrinkflation.
2. To study the awareness level of consumers about Indian products affected by shrinkflation and its influence on their consumption.

1.5 Theoretical Framework

A theoretical framework consists of concepts along with definitions and existing theories used for your study. It limits the scope of the relevant data by focusing on specific variables and defining the researcher's viewpoint in analyzing and interpreting the data gathered. It also facilitates understanding concepts and variables according to the given definitions and builds new knowledge by validating or challenging theoretical assumptions. (Writing Guide)

A strong theoretical framework gives direction to your research, allowing you to convincingly interpret, explain, and generalise your findings. Under our topic of study, "Shrinkflation and its

Effects: A Study from the Consumer's Perspective", five theories have been chosen that support our research. These theories are chosen for their appropriateness, ease of application, and explanatory power.

These theories fulfill one primary purpose: to explain the meaning, nature, and challenges of a phenomenon, often experienced but unexplained in the world in which we live, so that we may use that knowledge and understanding to act in more informed and effective ways. (Writing Guide)

In our case, shrinkflation is a market reaction that has been happening for decades yet people have limited knowledge of it. This research hopes to shed light on the various causes, effects and solutions to this situation, as it is a serious problem from the consumer's perspective.

1.5.1 Silver Lining Effect: The silver lining effect predicts that segregating a small change from a large loss results in greater psychological value than integrating them into a smaller loss. It is shown analytically that if the gain is smaller than a certain threshold, segregation is optimal. This threshold increases with the size of the loss and decreases with the degree of loss aversion of the decision maker. In shrinkflation, the small gain refers to the constant price (since it doesn't increase) and the larger loss refers to the decreasing product size. (Ideas)
The smaller loss, in this case, would be if the producers decided to increase the price of their product rather than keep it constant. This effect is connected to the loss-aversion theory developed by psychologists Daniel Kahneman and Amos Tversky, which says people value losses and gains differently.

1.5.2 Implicit-Contracts Approach: It is a term used for attempting to explain why there are redundancies and layoffs instead of price adjustments or decrease in wages in the labour market during a recession. In shrinkflation also there is change in quantity or quality but not in price. Quantity can be taken as labour. This theory explains why there is a quantity adjustment instead of price adjustment. The FMCG companies sell their goods at same price by only they change their quantity to retain their customers from moving to other goods. (Capital)
An understanding between parties on acceptable forms of behaviour that is not part of any formal agreement. Implicit contracts arise in many social situations and have been proposed as an explanation of labour market institutions. Implicit contracts usually develop over time and represent trust between parties. For example, it has been suggested that Coca Cola has an implicit contract with its consumers not to alter the formulation of its standard cola product. (Oxford Reference)

1.5.3 Nominal Rigidity: Nominal rigidity, also known as price-stickiness, is a situation in which a nominal price is resistant to change. It assumes that the person could be fooled into thinking that the price quoted in current money is the same regardless of the real value of underlying money. This theory suggests that someone would still expect the price on any certain item to remain the same.

Producers are aware that the consumers are price sensitive so they keep the price constant and change their quality or quantity which is called shrinkflation. (Fandom)

Price stickiness, or sticky prices, is the failure of market price(s) to change quickly, despite shifts in the broad economy suggesting a different price is optimal. When prices cannot adjust immediately to changes in economic conditions or in the aggregate price level, there is an inefficiency or disequilibrium in the market. Often the price stickiness operates in just one direction—for instance, prices will rise far more easily than they will fall.

(Team Investopedia 2021)

1.5.4 Bandwagon Effect: The bandwagon effect is a psychological phenomenon in which people do something primarily because other people are doing it, regardless of their own beliefs, which they may ignore or override. (Team Investopedia 2023)

The bandwagon effect is part of a larger group of cognitive biases or errors in thinking that influence the judgments and decisions people make. Cognitive biases help people think and reason more quickly. However, they often make miscalculations and mistakes. This tendency of people to align their beliefs and behaviours with those of a group is also called a herd mentality. (Cherry, Kendra 2020)

Consumers often economize on the cost of gathering information and evaluating the quality of consumer goods by relying on the opinions and purchasing behaviour of other consumers. To some extent, this is a beneficial tendency- if other people's preferences are similar, their consumption decisions are rational, and they have accurate information about the relative quality of available consumer goods, then it makes perfect sense to follow their lead and effectively outsource the cost of gathering information to someone else. However, this kind of bandwagon effect can create a problem such that it gives every consumer an incentive to free-ride on the information and preferences of other consumers. To the extent that it leads to a situation where information regarding consumer products might be underproduced or produced solely or mostly by marketers, can be criticised. (Team Investopedia 2023)

In the case of shrinkflation, the bandwagon effect is noticed in both consumers and producers. Consumers may blindly believe in other people's opinions and buy products, thus not paying

attention to factors like shrinkflation that may affect their consumption if they knew about it. Producers also undergo the bandwagon effect when they find that some of their competitors are making more profit by adopting the method of shrinkflation. This makes others to follow the same procedure, thereby benefitting from the process.

1.5.5 Hypercompetition: Hypercompetition can be defined as organizations' use of tactics to disrupt the competitive advantage held by industry leaders. Hypercompetition typically occurs at a rapid pace. (Study 2017)

Today, shrinkflation is frequently used by marketers to achieve an unseen price rise for their products in a market defined by hypercompetition. Hypercompetition brings pressure on big brands. Similarly, the presence of online retail also undermines conventional business models. Among them, no one excels in the long run. Today the company might win, but in one year, it could be destroyed and bankrupt. Competitive pressure is getting stronger, along with advancing technological innovations.

Barriers to entry are also low because of globalization, which makes geographical distances closer. Furthermore, buyer pressure is also higher because now, they can easily compare prices.

1.6 Methodology

The data for this descriptive study is collected from both primary and secondary sources. The area of study is the State of Kerala. Shrinkflation observed from 2000 till 2022 is analysed under this thesis. Only products produced by Indian companies have been regarded for this study.

The secondary data has been collected from news articles, the Department of Economic Affairs: India website, books, records and other publications available. The COVID-19 pandemic and the Russia - Ukraine war have led to a sharp rise in food and fuel prices, causing inflation in the global market. Shrinkflation was the response of the producers to cope with the market situation. Some big companies in India have also declared that they have been undergoing the process of shrinkflation to cope with the market condition. This has led to most major market suppliers confessing that they've been shrinking their products too.

Shrinkflation is a phenomenon that has affected various product categories in India. Secondary data sources, such as news articles, books, and other sources of information, can provide valuable insights for studying the categories of Indian products affected by shrinkflation. By analysing this secondary data, researchers can identify which products have been affected and how the phenomenon has evolved over time.

Historical analysis is particularly important when studying shrinkflation, as it can help researchers understand the factors that have contributed to its occurrence in different product categories. News articles and other sources of information can also provide perception of consumer behavior and the impact of shrinkflation on their purchasing decisions. For instance, secondary data can help researchers understand whether consumers are willing to buy smaller products at the same price or switch to alternative products.

Furthermore, secondary data sources can help researchers identify industry trends related to shrinkflation. This can include information about which companies or product categories are most affected by shrinkflation and how they are responding to the phenomenon. By identifying these trends, researchers can gain a deeper understanding of the impact of shrinkflation on the broader Indian economy.

The primary data for this cross-sectional study is collected from 102 consumers residing in different districts of the state of Kerala. The research considers Kerala as a reference to study and compare the overall behaviour of producers and consumers in India. The purposive sampling technique is used here because of the diverse range of consumers under focus.

To analyse the awareness level of consumers about products affected by shrinkflation and its influence on their consumption pattern, a survey is conducted through questionnaires. This questionnaire contains 19 questions which are sub-divided into personal questions and questions identifying socio-economic characteristics of the sample. The questionnaire is equipped with the Likert scale which is a psychometric scale commonly used in research that employs questionnaires. For this study, respondents are chosen using purposive sampling technique to get a wide range of responses from different districts, age groups and income groups.

The aim of this study is to investigate the impact of shrinkflation throughout Kerala by incorporating residents from all 14 districts. Based on the study design, 102 respondents appear to be an appropriate number for this research. With seven to eight participants from each of the 14 districts, the study can capture a diverse range of perspectives on the impact of shrinkflation across Kerala. Additionally, by ensuring equal participation from different income groups, the study can analyse the role of income level on consumption patterns, providing valuable insights into the issue.

The respondents have been classified based on their gender, age group, place of residence (urban/rural), education, occupation and annual household income to understand better how these factors have influenced their cognitive response.

1.7 Limitation of the study

- 1.7.1 Lack of research papers on shrinkflation in India- Even though Shrinkflation is a global concept and is not a new phenomenon in the market; studies regarding Shrinkflation among Indian products have not yet been done.
- 1.7.2 Lack of conversation (primary contact) with producers- Most producers are big market players who cannot be contacted for this study. However, the statements they have given to reliable news articles regarding their reason for adopting Shrinkflation and how it has affected their profit margin have been included in this study.
- 1.7.3 Lack of complete and reliable information in the case of some products that have undergone shrinkflation- Due to incomplete information, such products have been omitted from this study.

1.8 Scheme of study

Chapter 1 - Introduction, review of literature, the need for study (statement of the problem), objectives, the scope of study (theoretical framework), methodology, limitations, and conclusion.

Chapter 2 - About shrinkflation, how it works, its causes, its effect on consumers, producers and the economy, advantages and disadvantages, long-term effects, the producer's perspective (key to downsizing and worth), the consumer's perspective (tips to avoid shrinkflation), shrinkflation in global markets, and shrinkflation in India.

Chapter 3 - Relationship between inflation rate and shrinkflation rate, products in India that have undergone shrinkflation, the FMCG industry in India (Characteristics, market share by revenue, driving factors leading to growth rate, most commonly sold FMCGs).

Chapter 4 - About questionnaire, primary observations in two categories- personal information and socio-economic characteristics, graphs, charts and information from articles to support the statistics.

Chapter 5 - Findings about shrinkflation from analysis of primary data, recommendations for

consumers to detect shrinkflation and encourage rational buying behaviour, recommendations for producers to be more transparent in product marketing and conclusion.

1.9 Conclusion

Not many studies have been conducted on the topic of Shrinkflation and Its Effects- a Study from the Consumer's Perspective. Hence, this study is based on the most reliable sources- news articles from around the world, books from the St. Teresa's College Library and official websites of financial and statistical bodies like the Reserve Bank of India, International Monetary Fund, World Bank and World Trade Organization. The COVID-19 pandemic and the ensuing war between Russia and Ukraine have led to interesting trends in the inflation rates. Shrinkflation was the reaction of the market to the skyrocketing inflation trend. It led to a peak in the global discussion about the drawbacks, advantages and legality of this practice. It led to a collective interest in our research group to study this topic under the Indian scenario.

CHAPTER 2
Shrinkflation:
An Overview

2.1 Introduction

Shrinkflation is the reduction in the size of a product in response to rising production costs or market competition. Rather than increase the price of a product, the company offers a smaller package for the same sticker price. Raising the price per given amount is a strategy by companies, mainly in the food and beverage industries, to stealthily boost profit margins. Changes are limited to a small range of products, yet are still enough to make accurate measures of inflation more difficult to gauge. Shrinkflation risks turning customers away from a product or brand if they notice they are getting less for the same price. (Liberto, Daniel 2021)

2.2 How Does Shrinkflation Work?

Packages that are shrinking could be the result of companies:

- Reducing size,
- Reducing quantity,
- Reformulating their products, or
- Removing ingredients from a product while maintaining the same price.

For example, common product packaging modifications include hollowed bottoms, curved sides and changed shapes. The result of these modifications is less product in the new packaging than in the previous packaging. Clever copy may utilise adjectives like new, improved, exciting or better on packaging to ensure consumers still believe the product quantity is the same as it previously was.

Some items shrink by a few ounces in products such as body wash containers, toothpaste tubes, ice cream cartons, chocolate sauce bottles and jars of peanut butter. Bottled beverages and sodas may decrease in size from two liters to one liter. Paper goods like toilet paper and paper towels, unable to shrink by the ounce, may shrink by packaging fewer rolls or sheets per roll.

(Pahwa, Aashish 2023)

2.3 Is Shrinkflation the Same As Inflation?

The simple answer here is that shrinkflation isn't the same as inflation—but they go hand in hand. When the costs go up for companies that produce products (thanks to inflation impacting on the prices or the supply chain), they shrink the products to make up for the cost increase on their end. And that is how shrinkflation is born.

And while most products out there cost more these days (like groceries), some companies have

decided to shrink their products instead of raising prices. The price of food or goods goes up on the back-end, but the consumer does not see it. So you are paying the same (maybe even more sometimes) but not getting as much product. Like inflation, the purchasing power of your rupee doesn't go as far here—but for a different reason.

2.4 What Causes Shrinkflation?

2.4.1 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 producers' profit margin. At the same time, the average consumer will not notice a reduction in quantity. Thus, sales volume will not be affected. (Liberto, Daniel 2021)

2.4.2 Intense market competition

Fierce competition in the marketplace may also cause shrinkflation. The food and beverage industry is generally extremely competitive, as consumers can access a variety of available substitutes. In a competitive industry, lifting prices could lead customers to jump ship to another brand.

Introducing small reductions in the size of their goods, on the other hand, should enable them to boost profitability while keeping their prices competitive. Therefore, producers look for options that enable them to keep the favour of their customers and maintain their profit margins at the same time. (Liberto, Daniel 2021)

2.5 The Effect of Shrinkflation on Consumers, Producers and the Economy:

For consumers: Shrinkflation tactics can also back fire badly. Most people won't notice small changes to the size of a product. If they do, it could have a detrimental effect on consumer sentiment toward the perpetrator, leading to a loss of trust and confidence.

That means companies can only make these types of changes so many times before consumers cry out foul. It maligns customer trust. They also need to be subtle and careful not to reduce sizes too much.

For producers: Companies often argue that shrinkflation is necessary to maintain their products' quality. However, when it is done without proper communication and explanation to the consumers, it can lead to a loss of trust between the company and the consumer. In some cases, it can also lead customers to buy products from competitors. The strategy may become a reason for the decline of a famous brand if customers recognise the injustice delivered to them through shrinkflation.

For the economy: It makes it harder to accurately measure price changes or inflation. It gives rise to hidden inflation. The price point becomes misleading since the product size cannot always be considered in terms of measuring the basket of goods. It is because inflation indexes consider the changes in the average price levels but ignore minor changes in the sizes of the products. The indexes work on the assumption that the basket of products remains unchanged.

(Pahwa, Aashish 2023)

2.6 Advantages of Shrinkflation

2.6.1 More Affordable: In case of shrinkflation, products may be reduced in size but not in price. This makes them more affordable for customers.

2.6.2 Maintained profits: Although the size of the product is reduced, companies can still maintain or increase their profit percentage by doing the same.

(Pahwa, Aashish 2023)

2.7 Disadvantages of Shrinkflation

2.7.1 Unfair practice: When a product is reduced in size without any change to the ingredients or quality, it can be seen as an unfair practice by consumers.

2.7.2 Loss of trust: When companies do not properly communicate with their consumers about why a product is shrinking, it can lead to a loss of trust between the two groups.

2.7.3 Competition: In some cases, companies may shrink their products to undercut the prices of their competitors. This can lead to a race to the bottom that is not good for either consumers or companies.

(Pahwa, Aashish 2023)

2.8 Long Term effects of Shrinkflation:

2.8.1 *Consumer Exploitation:* Shrinkflation is somewhat a financial fraud, if called so. With the decreasing quantity of products at the same/increasing price, consumers feel disheartened and disappointed.

2.8.2 *Inflation:* Not every, but some products over the years have witnessed a fair bit of inflation in their prices due to shrinkflation. Soon, this could be threatening.

2.8.3 *Consumer shift:* The producers are smart, but the consumers are smarter. When they notice a particular brand following the shrinkflation strategy too much, they immediately start looking for the next best alternative of that product. For example, if biscuit company A reduces the number of its chocolate cream biscuits by 5 per cent every 2 years at the same price and a different biscuit company B leaves its cream biscuits untouched, there's a high probability that company A's consumer base will shift to company B.

2.8.4 *Lower standard of living:* It impacts financial well-being and makes the working class vulnerable, for obvious reasons.

2.9 From the producers' perspective

Why not downsize every year?

Similar to a price increase, the success of downsizing relies on a change that has a minimal impact on unit sales. With too many downsizes, the change in product size becomes more noticeable to a consumer.

The key to downsizing is finding a balance—how much volume can be removed without impacting my sales? Generally, taking up to five to six per cent of a downsize doesn't appear to impact sales at all.

There can also be an issue with creating too much change at a plant level, where making changes every year can greatly disrupt the production cycle.

When is downsizing worth doing?

To determine whether downsizing is worth doing, you need to determine how long it will take to pay off change over costs, including:

- Listing/nuisance fees
- Liquidated inventory
- Packaging write-offs
- Cost of creating new packaging
- Tooling costs

The goal is to have a payback period of under 1 year. The cost of the changeover/downsize savings per unit of units needed to sell to break even.

You should also consider if the consumer will recognise the change in your product, the timing and management of the change, if any packaging requirements will not be met, and if you should aim to hit the correct planogram windows.

(2021)

Can downsizing be useful to consumers?

Quietly downsizing products is legal in many countries until the empty space in a company's packaging no longer serves a purpose. In a bag of chips, the air serves shipping and handling purposes so that the chips don't break. A bottle of aspirin needs space for machinery to insert and fill the bottle.

Is downsizing profitable after a limit?

Creating new packaging requires purchasing the machines to make it. How many millions do producers need to spend on the capital, the design, the supply chain, to make a package slightly smaller matters here. If the commodity price is reversed and everything goes back, they may have wasted their money.

(Diaz, Clarisa, 2022)

2.10 How to Notice and Avoid Shrinkflation?

One of the best ways to notice shrinkflation is by spotting a redesign on the packaging or a new slogan. This may signal the company has made a change and that change may be the size.

Shoppers can look at the price per unit to see if there has been a change; however, it may be difficult to remember the prior price per unit, but comparing the price per unit to different products can help you get the best deal.

Another way to avoid shrinkflation is by buying competing brands. Competing brands may not have downsized as yet and so you may get more value for the price you pay. Another method is opting for the store brand rather than a name brand. Store brands in general are cheaper than name brands.

Lastly, learning the net weights of products and what you're paying for them can help you notice any changes and which products are going to be the better value. (Liberto, Daniel, 2021)

2.11 Shrinkflation in Global Markets

USA: The US is battling higher inflation, which is at a 40-year high. Many manufacturers either have hiked the prices of their products or adopted shrinkflation to tackle the rising input costs. Not only restaurants and eateries, but groceries and other FMCG companies in the US are also going for shrinkflation. (Sarkar, Subhojit, 2022)

NEPAL: According to Nepal Rastra Bank, the year-on-year consumer price inflation jumped to a staggering 7.87 per cent in May, hitting a 69-month high. It was 3.65 per cent in May last year. Prices of oil, both edible and non-edible, are already at record levels. In Nepal, apart from imported goods that come with inflationary prices, domestic products have also seen a hefty rise fuelled by spiraling petroleum prices, says Nepal's central bank. Moreover, the war between Ukraine and Russia has magnified the slowdown in the global economy, which is entering what could become a protracted period of feeble growth and galloping inflation. To tackle this situation, Nepali companies (mainly FMCG) are resorting to shrinkflation. (Prasain, Krishana and Pandey, Pawan, 2022)

JAPAN: A recent Reuters poll shows that increases in raw material costs have meant 14 per cent of Japanese companies have passed on these price hikes to consumers. Another 40 per cent plan to do likewise in the future. Yet food companies are among the least willing to pass on costs, the survey showed, reflecting their fear of alienating shoppers. Japanese products are shrinking rapidly due to the impact of deflation, which makes it difficult to raise prices directly. As Reuters reports, there are even blogs in Japan that track shrinkflation. (Kajimoto, Tetsushi, 2022)

AUSTRALIA: Australians are increasingly getting less bang for their buck at the supermarket as companies gradually downsize their products while keeping prices level. Popular food brands are quietly reducing the size of their products sold in Australian supermarkets without decreasing prices accordingly, new research has found. (Seyfort, Serena, 2022)

UK: Food giants, facing surging prices of commodities such as oil and flour, as well as record power prices, are opting to cut pack sizes as well as hike check-out prices, adding to the wave of inflationary pressures hitting households. Products in the UK are also shrinking, and are being recorded by ONS. (Butler, Sarah, 2022)

2.12 What is the ideal rate of inflation?

If both too much and too little inflation can lead to negative conditions, what is the ideal level of inflation? It depends. Individual countries will each have their unique targets based on their specific economic circumstances. That said, the United States Federal Reserve has a long-standing target of two per cent inflation per year, which it has determined is the rate that best attains the policy's main goals of maintaining consumer price stability and maximizing employment. (Oner, Ceyda)

2.13 Shrinkflation in India

As inflation is going through the roof, consumers in India are trying to manage their budgets while buying daily essential items. However, it's not only the consumers who are feeling the pinch; manufacturers too are trying different methods to survive the soaring inflation.

Among these methods is shrinkflation, which has turned out to be a boon for the manufacturing sector worldwide. The fast-moving consumer goods (FMCG) companies, specifically, are resorting to such new, innovative ways to mitigate the rise in input cost. In price-sensitive markets such as India, where a consumer refuses to buy a product if the price increases even marginally, cost-cutting is the easiest way for companies to keep price points profitable.

Russia's war with Ukraine has sent commodity prices soaring globally, making it dearer for companies to procure raw materials they need to make daily consumer goods such as eatables and home and personal care products. Inflation across the globe is mostly because of the ongoing Russia-Ukraine war that caused supply disruption and rising costs in the energy basket. The world, which was opening gradually after the Covid-19 pandemic, faced the sudden wrath of the war, causing serious economic issues around the planet. Russia's invasion of Ukraine has also led to several strict sanctions by

Western countries, leading to supply disruptions and rising prices in the commodity basket. (Venkatesan, and Tandon, Suneera, 2022)

The jump in food inflation is largely on expected lines. The early data for May 2022 revealed a continued sequential uptrend in the average prices of edible oils, atta and wheat, reflecting the fallout of global supply disruptions triggered by the geopolitical conflict, including the palm oil export ban by Indonesia.

Meanwhile, India's inflation for April 2022 zoomed to 7.8 per cent, an eight-year high, thus breaking the upper limit of the Reserve Bank of India's (RBI's) threshold of 6 per cent. From food to commodities, prices across segments have surged, which resulted in pushing up wholesale price- based (WPI) inflation in April to a new high of 15.08 per cent. In March, WPI-based inflation was 14.55 per cent, while it was 10.74 per cent in April last year.

Since April last year, this is the 13th consecutive month that the WPI inflation has remained in double-digits.

To tame the surging inflation, the central bank, in an unscheduled policy review meeting of its Monetary Policy Committee (MPC), on May 4, 2022, hiked the policy repo rate with immediate effect under the liquidity adjustment facility (LAF) by 40 basis points to 4.40 per cent.

Several major FMCG companies have opted for shrinkflation. Firms such as Hindustan Unilever, Nestle, Dabur, P&G, Coca-Cola, Parle, Britannia, Cadbury (Parent company Mondelez) and PepsiCo have adopted this method. Several chief executives of the top FMCG companies in India have said that the operating environment has become extremely challenging due to the sharp rise in inflation. This is causing a drastic decline in consumption across the board. (Oriel, Astha, 2023)

2.14 Opinion/View of Indian FMCGs on shrinkflation:

2.14.1 Hindustan Unilever (HUL):

“At the end of the day, the wallet is limited for most people in our country. While we are a \$3- trillion economy, our average per capita income is just about \$2,000 and that also is highly skewed. So the money is limited and people then migrate towards more essentials and what they believe they need to do. If the money is limited and if that same amount of money is going to buy fewer volumes, then it is

very natural that the volumes will come down.”

“There are certain categories where the impact of inflation has been more severe. For instance, toilet soaps which are based on vegetable oils and palm oil have been impacted severely. If one looks at detergent powders which are based on crude oil-based derivatives and chemicals, that have been impacted severely.”

“When there are large packs, one can take a price increase on them because they cater to people who can afford to have a larger outlay.”

(Rai, Nayantara, 2022)

2.14.2 Cadbury:

“We’re facing the same challenges that so many other food companies have already reported when it comes to significantly increased production costs, whether it’s ingredients, energy or packaging, and rising inflation. This means that our products are much more expensive to make.

“We understand that consumers are faced with rising costs too, which is why we look to absorb costs wherever we can, but, in this difficult environment, we’ve had to make the decision to slightly reduce the weight of our medium Cadbury bars for the first time since 2012, so that we can keep them competitive and ensure the great taste and quality our fans enjoy.” (Ridler, Gwen, 2022)

2.14.3 Nestlé:

"Like every manufacturer, we are experiencing significant increases in the cost of raw materials, energy, packaging and transportation.

"We are doing everything we can to manage these costs in the short-term, but in order to maintain the highest standards of quality, it is sometimes necessary to make minor adjustments to the weights of our products. Final pricing is always at the discretion of individual retailers." (Flanders, Narin, 2022)

2.14.4 Coca-Cola:

“It was to ensure that we continue to provide affordable price points for our consumers. Increase in commodity costs have meant there is the occasional need to increase the price of its products.” (Chin, Chai, Neo, 2022)

2.14.5 PepsiCo:

“We began phasing out 32-ounce bottles in favour of 28-ounce ones, which are tapered in the middle to make it easier to hold them. The change has been in the works for years and isn't related to the current economic climate.” (The Associated Press, 2022)

2.14.6 Britannia:

“The volume cut might end up being even higher.” (Chatterjee, Adrija and Roy, Anup, 2022)

2.14.7 Dabur:

“We have reduced the volume — also known as grammage — on certain products to protect the 1, 5 and 10 rupee sacred price points.”

“The operating environment has been extremely challenging with inflation causing a “sharp drop in consumption across the board,” he said. In India, "down-switching" — another term for shrinkflation — is mostly done in rural areas, where people are poorer and more price sensitive, said Byas Anand, head of corporate communications for Dabur India, a consumer care and food business. In cities, companies simply jack up prices. (Bloomberg, 2022)

"My company has been doing it openly for ages," Anand said.

2.14.8 Procter and Gamble (PnG):

“We are facing a challenging cost environment due to the continued effects of the pandemic on supply chains, a tight labour market and as availability of materials remains stretched.”

"There is a cost element to innovation — adjusting the count per pack or the package size is one way of reinvesting in this innovation while maintaining a competitive price point." (CNN Wire, 2022)

2.14.9 Parle:

“Grammage reduction does not bother consumers with different price points. Rs5 and Rs10 are the classical and very convenient price points, both from the point of view of consumers and retailers.”

“Also, India still is a mono-pack market where consumers largely buy a single pack at a time. Given that companies kept reducing pack sizes all this while and ensured that a product is available at Rs5, it's only to a level that one can reduce the pack size. Beyond a point, if the pack is not big enough to satiate the hunger of a consumer, there's no point. There is no scope for further reducing it. This was done for every product, across categories including biscuits, namkeens, snacks, soaps, shampoo, etc.” (Krishna, Tanya, 2022)

2.14.10 ITC:

“Every category has had inflationary headwinds.”

“it is imperative that industry players adopt transparent and ethical practices, and avoid resorting to any such measures (shrinkflation) that could lead to consumer dissatisfaction and impact the long-term sustainability of the industry.” (Chatterjee, Adrija and Roy, Anup, 2022)

“There are certain categories where the impact of inflation has been more severe. For instance, toilet soaps which are based on vegetable oils and palm oil got impacted severely. If one looks at detergent powders which are based on crude oil-based derivatives and chemicals that have been impacted severely. When there are large packs, one can take a price increase on them because they cater to people who can afford to have a larger outlay.” (ET Online, 2022)

2.15 Conclusion

This segment describes the concepts and working of shrinkflation, its advantages and disadvantages. The effects of the same on consumers, producers and the economy have been analysed in the overlying chapter. The process of shrinkflation has been observed from the perspective of producers. Its various effects in long term aspects and upon global and Indian markets have been described.

The methods to notice and avoid shrinkflation and the opinion or viewpoint of Indian FMCGs on shrinkflation have also been included. The chapter provides with an overall idea of shrinkflation and its effects on different components of the economy and the economy as a whole.

CHAPTER 3
Shrinkflation In The Indian
FMCG Industry:
Balancing Opportunities And
Challenges For Consumer
Products

3.1 Introduction

Secondary data analysis is an important tool for researchers seeking to better understand the phenomenon of shrinkflation in India. By analyzing news articles, books, and other sources of information, researchers can gain insights into the categories of Indian products affected by shrinkflation, consumer behavior, and industry trends. This information can then be used to develop effective strategies to address the challenges posed by shrinkflation and minimize its impact on the Indian economy.

The first objective of the research, which is to identify Indian products that have undergone shrinkflation, is analysed using secondary data sources such as news articles and websites. The study of products undergone shrinkflation in this chapter has provided valuable insights and a deeper understanding of the shrinkflation process. The use of these sources has proven to be highly beneficial in achieving this research goal.

The fast-moving consumer goods (FMCG) sector is India's fourth-largest sector and has been expanding at a healthy rate over the years as a result of rising disposable income, a rising youth population, and rising brand awareness among consumers. With household and personal care accounting for 50 per cent of FMCG sales in India, the industry is an important contributor to India's GDP.

India is a country that no FMCG player can afford to ignore due to its middle class population which is larger than the total population of USA. The Indian FMCG market continues to rise as more people start to move up the economic ladder and the benefits of economic progress become accessible to the general public. More crucially, with a median age of just 28, India's population is becoming more consumerist due to rising ambitions. This has been further aided by government initiatives to increase financial inclusion and establish social safety nets.

Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of the total rural spending. (FMCG Industry in India Report 2022)

In an inflationary environment, prices of raw materials, resources, labour, technology and capital increase. Generally, market players respond by increasing the price of the finished goods, so that consumers can bear the brunt of inflation. However, in a country whose majority population depends on FMCGs for their everyday needs, it is not a wise choice for manufacturers to increase the price of goods during inflation. Unevenly rising prices inevitably reduce the purchasing power of some consumers, and this erosion of real income is the single biggest cost of inflation. Inflation can also distort purchasing power over time for recipients and payers of fixed interest rates. Hence, manufacturers respond to the prevailing market conditions using a hidden inflation technique- Shrinkflation.

3.2 India’s Inflation trends

Table 1: India’s Inflation Trend

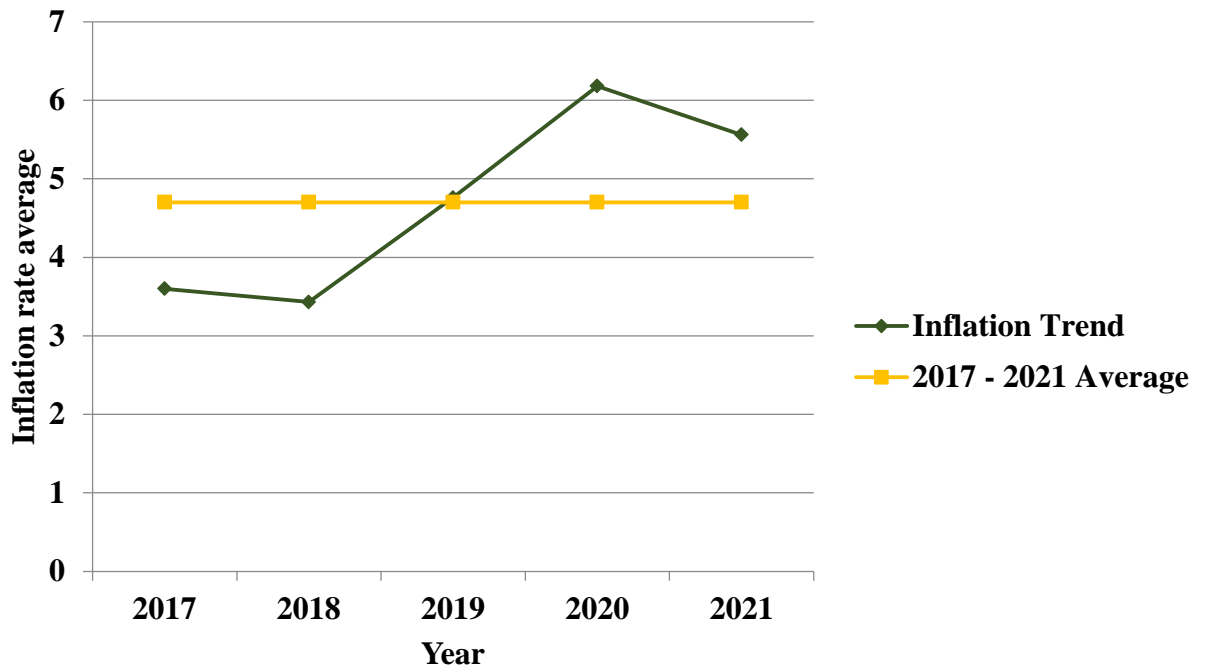
Years	Average (in percentage)
2017	3.60
2018	3.43
2019	4.76
2020	6.18
2021	5.56
2017-2021	4.70

Source: India- Inflation rate from 1987 to 2027

The average inflation rate in India from 2017 to 2021 was 4.70 per cent .

In 2017, the inflation rate was 3.60 per cent , which decreased slightly to 3.43 per cent in 2018. However, in 2019, the inflation rate increased significantly to 4.76 per cent , and further increased to 6.18 per cent in 2020, which was primarily driven by the COVID-19 pandemic and its impact on the economy. In 2021, the inflation rate decreased slightly to 5.56 per cent .

Chart1: India's Inflation Trend (in percentage)



The FMCG industry, which primarily deals with fast-moving consumer goods, is more susceptible to shrinkflation due to the high competition and price sensitivity among consumers. Companies in this sector often resort to shrinkflation to maintain their profit margins without having to raise the prices of their products.

Therefore, it can be said that the rise in inflation in India may have contributed to the trend of shrinkflation in the FMCG industry. Companies in this sector may have opted to reduce the size or content of their products to avoid raising their prices and to remain competitive. However, it is important to note that shrinkflation is not the only factor responsible for the increase in prices of FMCG goods, as there may be other economic and social factors at play.

Overall, the inflation trend in India seems to have fluctuated over the past few years, with a notable increase in 2020 due to the pandemic. However, it's important to note that this is just a snapshot of inflation trends and other factors such as government policies, global events, and economic conditions can have a significant impact on inflation rates in the future.

Central banks across the globe have started hiking interest rates. Most are following a contractionary monetary policy, meaning they have started taking money out of the economy. If the tapering of liquidity impacts personal income, it could restrict consumers from spending, eventually stalling economic growth and causing a considerable output gap.

High prices could mean the following for FMCG companies:

- Lower Profit Margins
- High Cost of Transportation/Supply Chain
- Increased Cost of Storing
- Reduction In Volumes of Goods Sold

Shrinkflation is widely used by producers in the food and beverage industry. It has become a common tactic to help producers deal with their own inflation problems from suppliers. Many companies determined that their customers would balk and perhaps begin to look for substitute products if confronted with yet another price increase. The solution? – Shrinkflation.

Essentially, shrinkflation is a form of hidden inflation. Instead of increasing the price of a product, something that would be immediately evident to consumers, producers reduce the size of the product while maintaining the same price. The absolute price of the product doesn't go up, but the price per unit of weight or volume has increased. The small reduction in quantity is usually unnoticed by consumers (at least that's what the manufacturer hopes).

3.3 Products in India that have undergone shrinkflation

Table 2: List of products affected by shrinkflation

No	Product	Price	Net weight before	Net weight after
1	Parle G	Rs.10	140g	110g
2	Lahori Zeera	Rs.10	200ml	160ml
3	Vim Bar	Rs.10	155g	135g
4	Wheel Detergent	Rs.5	115g	110g
5	Rin	Rs.10	150g	140g
6	Haldiram (Aloo Bhujia)	Rs.52	55g	42g
7	Nestle Maggie	Rs.10	110g	70g
8	Coca Cola	Rs.20	250ml	200ml
9	Dove	Rs.44	709ml	650ml
10	Dairy Milk	Rs.350	180g	163g

11	Lays Chips	Rs.10	50g	35g
12	Good Day	Rs.10	100g	50g
13	Dove Shampoo	Rs.414	709g	650g
14	Tropicana	Rs.118	1L	850ml
15	Toblerone	Rs.450	200g	170g
16	Tetley	Rs.210	100 Teabags	88 Teabags
17	Pedigree	Rs.3443	22g	20g
18	Dawn	Rs.700	200g	185g
19	Gatorade	Rs.81	907g	794g
20	Pantene Conditioner	Rs.3050	340g	295g
21	Quaker oats	Rs.72	10Packets (10×30)=300g	8Packets (8×30) 240g
22	Doritos	Rs.2499	276g	252g
23	Hershey's Kisses	Rs.904	510g	456g
24	Johnson's Baby Shampoo	Rs.330	425g	386g
25	Tresemme Shampoo	Rs.740	964ml	828ml
26	Lysol Disinfectant	Rs.559	560g	500g
27	Pringles	Rs.269	169g	158g
28	Pepsodent	Rs.65	170g	156g
29	Colgate	Rs.112	232g	226g
30	Nescafe	Rs.640	200g	170g
31	Mcvities	Rs.293	332g	300g
32	Twix	Rs.300	200g	160g
33	Snickers	Rs.175	232g	164g
34	KitKat (4 fingers)	Rs.450	45g	42g
35	Kellogg's Cornflakes	Rs.575	500g	450g
36	Coco Pops	Rs.2330	800g	720g
37	Sensodyne	Rs.210	100ml	75ml
38	Surf wash powder	Rs.450	2kg	1.61kg
39	Maltesers	Rs.399	103g	93g
40	M&Ms family pack	Rs.390	165g	140g
41	Mars	Rs.499	58g	51g
42	Oreo (double Stuff)	Rs.1160	470g	435g
43	Head & Shoulder	Rs.295	450ml	400ml

44	Whiskas	Rs.404	2kg	1.9kg
45	Tide	Rs.146	1kg	850g
46	Orbit	Rs.5	6 units	5 units

Source: Ranade, Ashna; Chatterjee, Adrija and Roy, Anup(2022); Team vol(2022)

Note: This list only includes shrinkflated products in India which consumers have detected over the years.

Shrinkflation is a phenomenon where companies reduce the number of products sold while maintaining the same price. This effectively increases the price per unit of the product and can lead to increased profit margins for the company.

Analysing table 2, it can be seen that some products have experienced major shrinkflation, while others have not shrinkflated their products as much. For example, the net weight of Parle G has decreased from 140g to 110g, while the price remains the same at Rs. 10. Similarly, the net weight of Dove shampoo has decreased from 709g to 650g, while the price has remained at Rs. 44. These are clear examples of shrinkflation.

On the other hand, there are some products that have not experienced major shrinkflation. For example, the price of Rin detergent remains at Rs. 10, while the net weight has decreased only slightly from 150g to 140g. Similarly, the price of Tetley tea has remained at Rs. 210, while the number of teabags has decreased only slightly from 100 to 88.

Overall, it appears that shrinkflation is a common practice in the consumer goods industry, with some products experiencing more shrinkflation than others. It is important for consumers to be aware of these changes in product sizes and prices so that they can make informed purchasing decisions.

Shrinkflation is a phenomenon that affects various product categories in India, but some categories have experienced more significant impacts than others. One product category that has seen a maximum impact of shrinkflation in recent years is the packaged food industry.

The packaged food industry in India has witnessed significant shrinkflation due to multiple factors, including the increasing cost of raw materials and transportation, the introduction of the Goods and Services Tax (GST), and the rise in demand for affordable products. As a result, manufacturers have resorted to reducing the size or quantity of the product while keeping the price the same, leading to shrinkflation.

In addition, the packaged food industry in India is highly competitive, with numerous brands competing for market share. To remain competitive, manufacturers have opted to use shrinkflation as a cost-cutting measure rather than raising prices. This has led to smaller product sizes and less value for consumers.

Overall, the packaged food industry in India has seen a maximum impact of shrinkflation due to cost pressures and intense competition, leading to smaller product sizes and less value for consumers.

3.4 FMCGs

Fast-moving consumer goods (FMCG) are consumer products designed for frequent use, usually consumed quickly, and have high demand and low cost.

This definition of FMCG can be broken into four key parts

- Designed for frequent use: FMCG products are typically used often, even daily. These include products like bread, soap and shampoo.
- Consumed quickly: FMCG products are consumed quite speedily. For example, a consumer might purchase bread from a local bakery or bakery chain and eat it on the same day it is purchased.
- Have high demand: The demand for FMCGs is usually very high. This can be due to their affordability or practicality, among other reasons. An example of an FMCG product with high demand would be soap – people tend to buy soap frequently due to the need for cleanliness.
- Low cost: FMCGs are usually inexpensive or at least cheaper than other types of goods on the market. An example would be bread – it is often much more affordable than a luxury handbag.

These goods are called fast-moving as they move from the sales area to the point of consumption within a short time. (Pahwa, Ashish 2022)

3.5 Characteristics of FMCGs

Some key characteristics define FMCG products and separate them from other types of products.

These are:

3.5.1 From The Consumer Perspective

- High availability: FMCG products are usually widely available and sold in several stores and supermarkets worldwide. This allows consumers to purchase these products easily without too much trouble.
- Purchased frequently: FMCGs include products that consumers frequently require, usually daily or near-daily. For example, loaves of bread and coffee are generally bought at least once a

week.

- Low buying effort: FMCGs are usually low-effort purchases for the consumer. For example, with shampoo, most people know that they prefer a particular brand or type without testing it. This means that most people enter the store knowing exactly what they want and buy it straight away.
- Low cost: FMCGs are usually inexpensive compared to other products on the market, therefore taking up a smaller proportion of consumers' income.
- Rapid consumption: The time between buying the product and consuming it is very short, often only some hours. For example, a loaf of bread might be purchased in the morning and consumed at lunchtime that same day.

3.5.2 From The Retailer's Perspective

- High turnover rate: FMCG sales are higher than other product types' sales as they are purchased frequently by consumers. This means that retailers can keep inventory for these products for shorter periods, which ultimately reduces costs.
- Highly distributed: Since these goods have high demand and low cost, they usually need to be widely available and distributed across different locations and regions. For instance, there might be several different supermarkets in a town that all sell the same bread brand.
- Low unit cost: As FMCGs have a high demand and low cost, they usually have a low unit price for consumers. This means that retailers can sell these products at a low price and still retain the same profit margin. This is different from luxury items that usually have a high unit cost but lower demand, meaning that they must be sold at a higher price to maintain the retailer's desired level of profit.
- Non-durability: FMCGs are not built to last. This is because they have a short time from production until consumption. They are also required in large quantities, so manufacturers do not need to preserve them for long periods, which allow them to be sold at lower prices.
- Consistency in form, size, colour and price: FMCGs are standardised, which allows them to be produced cheaply in bulk quantities. For example, if a manufacturer produces packets of shampoo, they are all the same size and contain the same amount of liquid. This means that when one purchases a packet of shampoo from their local store, they know exactly what they are getting. (Pahwa, Ashish 2022)

3.6 Types of FMCGs

FMCG products are usually broken up into different types depending on the industry they are sold in. These include:

- Processed foods: Cheese products, cereals, and boxed pasta
- Prepared meals: Ready-to-eat meals
- Beverages: Bottled water, energy drinks, and juices
- Baked goods: Cookies, croissants, and bagels
- Fresh foods, frozen foods, and dry goods: Fruits, vegetables, frozen peas and carrots, and raisins and nuts
- Medicines and healthcare products: Plasters, bandages, syringes, condoms, Aspirin, pain relievers, and other medications that can be purchased without a prescription
- Cleaning products: Baking soda, oven cleaner, kitchen towels, toilet rolls, bleach, dusters and window/glass cleaner
- Cosmetics: Hair care products, concealers, lotions, hair dyes, lipsticks and deodorants
- Toiletries: Dental care products, soap and bathing gel
- Office supplies: Pens, pencils, and markers

(Kenton, Will 2021)

3.7 Market share of Indian FMCGs (by revenue)

Table 3: Market Share of Indian FMCGs (in percentage)

Company's Name	Market Share
ITC	30
Hindustan Unilever (HUL)	14
Nestlé	5
Britannia	1
Patanjali Ayurveda	4
Dabur	2
Godrej Group	2
Marico	5
GlaxoSmithKline (GSK)	1

Colgate-Palmolive	1
Emami	2
Amul	4
Parle Products	7

Source: Hem Securities Ltd.

The given data shows the market share of various companies in the Indian FMCG (Fast Moving Consumer Goods) sector. Here are a few observations and analyses based on the given data:

Market leaders: ITC and HUL are the top two players in the Indian FMCG market, with 30 per cent and 14 per cent market share respectively. These two companies collectively control almost half of the market.

Other significant players: Apart from ITC and HUL, there are a few other companies with a considerable market share, such as Nestle, Patanjali Ayurveda, Marico, Amul and Parle Products. These companies have a combined market share of around 23 per cent .

Fragmented market: The remaining companies in the list, including Britannia, Dabur, Godrej Group, GlaxoSmithKline, Colgate-Palmolive and Emami, have relatively small market shares, with each company having less than 5 per cent of the market share. This suggests that the Indian FMCG market is highly fragmented with no single dominant player.

Competitive environment: The presence of many players in the market indicates a highly competitive environment where companies have to constantly innovate and differentiate themselves to stay relevant.

Growth potential: With the rising disposable income and changing lifestyle of consumers in India, the FMCG market is expected to grow significantly in the coming years, providing opportunities for both established and new players to increase their market share.

The given data highlights the competitive and dynamic nature of the Indian FMCG market, with a few dominant players and several smaller players, and the growth potential of the market in the future.

While the data doesn't provide direct insights into the extent of shrinkflation in the Indian FMCG market, it does suggest that the market is dominated by a few large players who may be better equipped to navigate the challenges posed by this phenomenon.

3.8 Driving factors leading to the growth rate of FMCGs

3.8.1 Investment and Development

The Government of India has allowed 100 per cent Foreign Direct Investment (FDI) in food processing and single-brand retail and 51 per cent in multi-brand retail.

This has strengthened employment in the country, supply chain, and consumer spending and encouraged the launches of more products. The sector has witnessed a good FDI inflow of US\$ 18.03 billion from April 2000 to December 2020. In January this year, Del Monte launched a special 1-litre pouch pack of olive oil in India and its price has been kept at Rs. 250 (US\$ 3.42), hence making olive oil affordable to consumers.

3.8.2 The e-Commerce Boom

The revolution of technology not just took place in urban India, but in rural India as well. There has been a noticeable shift in the demand for e-commerce due to its wider reach across the country, be it in rural or urban areas. It has greater consumer convenience, as with the help of apps and websites, consumers can easily select and purchase the products of their choice and products will be delivered to their homes with the home delivery option.

3.8.3 Value Expansion

The retail market in rural India and the rise in rural consumption are also responsible for driving the FMCG market. Its contribution is 36 per cent of the overall FMCG spending. The processed food market in India is projected to reach USD 470 billion by the year 2025, from USD 263 billion in 2020-21. The Indian FMCG industry grew with the support of consumption-led growth and value expansion from higher product prices, particularly for staples.

It witnessed growth into double digits and reached 10.6 per cent due to various government initiatives such as hygiene categories, high agricultural production, reverse migration and packaged staples. Their contribution to different categories in the FMCG sector includes Household & Personal Care, tobacco, Food & Beverages and others.

3.8.4 Role of Technology

Agility is the pervasive sentiment in the FMCG sector and technology can provide this agility to FMCG companies. With the help of technology, the FMCG sector is further planning to improve operational efficiency, identify new opportunities and manage multifaceted supply chain requirements.

FMCG relies heavily on market research as it helps the sector identify consumer behaviour and field sales professionals. With the use of advanced field service management software, enterprises leverage the power of the cloud, business intelligence and data analysis to increase the performance of the sales operation.

3.8.5 The Way Forward

The rural market of India is expected to reach up to US\$ 220 billion by 2025 from US\$ 23.6 billion in 2018. Rural consumption in India has increased, which has led to a combination of increasing incomes and higher aspiration levels of the masses. Another important factor that will drive the demand for FMCG in India is the growing percentage of the young population in the country.

It is a well-known fact that India has the largest youth population in the world and, in today's fast-paced lifestyle, they prefer going with packaged food and products rather than preparing them on their own. This category contributes the largest amount of sales to the FMCG sector. With these developments, the FMCG sector looks all set to keep traversing the path of growth.

(Pratap Singh, Vishal 2021)

3.8.6 Demand showing improvements post-note ban

Most companies from Unilever to Dabur to Marico, Tors and Mondelez have highlighted recently that demand has recovered post the high-value note ban in the December quarter. They say that consumers, especially in urban areas, have gotten past the hurdles faced during the note ban, prompting sales to show improvement in the March quarter.

3.8.7 Consumer staples are resilient as a category

Most analysts believe that consumer staples as a category remain resilient to external factors such as the note ban since these are essential goods required for consumption and survival. So while factors such as demonetisation can dampen demand for one quarter, it cannot do so for long.

3.8.8 Companies were quick to adapt to the changing scenario

To lessen the pain, companies were quick to manage inventory and distribution during the note ban, increasing the credit period for trade strapped for cash. In recent months, companies have been talking to traders to switch to digital payments to ensure the seamless transfer of goods.

3.8.9 Companies are focusing on urban for now

Most FMCG companies admit that business will take time to return to normal in rural areas owing to

the note ban. So the focus for them will be on pushing sales in urban areas. While rural constitutes a third of FMCG, two-thirds continue to come from urban areas, so the medium to short-term emphasis on urban till rural areas return to normal, says analysts, is not a bad idea.

3.8.10 GST preparedness

That is expected to be critical for companies going forward. How they accustom themselves to this tax regime will determine whether it will be business as usual for them in the coming quarters.

(Susan Pinto, Viveat 2017)

3.9 Impact of Covid-19 on the FMCG sector

As Covid-19 hit the Indian economy, many sectors experienced a setback. These majorly included aviation, travel and tourism and real estate sectors.

FMCG industries selling essentials are doing well as essential products are high in demand. But, the overall industry is affected due to supply chain break-downs and stockpiling. Many companies have cut down their operations during the lockdown. Hence, the average growth rate of the FMCG sector declined to 6.6 per cent in the first 3 quarters of FY 2020.

But even during the great Indian recession of 2008 and the Covid-19 pandemic, performance of FMCG stocks were better than other sectors.

(Mendonsa, Clarise 2021)

3.10 Impact of the Russia-Ukraine War on the FMCG sector

Shrinkflation or reducing the size or quantity of a product while keeping the price unchanged, is a little-known term in India, but a surge in raw material costs following the war in Ukraine pushed several FMCG companies to resort to such a practice to ensure there is no impact on the fragile recovery in demand.

And when they exhausted all options, FMCG (Fast Moving Consumer Goods) companies raised prices. Now, they are hoping to recover the lost ground in 2023, with a recovery in margins and volumes, especially from the distressed rural areas amid softening commodity prices.

FMCG companies are "cautiously optimistic" and expect the rural market, which accounts for more than one-third of the overall sales, to bounce back in 2023 riding on a good harvest season, government impetus, and improvement in farm income. Besides, they expect the tail winds of emerging channels like modern trade and e-commerce driving urban demand, and from a rise in

premium discretionary categories.

Besides, the FMCG industry, which witnessed a seismic shift in omnichannel growth with sales significantly outpacing in-store growth across metro cities, expects the trend to continue and the strategy will be to focus on product and consumer experience innovation, prioritising profitable channels.

3.11 Conclusion

This chapter provides details about the various global and Indian FMCGs. Even though shrinkflation is very much a reality in all countries, its presence in India has been a source of doubt. Most consumers feel that shrinkflation has more to do with psychology and that products aren't actually shrinking in size or quantity. This chapter gives a glimpse into the hardcore evidence that shrinkflation is very much present in India.

Most products being shrinkflated are FMCG goods as they are essential commodities and increasing the price of these commodities would only drive away consumers to its substitutes as most FMCGs have highly elastic demand. Hence, even though there is inflation in the Indian economy, manufacturers resort to shrinkflation rather than raising prices to get more profit.

Just when demand seemed to be recovering, a war in Ukraine sent commodity prices shooting up in 2022. To tackle high raw material costs, several FMCG companies downsized product packets while keeping the price unchanged. Dubbed 'shrinkflation', this effectively means consumers are paying the same for less of the product. But with Covid infections receding and the economy opening up, demand started to recover in the last quarter of 2022. And FMCG companies, who were severely hit during the previous two years because of the pandemic, are hoping things will improve in 2023.

CHAPTER 4
How Consumers Respond To
Shrinkflation: Insights From
Research

4.1 Introduction

The objective of this research study is to identify the Indian products undergoing shrinkflation and study the awareness levels of consumers about Indian products affected by shrinkflation and how it influences their consumption. This chapter analysis the data collected by conducting surveys through questionnaires, consisting of 19 questions given to consumers from different districts in Kerala. The research considers Kerala as a reference to study and compare the overall behaviour of producers and consumers in India. The purposive sampling technique is used here because of the large number of consumers under focus.

Collection of information relevant to this study is done using questionnaires. The questionnaire was divided into two sections, namely, personal information and socioeconomic characteristics. This study compares the data given in both these sections to observe behavioural patterns and tendencies of consumers. The 102 respondents have been classified on various characteristics to understand better how these factors have influenced their cognitive response.

4.2 Analysis

4.2.1 Part A: Personal Information

This section of the questionnaire collects information related to the gender, age group, place of residence (urban/rural), education, occupation, annual household income and household expenditure budget (per month) of the respondents. This information will set the background for understanding how these factors influence shrinkflation, whether intentionally or otherwise.

- *Place of Residence*

Table 4: Place of Residence

No.	Districts	Number of Responses
1.	Kollam	2
2.	Thrissur	2
3.	Palakkad	2
4.	Malapuram	3
5.	Kozhikode	15

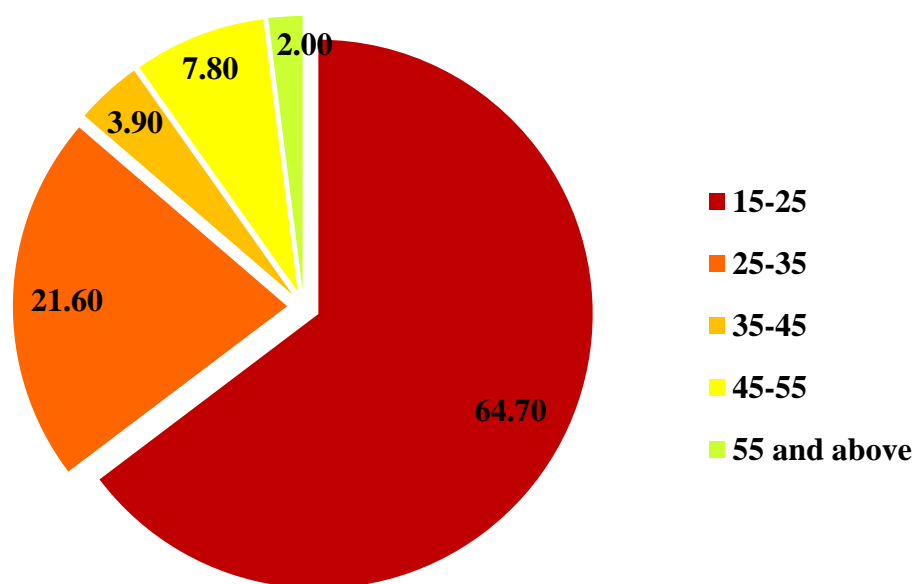
6.	Thiruvananthapuram	3
7.	Kannur	1
8.	Allapuzha	2
9.	Kottayam	4
10.	Ernakulam	59
11.	Idukki	9
	TOTAL	102

Source: Primary data

Table 4 shows the place of residence of the consumers. The responses have been collected from 11 districts out of the 14 districts of Kerala. The highest number of responses has been collected from Ernakulam district due to its metropolitan nature, wide variety of consumers and availability of diverse products and brands in the market. Irrespective of the place of residence, shrinkflation affects every individual consumer. Using this Chart, one can ascertain that this study has covered almost all the parts of Kerala using respondents as representatives of their respective districts.

- Age Groups

Chart 2: Percentage of Respondents In Each Age Bracket

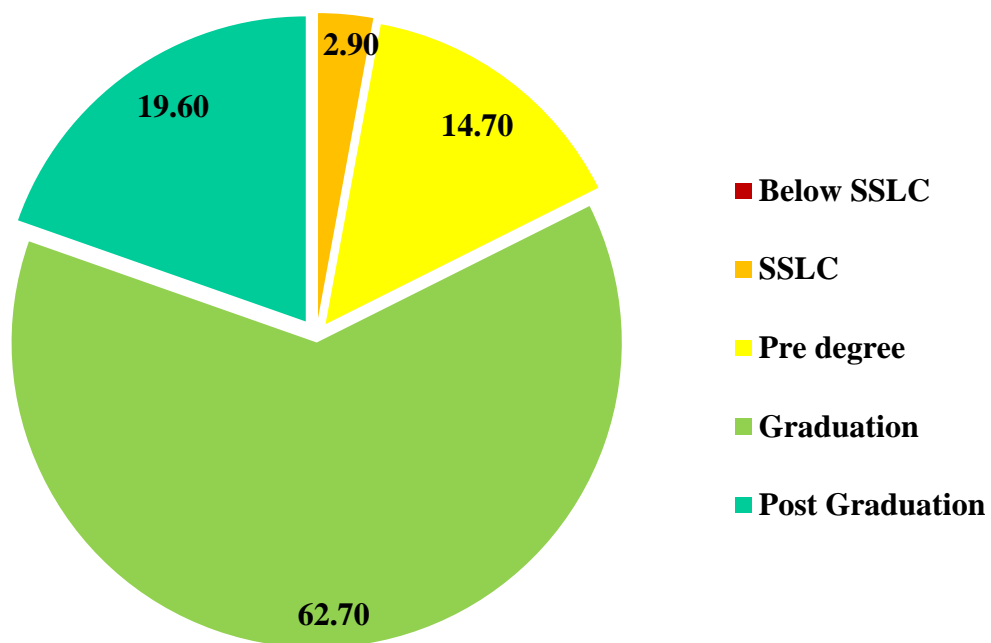


Source: Primary data

Chart 2 shows the percentage of respondents in each age group. The age has been classified into five groups, from 15-25 to 55 and above. The highest responses have been received from the 15-25 age group whereas the least is from the 55 and above group. Shrinkflation has been experienced by all age categories alike. From this data, one can comprehend that the independent (working age) population is more aware of the phenomenon of shrinkflation due to its widespread awareness and significance. This awareness is mainly due to the observations during their regular household purchase, as it is very difficult to spot shrinkflation otherwise, as there is no official documentation of the weights and prices of these consumer commodities.

- *Educational Qualification*

Chart 3: Educational Qualification of Respondents (in percentage)

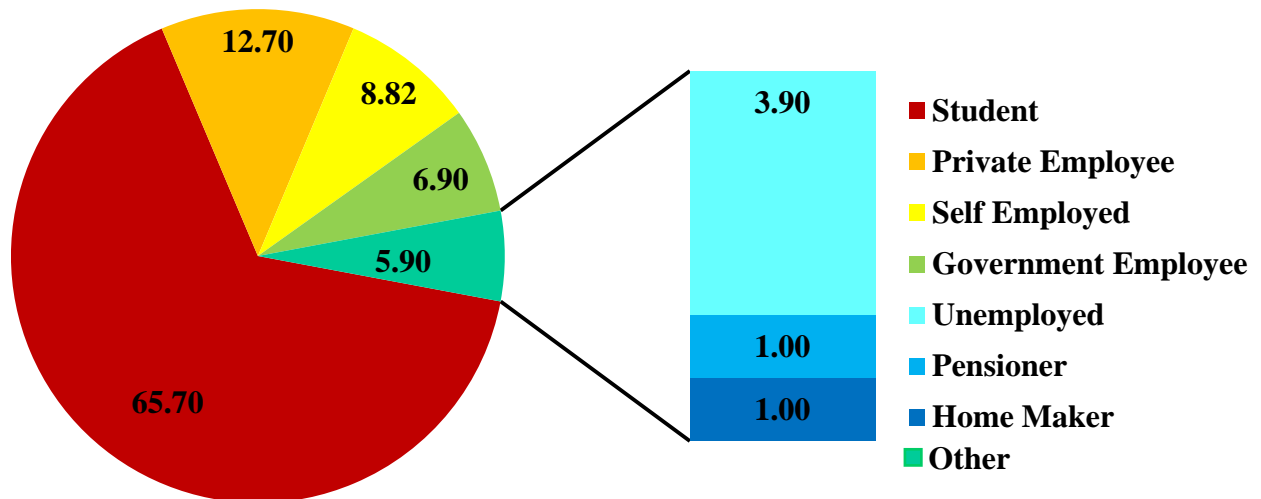


Source: Primary data

Chart 3 shows the percentage of respondents under each educational level under the study on shrinkflation. The educational qualification of the respondents has been classified into five categories. The highest percentage of educational status is graduation at 62.7 per cent and the lowest is SSLC which is 2.9 per cent. This shows that most consumers in the market have received atleast basic education and hence must ideally be aware of the process of shrinkflation and how it affects the economy at a macroscopic and microscopic level.

- *Occupational Background*

Chart 4: Occupational Status of Respondents (in percentage)



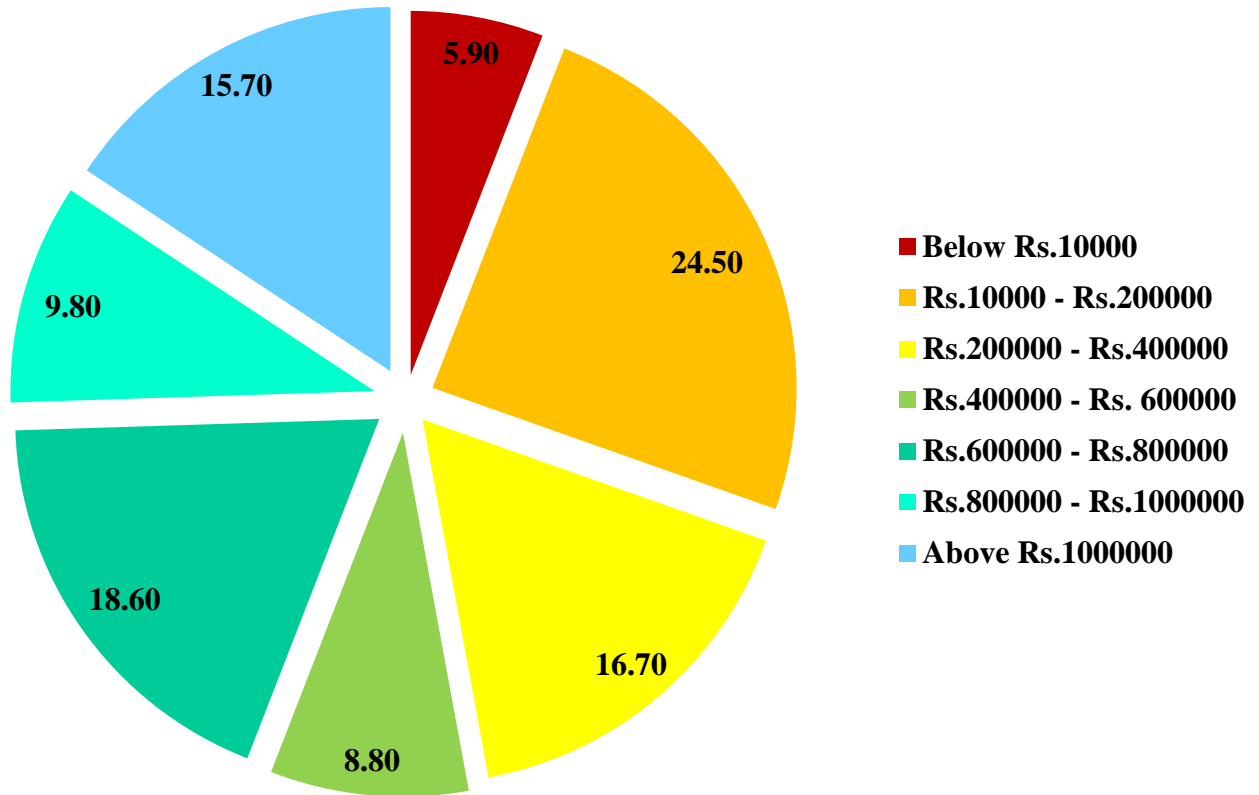
Source: Primary data

Chart 4 shows the occupational status of the consumers. The occupation of consumers has been divided into seven categories. Among the respondents, 65.7 per cent are students and it has the highest percentage of responses. The least number of respondents comes under the pensioners and homemakers (under the unemployed category) at 1 per cent each. The severe inflationary crisis combined with a global slowdown in economic growth – driven in part by the war in Ukraine and the global energy crisis – are causing a striking fall in real monthly wages in many countries.

According to a new International Labour Organization (ILO) report, the crisis is reducing the purchasing power of the middle classes and hitting low-income households particularly hard. At a time when the purchasing power is reducing, consumers are more worried about the price of goods rather than the quantity sold at that price, and this ignorance gives rise to shrinkflation. (www.ilo.org)

- *Annual Household Income*

Chart 5: Annual Household Income (in percentage)



Source: Primary data

Chart 5 shows the annual income of the consumers under the study on shrinkflation. The annual household income is classified into seven categories, between those below Rs.10000 and above Rs.1000000. The highest percentage of annual income comes under the category of Rs.10000-Rs.200000, and the lowest falls below Rs.10000. The process of shrinkflation reduces the size, weight, or quantity of a product by keeping the price same leads to a situation where the consumers have to pay the same for lesser quantity of product. Thus, consumers spend more of their annual income on buying the product.

- *Number of Family Members*

Table 5: Number of Members in the Family

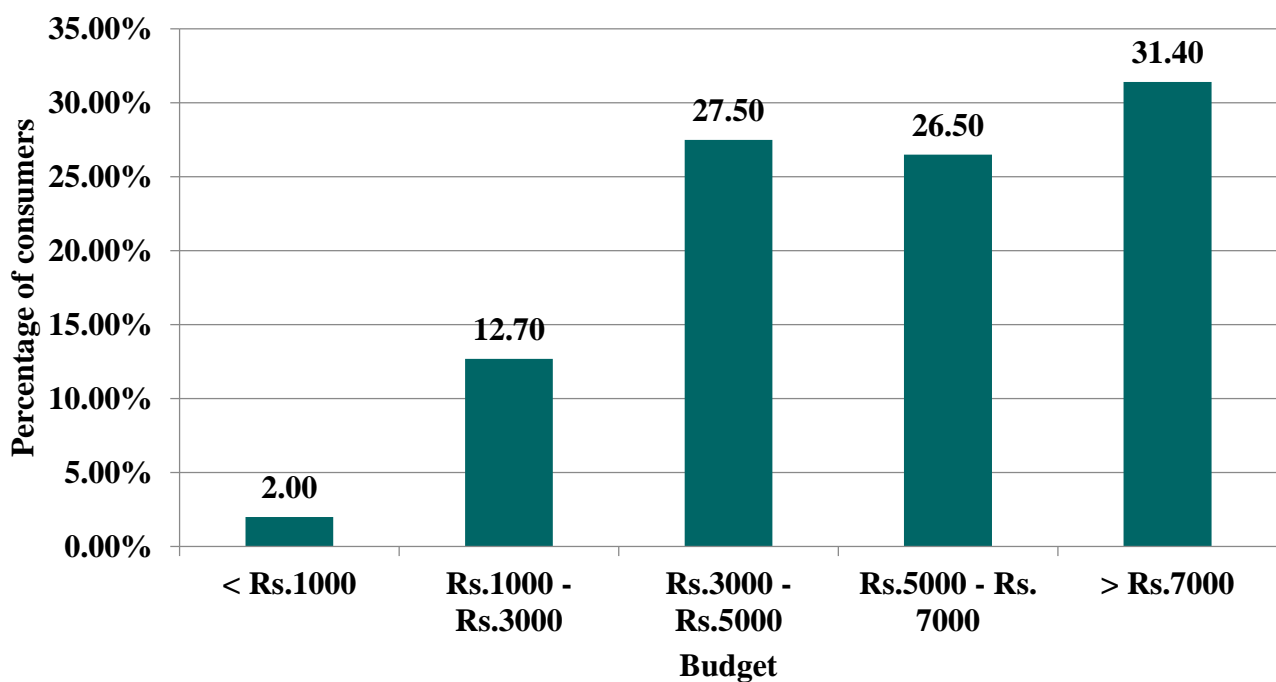
No.	Districts	Number of Responses (in percentage)
1.	Below 4	16.7
2.	4-6	74.5
3.	7-9	8.8
4.	10 members and above	-

Source: Primary data

Table 5 shows the number of members in the family under the study of shrinkflation. The number of members in the family has been classified into different categories, between those below four and above 10 members. The highest percentage comes under the category four to six, which is 74.5 per cent, and the lowest is 8.8 per cent, which falls into the seven to nine category. The increase in the rate of inflation will lead to an increase in the overall living costs, creating issues when the family members are high while the source of income is less.

- *Monthly Household Expenditure Budget*

Chart 6: Monthly Consumption Budget (in percentage)



Source: Primary data

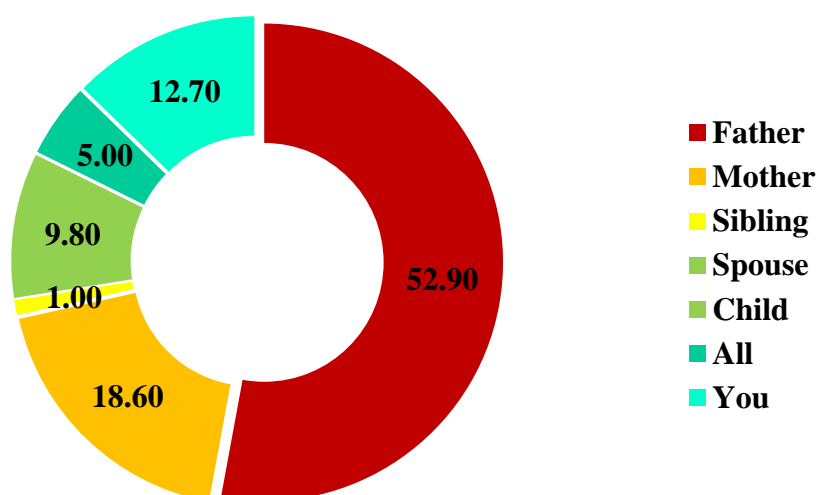
Chart 6 illustrates the percentage of consumers having different monthly budget sets. The budget set ranges below Rs.1000 and above Rs.7000. The budget above Rs.7000 has the highest percentage of consumers (31.40per cent) and below Rs.1000 has the least percentage (2per cent). The process of inflation increases the price of commodities, which affects the household budget of the consumers, forcing them to reduce their consumption. That is, inflation reduces the purchasing power of consumers. However, due to inflation, and the bandwagon effect (when people do something because everyone else is doing it. This falls under behavioral psychology, which explains precisely how humans behave and make decisions). It becomes challenging for people to stick to a low budget. Hence, it can be clearly seen that even in a nuclear family, the household consumption expenditure per month is above Rs.7000.

4.2.2 Part B: Socioeconomic Characteristics

This section of the questionnaire collects information related to the member of the family who purchases the products, factors affecting purchase decision, product categories in which shrinkflation have been spotted, its various forms, actions taken against it, change in consumption pattern, morality of this practice, reasons for its occurrence and a hypothetical scenario where consumers are producers. The opinions reflected in this section outlays general consumer response to the market situation and help us compare and contrast this behaviour with their background.

- *Member(s) of the family who make(s) purchase decision*

Chart 7: Member(s) that purchase(s) household items in the family (in percentage)

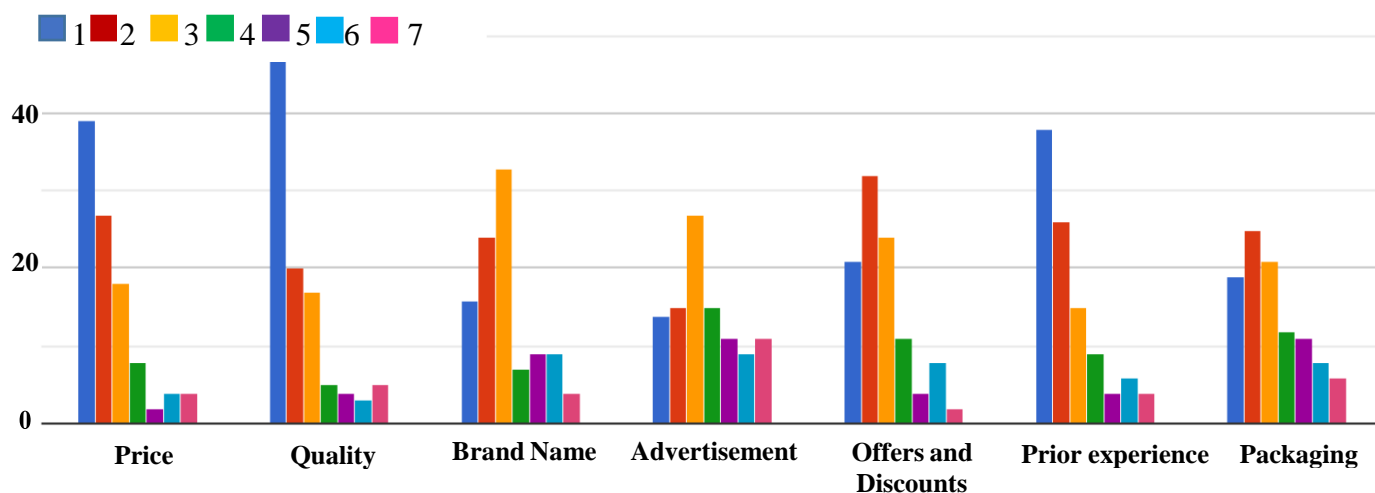


Source: Primary data

Chart 7 shows the family members who purchase household items under the study of shrinkflation. The members' purchasing power has been divided into seven categories. In the responses, the highest percentage of purchases is made by the father and the lowest by siblings. The shrinkflation affects the purchasing power of the consumers as they have to now pay more for the same amount of commodity. Since the younger section of the society is more aware about shrinkflation, they are likely to be more judicious in choosing the household products. The older sections of society, however, prioritise prior experience and recognisable brand names when choosing products, often ignoring other product information like quantity and/or number of items. The shrinkflation affects the purchasing power of the consumers as they have to pay more for the same amount of commodity. Hence, most consumers try to spot seemingly suspicious changes in the size/packaging of commodities. However, shrinkflation is a phenomenon which can only be spotted by those consumers who shop for products regularly as they are more familiar with the approximate size and packaging. Certain tactics like a redesign on the packaging and/or a new slogan are clear indicators of a product undergoing shrinkflation. For new shoppers who are only getting familiarised with the products, there are no official websites in India for the awareness of products which have undergone shrinkflation and hence it would be difficult to spot them.

- *Factors affecting purchase decision*

Chart 8: Factors affecting consumers' purchase decision



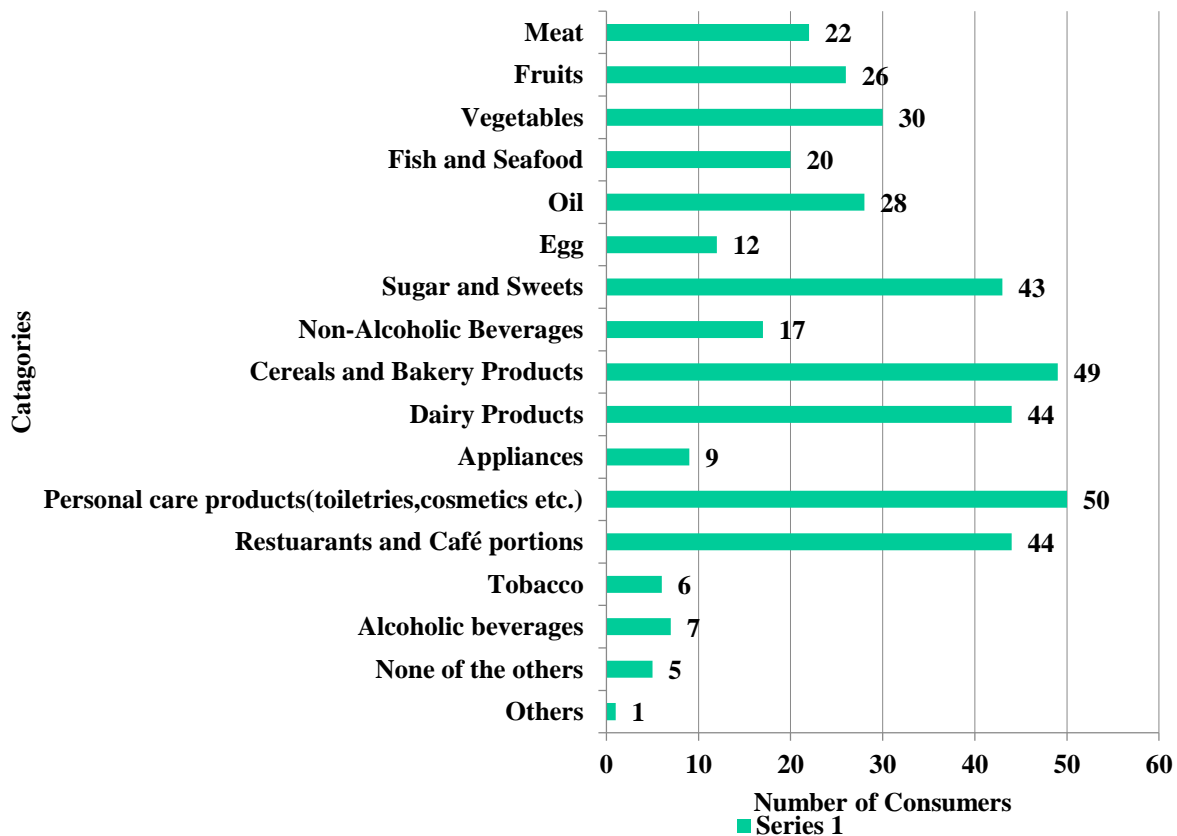
Source: Primary data

Chart 8 categorises factors affecting consumers' purchase decisions from most important (1) to least important (7). Price, quality and prior experience with the product are ranked to be the most influential factors by the majority of the consumers. Offers & discounts and packaging are ranked as the second most influential by most consumers. Brand names and advertisements are ranked third by the majority.

It shows that, above all, consumers prioritise the price and quality of the product and, if satisfied with a particular product, they choose to remain loyal to the brand, even in the presence of other substitutes. This may also be a major aspect due to which shrinkflation is not taken seriously by most consumers.

- *Categories of products where shrinkflation was spotted*

Chart 9: Category of products in which consumers witnessed quantity shrinkage while having a constant price



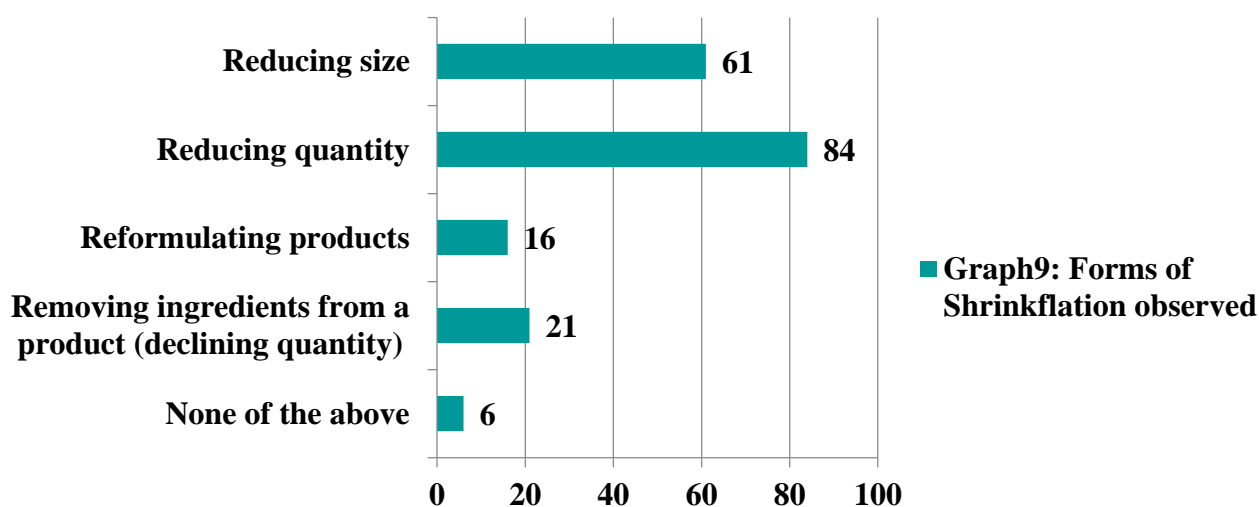
Source: Primary Data

Chart 9 depicts categories of products where consumers have noticed shrinkage of product size. The five major categories where shrinkflation was spotted are as follows- Personal care products such as toiletries & cosmetics (49 per cent), cereals & bakery products (48 per cent), dairy products (43.1 per cent), restaurant and cafe portions (43.1 per cent) and sugar & sweets (42.2 per cent). This tallies with the observers' information about constant prices and varying weights given in Table 2 of Chapter 3. Fast-moving consumer goods, or FMCGs, are products that sell quickly at a relatively low cost. These goods are also called consumer packaged goods. Most FMCGs include products that have undergone shrinkflation. They have a short shelf life because of high consumer demand (e.g., soft drinks and

confections) or because they are perishable (e.g., meat, dairy products, and baked goods). These goods are purchased frequently, consumed rapidly, priced low, and sold in large quantities. They also have a high turnover when they are on the shelf at the store. These are also products which have numerous substitutes thanks to global product competitiveness. Hence, consumers who are cautious of products which have undergone shrinkflation have a variety of substitutes to choose from.

- *Forms of shrinkflation identified*

Chart 10: Forms of Shrinkflation observed



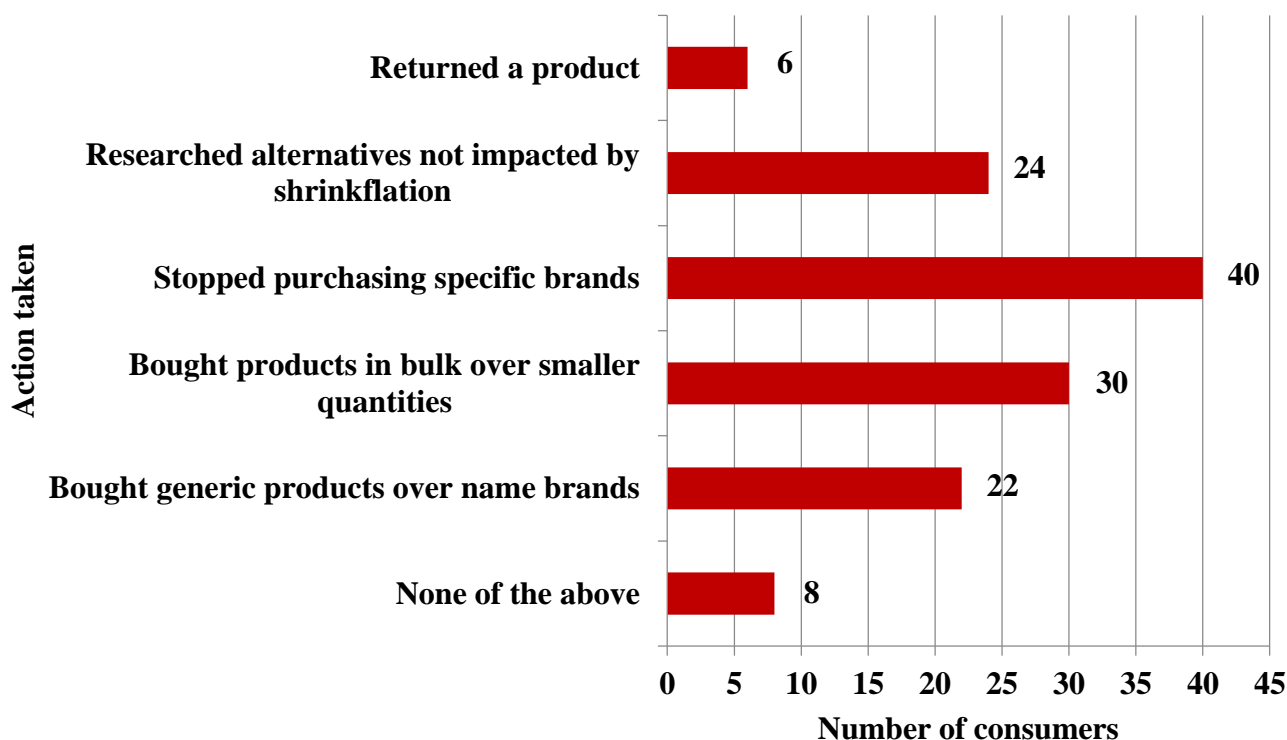
Source: Primary data

Chart 10 shows the forms of shrinkflation noticed by consumers in the products. Shrinkflation is mainly found in four forms: Reducing size (no. of units), reducing quantity (weight), reformulating products (quality decline) and removing essential ingredients from the product (quality decline). The highest number of responses is for reducing quantity, as is seen in many household goods like spice powders, sugar, pulses packets, juices, etc. This is because it is least likely to be spotted immediately. Only those consumers who have a keen sense of observation of different product sizes and packaging would be able to notice the difference. The lowest number of responses is for the category "none of the above", as most rational consumers have noticed shrinkflation in at least one form. When key inputs, such as raw materials or labour, shoot up in valuation, the cost of manufacturing final goods rises. This subsequently weighs on profit margins; the percentage of revenue remaining after all costs. For companies lacking strong pricing power, reducing the weight, volume, or quantity of products sometimes represents the best option to maintain a healthy profit without jeopardizing sales volumes.

Companies might also resort to shrinkflation to maintain market share. In a competitive industry, lifting prices could lead customers to jump ship to another brand. Introducing small reductions in the size of their goods, on the other hand, should enable them to boost profitability while keeping their prices competitive. (Liberto, Daniel 2021)

- *Action taken by consumers to combat shrinkflation*

Chart 11: Action taken by consumer to combat shrinkflation



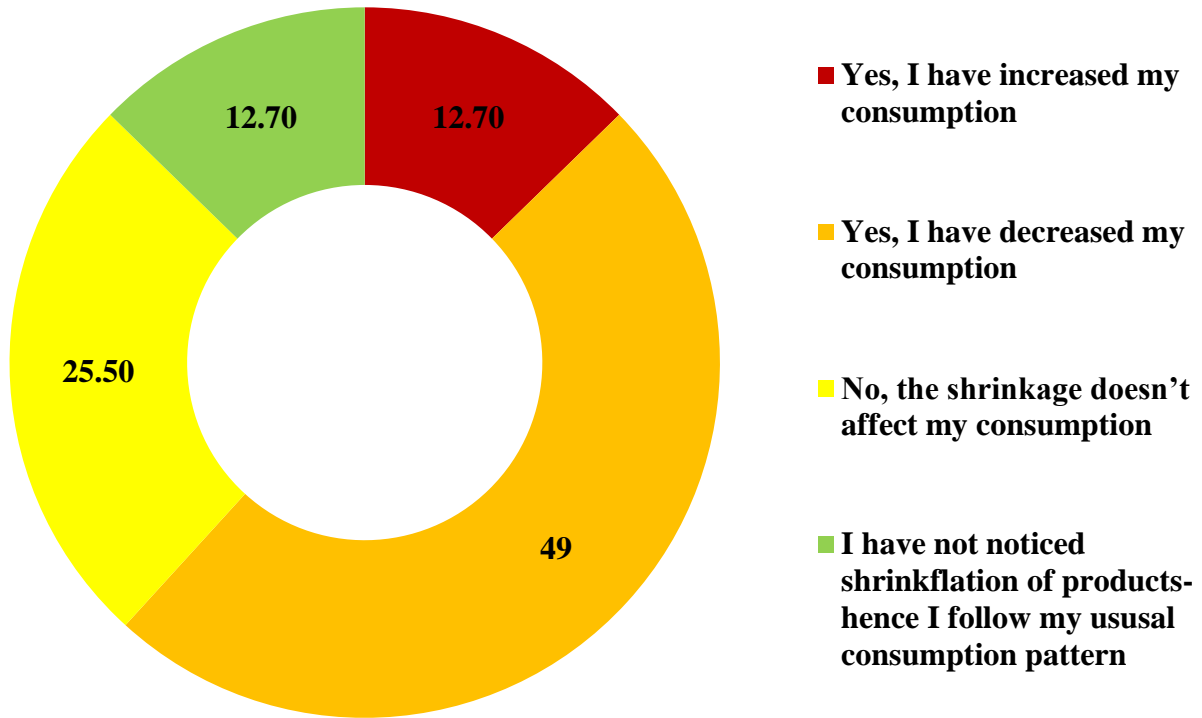
Source: Primary data

Chart 11 depicts how consumers have reacted to shrinkflation. The majority of consumers under study have shifted their choice of products to other brands which have more value for money. The minimum number of responses from consumers has been to return the shrinkflated product. Even though shrinkflation is a concern for consumers but there is no such specific legislation that concerns shrinkflation. There is nothing illegal for companies to reduce the quantity of a product if they face increased cost of production due to inflation, but on the other hand, if they do so, they are bound to disclose the same facts to the consumers. The Consumer Protection Act 2019 provides the consumer with the right to be informed about the quality, purity, and quantity of the product.

Hence, only if the required product details are not mentioned in the package/pamphlet of the product, can the consumers sue the firm(s) involved.

- *Change in consumption pattern due to shrinkflation*

Chart 12: Change of consumption pattern of respondents due to Shrinkflation (in percentage)

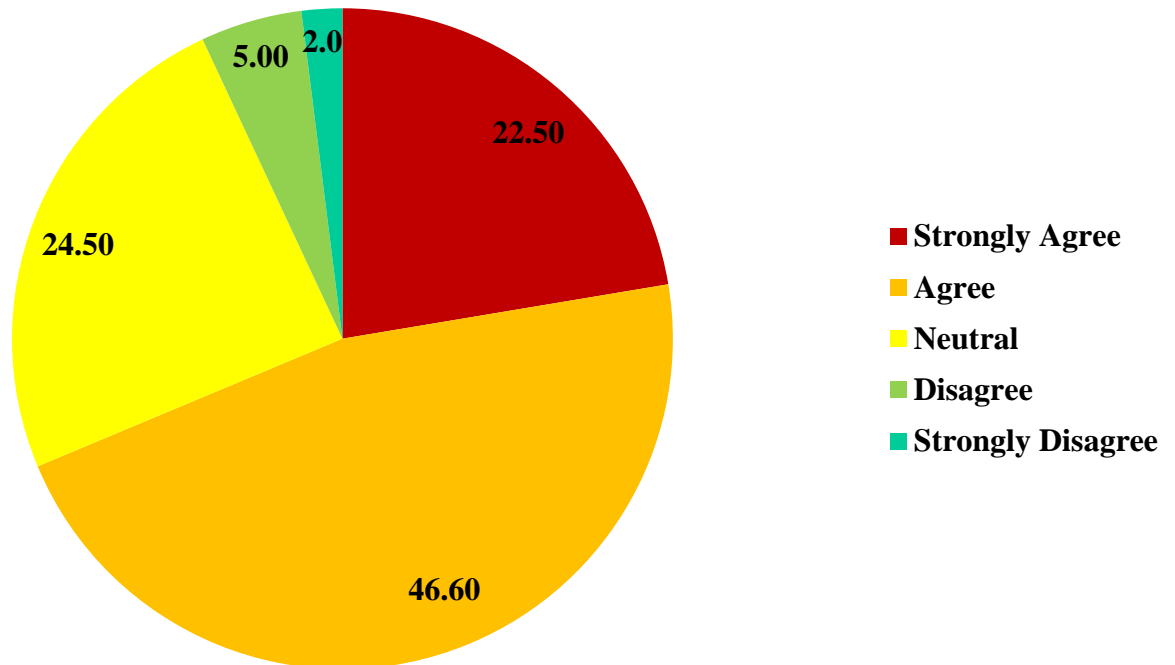


Source: Primary data

Chart 12 shows the response of consumers to shrinkflation detected in their daily household products. Almost half the respondents have responded by reducing their consumption of such goods. A quarter of the respondents don't react much to the shrinkflation noticed. They don't change their consumption. It shows that when shrinkflation is detected in the market nowadays, most rational consumers do not shy away from responding to the practice by finding substitutes or not purchasing such goods at all. This was not the case a decade ago. It was rare to spot shrinkflation even though it was very much unrestricted then as it is now, and even if people spot it, they choose to not respond at all or increase the quantity purchased for benefits from purchasing bulk goods.

- *Shrinkflation- is it considered malpractice?*

**Chart 13: Shrinkflation is a malpractice done by the producers:
Opinion of Respondents (in percentage)**



Source: Primary data

Chart 13 depicts respondents’ opinion on the morality of the practice of shrinkflation. Even though shrinkflation is a concern for consumers but there is no such specific legislation that concerns shrinkflation. There is nothing illegal for companies to reduce the quantity of products if they face increased cost of production due to inflation, but on the other hand, if they do so, they are bound to disclose the same facts to the consumers. The Consumer Protection Act 2019 provides the consumer with the right to be informed about the quality, purity, and quantity of the product.

Hence, the manufacturer could be sued by the consumer only if all the required information is not printed on the package or pamphlet of the product (Rahul, Shamota 2022).

- *Reasons for the occurrence of shrinkflation according to consumers*

This question was asked to our 102 respondents to gain their view on what could have caused shrinkflation, especially the surge over the years. The five major factors that seemed to be responsible for this deluge of shrinkflation are as follows:

COVID-19 pandemic; the introduction of GST; currency demonetisation; the war between Russia and Ukraine and the US economic recession.

Supply chain disruptions, oil price fluctuations and changes in consumer demand brought on by COVID-19 are some of the driving factors for the increase in inflation (and subsequently, shrinkflation) during the pandemic. The purchasing power of consumers has decreased due to rampant unemployment, mass hoarding and excessive demand for essential household items. Due to this, manufacturers could not raise the price of products to a profitable rate, thereby resorting to shrinkflation, hoping consumers would either not notice or wouldn't mind.

The global economy continues to be weakened by the war through significant disruptions in trade and food and fuel price shocks, all of which are contributing to high inflation and subsequent tightening in global financing conditions. Activity in the euro area, the largest economic partner for emerging and developing economies (EMDEs) of Europe and Central Asia, has deteriorated markedly in the second half of 2022, due to distressed supply chains, increased financial strains and declines in consumer and business confidence. The most damaging effects of the invasion, however, are surging energy prices amid large reductions in the Russian energy supply (World Bank).

There are two ways in which GST could have caused a spike in inflation: by raising the rate of tax on goods and services, and bringing within its coverage business activities outside the tax net earlier. The latter would push up inflation as any tax incidence on such businesses is bound to be passed on to consumers in terms of higher prices. In a country like India, with a huge informal sector, successful implementation of GST may have brought a lot of non-taxpaying firms and transactions under the tax net. Fuel prices have a cascading effect and could have resulted in higher prices for several products. While it is true that GST might have had a cost-push inflationary impact due to the passing of taxes, its overall contribution to inflation growth might have been subdued due to erosion in demand because of small businesses coming under strain due to the implementation of GST and rural distress in the economy. It is only when these factors dissipate that we will know the answer for sure (Kishore, Roshan 2018).

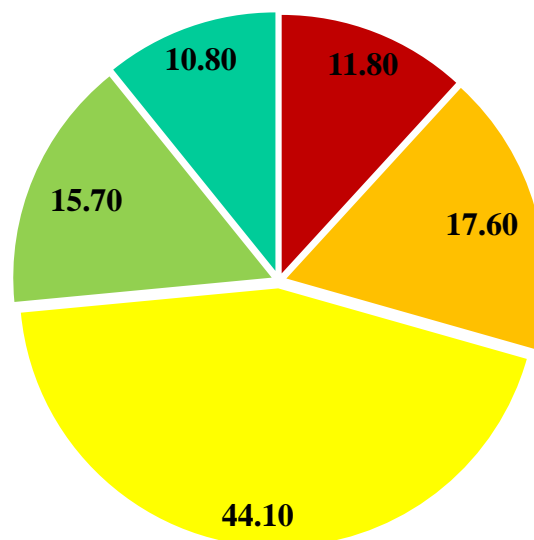
Another interesting shift in consumer behaviour in the past decade can be attributed to influencer marketing, duly noted by some respondents in this study. Influencers create meaningful and trusting relationships with their audience, which leads consumers to look toward them for opinions on products. As influencer marketing continues to grow, consumers have been turning to their favourite Instagram, TikTok, Twitter, and YouTube influencers for recommendations and reviews before purchasing an item. For marketers, it can be beneficial to partner with an influencer marketing company to enhance

sales and ROI. With the use of social media on the rise, when brands utilise influencers' voices, they are creating brand awareness. The importance of brands expanding their relationships with influencers has been increasing. It is a strategic business move for brands to employ influencers when looking to promote their product (findyourinfluence.com).

Governments have played a significant role in shrinkflation as well through USA's Trade War with China as well as the deal President Trump was able to broker between Russia and Saudi Arabia to prevent oil prices from dropping, which is something we are currently seeing the side effects of. The supply chain has been greatly affected by the labour shortage, the price increase of raw materials, and the attempt to meet government policies to reduce food waste by 2030. Another factor why most chocolate companies are practising shrinkflation is because the price of cocoa has skyrocketed since the Côte d'Ivoire government, with assistance from EU policies, has cracked down on illegal cocoa plantations (Wood, Bryan 2022).

- *Ethical dilemma of consumers regarding their stand on shrinkflation if they were producers*

Chart 14: Percentage of respondents who would resort to shrinkflation if they were the producers



■ Definetly ■ Yes ■ Maybe ■ No ■ Never

Source: Primary Data

Chart 14 shows us the consumer's ethical dilemma towards the practice of shrinkflation. The highest percentage of responses is "Maybe", followed by "Yes" whereas the lowest percentage of

responses is "Never". This tallies with both the legal and the economic standpoint. Shrinkflation is not illegal in India, as long as all the required product information are printed on its package/ pamphlet (such as price, weight and/or units, ingredients, etc.) according to the Consumer Protection Act 2019. As far as the economy is concerned, the Indian economy as well as the global economy has been facing several challenges, especially these past few years, including pandemics, war, natural and man-made disasters, political uproar, trade wars, communal riots, government interventions, economic recessions, movements and whatnot. All of these are triggers for rising inflation. As the world is one big interconnected economy due to globalisation and related economic reforms, anything and everything that happens in one corner of the world can alter the economic conditions of other nations, in varying densities. Hence, shrinkflation is the way to go, to make their products more budget-friendly and preserve profits. However, people against this practice also have justifiable reasons. It can lead to a loss of trust, especially among loyal consumers. Consumers want to be respected, because when they buy that product, they are essentially investing in / buying into that company. The overall consumer consensus is that it is wrong for organizations to practice shrinkflation without notifying consumers (Wood, Bryan 2022).

Although the majority of buyers might not detect slight variations in the quantity or size of the product, they might learn the truth later on and feel duped (Geek for geeks).

4.3 Conclusion

Shrinkflation is an ethical dilemma- deception or good business through the stakeholder vs shareholder theories, and both have good reasons to utilise or not to utilise shrinkflation. It could be an inherently deceptive policy for organizations to conduct if they are not properly notifying their consumers. Organizations need to be cognizant of how their consumers may react to the shrinking of the products they buy and not change the price. Some organizations have paid the price for conducting the policy and received serious backlash because of it. Meanwhile, there are organizations which are seeing massive profit increases through this policy. Shrinkflation is a good business if practised correctly. It is simply a reaction to government interventions and policies through trade wars, invasions, and trying to stabilise their economies while dealing with a pandemic caused inflation and costs to skyrocket (Wood, Bryan 2022).

Nowadays, shrinkflation is a common practice among producers. The number of products that undergo downsizing increases every year. Large market producers 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. Eventually, consumers do "wise up" to what's going on. The key to the successful implementation of shrinkflation is to simply not exploit consumers by making them aware of the weight/unit decrease beforehand.

CHAPTER 5
Findings,
Recommendations And
Conclusions

5.1 Introduction

Shrinkflation refers to the process in which instead of increasing the price of a product, that would be immediately evident to consumers, producers reduce the size of the product while maintaining the same price.

By this research paper, the main objectives of this study are determined, that is- (1) listing out Indian products undergoing shrinkflation and (2) understanding the awareness level of consumers about Indian products affected by shrinkflation and its influence on their consumption. The data for study is collected using primary and secondary data with the area of study being the state of Kerala.

Shrinkflation is a phenomenon that has affected various product categories in India. Secondary data sources, such as news articles, books, and other sources of information, can provide valuable insights for studying the categories of Indian products affected by shrinkflation. By analyzing this secondary data, researchers can identify which products have been affected and how the phenomenon has evolved over time.

Historical analysis is particularly important when studying shrinkflation, as it can help researchers understand the factors that have contributed to its occurrence in different product categories. News articles and other sources of information can also provide insights into consumer behavior and the impact of shrinkflation on their purchasing decisions. For instance, secondary data can help researchers understand whether consumers are willing to buy smaller products at the same price or switch to alternative products.

Furthermore, secondary data sources can help researchers identify industry trends related to shrinkflation. This can include information about which companies or product categories are most affected by shrinkflation and how they are responding to the phenomenon. By identifying these trends, researchers can gain a deeper understanding of the impact of shrinkflation on the broader Indian economy.

The primary data for this study is collected from 102 consumers residing in different districts of the state of Kerala using the technique of purposive sampling because of the diverse range of consumers under focus. To analyse the awareness level of consumers about products affected by shrinkflation and its influence on their consumption pattern, a survey is conducted through questionnaires which contains 19 questions which is equipped with the Likert scale.

Through this research, a connecting cord is built between several economic theories and shrinkflation, to understand its pattern and influence on consumer psychology. Since shrinkflation is reported across

nations, this study provides recommendations to tackle shrinkflation based on the model followed by other countries. Lastly, this study gives an understand that shrinkflation will last for a very long time, due to its scope for profit for the producers without increasing its price as well as its affordability for the consumers, who would rather buy less for the same price than buy the product at a higher price.

5.2 Findings

This research paper is aimed at studying and understanding two core objectives of this paper- to inspect the categories of Indian products affected by shrinkflation, and to study the awareness level of consumers about Indian products affected by shrinkflation and its influence on their consumption.

This study uncovered the role played by shrinkflation in the consumers' consumption behavioural change.

Secondary data collected from various articles tracked and outlined the spread of shrinkflation in the Indian market, its reasons and effects. Primary data collected from consumers spread across different districts of Kerala gave a comprehensive view of shrinkflation and its upshot.

Objective 1: To inspect the categories of Indian products affected by shrinkflation.

- FMCG account for 50 per cent of sales in India and contributes significantly to the country's GDP.
- In recent years, the FMCG market has grown faster in rural India than in urban areas.
- FMCG products have a high turnover rate, are widely distributed, and are non-durable. They are designed for frequent use, have high demand at low cost, and are rapidly consumed by the consumer. This makes them susceptible to shrinkflation.
- FMCG products are categorised into processed foods, prepared meals, beverages, baked goods, cosmetics, medicines, cleaning products, toiletries, and office supplies.
- The top two players in the Indian FMCG market are ITC with a 30 per cent market share and HUL with a 14per cent market share. Other companies with a considerable market share include Nestle, Patanjali Ayurveda, Marico, Amul, and Parle Products, with a combined market share of around 23per cent. The remaining companies have relatively small market shares.

- An FMCG industry overview indicated that India’s demographic profile plays a major role in the growth of this sector. Not only is India’s demographic young but this segment is also characterised by increased urbanisation and higher expenditure. Urban development initiatives by the government, as well as the increasing middle class of India, have led to an increase in the number of attractive markets in the country. (Singh, Vasundhara 2019)
- The COVID-19 pandemic has affected the FMCG industry in India, with many companies cutting down their operations during the lockdown and the average growth rate declining to 6.6 per cent in the first three quarters of FY 2020.
- The impact of the Russia-Ukraine war has led to the practice of shrinkflation in India, and FMCG companies have raised prices to recover lost ground. Due to the war alone, food and beverages, fuel, light and transport contributed 52 per cent of the increase in inflation, while another 7 per cent came from the jump in input prices for the FMCG sector. There is no direct correlation between the Russia-Ukraine war and shrinkflation. However, the war may indirectly affect shrinkflation by causing supply chain disruptions or price increases in certain industries, leading companies to reduce the size of their products to maintain their profit margins. Additionally, economic instability and uncertainty caused by the conflict may lead to inflation, which can also result in companies using shrinkflation as a way to mitigate rising costs.
- The FMCG industry is hoping to recover in 2023.

5.2.2. Objective 2: To study the awareness level of consumers about Indian products affected by shrinkflation and its influence on their consumption.

- Responses were collected from 11 out of 14 districts in Kerala, with the highest number of responses coming from the metropolitan district of Ernakulam (59). Shrinkflation affects all consumers regardless of their location, and the study has covered nearly all parts of Kerala using representative respondents.
- The age groups were classified into 5 categories ranging from 15-25 to 55 and above, with the highest response rate (64.7 per cent) coming from the 15-25 age group and the

lowest response rate (2 per cent) from the 55 and above group. All age categories have experienced shrinkflation, with the independent working-age population being more aware of the phenomenon due to its prevalence in regular household purchases. This awareness is primarily driven by observations made during these purchases as there is no official documentation of the weights and prices of consumer commodities.

- Respondents' educational qualifications were classified into five categories, with graduation being the highest at 62.7 per cent and SSLC being the lowest at 2.9 per cent. This indicates that most consumers in the market have received a basic education and are likely aware of shrinkflation and its effects on the economy at both macroscopic and microscopic levels.
- The occupation of consumers was categorized into seven groups, with students having the highest percentage of responses at 65.7 per cent, and pensioners and homemakers (under the unemployed category) having the least responses at 1 per cent each. The inflationary crisis and global economic slowdown are causing a significant decrease in real monthly wages in many countries, reducing purchasing power for middle and low-income households. As consumers become more price-conscious, they become less aware of the quantity sold, leading to the rise of shrinkflation.
- Annual household income was categorized into seven groups, ranging from below Rs.10000 to above Rs.1000000. The highest percentage of annual income falls under the Rs.10000- Rs.200000 category, and the lowest falls below Rs.10000. Shrinkflation reduces the size, weight, or quantity of a product while keeping the price the same, resulting in consumers paying the same amount for a lesser amount of product. As a result, consumers spend a higher percentage of their annual income on purchasing the product.
- The number of family members was categorized into different groups, with the highest percentage (74.5 per cent) falling under the category of four to six members, and the lowest (8.8 per cent) falling under the seven to nine category. As the rate of inflation increases, the overall cost of living also increases, creating financial issues when there are many family members and a limited source of income.

- The budget set was categorized into ranges below Rs.1000 and above Rs.7000, with the highest percentage of consumers (31.40 per cent) falling in the above Rs.7000 range, and the least (2 per cent) falling in the below Rs.1000 range. Inflation increases the price of commodities, reducing the purchasing power of consumers and forcing them to reduce their consumption. However, due to the bandwagon effect, it becomes challenging for people to stick to a low budget. Hence, even in a nuclear family, the monthly household consumption expenditure is above Rs.7000.
- The purchasing power of family members has been divided into seven categories, with the highest percentage of purchases made by fathers (52.9 per cent) and the lowest by siblings (1 per cent). Shrinkflation affects consumers' purchasing power as they pay more for the same amount of commodity. Younger consumers tend to be more aware of shrinkflation and make more informed decisions when choosing household products. Older consumers tend to prioritize prior experience and recognizable brand names, often ignoring other product information like quantity. Regular shoppers are more likely to spot suspicious changes in the size and packaging of commodities, whereas new shoppers may find it difficult to identify shrinkflation. There are no official websites in India to increase awareness about products that have undergone shrinkflation.
- Consumers place high importance on price and quality when making purchasing decisions, according to the study. They also value offers and discounts, packaging, and brand names to a lesser extent. Prior experience with a product is another important factor that influences their decisions. These factors, coupled with brand loyalty, may be why shrinkflation is not always noticed or taken seriously by consumers.
- The highest rate of shrinkflation was found in personal care products (49 per cent), cereals & bakery products (48 per cent), dairy products (43.1 per cent), restaurant/cafe portions (43.1 per cent), and sugar & sweets (42.2 per cent). These are all fast-moving consumer goods with short shelf lives, high demand, and numerous substitutes due to global competition.
- Shrinkflation has four main forms: reducing size, reducing quantity, reformulating products, and removing essential ingredients. Reducing quantity is the most common form (84), as it is less noticeable to consumers. When the cost of inputs increases,

companies may use shrinkflation to maintain profit margins or market share without raising prices. This tactic is often used by companies with weak pricing power in competitive industries.

- Consumers have responded to shrinkflation by shifting to other brands that offer better value for money. However, returning the shrinkflated product is not a popular option among consumers. While shrinkflation is not illegal, companies are required to disclose any reduction in quantity or weight to consumers. The Consumer Protection Act of 2019 gives consumers the right to be informed about the quality, purity, and quantity of products they purchase. Consumers can sue companies if the required details are not mentioned on the product package or pamphlet.
- Almost 50 per cent of respondents reduce their consumption of household products in response to shrinkflation, while 25 per cent do not change their consumption. This indicates that today's rational consumers are more likely to respond to the practice by finding substitutes or not purchasing affected goods. This was not the case a decade ago when shrinkflation was prevalent and consumers either did not notice or increased their quantity purchased to benefit from bulk purchases.
- While a significant portion of consumers sees shrinkflation as malpractice, there is currently no legislation specifically addressing it. However, manufacturers are required to disclose information about the quantity, quality, and purity of their products to consumers. If this information is not provided, consumers may have legal recourse.
- Shrinkflation has been attributed to various macroeconomic factors including the COVID-19 pandemic, GST implementation, demonetisation, the Russia-Ukraine conflict, and the US recession.
- The consumers' ethical dilemma regarding shrinkflation is reflected in their responses, with the highest percentage being "Maybe," followed by "Yes," and the lowest being "Never." Legally, shrinkflation is allowed in India as long as all necessary product information is disclosed on the package or pamphlet under the Consumer Protection Act 2019. However, critics of the practice argue that it can erode consumer trust and lead to feelings of deception. With the global economy facing various challenges such as inflation triggered by pandemics, war, disasters, and political turmoil, companies use

shrinkflation to maintain profits and offer budget-friendly products. Nevertheless, consumers have the right to be informed, and transparency should be maintained to avoid losing loyal customers.

5.3 Recommendations

- 5.3.1 Create an official website for consumer awareness on products that have undergone shrinkflation/skimpflation/greedflation.
- 5.3.2 Keep a tab on shrinkflation in future Union Budgets of India and understand various forms of hidden inflation to predict inflation rates more accurately.
- 5.3.3 Consumers should embrace generics, check the unit price, buy in bulk when possible, consider other sizes, shop around, wait for sales, and use cashback apps/discount offers.
- 5.3.4 Producers should be transparent and listen to consumer feedback to maintain trust.
- 5.3.5 Policymakers should refrain from price controls, subsidies, and export bans, which may ultimately hurt consumers.
- 5.3.6 To stabilise the supply chain, measures such as ensuring adequate personnel with guaranteed wages, subsidies for companies during difficult times, and improving safety education and quarantine procedures can be implemented. Additionally, banks can be encouraged to develop business service capabilities to ensure logistical financing during epidemics.
- 5.3.7 Lowering inflation may decrease the tendency for shrinkflation.
- 5.3.8 Encourage competition among businesses through various measures such as antitrust laws, mergers and acquisitions regulations, and fair trade practices.
- 5.3.9 Increase consumer education through various means such as advertising campaigns, consumer forums, and online resources.
- 5.3.10 Encourage product standardization by enforcing labelling standards and regulating product packaging.

5.3.11 Implement price monitoring systems to track the prices of goods and services and detect any changes that may be due to shrinkflation.

5.3.12 Promote alternative business models such as cooperatives and social enterprises that prioritise social responsibility and consumer satisfaction over profit maximization.

5.4 Conclusion

Shrinkflation and its Effects: A Study from the Consumer's Perspective identifies the Indian products undergoing shrinkflation and study the awareness levels of consumers about Indian products affected by shrinkflation and how it influences their consumption.

From the data collected from 102 respondents scattered across different districts of Kerala. Responses are received from each age groups, the highest being from the age group 15 to 25, it can be concluded that the main factors affecting consumers' purchase decisions which are ranked to be the most influential factors by the majority of the consumers are the price, quality and prior experience with the product. Almost half the respondents have responded by reducing their consumption of such goods. Majority of consumers under the study have shifted their choice of products to other brands which have more value for money.

Shrinkflation is now experienced by all age categories alike and most consumers in the market have received atleast basic education and are aware of the process of shrinkflation and its effects on economy. The process of shrinkflation leads to a situation where the consumers have to pay the same for lesser quantity of product. Thus, consumers spend more of their annual income on buying the product and it also affects the purchasing power of the consumers as they have to pay more for the same amount of commodity.

This study put forward many suggestions such as to have an official website for consumer awareness on products which have shrinkflation. This helps the consumers to improve their knowledge on shrinkflation, and it provides different tactics to be applied while consuming.

QUESTIONNAIRE

Shrinkflation And Its Effects: A Study from the Consumer's Perspective

Part A: PERSONAL INFORMATION

1) Name: _____

2) Place of residence (district):

- Kasargod
- Kannur
- Wayanad
- Kozhikode
- Malappuram
- Palakkad
- Thrissur
- Ernakulam
- Idukki
- Kottayam
- Alappuzha
- Pathanamthitta
- Kollam
- Thiruvananthapuram

3) Rural/Urban:

- Rural
- Urban

4) Age:

- 15-25
- 25-35
- 35-45
- 45-55
- 55 and above

5) Gender:

- Male
- Female
- Other

6) Educational status:

- Below SSLC
- SSLC
- Pre-Degree
- Graduation
- Post-Graduation

7) Occupation

- Student
- Unemployed
- Self Employed
- Government Employee
- Private Employee
- Daily wage earner
- Other, please specify: ____

8) Annual household income:

- Below Rs. 10,000
- Rs. 10,000 - Rs. 2,00,000
- Rs. 2,00,000 - Rs. 4,00,000
- Rs. 4,00,000 - Rs. 6,00,000
- Rs. 6,00,000 - Rs. 8,00,000
- Rs. 8,00,000 - Rs. 10,00,000
- Above Rs. 10,00,000

9) Number of members in your family

- Below 4
- 4-6
- 7-9
- 10 members and above

Part B: SOCIOECONOMIC CHARACTERISTICS

10) Who buys the household items in your family?

- You
- Father
- Mother
- Sibling
- Spouse
- Child
- Others, please specify: _____

11) What is the approximate budget set aside per month to meet your household consumption demand?

- Below Rs. 1,000
- Rs. 1,000 - Rs. 3,000
- Rs. 3,000 - Rs. 5,000
- Rs. 5,000 - Rs. 7,000
- Above Rs. 7,000

12) Rank these factors that influences your purchase decision, from most important to least important:

- Price
- Quality
- Brand name
- Advertisement
- Offers and discounts
- Prior experience
- Packaging

13) Which category(s) of products have you noticed shrinkage in product size while the price remains constant?

- Meat
- Fruits
- Vegetables

- Fish and seafood
- Oil
- Egg
- Sugar and sweets
- Non-alcoholic beverages
- Cereals and Bakery products
- Dairy products
- Appliances
- Personal care products (toiletries, cosmetics)
- Restaurant and Cafe portions
- Tobacco
- Alcoholic beverages
- None of the above
- Others, please specify: _____

14) What are the forms of shrinkage you've noticed in the products selected above?

- Reducing size
- Reducing quantity
- Reformulating products
- Removing ingredients from a product (declining quality)
- None of the above
- Others, please specify: _____

15) What action have you taken, as a consumer, to combat shrinkflation?

- Purchased different brands
- Bought generic products over name brands
- Bought products in bulk rather than in smaller quantities
- Stopped purchasing specific brands
- Researched alternatives not impacted by shrinkflation
- Returned a product
- None of the above
- Others, please specify: _____

16) Have you changed your consumption of these products due to the shrinkage?

- Yes, I have increased my consumption.
- Yes, I have decreased my consumption
- No, the shrinkage doesn't affect my consumption
- I have not noticed shrinkflation of products- hence I follow my usual consumption pattern

17) The process of "shrinkflation" is a malpractice done by the producers of these goods.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree

18) What are the reasons (according to you) for the occurrence of shrinkflation?

- COVID-19 pandemic
- War between Russia and Ukraine
- Currency Demonetisation
- Introduction of GST
- Global Financial Crisis of 2008
- Recession of US Economy
- Others, please specify:

19) If you were a manufacturer, would you be following this technique to obtain more profit?

- Definitely
 - Yes
 - Maybe
 - No
 - Never
-

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