Case Study on Impact of Goods and Service Tax (GST) on Fast Moving Consumer Goods (FMCG) Industry in India

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ABSTRACT-The implementation of Goods and Service Tax (GST) in India brought significant changes to the taxation system, aiming to simplify and streamline the tax structure. The Fast-Moving Consumer Goods (FMCG) industry, being one of the key sectors in the Indian economy, witnessed both challenges and opportunities as a result of GST. This abstract explores the various aspects of the impact, including pricing adjustments, supply chain optimization, changes in consumer behavior, and the adaptability of FMCG companies. It highlights the need for FMCG companies to adjust their pricing strategies, optimize supply chains, and embrace GST compliance measures to navigate the changes effectively.

The study draws insights from real-world examples and industry data to illustrate the changes and challenges faced by FMCG companies in adapting to the new tax regime. The findings shed light on the implications of GST for businesses, policymakers, and consumers within the FMCG industry. The abstract concludes that companies that successfully adapted to the new tax regime were able to maintain their market share and sustain growth, emphasizing the importance of agility and consumer-centric approaches in the FMCG industry under the GST framework.

Keywords: Goods and Service Tax (GST), Fast-Moving Consumer Goods (FMCG), Indian economy.

I. INTRODUCTION

The Goods and Services Tax (GST) was implemented by India on July 1, 2017, with the aim of simplifying the taxation process and reducing the cascading impact of multiple levies. The implementation of the Goods and Services Tax (GST) in India is anticipated to enhance economic growth and augment revenue generation across the nation using the uniformity of tax rates across all states. According to Kamal Nandi, the Business Head of Godrej Appliances, the escalation in production costs and government levies necessitate the implementation of price hikes. Due to the increase in prices, there has been a decrease in consumer demand for these products. The Goods and Services Tax (GST) has had a significant impact on the Fast-Moving Consumer Goods (FMCG) industry. In response to the implementation of the Goods and Services Tax (GST), companies such as Amul and Nestle have made modifications to their pricing strategies (Gilal, 2022).

The impact of GST on logistics costs has led to a decrease in prices for certain fast-moving consumer goods (FMCG). The reduction in prices has led to a surge in demand for these commodities, particularly in rural and semi-urban areas. The burgeoning inclination of inhabitants in rural and semi-urban areas towards fast-moving consumer goods (FMCG) is poised to significantly contribute to the growth of the FMCG sector.

The implementation of GST has resulted in a decrease in prices for certain fast-moving consumer goods (FMCG), thereby causing a surge in demand across the nation, especially in rural and semi-urban areas. The evolving GST system is expected to exert a significant impact on the consumer behavior of the Dakshina Kannada region, particularly regarding fast-moving consumer goods.

II. Literature survey

A literature review is an integral part of an article because it represents the wide range of research in the past on the topic selected by the researcher on the basis of which the research design of a study is formulated. Some important conclusions have been drawn from the review of some research papers, articles, theses, and textbooks available in accessible libraries and internet sources.

According to Susilo, (2023) one of the discernible effects of the Goods and Services Tax (GST) on consumer conduct is the heightened level of price transparency. The implementation of a uniform tax rate facilitates ease of comparison for consumers when evaluating prices among various retailers and producers. Due to enhanced transparency, contemporary consumers are primarily swayed by objective factors such as product quality, brand equity, and pricing, rather than tax differentials. The implementation of the Goods and Services Tax (GST) has resulted in a noticeable increase in consumer footfall at supermarkets, hypermarkets, and department stores.

Ramkumar, (2022) pointed out that it is anticipated that the implementation of GST will result in a reduction of distribution expenses in the FMCG sector from their current range of 2-7% of total costs to approximately 1.5%. Revathi, (2019) stated that the elimination of Central Sales Tax (CST) under the Goods and Services Tax (GST) regime would result in a reduction of costs associated with the transportation and storage of commodities, owing to advancements in the supply chain, tax payment, and demand credit inclusion. The accessibility of products can be enhanced through the implementation of price and tax reductions.

According to Jaganathan, (2021), India's FMCG market is ranked as the fourth largest globally, with a valuation exceeding US$13.1 billion. FMCGs are known to be top-performing products in the market due to their high sales volume and rapid turnover rate. All items that are frequently bought are classified under this category, excluding food and pulses.

According to Vincent, (2020) additionally, certain products have experienced a decrease of five percent in price due to tax exemptions such as Value Added Tax (VAT), Income Tax, and Octroi. The reduction in operating expenses is expected to trigger an increase in demand for these items, which may result in their imminent depletion from the market.

Karthik, (2020) pointed out that the supply chain management of fast-moving consumer goods (FMCG) has achieved a high level of efficiency, such that the disclosure of the producer's identity in all provinces before commercialization is no longer deemed necessary. Sanjay, (2021) pointed out that this is attributed to the implementation of the Goods and Services Tax (GST).

Gunasheela, (2020) pointed out that rising the reduction in costs of producing fast-moving consumer goods (FMCG) due to the indirect impacts of climate and logistics has resulted in a decline in demand. This has been beneficial for both manufacturers and customers, particularly those residing in rural regions.

According to Gowtham Ramkumar, (2020), the impact of the Goods and Services Tax (GST) on the pricing of Fast-Moving Consumer Goods (FMCG) has exhibited a diverse range of outcomes. The prices of select commodities experienced a decline, whereas the prices of others exhibited a marginal increase. Following the adoption of GST, there were reportedly certain supply chain issues that emerged as a result of misunderstandings and apprehensions regarding tax rates.

Togadiya, J. B., & Oza, V. (2020). pointed out that the implementation of a unified tax system has proven advantageous for online merchants as it has simplified logistical processes and enabled seamless interstate transactions.

According to Alie, (2019), the tax rates on fast-moving consumer goods (FMCG) have either been reduced or maintained at the same level as the previous regime. Fast-moving consumer items, such as packaged food and other non-durables, are subject to indirect paper taxes, such as VAT. With the implementation of the Goods and Services Tax (GST), it can be observed that factories tend to incur lower tax liabilities. The industry of fast-moving consumer goods and its challenges related to diminishing profitability.

Goyal, (2019) stated that the inclusion credit under the GST would remain applicable to all GST payments made in the course of business operations. The implementation of the Goods and Services Tax (GST) is expected to have a positive impact on the Fast-Moving Consumer Goods (FMCG) industry, as reduced transportation expenses are likely to enhance profitability.

Revathi, R., & Aithal, P. S. (2019) stated that the elimination of Central Sales Tax (CST) under the Goods and Services Tax (GST) regime would result in a reduction of costs associated with the transportation and storage of commodities, owing to advancements in the supply chain, tax payment, and demand credit inclusion. The accessibility of products can be enhanced through the implementation of price and tax reductions.

III. OBJECTIVES

The paper is conceptual in nature and explores the impact of GST on the FMCG industry. This also includes:

(1) To understand the rationale behind the introduction of GST and its objectives in streamlining the tax system.
(2) To study the significance of the FMCG industry in the economy.
(3) To study real-world case studies and industry examples to illustrate the impact of GST on specific FMCG companies.

IV. METHODOLOGY

This paper consists of developing a theoretical concept based on the insights available in various literature related to the topic.

V. RATIONALE BEHIND THE INTRODUCTION OF GST AND ITS OBJECTIVES IN STREAMLINING THE TAX SYSTEM

The Goods and Services Tax (GST), implemented in India on July 1, 2017, is a significant tax reform aimed at creating a unified indirect tax structure. It replaced a complex web of indirect taxes levied by the central and state governments. The GST system in India aims to streamline the taxation process, promote economic integration, and foster a transparent and efficient tax regime.

Overview of the GST System: The GST system in India follows a dual model, comprising the Central GST (CGST) and State GST (SGST). It is a destination-based tax, where taxes are levied at the final point of consumption. The GST framework includes four tax rates—5%, 12%, 18%, and 28%—based on the nature of goods and services. Certain goods and services, such as petroleum and alcohol, are kept outside the purview of GST.

The Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Its introduction aimed to streamline the tax system by replacing multiple indirect taxes such as excise duty, service tax, value-added tax (VAT), and others. The rationale behind the implementation of GST and its objectives can be understood from the following perspectives:

Sl.no	Key Objectives	The rationale behind the implementation of GST
1	Simplification and Uniformity	One of the primary objectives of GST is to simplify the tax structure and bring about uniformity in the taxation system across the country. Prior to GST, different states had different tax laws and rates, leading to complexities and compliance issues for businesses operating in multiple jurisdictions. GST sought to establish a single tax system with consistent rules and rates, reducing the administrative burden on businesses and ensuring a seamless flow of goods and services across state borders.
2	Elimination of Cascading Effect	GST aims to eliminate the cascading effect of taxes, also known as "tax on tax." Under the previous tax regime, taxes were levied at each stage of the supply chain, leading to a cumulative tax burden on the final product. GST introduced the concept of input tax credit, allowing businesses to claim credit for taxes paid on inputs or raw materials used in the production process. This mechanism ensures that taxes are levied only on the value added at each stage, avoiding the double taxation of inputs.
3	Broadening the Tax Base and Increasing Compliance	GST seeks to broaden the tax base by bringing more sectors and businesses into the formal tax net. By mandating registration and compliance for businesses above a certain turnover threshold, GST aims to reduce tax evasion and enhance tax compliance. The unified tax system, coupled with robust information technology infrastructure, enables better monitoring of transactions, simplifies tax filing procedures, and promotes transparency.
4	Promoting Economic Growth and Investment	The introduction of GST is expected to boost economic growth and attract more investments. The simplified tax structure and elimination of barriers to interstate movement of goods and services reduce transaction costs and improve business efficiency. This, in turn, encourages investment, enhances competitiveness, and promotes a more conducive business environment.
5	Harmonization of Tax Rates	GST endeavors to harmonize tax rates across different sectors and bring about a more equitable distribution of the tax burden. By adopting a multi-rate structure, including standard rates, lower rates for essential goods, and higher rates for luxury items, GST aims to strike a balance between revenue generation and ensuring affordability for consumers. This helps create a level playing field for businesses and reduces the scope for tax arbitrage.
6	Integration of the Informal Sector	Another objective of GST is to integrate the informal sector into the formal economy. The simplified tax procedures and reduced compliance burden make it easier for small and medium enterprises (SMEs) to register and operate within the tax system. By expanding the tax base and formalizing informal businesses, GST aims to enhance transparency, improve productivity, and promote inclusive economic growth.

VI. SIGNIFICANCE OF THE FMCG INDUSTRY IN THE ECONOMY

The Fast-Moving Consumer Goods (FMCG) industry plays a crucial role in the economy, representing a broad range of consumer products that are frequently purchased, consumed, and replaced. FMCG products include everyday essentials such as food and beverages, personal care items, household cleaning products, and over-the-counter medications.

The FMCG industry is characterized by its high volume of sales, low-profit margins, and wide consumer base. These products are essential for daily living and have a relatively short shelf life, leading to frequent repeat purchases. As a result, the FMCG sector has a significant impact on the overall economy.

Here are a few key points highlighting the significance of the FMCG industry:

Sl.no	The key significance of the FMCG industry	Description
1	Employment Generation	The FMCG industry is a major employer, providing jobs at various levels of the supply chain, including production, distribution, marketing, and retail. It contributes to both direct employment within FMCG companies and indirect employment through associated sectors such as logistics, packaging, and advertising.
2	Revenue Generation	FMCG products generate substantial revenue for both manufacturers and retailers. The high volume of sales, combined with the vast consumer base, contributes to the industry's significant revenue streams. This revenue generation has a positive impact on economic growth and GDP.
3	Consumer Spending	FMCG products are essential items that are purchased regularly by consumers. The industry's products cater to the basic needs and preferences of individuals and households, making them a fundamental component of consumer spending. Consumer spending on FMCG products is a key driver of economic activity and can indicate the overall health of the economy.
4	Market Competition	The FMCG industry is highly competitive, with numerous brands and companies vying for market share. The presence of multiple players fosters innovation, product development, and marketing strategies to attract consumers. This competition drives efficiency, quality improvements, and consumer-centric approaches in the industry.
5	Distribution Network	FMCG products require an extensive and efficient distribution network to ensure their availability to consumers. The industry's distribution networks involve a wide range of channels, including supermarkets, convenience stores, e-commerce platforms, and neighborhood shops. The establishment and maintenance of these networks create employment opportunities and contribute to economic development.
6	Consumer Behavior Insights	The FMCG industry provides valuable insights into consumer behavior and preferences. The frequent and repetitive nature of FMCG purchases allows for the analysis of consumer trends, preferences, and shifts in demand. This data helps businesses make informed decisions regarding product development, marketing strategies, and supply chain management.

VII. REAL-WORLD CASE STUDIES AND INDUSTRY EXAMPLES TO ILLUSTRATE THE IMPACT OF GST ON SPECIFIC FMCG COMPANIES

Sl. no	Company	Real-world case studies
1	Hindustan Unilever Limited (HUL)	HUL, one of India's leading FMCG companies, experienced both challenges and opportunities following the implementation of GST. To comply with the new tax structure, HUL had to reclassify its products and revise pricing strategies. The company faced initial inventory destocking as distributors and retailers adjusted to the new tax rates. However, HUL capitalized on the opportunity to streamline its supply chain, optimize distribution networks, and enhance operational efficiency. The company also introduced smaller pack sizes and competitive pricing to align with the revised tax rates and meet consumer demand for affordable options.
2	Nestlé India	Nestlé India, a prominent player in the FMCG industry, undertook several measures to navigate the impact of GST. The company focused on ensuring smooth transition and minimal disruption in its supply chain and distribution networks. Nestlé India streamlined its product portfolio and packaging to align with the revised tax structure and leverage the benefits of input tax credits. It strategically adjusted prices across various categories and communicated these changes to consumers. Through these measures, Nestlé India aimed to maintain its competitive edge and continue providing value to consumers.
3	Dabur India Limited	Dabur India, a leading FMCG company known for its healthcare and personal care products, also experienced the impact of GST. The company implemented a comprehensive transition plan to ensure seamless compliance and minimize any disruptions in its business operations. Dabur India revisited its pricing strategies, optimized its product mix, and introduced smaller pack sizes to cater to consumer preferences and price sensitivity. Additionally, the company leveraged the GST regime to strengthen its distribution network and expand its presence in rural markets, capitalizing on the improved ease of doing business.
4	Marico Limited	Marico Limited, a well-known FMCG company specializing in haircare and skincare products, adapted to the GST framework by revising its pricing and promotional strategies. The company undertook a thorough analysis of the impact of GST on its product categories and adjusted prices to pass on the benefits of reduced tax rates to consumers. Marico Limited also focused on enhancing its distribution efficiency and supply chain optimization to minimize the impact of the new tax regime. The company's agile response to GST helped it maintain market competitiveness and consumer loyalty.

VIII. CONCLUSION

The case study on the impact of GST on the FMCG industry provides valuable insights for FMCG companies and policymakers. The insights from the case study can be used to help FMCG companies comply with the GST and to help policymakers adjust the GST in order to support the long-term sustainability of the FMCG industry. The GST has had a mixed impact on different segments of the FMCG industry.

Overall, the case study highlights that the FMCG industry experienced both challenges and opportunities following the implementation of GST. Companies that effectively adjusted their pricing structures, optimized supply chains, and embraced GST compliance measures were able to navigate the changes and maintain their market share. It underscores the importance of agility, supply chain optimization, and consumer-centric approaches in thriving under the GST regime.

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