

A Study on the Impact of GST in FMCG Sector with Special Reference to Palakkad District, Kerala

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Abstract: The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major reform in taxation till date implemented in India since independence in 1947. A single category of tax created by amalgamating different types of indirect taxes by State and Central Government under one head, known as GST. GST is actually more beneficial for the customers as their tax burden or liability has been considerably reduced to more than 25%. This study is intending to know the attitude of consumers or customers in implementing GST by taking the important consumer durable segment, that is, Fast Moving Consumer Goods (FMCG). In this, an attempt has been made to create a SWOT analysis of GST and to know about its pros and Cons so that it will be beneficial for policy formulation and also enable the common man to understand about the implication of GST.

Key Words: GST, FMCG, Retail Sector.

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I. Introduction

The Goods and Service Tax (GST) is considered to be one of the great reformation implemented in India. It is a comprehensive, multi-stage, destination based tax that will be levied on every value addition. Introduction of GST is an important restructuring in indirect taxation in India. It is an indirect tax, throughout India, to replace several other taxes levied by the central and state Governments. It will consolidate all state economies under one roof. The basic idea is to create a single, cooperative and undivided Indian market to make the country stronger and powerful.

In the light of above development, it is very important to analyze the provisions of the draft law in detail and assess its impact on various sectors. GST will have a far – reaching impact on business avenues and compelling organizations to realign their bottlenecks. India is one of the largest producers for a number Fast Moving Consumer Goods which offers a large and growing market. The impact of GST on the Indian fast moving consumer goods is going to be manifold. Due to the implementation of GST there is a transparency and the tax liability will be moving to the consumers only for the quantity that they had consumed for.

II. Research Problem

GST is a fixture diversion reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and service. It is a consumption based tax levied on sale, manufacturing and consumption of goods and services. Under GST various indirect taxes would be subsumed and hence it is going to result in a simpler tax regime especially for Industries like FMCG. In this sector GST would have an impact on the pricing, working capital, contracts with vendors and customers etc. The sale of retailers and the monthly budget of common people regarding fast moving consumer goods should have an impact of GST. Moreover the concept of GST awareness among common man is an important matter to be analyzed.

III. Review of Litterarure

IV. Sony Pandey, Tax Researcher at H & R Bolck India (December 24, 2017) The new tax regime has made the market go up in the shortest time by boosting the FMCG Industry and bringing in different benefits to the economy. All the major players in the Industry have welcomed GST with open arms. However, few firms in the sector are diversely affected by the tax rate charged on their products.

V. Radhika Merwin, The Hindu Editor, (June 25, 2017).

For most segments within the FMCG space, GST bring good tidings on the back of lower tax incidence when compared to the total tax paid pre-GST – In particular, house hold/ personal care segment is likely to gain the

most, with lose to 5-7 percentage point reduction in indirect taxation with GST rates on each of these products fixed at a lower 18percent, companies with this space are likely to gain.

VI. SanketDhanorkar, Economic Times Bureau,(May 29.2017)

Impact of GST on FMCG firms will depend on their product mix, given that the tax rules have gone up for some products and have fallen for others. The FMCG companies, whose tax incidence has come down under the GST regime, are likely to pass it on to the consumers in the form of lower prices. Manufacturers will have to pass on the higher tax incidence of some products placed under highest tax slab of 28%, to consumer in the form of higher prices of these goods.

VII. Objectives Of The Study

Following are the objectives of the study:

1. To understand the concept of GST.
2. To obtain a comprehensive overview of consumer's and retailer's awareness and perceptions of GST.
3. To find out the impact of GST on sales of retailers.
4. To analyze the impact of changes in the tax rates of fast moving consumer goods on consumers.

VIII. Scope Of The Study

India has implemented GST on 1.7.2017. GST is a real game changer and it will lead to a complete overhaul of current indirect tax system. GST, being new in India, includes tremendous changes in the various sectors of the economy. It will affect all the industries irrespective of a single sector. FMCG segment is the fourth largest in the Indian economy. For most segments within the FMCG space, GST brings good tidings on the back of lower tax incidence when compared to the total tax paid pre – GST.

IX. Research Methodology

The research design constitutes the blue print for the collection, measurement and analysis of data. The project uses an exploratory research technique based on the past literature covering collections of academic literature on GST. Here primary and secondary data are used for this project. The sampling method used in this project is Convenience Sampling. The tools and analysis used in this study includes tables, simple bar diagram, line diagram, pie diagram, scatter diagram and correlation analysis.

X. Analysis

1. OCCUPATION OF CONSUMERS.

Serial No.	Particulars	Number of respondents	Percentage
1	House wife	3	10
2	Employed	19	63.33
3	Business	8	26.67
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents 63.33% of the respondents are employed and 26.67% are doing business as occupation and remaining are Home makers.

2. INCOME OF CONSUMERS

Serial No	Particulars	Number of respondents	Percentage
1	Below 10000	13	43.33
2	10000-20000	13	43.33
3	Above 20000	4	13.34
	Total	30	100

Source: Primary data

Interpretation:

The above table shows that among 30 respondents 43.33% of the respondent's monthly family income is below 10,000 and 43.33% are between 10,000 to 20,000 and remaining is above 20,000.

3. AWARENESS ABOUT IMPLEMENTATION OF GST IN FMCG.

Serial number	Particulars	Number of respondents	Percentage
1	Yes	24	80
2	No	6	20
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents 80% are aware about the implementation of GST In FMCG, remaining 20% are not aware about that.

4. SOURCE OF GST AWARENESS

Serial number	Particulars	Number of Respondents	Percentage
1	Friends & Family	6	20%
2	Mass Media	23	76.67%
3	Online Source	1	3.33%
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents 20% are aware of GST from their friends & family, 76.67% are aware of GST from mass Medias and remaining 3.33% are aware of GST from online source.

5. OPINION REGARDING GST WOULD BENEFICIAL TO CONSUMERS

Serial number	Particulars	Number of respondents	Percentage
1	Definitely	3	10
2	Probably	20	66.67
3	Probably not	5	16.67
4	Definitely not	2	6.66
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents 10% Says that GST would definitely beneficial to consumers, 66.67% says that it would probably beneficial to consumers. 16.67% says that it would probably not beneficial to consumers and remaining 6.67% says that it would definitely not beneficial to consumers.

6. OPINION REGARDING GST WILL CAUSE HIGHER PRICE OF GOODS AND SERVICES.

Serial number	Particulars	Number of respondents	Percentage
1	Yes	23	76.67
2	No	3	10
3	No opinion	4	13.33
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents are in the opinion that GST will cause higher price of goods and service and 10% are not. Remaining 13.33% have no opinion regarding that.

7. SATISFACTION WITH CURRENT PRICE OF CONSUMER GOODS

Serial number	Particulars	Number of respondents	Percentage
1	Yes	6	20
2	No	24	80
	Total	30	100

Source: Primary Data

Interpretation:

The above table shows that among 30 respondents only 20% are satisfied with the current price of consumer goods, remaining 80% are not satisfied.

8. RANK ORDERING OF GOODS ACCORDING TO THE EXPECTATION OF PRICE REDUCTION.

Sl. No	Items	Ranks					Total points
		I (5)*	II (4)	III (3)	IV (2)	V (1)	
1	Sugar	35	8	18	16	7	84
2	Soap & Detergents	35	28	21	16	1	101
3	Tooth paste	15	28	15	6	12	76
4	Sanitary Napkins	50	24	18	12	2	106
5	Dairy Products	15	32	18	10	8	83

Source: Primary Data

* represents Points

Interpretation:

The above table shows that among 30 respondents the rank ordering of goods according to expectation of price reduction is in the following order.

Rank	Good
I	Sanitary Napkins
II	Soap & Detergents
III	Sugar
IV	Dairy Products
V	Tooth Paste

9. MONTHLY CONSUMPTION EXPENDITURE FOR SOME FMCG BEFORE AND AFTER GST.

In order to find the degree of relationship between before and after GST monthly expenditure correlation analysis is used.

Seral No.	Goods	B.GST (X)	A.GST (Y)	x ²	y ²	x × y
1	Tooth paste	1620	1649	2624400	2719201	2671380
2	Soap & Detergents	4021	4089	16168441	16719921	16441869
3	Sugar	4217	4771	17783089	22762441	2019307
4	Tea/Coffee	3020	2906	9120400	8444836	8776120
5	Rice	22558	23808	508863364	5668208640	5370608640
6	Wheat	2533	2493	6416089	6215049	6314769
7	Edible oil	10157	11099	103164649	123187801	112732543
8	vegetables	16760	17090	280897600	292068100	286428400
9	Milk	21130	22225	446476903	493950625	469614250
10	Agarbatti	1293	1260	1671849	1587600	1629180
	Total	87309	91390	139318678	1534476438	1461788682

$$\text{Karl Pearson's coefficient of correlation} = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \times \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$10 \times 146178868287309 \times 91390$$

$$\frac{\sqrt{10 \times 1393186781 - 87309^2} \times \sqrt{10 \times 1534476438 - 91390^2}}{= 0.99}$$

Interpretation:

There is a high degree of positive correlation between before and after GST monthly expenditure. The variables are moving and varying in the same direction.

10. SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> ▪ Low operational costs. ▪ Established distribution networks in both urban rural areas. ▪ Presence of well-known brands in FMCG sector. 	<p>Weaknesses</p> <ul style="list-style-type: none"> ▪ Lower scope of investing in technology and achieving economies of scale. ▪ Low exports levels. Counterfeit products.
<p>SWOT Analysis (FMCG)</p>	
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ Untapped rural market. ▪ Rising income levels. ▪ Large domestic markets. ▪ Export potential. ▪ High consumer goods spending. 	<p>Threats</p> <ul style="list-style-type: none"> ▪ Removal of import restrictions ▪ Slowdown in rural demand. ▪ Tax and regulatory structure.

XI. Findings

- Among 30 respondents 70% are female.
- 63.33% of the respondents are employed and 26.67% are doing business as occupation and remaining are Home makers.
- Almost half of the respondents are having their monthly family income below 10000 and another portion between 10000 to 20000 and a few remaining is above 20000.
- Most of the consumers are having awareness about the implementation of GST for FMCG.
- Around 3/4th of the respondents are aware about GST from their friends/ family.
- Among 30 respondents major portion of them are in the opinion that GST would probably beneficial to consumers.
- An elevated proportion of the respondents believe that GST will cause higher price of goods.
- More than partially the respondents are almost certainly expects a price reduction of goods in future.
- A large amount of the respondents are in the opinion that Government will make change in the tax rate of goods.
- According to the expectation of price reduction highest rank is provided to Sanitary Napkins.
- The monthly consumption expenditure of consumers is not reduced after GST.
- There is a high degree of positive correlation between before and after GST monthly expenditure.

XII. Suggestions

- i. Government should take necessary actions to create awareness about the pros and cons of GST among consumers and retailers.
- ii. Necessary steps should be taken by the officials to ensure that all retailers are making their registration in GST in proper manner.
- iii. The Government must evaluate the way by which the GST rates are executed, so that there is a provision for price reduction.

- iv. People expect an exemption in the GST rates for necessity items or reduction in its price in near future.

XIII. Conclusion

Under GST various indirect taxes are subsumed and it would result in a simpler tax regime especially for industries like FMCG. Apart from simplification of tax compliances, the rate of tax will also have a significant impact on the FMCG sector. Since taxes are an inescapable part of the purchasing experience, GST would have an impact on the consumers. But they are not much interested in giving up important to GST on their purchase of FMCG. More over the price of consumer goods depends not only on the tax rate implemented, but subject to other factors also. Retailers are actually expecting some changes in the long term on its implementation is in its initial stage now. IT driven taxation regime, lesser manual intervention of tax authorities, positive effect on so many sectors and uniform tax structure, may witness increase in GDP for Indian economy. So while implementing GST the Government and officials should ensure the execution of the tax policy should be beneficial for both consumers and Government.

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