

Impact Of Goods And Services Tax On Fmcg Sector

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ABSTRACT

Purpose: The Purpose of this study is to examine the functional relationship between goods and services tax and purchasing power of fast moving consumer goods consumers. The other purposes of the study is to examine the impact of goods and services tax on this sector and subsequent implications for industry stakeholders.

Methodology: The data required for this study is collected through both primary and secondary sources. This research is quantitative in nature and IBM SPSS25 version software is used for data processing and analysis.

Findings: The study identifies a significant and positive relationship between goods and services tax and purchasing power of consumers. The opposite kind of relationship exist between various performance parameters of FMCG sector.

Implications: The results of the study clearly has created a significant impact on the purchasing power of the consumers and the study suggests marginal cost pricing for FMCG products so that the burden of indirect tax is minimized.

Originality: This study is unique because it brings together both industry and consumer perspectives of goods and services tax and its implication for industry stakeholders.

Keywords: Goods and Services Tax, Spending Ability, Market Size, FDI Inflows and sector size.

1. INTRODUCTION

Taxes are the compulsory payment made by individuals, corporates and other artificial persons to the government. Taxes are the major source of revenue for governments. Taxes are the backbone of public finance. Taxation policy are of utmost important consideration for government as development and welfare schemes success depend heavily on tax revenues generated. Thus, designing and implementing a tax policy is of crucial importance. There are always two perspectives in which tax policies are designed. They are macroeconomic and microeconomic perspectives. Macroeconomic perspective takes a holistic approach and deals with how taxes influences the economic growth rates of country. Micro economic perspective of tax policy deals with fairness of taxes (whom to tax and whom not to tax) and also discusses about how these taxes needs to be allocated based on efficiency level of various economic activities of the country.

Indian taxation system cannot be kept outside this philosophy of taxation policy. The taxation in India is basically a three tier structure where we have taxes imposed by the central government, state government and local bodies. The taxes charged are classified as direct and indirect taxes. Direct taxes are administered by the central government and all the three bodies are given rights to impose indirect taxes. Since this study focuses on indirect taxes, we will discuss it in more detail.

Goods and Services Tax, often called as GST, is considered as a significant tax reform in the country. GST is a destination based tax where taxes will accrue at the place of consumption rather than the place of manufacturing and tax credit given at each stage of manufacturing. While GST may be a new concept for India, it is not new for the world. Countries like France, Canada and few other nations have proven successful by implementing GST way back in 1950s. But the Indian GST model is quite different from the GST models adopted by other developed nations. Indian GST is a dual model where we have central goods and services tax (CGST) and state goods and services tax (SGST), the same in case of union territories, it is called as UTGST. We basically have 4 different rates like 5%, 12%, 18% and 28% for majority of our goods and services whereas for few specialised goods the tax rates varies. Understanding the relationship between the tax policy and consumer spending pattern researches are not new to the research world but the quantum of researches on these areas are limited while comparing with that other researches

on consumer spending and purchasing power. Taxation research are also important for academic community as enable us to understand the how taxes impact the demand side and supply side of the economy.

Goods and Services tax is just a three years old tax system for India and has made a tremendous impact on the consumers. (Kothiya, 2017) wrote that soon after the implementation of GST, the prices of essential items have gone up despite placing them under lowest slab and suggested that habitual window shoppers needs to be careful while making their purchases. Further they also indicated that GST has brought a change is consumer spending and lifestyle. Fast Moving Consumer Goods (FMCG) industry is the fourth largest sector of the Indian economy (Indian Brand Equity Foundation, 2020). GST has made a tremendous impact on FMCG sector. GST has reduced logistics cost and input costs in FMCG sector while transaction value and frequently charging tax rates are also the profit potential sector says (Bajajfinserv, n.d.). This research paper seeks to analyse the impact of GST both from consumer perspective and industry perspective quantitatively.

1.1 Statement of the problem

Goods and Services Tax play a predominant role in influencing the price of the products. Thus it influences the shopping pattern of consumers. A rational consumer will always buy a product that best satisfies his requirements at a lower cost. Thus business needs to understand the relationship between indirect taxes and buying behaviour of consumers. Thus, this study seeks to identify the relationship between GST and spending ability of consumers, the understanding which will help FMCG companies to modify their products.

1.2 REVIEW OF LITERATURE

1.2.1 Taxes and spending ability

(Esmaeel, 2013) investigated the impact of direct and indirect taxes on consumers and concluded that direct taxes collected by government are justifiable on account of it being equitable and satisfying the condition of certainty whereas indirect taxes are solution to externalities problems but plays a very significant role in influencing the purchase power which in turn decides the consumption pattern of the country.

(Steindel, 2001) studied the impact of tax changes on the consumer spending ability and found that consumers will increase their spending as long as the changes in tax liabilities are permanent and changes in tax rates do not impact their take home pay and concludes that tax changes are always initiated by the government to modify the people's consumption based on economic condition.

1.2.2 GST and FMCG Sector

(Agarwal, 2018) investigated the implications of GST on the cost and distribution strategy of FMCG sector. For this purpose, the researcher conducted a comprehensive survey of the secondary sources and found that GST seemingly benefits the FMCG sector. The benefits accrues to the FMCG sector in the form of cost reduction, increased operational efficiency and by adoption of redistribution strategy by larger players in the sector.

(Ajeev & Somasekharan, 2019) studied the aftermath of GST on FMCG sector and analysed various stakeholders' perspectives about implications of GST for the FMCG sector. They used convenience sampling to distribute the questionnaires to collect their opinions on GST and concluded that GST has reduced cost, price and transportation time. Further they also found that technical and legal cost of companies have gone up in the post GST era.

(Barot, 2018) examined the effects of goods and services tax on FMCG sector. Through comprehensive survey of various secondary data related to GST, researcher found that GST proves to be a favourable tax policy for this sector and the tax rates are not high. Thus, the consumers will be benefited as routine products are kept outside the GST tax brackets.

(Chavan, 2017) in his study examined the implications of GST for Indian Industries. The researcher further narrowed his focus on FMCG sector. The researcher through published and unpublished sources predicted that GST will have significant impact on supply chain management and accounting information system of FMCG companies and concluded that GST will provide opportunity for these companies to redesign their supply chain models.

(Elavarasan & Jagadeesan, 2018) explored about the GST implemented in India and its impact on FMCG sector. Through thorough analysis of secondary data, they found that GST will reduce the distribution cost and enable the companies to increase their product volume and benefit their customers by price reduction.

(Kotnal, 2017) analysed the takeaways of GST model for the FMCG sector. Through exploratory research, the study advocated the development of effective vendor system by ensuring that they comply with the requirements of GST law so as to ensure smoother business operations for the companies.

(Naik & Sudina, 2017) studied the perspective and experiential implications of GST for the FMCG sector. Through comprehensive and in depth analysis of secondary sources, they concluded that GST will impact every dimension of business and suggested that businesses should take a 'whole of business' approach to smoothen their business operations.

(Prof. Rekha D. M & Swathi, 2019) studied the relationship between GST and FMCG sector. They found that GST has substantially reduced logistics and warehousing cost however the working capital requirements of the companies have gone up in the post GST era. They further concluded that GST has left FMCG consumers with less money which resulted in modified purchase decision.

(Shinde, 2019) studied the framework of GST law and its implications for different sectors of Indian economy. They concluded that GST will remove economic backlogs and thereby making India a common economic market. They further stated that GST will support Make in India and Digital India Initiatives.

1.2.3. GST and Consumer

(Chitra, 2019) investigated the relationship between the GST and consumer spending behaviour with the help of survey research. The researcher found that there is a strong relationship between GST and prices of electronic & sports equipment and concluded that GST made a significant impact on the prices of essential commodities as compared to comforts and luxury items.

(Jayalakshmi, 2018) studied the consumer perceptions towards GST through survey method in the state of Karnataka. The researcher concluded that consumers have a positive attitude towards GST and consumers do not have clarity with regard to the framework of GST implemented in India.

(Kumar, 2018) studied the factors influencing the consumer perception towards GST in India through survey method by using convenience sampling. The researcher found that tax knowledge, tax morale and tax compliance as some of the key factors influencing consumer perception towards GST and concluded that government should take efforts to eliminate lack of clarity on GST among consumers.

(Maheshwari & Mani, 2019) analysed the awareness among consumers about GST implemented in India. For this purpose, they analysed 200 respondents' opinion on GST in Delhi and found that increasing the publicity of goods and services tax will increase its level of awareness among consumers.

(Murugaiyan et al., 2017) studied the public awareness about GST implemented in India. Through survey of 100 respondents, they found that GST will be able to achieve its intended objectives and concluded that it will bring down prices, reduce inflation and remove cascading effect of taxes in the long run.

(Ramkumar, 2018) studied the consumer perceptions about GST from the economic perspective and found that the consumers are happy with regards to goods and services brought under nil rate slab and lack of increase in personal income after GST implementation has curbed their spending ability and there by regulating their purchases cautiously.

(Rathi & Sreeraj, 2018) attempted to study the consumer perception towards GST in Mannarkad district. They found that the consumer have a positive attitude towards GST and concluded that demographic factors do not play any role in influencing the consumer perceptions about GST in India.

(Sudha & Kumaresan, 2018) analysed the impact of GST on electronic goods and especially from the consumer perspective. They concluded that government should take necessary steps to bring the unregulated businesses in the GST preview so as to achieve the dream of making India a "One nation and One market".

1.3 NOVELTY OF RESEARCH

Various research studies were carried out by eminent researchers on goods and services tax. Similarly large number of research studies were carried out to understand the consumer behaviour. However very few studies were carried on relationship between indirect taxes and consumer spending ability. In Indian context, research studies relating to goods and services tax often focuses on its problems and prospects for different sector. Further, Hence, this research study will make unique contribution to taxation research arena.

1.4 CONCEPTUAL FRAMEWORK OF THE STUDY

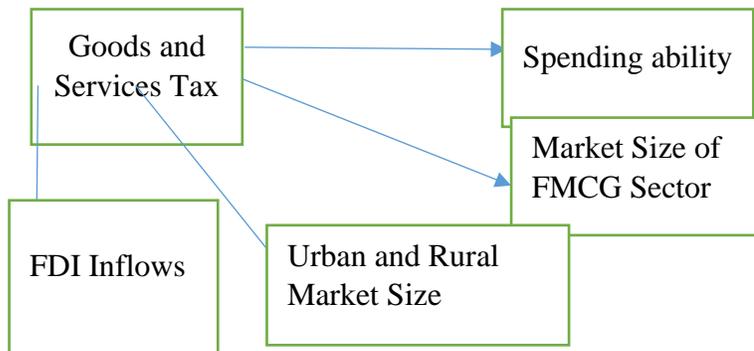


Figure 1 showing conceptual framework of the study

The Figure 1 represents the conceptual framework of the study. The study seeks to study the influence of goods and services tax on consumer spending ability from consumer perspective and from industry perspective seeks to analyse its impact on market size and FDI inflows. The above models are supported by theory of tax incidence and optimal treatment of tax savings(Sandmo, 1985).

1.5 OBJECTIVES OF THE STUDY

- a. To study the impact of goods and services tax on consumers.
- b. To study the relationship between goods and services tax on FMCG sector.
- c. To suggest pricing strategies for FMCG companies based on GST's impact on consumers.

2. MATERIALS AND METHODS

2.1 Research Design

This research study is quantitative in nature. Quantitative research design involves comprehensive analysis of quantitative data and researcher through statistical, mathematical or computational models seeks to study the influence between two variables. This study is quantitative as it seeks to study the degree of influence among two or more variables.

2.2 Method of Data Collection

The data required for this study is collected through survey method. Survey method involves sending questionnaires to the respondents with a request to complete them and send them at the earliest. This method is often used in case of educated respondents only(Krishnaswami & Ranganatham, 1983).

2.3 Sources of Data

The Data required for the study is collected through both primary and secondary sources. Primary data includes data collected directly from the respondents. Secondary Data is collected from the government reports, journals, newspaper articles and magazines.

2.4 Sampling Plan

Convenience sampling technique was used to select the samples for the research study. The study is limited to the respondents in Chennai city. The sample size for this research study is 50

2.5 Data Collection instrument

Data collection instruments for this study are questionnaire. For the purpose of this study, the questionnaire is divided into two parts. The first part consisted of statements relating to goods and services tax and second part consisted of statements to analyse the spending ability as a measure of purchasing power.

2.6 Data Analysis

The Data collected for the study is analysed with the help of correlation and simple regression techniques. Simple regression analysis is used to study the relationship between goods and services tax and its impact on consumers. Goods and Services tax is the independent variable while spending ability of consumer is the dependent variable for the study. Similarly, to study industry perspective, correlation is used to study relationship of GST in terms of overall market size, rural and urban market size and FDI inflows are dependent variables.

3. RESULTS AND DISCUSSIONS

Table 1 showing Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	Durbin-Watson
					Sig. F Change	
1	.717 ^a	.514	.491	.58899	.000	2.625

a. Predictors: (Constant), GSTR
 b. Dependent Variable: Spending Ability

Source: Primary Data Analysis

The table 1 shows the model summary of regression analysis. GST has significant impact on the FMCG consumers. This is indicated by p-value 0.000. It is also indicated by R square change value 0.514, which means 51.4% variation in spending pattern of FMCG consumers is influenced by GST.

Table 2 showing ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.698	1	7.698	22.191	.000 ^b
	Residual	7.285	21	.347		
	Total	14.984	22			

a. Dependent Variable: Spending Ability
 b. Predictors: (Constant), GSTR

Source: Primary Data Analysis

The table 2 shows ANOVA which also indicate significant association between GST and FMCG Consumers' spending ability.

Table 3 showing Coefficients^a

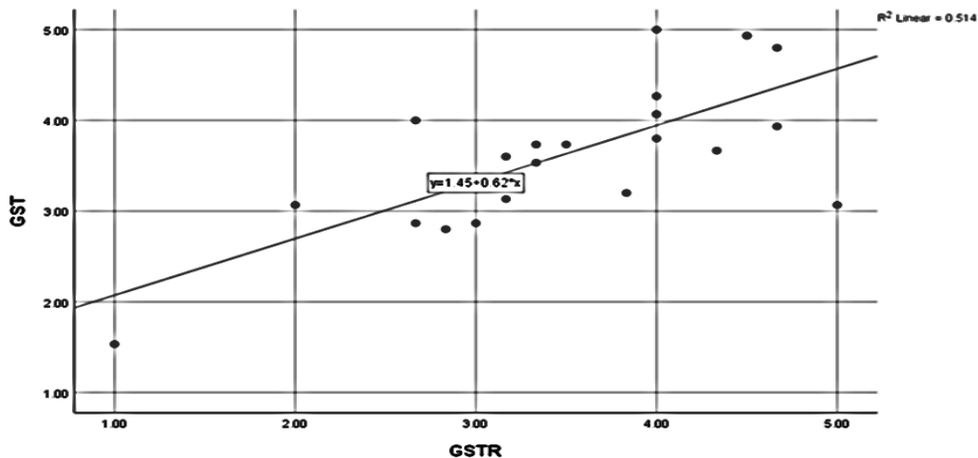
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.449	.489		2.963	.007
	GSTR	.624	.132	.717	4.711	.000

a. Dependent Variable: Spending Ability

Source: Primary Data Analysis

The table 3 shows the co-efficient table. It is clear that a change is GST rate will influence the spending ability of FMCG consumers by 62.4%.

Figure 2 showing Regression plot between GST and Spending ability of FMCG Consumers



$$Y = 1.449 + 0.624X_1$$

		Marketsize	Ruralmarket	Urbanmarket	FDIInflows	GSTR
Marketsize	Pearson Correlation	1	-.650	.650	.666	-.827
	Sig. (1-tailed)		.275	.275	.268	.190
	N	3	3	3	3	3
Ruralmarket	Pearson Correlation	-.650	1	-1.000	.134	.110
	Sig. (1-tailed)	.275		.000	.457	.465
	N	3	3	3	3	3
Urbanmarket	Pearson Correlation	.650	-1.000	1	-.134	-.110
	Sig. (1-tailed)	.275	.000		.457	.465
	N	3	3	3	3	3
FDIInflows	Pearson Correlation	.666	.134	-.134	1	-.970
	Sig. (1-tailed)	.268	.457	.457		.078
	N	3	3	3	3	3
GSTR	Pearson Correlation	-.827	.110	-.110	-.970	1
	Sig. (1-tailed)	.190	.465	.465	.078	
	N	3	3	3	3	3

Source: Secondary Data Analysis

The table 4 shows the relationship between goods and services tax and variables used to measure FMCG sector performance. From the above table it is clear that there is no significant relationship between GST and parameters of FMCG sector. However, it is also clear that there is a negative relationship between the variables tested. For instance, there is a negative relationship between GST and urban market size, overall market size and FDI inflows. These are supported by a negative correlation values of -0.110, -0.827 and -970 respectively. However there is a weak positive correlation between GST and rural market indicated by Pearson correlation value of 0.110.

4. CONCLUSIONS AND RECOMMENDATIONS

To conclude, GST has a major impact on the purchasing power of consumers. Since price is the key focus of a rational consumer, GST to some extent creates a possibility of modifying the buying behaviour of consumers. Purchase decision is one of the outcomes of buying behaviour of consumers. Since, GST is included in the selling price, FMCG companies should take due care in formulating their pricing strategies. Further through correlation analysis, it is also clear that there is a adverse or negative relationship between GST and FMCG parameters. Therefore, to minimize the impact of GST on FMCG sector's profit potential, Marginal cost pricing will be best suitable for FMCG products so that fixed cost gets distributed and contribution margin increases the profit.

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