

# The Biggest Economic Reform GST's (Goods and Services tax) Impact on FMCG Manufacturers & Rural Markets

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**Abstract-**The biggest economic reform GST Goods and Services tax introduced in to Indian financial system with the idea of One nation One tax, raised the curiosity among many without any discrimination of profession, earnings and left everyone to learn how it impacts either their business or spending. In recent years, the rural market growth surpassed the urban, attracting many of FMCG market leaders to cater the needs of rural customers. Even the durable market players specifically of cell phones and four wheeler manufacturers experienced tremendous growth in rural than that of urban. The study concentrates on how the tax reform under indirect taxes will impact the rural marketing done by FMCG manufacturers, GST can be considered as a boon or bane to manufacturers. What will be the impact of GST on rural consumers? Though the study suffers with lack of rich information in terms of secondary sources, with available e-information, it was understood that GST rate structure won't benefit all FMCG companies, few are adversely affected and other benefitted most. This is because of different slab rates on different products where tooth paste, detergents, baby foods experienced lowering of tax, hair dyes with higher taxes. And when it comes to the consumers, are protected through Clause 171 which has been inserted in the GST Act, speaks on anti profiteering rule that need to be followed by the manufacturers, where it is mandatory to pass on the benefit due to reduction in rate of tax to the consumers. When manufacturers pass the benefit of low price on products, even rural consumers can turn to branded products and manufacturers can increase the profits through voluminous sales.

**Key words:** Goods & Service tax, FMCG manufacturers, Rural Markets, Rural Consumers

## I. INTRODUCTION

In the last few years, Rural India has undergone a rapid transformation which was not at all expected and even people never thought that the rural share of the total market would outstrip the urban share. The global players such as HUL, Tata, ITC etc., catered the needs of rural people through specific strategies of empowering women enjoyed the turn around with respect to growth in rural markets. Majority of categories in business for example FMCG, durables within very short period, not even a decade, experienced rural exceeding urban growth. The transformation could be observed in the way back when mobile phones introduced in India where rural India hit 200 million connections with in a span of 5yrs for the same urban India took exactly the double 10yrs. Maruti sold less than 20,000cars in 2007-08, in 2014-15 it sold 3,00,000 cars showing a change in perspective of rural people.

The change in rural scenario can be attributed to the following resulting into enhanced income levels which in turn fuelled rural growth.

- The pro rural government initiatives and schemes
- Rapid rural infrastructure development
- Good monsoons
- Increase in the minimum support price for food grains
- National rural employment guarantee scheme [NREGA]
- Rapid electrification

Even one can observe enhanced economic activity in rural areas & 75 % villages are now connected by high quality roads, resulting in a spurt in the sale of Hero Honda motorcycles, Maruti cars, and Bolero SUVs and TATA ACE mini goods vehicles. Improved internet connectivity and the rapid spread of TVS and mobile phones have led to higher awareness levels among rural consumers.

## II. DEFINITION OF RURAL:

Any habitation with a population density of less than 400 per sq.km, where at least 75 percent of the male working population is engaged in agriculture and where there exists no municipality or board can be called as Rural, the definition given by The Census of India.

Whereas FMCG sector defines rural in very simple terms as any place with a population up to 20,000. Contradicting to the population figure Durable & Agri-input companies consider rural is any town with a population below 50,000.

## III. DEFINITION OF RURAL MARKETING

The way how the companies reach the customers in urban areas is entirely different when they think of rural people due to various differences such as

Demographics: Education, occupation, Income, Social status, family size

Behavioural : Product usage, occasions, etc

Psychographic: Attitudes, opinions, interests

According to the National Commission on Agriculture, Rural marketing is a process which starts with a decision to produce a saleable farm commodity and it involves all the aspects of market structure or system, both functional and institutional, based on technical and economic considerations and includes pre and post harvest operations, assembling, grading, storage, transportation and distribution. Simply, it referred to marketing of rural products in rural and urban areas and agricultural inputs in rural markets

Rural Marketing is a two-way marketing process that includes the flow of goods and services from rural to urban areas and the flow of goods and services from urban to rural areas, as well as the flow of goods and services within rural areas

#### IV. GST - AN INTRODUCTION

Just like the France – the first country to implement GST, Brazil & Canada with Dual GST format, India also thought of implementing GST with one indirect tax, making India one unified common market. The GST proposes to consider most indirect taxes under a single taxation regime. GST is a single tax on the supply of goods and services, starting from the manufacturer to the consumer.

The tax paid at each stage of value addition is available for subsequent stages, and the final consumer will thus bear only the GST charged by the last dealer in the supply chain. The benefits include

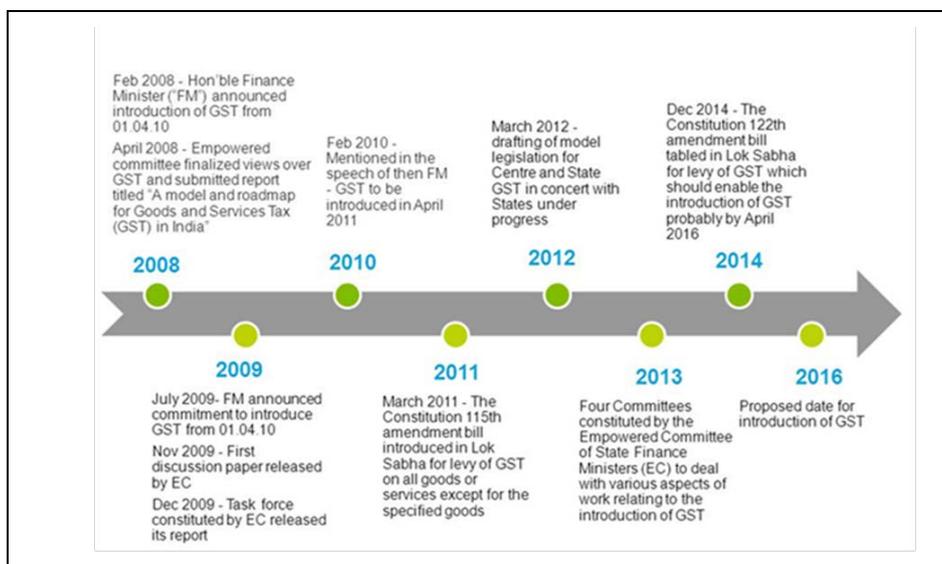
- Broaden the tax base
- Increase tax compliance and
- Reduce economic distortions caused by inter-state variations in taxes
- Accelerates the economic growth / pushes overall GDP growth of the economy due to enhanced production
- Generates more and more employment opportunities
- Promotes ease of doing businesses
- Helps in reduction of transactions costs to businesses
- Boost manufacturing of goods and supply of services
- Increase pricecost margins of manufacturers

The best part of GST is that the government has taken some pre-emptive measures to keep inflation under check as essential items including food, which presently constitute roughly half of the consumer inflation, to be taxed at zero rate.

#### V. FEATURES OF GST

- ❖ Power is bestowed on Parliament and the State Legislatures to make laws governing goods and services tax
- ❖ GST replaces various Central indirect taxes and levies in the market
- ❖ Subsuming of State Value Added Tax/Sales Tax and other taxes such as Entertainment Tax, Central Sales Tax, Octroi and Entry tax, Purchase Tax, Luxury tax, and Taxes on lottery, betting and gambling etc.,
- ❖ Dispensing with the concept of 'declared goods of special importance' under the Constitution;
- ❖ Levy of Integrated Goods and Services Tax on inter-State transactions of goods and services;
- ❖ GST to be levied on all goods and services, except alcoholic liquor for human consumption. Petroleum and petroleum products shall be subject to the levy of GST on a later date notified on the recommendation of the Goods and Services Tax Council;
- ❖ Compensation to the States for loss of revenue arising on account of implementation of the Goods and Services Tax for a period of five years;
- ❖ Creation of Goods and Services Tax Council to examine issues relating to goods and services tax and make recommendations to the Union and the States on parameters like rates, taxes, cesses and surcharges to be subsumed, exemption list and threshold limits, Model GST laws, etc. The Council shall function under the Chairmanship of the Union Finance Minister and will have all the State Governments as members.

#### VI. GST JOURNEY IN INDIA



Source: <http://www.iasscore.in/topical-analysis/introduction-to-gst>

## VII. RURAL ECONOMY IN INDIA

In rural India, the main sources of finance are

Funds devolved by state government under the guidance of SFCs- State Finance Commissions

For 2016-17, Rs 19.78 lakh crore budget was unveiled by the finance minister to focus on infrastructure - roads, health, literacy and rebate for small tax payers.

An amount, of Rs 87,765 crore, was allocated for the rural sector while Rs 2,000 crore was earmarked to give concessional LPG connections to BPL families.

Own revenue generated locally from levies of house tax, professional tax and water charges

Traditionally the Grampanchayats' are given the constitutional legitimacy to improve local public service delivery and governance.

There is a rapid transformation in rural India for past few years as a result of realizing the importance of education and acquaintance with usage of technology. The rural development can be seen as a process in which the traditional way of living is replaced by more progressive way among rural communities. Over the past few decades, rural India's livelihoods have become increasingly nonfarm based and one of the major reasons is to avoid prolonged agrarian distress.

## VIII. GST – IMPACT ON RURAL ECONOMY

GST had become a catalyst for common rural market in India with the removal of state level barriers.

- ✓ National Agricultural market will experience a boost through implementation of GST in the form of ease in marketing of agricultural produce on account of subsuming all kinds of taxes as well as ease in interstate movement of agricultural commodities that would improve marketing efficiency, facilitate development of virtual markets through warehouses and reduce overhead marketing cost.
- ✓ The heterogeneous tax policies that were followed till now made it difficult in implementing tax support for agricultural commodity which can be overcome through GST and the uniform tax regime supports in transportation of perishable agricultural commodity curtailing wastage of precious food

## IX. GST – IMPACT ON RURAL PEOPLE

GST will have direct and indirect effects on rural people of India. The direct impact/ benefits include

- ✓ betterment in rural infrastructure
- ✓ increase in the income levels
- ✓ reduction in prices of goods consumed by them

- ✓ generation of employment opportunities
- ✓ efficiency and increased government spending on rural sector

The indirect benefits of GST on the other hand include

- ✓ the increase in the rural demand,
- ✓ greater revenue collection from taxation from the rural economy,
- ✓ an overall boost in activities in the rural areas
- ✓ An overall inclusiveness of India's rural side in the overall growth of the country.

## X. GST IMPACT ON FMCG FIRMS

The Fast Moving Consumer Goods firms welcomed the new tax regime GST when it was proposed in Budget 2016 saying that the move will give a big fillip to the industry & even it vitalizes the fast-moving consumer goods (FMCG) industry.

Apart from driving supply chain efficiencies, bringing untaxed players into the tax net, it's assumed that the established players in the industry such as HCL, ITC etc will reap the benefits out of it. However, the GST rate structure shows that not all FMCG companies stand to benefit from the new regime.

It is welcoming on part of 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. The anti-profiteering clause in GST makes it mandatory to the companies to pass on the benefit of tax rates to the consumer in the form of lower prices.

The following diagram gives an idea the tax levied under GST on various products and how it is impacting the FMCG firms.

	Detergents	Baby foods	Sanitary napkins	Shampoo
<b>GST RATE</b>	28%	18%	18%	28%
<b>CURRENT RATE</b>	23%	5-12%	10-11%	24-25%
<b>COMPANIES IMPACTED</b>	HUL, P&G, Jyothy Lab	Nestle	P&G Hygiene and Health Care	HUL, P&G, Dabur, Himalaya

It's even predicted that the lower prices could potentially support volume growth for certain products, particularly in the rural segment. It could result in a faster consumption shift from unbranded to branded products, spurring volume growth for FMCG companies. Simultaneously, it will also bring operational efficiency with rationalisation of supply chain by removing bottlenecks. Analysts also point out that tax exemption provided to several critical products required for food processing—jaggery, cereals and milk—would benefit this industry.

The extent of GST impact would depend on the product mix of the companies. For example, oral care major Colgate Palmolive is likely to emerge as the biggest

beneficiary. According to the old tax norms, Colgate pays an effective tax of 25-26% but with the new 18% tax on toothpastes (make up 80% of the company's sales) which is positive, and it levels the playing field against Dabur and Patanjali, who are enjoying tax benefits.

Higher tax rate for detergents and shampoo is a real dampener since these are daily-use, mass consumption items. Manufacturers will have to pass on the higher tax incidence to consumers in the form of higher prices of these goods. Most of the items belonging to the premium category have been put under the highest tax slab of 28%. These include health supplements, skin care, aerated drinks, liquid soap etc. But this is not going to have a particularly negative impact on manufacturers as they had been paying similar taxes earlier. The increase, in some cases, might be marginal.

Ayurvedic products—a segment that is seeing increased focus from leading FMCG players—are to be taxed at 12%, slightly higher than the prevailing rate. This may hurt Dabur, which has a wide portfolio of ayurvedic products. Emami too could come under pressure.

Britannia dealing with variety of biscuits said that with tax rates for the overall biscuit category being largely neutral as what they pay before GST is same as 18% levied on this category, GST would provide a level-playing field to organised players in the industry. Britannia faced sales decline post GST but is confident to be on form by 3<sup>rd</sup> quarter and they stuffed (Up stocking) their channels before the roll out of GST to minimize the impact.

Marico's India business suffered a volume decline of 9 per cent with net profit down at 12 per cent as a result of the transition to GST which involved distribution pipeline correction across channels like wholesale and CSD (canteen stores department), surprisingly Harsh Mariwala, Chairman of Marico said GST impact depends on fast moving consumer goods (FMCG) companies' exposure to rural areas. The company saw negative impact in rural and wholesale business due to GST issues.

For most other FMCG majors, the GST rate structure is likely to be neutral or marginally positive, as their broad portfolios would see a mixed impact. In case of HUL, for instance, tax incidence has reduced for soap, toothpaste and tea, but increased for detergent, shampoo and skin care. For Godrej Consumer Products, lower tax incidence on soaps and insecticides is a positive, but higher tax rate for hair dye is negative.

## XI. CONCLUSION

It can be concluded that the impact of GST would be a major game changer for the economy not only urban but even rural putting together overall economic growth for the country and generates more employment opportunities. Because of its simplified tax system, more businesses including small & large will come into the tax brackets and because of its different slab rates on different products will encourage firms to continue with the product mix. Few FMCG firms are benefitted and others affected adversely but in the long run all will reap the benefits. As the coming financial year, growth will depend on the rural economy, it

is advisable to cater the needs of rural population through specified rural marketing strategies

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