



Impact Of Gst On Fast Moving Consumer Goods (Fmcg) Sector In India

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ABSTRACT

Goods and Services Tax (GST) represents one of the most ambitious and comprehensive indirect tax reforms undertaken in India's post-independence history. Introduced on 1st July 2017, GST subsumed a wide range of central and state-level taxes such as excise duty, service tax, value-added tax (VAT), central sales tax (CST), octroi, and entry tax. By creating a unified national market, GST aimed to eliminate the cascading effect of multiple taxes, reduce inefficiencies in the supply chain, and promote transparency in the taxation system. The Fast-Moving Consumer Goods (FMCG) sector, which includes essential products such as packaged food, beverages, toiletries, personal care items, and household goods, was directly impacted by this reform. Given the sector's reliance on high-volume sales, thin profit margins, and extensive distribution networks, even minor changes in taxation can significantly influence pricing strategies, consumer demand, and profitability. This study explores the multifaceted impact of GST on the FMCG sector in India. It examines how GST altered pricing structures, reshaped supply chains, influenced logistics efficiency, and affected both organized and unorganized players. The research highlights short-term challenges such as compliance burdens and working capital blockages, while also emphasizing long-term benefits including streamlined operations, reduced tax incidence, and enhanced competitiveness. By analysing secondary data from government reports, industry publications, and academic studies, this project provides a holistic view of GST's role in transforming the FMCG industry.

INTRODUCTION

The FMCG sector is often described as the backbone of the Indian consumer economy. It encompasses products that are purchased frequently, consumed daily, and replaced quickly. Examples include packaged foods, soft drinks, soaps, shampoos, toothpaste, detergents, and household cleaning products. The sector contributes significantly to India's GDP and provides employment to millions across manufacturing, distribution, and retail.

Before the introduction of GST, the taxation system for FMCG products was fragmented and complex. Different states levied varying rates of VAT, entry tax, and octroi, while the central government imposed excise duty and service tax. This multiplicity of taxes created inefficiencies, increased logistics costs, and often led to double taxation. For instance, a product manufactured in one state and sold in another could be taxed multiple times during its journey, inflating its final price for consumers.

The introduction of GST was intended to address these inefficiencies. By creating a destination-based tax system, GST ensured that taxes were levied at the point of consumption rather than production. This reform was expected to reduce the overall tax burden, simplify compliance, and encourage the formalization of businesses. For the FMCG sector, GST promised to be a game-changer by enabling companies to consolidate warehouses, optimize supply chains, and reduce costs.

However, the transition was not without challenges. Companies had to adapt to new compliance requirements, reconfigure their IT systems, and train staff to handle GST filings. Small retailers, who form the backbone of FMCG distribution in India, initially struggled with digital compliance. Despite these hurdles, GST has gradually reshaped the FMCG landscape, making it more efficient, transparent, and competitive.

PROBLEM STATEMENT

The introduction of the Goods and Services Tax (GST) brought a major change to the way businesses in India operate, especially in sectors that deal with everyday consumer products. The FMCG sector, which supplies essential goods used by people on a daily basis, was directly affected by this tax reform. While GST aimed to simplify taxation and reduce costs, many FMCG companies initially faced difficulties such as changes in pricing, increased compliance requirements, and the need to restructure supply chains.

The impact of GST has also been different across markets. Urban areas, supported by organized retail and better digital infrastructure, adapted more quickly, whereas rural markets and small retailers experienced challenges in adjusting to the new system. At the same time, large FMCG companies adopted new strategies to take advantage of GST, while smaller players struggled with compliance and working capital issues.

Due to these varied outcomes, it is important to understand how GST has actually influenced the FMCG sector in India. This study seeks to examine the real impact of GST on pricing, distribution, rural and urban demand, and company performance, in order to assess whether the reform has truly benefited the FMCG industry and its stakeholders.

OBJECTIVES

To examine the effect of GST on pricing and cost structure of FMCG products.

To study the impact of GST on supply chain and distribution efficiency.

To compare the impact of GST on rural and urban FMCG markets.

To analyze the performance of major FMCG companies after the implementation of GST.

RESEARCH METHODOLOGY

Research methodology refers to the systematic approach adopted to collect, analyze, and interpret data in order to achieve the objectives of the study. This section explains the research design, data sources, tools used, and limitations of the study.

RESEARCH DESIGN

The study follows a descriptive and analytical research design. Descriptive research is used to understand the structure of GST and its impact on various aspects of the FMCG sector, while analytical research helps in evaluating changes in pricing, supply chain efficiency, logistics costs, and company performance before and after GST implementation.

NATURE OF THE STUDY

The study is empirical in nature and is based on the analysis of existing data related to GST and the FMCG sector. It focuses on understanding trends, patterns, and sector-wise impacts rather than establishing causal relationships.

SOURCES OF DATA

The study is primarily based on secondary data. No primary survey has been conducted due to time and resource constraints. Secondary data has been collected from the following sources:

Government publications such as GST Council reports and Ministry of Finance releases

Research journals, published articles, and academic papers

Industry reports from FMCG associations and consultancy firms

Newspapers, business magazines, and authenticated online sources

SAMPLING TECHNIQUE

Since the study is based on secondary data, judgmental sampling has been used. Selected FMCG companies represent major players in the Indian FMCG market, covering food, personal care, and household product segments.

TOOLS AND TECHNIQUES OF ANALYSIS

The following tools have been used for analysis and interpretation of data:

Percentage analysis

Comparative tables (Pre-GST vs Post-GST)

Graphs and charts to show trends and variations

These tools help in presenting data in a clear and understandable manner.

SCOPE OF THE STUDY

The study focuses on:

Impact of GST on FMCG product pricing

Changes in supply chain and logistics efficiency

Performance of selected FMCG companies after GST

The study is limited to the Indian FMCG sector only.

LIMITATIONS OF THE STUDY

Despite careful analysis, the study has certain limitations:

The research is based only on secondary data

Availability of updated and consistent data is limited

Results may vary across regions and product categories

ANALYSIS AND INTERPRETATION

GST STRUCTURE IN INDIA

GST in India is structured into three components:

Central GST (CGST): Levied by the central government on intra-state supply of goods and services.

State GST (SGST): Levied by the state government on intra-state supply.

Integrated GST (IGST): Levied by the central government on inter-state supply of goods and services.

FMCG products fall under different GST slabs depending on their nature. Essential items such as milk and fresh vegetables are exempted (0%), while products like soaps, shampoos, and toothpaste fall under the 18% slab. Luxury FMCG items such as cosmetics may attract higher rates.

This uniformity in tax rates have simplified pricing strategies for FMCG companies. Earlier, companies had to maintain state-wise pricing due to varying VAT and entry taxes. Post-GST, a single tax rate across states has enabled uniform pricing, reducing administrative complexity.

IMPACT ON SUPPLY CHAIN & LOGISTICS

One of the most significant benefits of GST for the FMCG sector has been the improvement in supply chain efficiency. Before GST, companies maintained multiple warehouses in different states to avoid entry taxes and reduce transit delays. This led to higher operational costs and inefficiencies.

With GST eliminating inter-state barriers, companies have been able to consolidate warehouses into fewer, larger hubs. This has reduced overhead costs, improved inventory management, and enabled faster delivery of goods. The removal of check posts at state borders has also reduced transit times by 20–30%, leading to significant savings in logistics costs.

IMPACT ON SMALL RETAILERS

Small retailers form the backbone of FMCG distribution in India, accounting for nearly 90% of sales. Initially, GST posed challenges for these retailers due to the need for digital compliance, filing returns, and maintaining records. Many small shopkeepers lacked the infrastructure and knowledge to adapt quickly.

Over time, however, GST has encouraged digitalization among small retailers. The requirement to file returns online has pushed them to adopt digital tools, improving transparency and formalization. This has also enabled small retailers to access credit more easily, as banks and financial institutions now have better visibility into their operations.

CHALLENGES OF GST

The implementation of GST, while revolutionary, was not without hurdles. FMCG companies faced several challenges during the transition phase and continue to encounter certain issues even years after its rollout.

1. Frequent Changes in GST Rates

The GST Council has revised rates multiple times since 2017 to balance revenue needs and consumer affordability.

For FMCG companies, this meant constant adjustments in pricing, packaging, and invoicing.

Example: Biscuits initially taxed at 18% were later reduced to 12% for lower-priced categories, forcing companies to rework their pricing strategies.

2. Compliance Burden

GST requires monthly, quarterly, and annual filings, along with reconciliation of invoices.

Large FMCG firms adapted quickly with ERP systems, but small retailers and distributors struggled.

Compliance costs increased due to the need for accountants, software, and training.

3. Input Tax Credit (ITC) Delays

FMCG companies rely heavily on ITC to offset taxes paid on raw materials and services.

Delays in ITC refunds blocked working capital, affecting liquidity.

Smaller firms were disproportionately impacted, as they lacked financial buffers.

4. Working Capital Blockage

GST is collected at the point of supply, but refunds and credits take time.

This created cash flow issues, especially for SMEs in the FMCG sector.

Companies had to borrow short-term funds, increasing financial costs.

5. Technology and Infrastructure Gaps

GST compliance is digital, requiring internet access and software.

Rural retailers and distributors often lacked infrastructure, leading to errors and penalties.

FINDINGS

From the analysis, several key findings emerge:

Positive Long-Term Impact

GST has reduced tax cascading, simplified pricing, and improved logistics efficiency.

Organized FMCG players benefited more due to better compliance capacity.

Supply Chain Efficiency

Warehouse consolidation reduced costs.

Transit times fell by 20–30% due to removal of check posts.

Consumer Prices

Essential goods became cheaper or remained stable.

Mid-range FMCG products saw slight reductions in tax burden.

Luxury FMCG items continued to attract higher rates.

Digitalization Push

GST encouraged small retailers to adopt digital tools.

Formalization improved access to credit and reduced tax evasion.

SUGGESTIONS

To maximize GST's benefits for the FMCG sector, the following measures are suggested:

Simplification of Compliance Procedures

Reduce the frequency of filings.

Introduce user-friendly GST portals for small retailers.

Stability in GST Rates

Avoid frequent changes that disrupt pricing strategies.

Provide advance notice before implementing rate revisions.

Training Programs for Small Retailers

Government and industry associations should conduct workshops.

Focus on digital literacy and GST filing processes.

Faster ITC Refunds

Streamline refund mechanisms to reduce working capital blockage.

Introduce automatic refund systems for verified claims.

Infrastructure Support

Provide subsidies for GST software adoption among small retailers.

Improve internet connectivity in rural areas to enable compliance.

CONCLUSION

The introduction of GST has transformed the FMCG sector in India by creating a unified national market, reducing inefficiencies, and promoting transparency. While the transition posed challenges in terms of compliance, ITC delays, and working capital management, the long-term benefits outweigh the short-term difficulties.

Organized FMCG players have leveraged GST to streamline supply chains, reduce costs, and improve competitiveness. Small retailers, though initially burdened, have gradually adapted to digital compliance, leading to greater formalization of the sector.

Overall, GST has contributed positively to the growth of the FMCG industry by reducing tax incidence, improving logistics, and enhancing consumer affordability. With further simplification of compliance procedures and stability in tax rates, GST can continue to drive efficiency and competitiveness in the FMCG sector, making it a cornerstone of India's economic reforms.

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