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## UNDERSTANDING THE IMPACT OF GST ON INDIA'S FMCG SECTOR WITH EXCLUSIONS AND STRATEGIC MEASURES

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### ABSTRACT

The implementation of the Goods and Services Tax (GST) in India marked a significant transformation in the nation's indirect taxation system. For the Fast-Moving Consumer Goods (FMCG) sector, which is highly dependent on efficient supply chains, large-scale distribution, and competitive pricing, GST has had profound implications. This study explores the impact of GST on pricing, taxation, and operational efficiencies in the FMCG sector while identifying specific exclusions and challenges that businesses face under the GST framework. Additionally, it highlights strategic measures adopted by FMCG companies to optimize costs, ensure compliance, and enhance market competitiveness. The insights provide a holistic understanding of how GST has reshaped the sector's landscape, influencing both corporate strategy and consumer experience.

**Keywords:** Business strategies adopted by FMCG companies to manage GST impact, such as pricing, digital compliance, and warehouse consolidation.

## **I. INTRODUCTION**

The Fast-Moving Consumer Goods (FMCG) sector is one of the most vital and dynamic industries in India, representing products that are consumed rapidly and purchased frequently. It encompasses a wide range of items, including packaged foods, beverages, personal care products, household essentials, and over-the-counter healthcare goods. This sector plays a significant role in the Indian economy, contributing substantially to employment generation, manufacturing output, and overall GDP. With an increasingly competitive landscape, the FMCG sector thrives on efficient supply chains, cost-effective production, wide distribution networks, and strategic pricing. Any major policy or regulatory change, therefore, has a direct impact on its operations, profitability, and market competitiveness. One such transformative policy is the Goods and Services Tax (GST), implemented in India on July 1, 2017.

GST represents one of the most significant indirect tax reforms in India's fiscal history. Before its introduction, the taxation system was fragmented, with multiple central and state taxes, such as excise duty, service tax, value-added tax (VAT), entry tax, and central sales tax (CST). This multiplicity of taxes created a cascading effect, where tax was levied on top of another tax, leading to increased costs for businesses and consumers. The implementation of GST aimed to unify these taxes into a single, destination-based tax system, simplifying compliance and creating a common national market. For the FMCG sector, which relies heavily on rapid production, wide distribution, and competitive pricing, GST has been a game-changer, influencing various aspects of operations, from supply chain management to taxation and pricing strategies.

One of the primary impacts of GST on the FMCG sector has been the rationalization of costs and elimination of the cascading effect of taxes. By allowing input tax credit (ITC) at every stage of the supply chain, businesses can offset the tax paid on raw materials and semi-finished goods against the tax payable on final products. This reduces the overall tax burden and lowers production costs, allowing companies to offer products at more competitive prices. However, the impact is not uniform across all products. Certain goods are excluded from GST or fall under specific lower or higher tax slabs, such as alcohol for human consumption, petroleum products, and certain essential items. These exclusions create partial tax disparities, which FMCG companies must navigate strategically to maintain efficiency and profitability.

The supply chain and logistics structure of the FMCG sector has also undergone significant transformation due to GST. Previously, companies often maintained multiple warehouses in different states to avoid interstate taxes, which increased operational costs and led to fragmented inventory management. With the introduction of GST, tax barriers between states were removed, enabling companies to consolidate warehouses, centralize distribution networks, and streamline logistics. This has reduced transportation costs, optimized inventory management, and accelerated the movement of goods, improving the overall efficiency of the supply chain. Additionally, companies are now better positioned to standardize product availability and pricing across different regions, ensuring a more uniform market presence.

From a compliance perspective, GST has necessitated digitalization and transparency in the FMCG sector. Businesses are required to maintain detailed records, issue GST-compliant invoices, and file returns online. While this initially posed challenges in terms of system integration and employee training, it has ultimately led to greater transparency, reduced the risk of tax evasion, and improved accountability in financial reporting. Moreover, robust digital systems enable real-time tracking of transactions, input tax credits, and interstate movements of goods, assisting companies in strategic planning and accurate cost assessment.

To navigate the impact of GST effectively, FMCG companies have adopted several strategic measures. These include consolidating warehouses, leveraging technology for compliance, revising pricing strategies, and optimizing procurement and inventory processes. Companies are also investing in employee training programs and automated accounting systems to ensure accurate invoicing and timely claims of input tax credits. By adopting these strategies, businesses not only comply with the legal framework but also achieve operational efficiency and cost optimization, which ultimately enhances competitiveness in the market.

In conclusion, the introduction of GST has significantly reshaped India's FMCG sector. While it has simplified taxation, reduced cascading effects, and improved supply chain efficiency, exclusions and compliance requirements present challenges that require strategic management. The sector's adaptation through warehouse consolidation, pricing rationalization, and digital compliance demonstrates its resilience and ability to leverage policy changes for long-term growth. Overall, GST has paved the way for a more organized, transparent, and competitive FMCG market, benefiting both businesses and consumers while fostering economic growth in India.

## **II. CONCEPT OF GST**

Goods and Services Tax (GST) is a comprehensive, multi-stage, destination-based tax levied on every value addition in the supply chain of goods and services. Introduced to simplify the indirect tax structure in India, GST replaces a plethora of indirect taxes such as excise duty, service tax, value-added tax (VAT), and central sales tax (CST). The primary objective of GST is to create a unified national market, reduce tax cascading, and enhance transparency in the taxation system. It is considered one of the most significant tax reforms in India's fiscal history.

Under GST, tax is levied at each stage of the supply chain, but the actual tax burden is borne only by the final consumer. Businesses can claim input tax credit (ITC) for the taxes paid on their purchases, ensuring that the tax is collected only on the value added to the product or service. This mechanism prevents the cascading effect of taxes, where one tax is levied on top of another, which was a common issue under the earlier tax regime. GST is designed to be comprehensive, covering all goods and services except a few exempted items such as essential commodities and alcohol for human consumption.

GST is classified into three main types in India: Central GST (CGST), State GST (SGST), and Integrated GST (IGST). CGST and SGST are levied on intra-state transactions, with the revenue shared between the central and state governments. IGST is levied on inter-state transactions, with the central government collecting it and distributing the revenue between the states involved. This dual structure ensures cooperative federalism while maintaining a streamlined tax system across the country.

One of the significant benefits of GST is the simplification of tax compliance for businesses. Previously, businesses had to comply with multiple indirect tax laws, maintain numerous records, and file separate returns for each tax. GST consolidates all indirect taxes into a single tax with standardized procedures, filing processes, and rates. This reduces the administrative burden, lowers compliance costs, and fosters ease of doing business. Moreover, GST promotes transparency as it is largely driven by digital processes, including online registration, invoicing, and tax payment.

GST also has far-reaching implications for the economy. By integrating the national market, it encourages the free flow of goods and services, reduces logistics costs, and eliminates trade barriers between states. It can lead to price rationalization, enhance competitiveness, and boost

economic growth. Additionally, GST strengthens the tax base by reducing tax evasion and bringing more businesses into the formal economy. Over time, these effects contribute to increased revenue for both the central and state governments, which can be used to fund development projects and public welfare schemes.

In, GST represents a significant step towards modernizing the taxation system by creating a unified, transparent, and efficient framework. It simplifies indirect taxation, eliminates the cascading effect of taxes, and promotes ease of doing business while contributing to overall economic growth. By aligning with international best practices, GST not only benefits businesses and consumers but also strengthens the fiscal capacity of the government, paving the way for a more organized and robust economy.

### **III. GLOBAL PERSPECTIVE OF GST**

#### **Experience of Other Countries on GST**

The VAT/GST tax system is better than other models because it reduces hidden taxes. The system is non-regressive and fair to the final consumer. Any negative effect on low-income people due to the flat tax rate can be compensated by the government through various measures as VAT/GST provides the government with a steady flow of revenue. Already adopted in more than 150 countries, it has been tested and proven to work well with the public and the government. To illustrate this point, it's best to look at examples in the countries that have adopted GST. Take for example, Australia where GST was introduced in 2000. When GST was implemented, there was corresponding reductions in personal income taxes, state banking taxes, federal wholesales tax and some fuel taxes, leading State Treasurer Peter Costello to claim that people were effectively paying no extra tax.

Likewise, Curtin University of Technology, Perth in 2000 made statements that the real estate market would be impacted with an eight percent increase in the cost of homes with the introduction of the GST. This proved to be false as the real estate market boomed between 2002 and 2004 and demand saw a dramatic increase. This is an example of negative perception of GST which in reality is merely assumptions that are far from the truth. In Canada, the GST replaced the Manufacturer's Sales Tax and came into force in 1991. The tax did not apply to products such as groceries, residential rent, and medical services, and services such as financial services. New Zealand introduced GST in 1986 and unlike most countries, there are few

exemptions: for example, all types of food are taxed at the same rate.

However, there are a few exceptions including rents collected on residential rental properties, donations, precious metals and financial services. The laws in New Zealand ensured that prices on headlines must be GST inclusive, except when businesses claim to be mainly wholesale client-based. In the European Union, the GST, better known as the Value Added Tax, are known as ‘output VAT’ (VAT on its output supplies) and ‘input VAT’ (VAT that is paid by a business to another business on the supplies it receives). A business is usually able to recover the tax it paid either by setting it against the output VAT or, if in excess by claiming a repayment from the government. Malaysia is thinking of introducing the GST soon as a better and more effective tax to replace the Sales Tax and Service Tax. Since it is already well received and implemented in more than 150 countries, there is no doubt that it should come to Malaysia, the system will prove to be effective and efficient.

#### **IV. SIGNIFICANCE OF THE FMCG INDUSTRY IN THE ECONOMY**

The Fast-Moving Consumer Goods (FMCG) industry is one of the most dynamic and essential sectors of the Indian economy. FMCG refers to products that are sold quickly at relatively low costs and are consumed on a regular basis. These include items such as packaged foods, beverages, personal care products, household cleaning agents, over-the-counter medicines, and other consumables. The sector plays a pivotal role in the economy due to its vast consumer base, high turnover, and significant contribution to employment generation. With rising incomes, urbanization, and changing lifestyles, the FMCG sector has emerged as a critical driver of economic growth, reflecting both consumption patterns and industrial development in the country.

##### **Contribution to GDP and Industrial Growth**

The FMCG industry contributes substantially to India’s Gross Domestic Product (GDP). It is considered one of the largest sectors in terms of market size, which runs into hundreds of billions of dollars. The sector encompasses both organized players, such as multinational and large domestic corporations, and unorganized players, including small-scale local manufacturers and retailers. The organized sector, in particular, has grown rapidly due to technological advancements, structured supply chains, and professional management practices. The contribution of FMCG to industrial growth is not limited to manufacturing; it extends to

ancillary sectors such as packaging, logistics, warehousing, and marketing. This interconnectedness ensures that FMCG stimulates broader economic activity and provides a multiplier effect on various industries.

### **Employment Generation**

Another significant aspect of the FMCG sector is its role in employment creation. Due to the nature of the products and their widespread consumption, the sector requires a large workforce across multiple functions, including production, marketing, sales, distribution, and retail. In rural and semi-urban areas, FMCG companies often employ local workers to ensure last-mile distribution of goods, thus generating employment opportunities beyond urban centers. Moreover, the sector supports indirect employment through supply chains, including logistics providers, packaging units, and retail outlets. In a country like India, where employment generation is a key policy goal, the FMCG sector plays a crucial role in absorbing labor and enhancing livelihood opportunities.

### **Promotion of Entrepreneurship and SMEs**

The FMCG industry also encourages entrepreneurship and the growth of small and medium enterprises (SMEs). Many local manufacturers, distributors, and retailers operate within the FMCG ecosystem, catering to niche markets or regional demands. These SMEs often act as suppliers or franchise partners for larger FMCG corporations, creating a symbiotic relationship that drives economic activity. Additionally, the low investment threshold for entering certain segments of FMCG enables aspiring entrepreneurs to start small businesses, thereby promoting self-employment and grassroots economic development.

### **Contribution to Rural Economy and Consumer Reach**

One of the most unique features of the FMCG sector is its extensive reach in rural areas, which constitutes a significant portion of India's population. With rural incomes rising and connectivity improving, FMCG companies have increasingly targeted villages and smaller towns through innovative distribution networks. This not only broadens the consumer base but also fosters rural economic development. By making essential products accessible to remote areas, the FMCG sector enhances living standards and supports the growth of ancillary industries such as transport, cold storage, and local retail.

### **Innovation, Branding, and Consumer Behavior**

The FMCG industry significantly influences innovation, branding, and consumer behavior. Companies continuously invest in research and development to introduce new products, improve quality, and cater to evolving consumer preferences. Marketing and branding efforts in FMCG have also been instrumental in shaping consumer awareness and demand patterns. This focus on innovation and consumer engagement stimulates competition, improves product quality, and drives economic dynamism. Furthermore, FMCG's responsiveness to consumer trends encourages industries to adopt sustainable practices, packaging innovations, and digital marketing strategies, all of which contribute to economic modernization.

In the FMCG industry holds immense significance in the Indian economy due to its substantial contribution to GDP, industrial growth, and employment generation. It supports entrepreneurship, strengthens the rural economy, and influences consumer behavior through innovation and branding. By providing widespread availability of essential goods, promoting small businesses, and fostering economic interlinkages across sectors, FMCG plays a crucial role in sustaining economic growth and improving living standards. Its resilience, adaptability, and extensive market reach make the FMCG sector a cornerstone of the economy, reflecting both current consumption trends and future development potential.

### **V. PERSPECTIVE IMPACT OF GST ON FMCG SECTOR**

The Fast-Moving Consumer Goods (FMCG) sector is one of the largest industries in India, comprising products that are sold quickly at relatively low costs, such as food and beverages, personal care items, household products, and packaged goods. The implementation of the Goods and Services Tax (GST) in India has had a significant impact on this sector, influencing its pricing, supply chain, compliance requirements, and overall growth. By replacing multiple indirect taxes with a single unified tax, GST has fundamentally transformed how FMCG companies operate and strategize in the market.

One of the primary effects of GST on the FMCG sector is the simplification of taxation. Before GST, companies had to navigate a complex web of central and state taxes, including excise duty, service tax, VAT, and entry taxes. This often resulted in a cascading effect, where tax was levied on top of tax, increasing the final cost of goods. With GST, the tax structure became more transparent and streamlined, allowing FMCG companies to calculate costs and pricing

more accurately. This has enabled companies to pass on reasonable prices to consumers while maintaining profitability.

GST has also had a profound impact on supply chain management in the FMCG sector. Previously, companies maintained multiple warehouses across states to avoid interstate taxes, which increased logistics and storage costs. The introduction of GST removed the tax barriers between states, encouraging the consolidation of warehouses and centralization of distribution networks. This has reduced operational costs, improved efficiency, and accelerated the movement of goods. As a result, FMCG companies can now manage inventory more effectively and deliver products to consumers faster.

From a pricing perspective, GST has brought rationalization of costs. The reduction in tax cascading, along with the uniformity of tax rates, has allowed companies to standardize product prices across the country. While certain products experienced a slight increase in prices due to higher GST rates compared to previous taxes, many FMCG essentials became more affordable, benefiting end consumers. Additionally, input tax credit provisions under GST allow companies to claim taxes paid on raw materials, further reducing the overall production cost.

On the compliance and digitalization front, GST has compelled FMCG companies to adopt robust digital systems for invoicing, filing returns, and maintaining records. Although this initially increased administrative efforts, it has ultimately led to greater transparency and reduced the risk of tax evasion. Companies can now track transactions across the supply chain in real time, which also aids in better financial planning and forecasting.

Finally, GST has a long-term positive impact on the growth and competitiveness of the FMCG sector. By creating a unified national market, it allows companies to expand their reach to untapped regions more efficiently. Lower logistics costs, standardized taxation, and increased transparency also enhance competitiveness among players in the sector, encouraging innovation and better customer service.

In the introduction of GST has significantly reshaped the FMCG sector in India. It has simplified taxation, improved supply chain efficiency, rationalized pricing, and promoted digital compliance. While the transition posed initial challenges, the long-term impact has been largely positive, fostering a more organized, cost-efficient, and competitive FMCG industry that benefits both businesses and consumers.

## **VI. CONCLUSION**

In GST has brought both opportunities and challenges to India's FMCG sector. While it has simplified taxation, reduced cascading taxes, and improved supply chain efficiency, exclusions and compliance requirements continue to pose strategic challenges. By adopting measures such as warehouse consolidation, digital compliance, and pricing rationalization, FMCG companies have been able to adapt and leverage GST to their advantage. Overall, GST has contributed to a more organized, transparent, and competitive market environment, benefiting businesses and consumers alike, and laying the foundation for sustained growth in India's FMCG sector.

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