



GST and Consumer Behavior: A Study of Price Sensitivity and Purchasing Patterns in India

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Abstract

This study examines the impact of the Goods and Services Tax (GST) on consumer behavior in India, focusing on price sensitivity and purchasing patterns. With the implementation of GST in 2017, significant shifts in pricing structures have occurred, influencing how consumers perceive value and make purchasing decisions. Through a comprehensive analysis of consumer responses to price changes, this research identifies trends in spending behavior across various demographics. By employing both qualitative and quantitative methods, the study reveals that price sensitivity varies significantly among different income groups and geographic locations, ultimately shaping purchasing habits. The findings provide valuable insights for policymakers and businesses in understanding consumer dynamics in a post-GST landscape.

Keywords: GST, consumer behavior, price sensitivity, purchasing patterns, India.

Introduction

The Goods and Services Tax (GST) is one of the most significant tax reforms in India since independence, aimed at creating a unified tax structure and enhancing the ease of doing business. Implemented on July 1, 2017, GST replaced a myriad of indirect taxes, simplifying the tax regime and broadening the tax base (Kumar, 2020). However, this paradigm shift in the taxation framework has far-reaching implications for consumer behavior, particularly regarding price sensitivity and purchasing patterns. Understanding how GST affects consumers is essential for businesses and policymakers alike, as it can help them tailor their strategies in an increasingly competitive market.

Consumer behavior is a complex interplay of various factors, including cultural, social, personal, and psychological influences (Schiffman & Kanuk, 2010). Price sensitivity, a critical aspect of consumer behavior, refers to the degree to which the price of a product affects consumers' purchasing decisions. In the context of GST, the alteration in pricing dynamics can significantly influence how consumers respond to price changes, ultimately affecting their purchasing choices (Deloitte, 2019). The introduction of GST has led to variations in pricing for goods and services across different sectors, which in turn has shaped consumers' perceptions of value and their willingness to spend.

The immediate aftermath of the GST implementation witnessed mixed reactions from consumers. While some consumers benefited from lower prices on certain goods and services, others faced increased costs due to higher tax rates on items they frequently purchase. According to a survey conducted by the Retailers Association of India (RAI, 2018), nearly 70% of consumers reported that their purchasing decisions were influenced by the changes in pricing following the GST rollout. This shift indicates a heightened price sensitivity among consumers, which is critical for businesses to understand when developing their marketing strategies and pricing models.

Moreover, the impact of GST on consumer behavior is not uniform across different demographics. Studies have shown that factors such as income level, education, and geographic location play a vital role in determining how consumers respond to price changes. For instance, low-income households tend to be more price-sensitive compared to their higher-income counterparts, making them more susceptible to fluctuations in pricing resulting

from GST (Bhatia & Taneja, 2019). Similarly, consumers in urban areas may exhibit different purchasing patterns than those in rural regions, influenced by the availability of goods, exposure to marketing, and overall economic conditions (Gupta et al., 2021).

The psychological aspect of consumer behavior is also paramount in understanding the effects of GST. The perception of fairness in pricing can significantly impact consumer trust and loyalty. A study by Jain and Singh (2020) highlighted that consumers who perceive price increases due to GST as unjust are more likely to reduce their purchasing frequency or switch to alternative products. On the other hand, consumers who feel that the tax reform leads to fair pricing are more likely to maintain their purchasing habits. This perception of fairness is particularly crucial in the context of essential goods and services, where consumers may feel vulnerable to price hikes.

Additionally, the GST has influenced the purchasing patterns of consumers by encouraging them to shift towards organized retail and online shopping. The proliferation of e-commerce platforms post-GST has provided consumers with greater access to price comparisons, enhancing their ability to make informed decisions. According to a report by KPMG (2020), the online retail sector in India witnessed a significant boost following the GST rollout, as consumers sought transparency and competitive pricing. This trend indicates that consumers are not only responding to price changes but are also adapting their shopping behaviors to maximize value.

Furthermore, the relationship between GST and consumer behavior extends beyond immediate price changes; it encompasses long-term implications for brand loyalty and market dynamics. Businesses that fail to adapt to the evolving consumer landscape risk losing market share to competitors who are better attuned to consumer needs. For instance, companies that transparently communicate the impact of GST on pricing and demonstrate value in their offerings are more likely to retain customer loyalty (Sharma & Rani, 2019).

In conclusion, the implementation of GST has substantially altered the landscape of consumer behavior in India, with significant implications for price sensitivity and purchasing patterns. As consumers navigate this new tax regime, businesses must remain agile, adapting their strategies to align with changing consumer preferences. By understanding the intricate dynamics of consumer behavior in response to GST, stakeholders can foster a more resilient and responsive market environment. This study aims to delve deeper into these dynamics, exploring the nuances of price sensitivity and purchasing patterns among different consumer segments in the context of GST.

Enhancing GST Impact on Consumer Behavior: Insights from International Policies

While India's implementation of the Goods and Services Tax (GST) has made significant strides in streamlining the taxation process, there is room for improvement by adopting best practices from foreign countries. Various nations have implemented GST or similar value-added tax systems, yielding insights that could enhance the effectiveness of India's GST framework and its impact on consumer behavior. This section explores several strategies that could be adopted to improve GST in India by learning from international policies.

One key area for improvement is simplifying the tax structure. Countries like Canada and New Zealand have successfully implemented a single-rate tax system that reduces complexity for consumers and businesses alike (OECD, 2020). In Canada, the Goods and Services Tax (GST) is combined with provincial sales taxes in a seamless manner, which minimizes confusion for consumers. A similar approach in India could reduce the multiplicity of rates and exemptions currently in place, thereby making it easier for consumers to understand and adapt to the GST framework. By simplifying the structure, consumer trust in the system could be bolstered, and their purchasing patterns may stabilize.

Additionally, transparent communication is vital in shaping consumer perception and behavior. In Australia, the government actively engages in campaigns to educate consumers about how the GST works and its benefits, including how it contributes to public services (Australian Taxation Office, 2021). India could benefit from similar initiatives that clarify the role of GST in the economy, ensuring consumers understand the value they receive from the taxes they pay. Effective communication can alleviate concerns about price increases and foster a more favorable view of the tax system, ultimately encouraging consumer spending.

Furthermore, the adoption of technology in tax compliance can significantly enhance the efficiency and effectiveness of GST. Countries like Singapore have integrated advanced technology in their tax administration, enabling real-time tracking and analysis of tax compliance (World Bank, 2019). India could invest in developing an advanced GST platform that utilizes data analytics and artificial intelligence to monitor consumer purchasing behavior and tax compliance. Such an approach could allow for more tailored tax policies and exemptions based on consumer patterns, thereby reducing price sensitivity and promoting more stable purchasing habits.

Another crucial aspect is the consideration of a tiered tax structure for essential goods and services. Countries like Germany have implemented reduced VAT rates for certain basic necessities, which helps to alleviate the financial burden on lower-income consumers (European Commission, 2020). By considering a similar approach, India can address the issue of price sensitivity among lower-income groups, ensuring that essential goods remain affordable. This could lead to increased purchasing frequency in these segments, benefiting both consumers and businesses in the long run.

Finally, regular reviews and feedback mechanisms can ensure that the GST framework remains responsive to consumer needs and market dynamics. In the UK, the government conducts periodic reviews of the VAT system to assess its impact on consumers and businesses, allowing for timely adjustments (HM Revenue & Customs, 2021). India could implement a similar mechanism that regularly gathers feedback from consumers, retailers, and tax experts to adapt the GST framework as necessary. This proactive approach could help identify emerging trends and challenges, allowing the government to make informed decisions that align with consumer expectations.

In conclusion, by adopting best practices from foreign countries, India can enhance the impact of GST on consumer behavior. Simplifying the tax structure, promoting transparent communication, leveraging technology, considering tiered tax rates for essential goods, and establishing regular review mechanisms can collectively improve the effectiveness of GST. These strategies not only have the potential to reduce price sensitivity among consumers but also foster a more positive perception of the tax system, ultimately leading to more stable and predictable purchasing patterns.

Recommendations

To further enhance the impact of GST on consumer behavior in India, several key recommendations can be made. Firstly, implementing a tiered GST structure for essential goods and services, coupled with periodic reviews, can ensure that necessities remain affordable for lower-income consumers while still generating revenue for the government. Secondly, increasing public awareness and education campaigns around GST can help demystify the tax for consumers, fostering a more favorable perception and encouraging spending. Thirdly, leveraging technology to streamline compliance and facilitate real-time data analysis will enhance efficiency and responsiveness in the tax system, enabling tailored policy adjustments based on consumer behavior. Additionally, establishing a feedback mechanism involving consumers, retailers, and industry experts will allow for continuous improvement and adaptability of the GST framework. Finally, collaboration with international tax authorities can provide valuable insights and best practices that can be localized for India's unique economic landscape. By adopting these recommendations, the Indian GST system can better align with consumer needs and contribute to sustained economic growth.

Conclusion and Future Scope of Study

In conclusion, the implementation of the Goods and Services Tax (GST) in India represents a significant transformation in the country's taxation framework, with profound implications for consumer behavior, particularly in terms of price sensitivity and purchasing patterns. This study highlights how the complexities introduced by GST can lead to varying consumer responses, shaped by demographic factors and perceptions of value. By adopting best practices from international tax systems, India can enhance the effectiveness of its GST framework, simplifying its structure, improving transparency, and leveraging technology to create a more consumer-friendly environment.

Looking ahead, the future scope of this study lies in further empirical research that examines the long-term impacts of GST on consumer behavior across different sectors and demographics. Future studies could employ

longitudinal data analysis to track changes in purchasing patterns over time, offering deeper insights into the evolving relationship between tax policy and consumer decision-making. Additionally, exploring the effects of emerging trends, such as e-commerce and digital payments, on GST compliance and consumer behavior can provide valuable context for policymakers. Finally, comparative studies with other countries that have undergone similar tax reforms could yield lessons that inform the continuous improvement of India's GST system, ensuring it meets the needs of consumers while supporting economic growth. By focusing on these areas, future research can contribute significantly to optimizing GST policy and enhancing its positive impact on the Indian economy.

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