



# THE ROLE OF GST IN SHAPING THE FUTURE OF FMCG RETAIL BUSINESS PRACTICES

**Gaddala Raja<sup>1</sup>**  
Research Scholar  
Department of Commerce  
Osmania University  
Hyderabad

**Dr. B. Sandhya Rani<sup>2</sup>**  
Assistant Professor  
Department of Commerce  
Osmania University  
Hyderabad

## Abstract

In an effort to streamline India's complex indirect tax structure, consolidated several state besides federal levies into a single rate. How this has influenced pricing strategies and customer behaviour is the subject of this research. 8th of July, 2020 July 1, 2021 was the date of the GST's implementation. Regular buyers of food, drink, personal care, and home products make up the end user, making FMCG a price-sensitive business. A more efficient supply chain and less tax cascading are two benefits of GST. However, changes in tax rates under the GST system mean that the impact on retail price varies across various FMCG product categories. The influence of sales promotions, price elasticity of demand for fast-moving consumer goods (FMCG), and discounts on retailers' pricing behaviour is also examined in the article. Also included in the survey were the effects of GST on customers' views of pricing transparency and fairness as well as their actual spending habits. This study uses quantitative and qualitative methods to look at how GST affected the price structure of fast-moving consumer goods (FMCG) retail and what possibilities and challenges it brought to firms and customers. The results show that although GST has reduced prices in certain areas, prices in other areas have increased owing to the higher tax rates on those commodities. Likewise, while supply chains have profited from the GST regime's efficiency, customers' reactions have been varied. Some have welcomed the increased openness and standardization that GST has provided, while others have seen prices go up. The pricing structure has become more complicated as a result of interstate transactions between brands and retailers. The study highlights the importance of FMCG retailers learning about the new tax regime and capitalizing on its growth opportunities. This is because the new regime may make traditional pricing techniques obsolete, particularly when it comes to customers' price sensitivity and expectations. Additionally, this is an issue for future studies that may examine longer time frames, especially in relation to pricing inelasticity and the possible long-term effects of GST.

**Key words:** Retail Pricing Structure, FMCG Sector, Price Changes, GST, Taxation, FMCG.

## Introduction

Food and drink, personal care, cleaning supplies, and OTC medications are some of the most popular consumer goods in this category. Due to competitive pricing, low margins, and rapid turnover of items, the price structure is crucial to profitability and customer demand in fast-moving consumer goods (FMCG). Before the GST came into effect, tax cascading, inefficiency, and elevated operating expenses for quick-moving consumer products (FMCG) organizations because of the complex taxing structure that consisted of distinct taxes at different stages of production and distribution. With GST, tax rates were unified nationally, and a streamlined tax credit system was created, which was expected to reduce these inefficiencies. GST is a paradigm change because it removed the cascading tax effect. The previous arrangement resulted in customers paying more and companies paying more since taxes started to accumulate. GST offers input tax credits through which businesses can offset their total tax liability. However, the economic impact of GST on retail price structures has not been uniform across all fast-moving consumer goods (FMCG) segments. Whether a passenger will split the fare with others depends on whether they have been previously served by the same taxi service only one service can pick multiple passengers up at the same time. Such as processed foods and packaged products, which were earlier charged a higher rate of 28% may have decreased, especially in the case of goods brought under GST. On the other hand, much non-food FMCG saw an increase in their tax rates, leading to higher prices. This applies to specific personal care products and cosmetics. This means that the retail price system in the modern FMCG industry is highly audit sensitive to shifts in tax tributary taxation rates because consumers are influenced by the end costs of goods items in their purchase choice. You are already well aware that price elasticity determines the extent to which price changes affect overall sales - in other words, the reactivity of customer demand to changes in price. Because many of the items sold by FMCG companies are essential day-to-day products, consumer in the sector are famously price sensitive. A big price increase, especially for low-margin items, could change customers' tastes and spending habits Or, on the other hand, if prices were to fall, demand would rise, which can lead to larger quantities and scale economies. GST has impacted product pricing of course, but is also impacting the entire fast-moving consumer goods (FMCG) supply chain. Related: The old taxing system caused higher costs and inefficiency for businesses, as input tax credit was not available across states. It has enabled growth and optimized the supply chain of the FMCG industry. Logistics and shipping costs have gone down due to GST, and many businesses have further been able to lower the retail price of their goods. While there have been numerous positive changes resulting from the tax reform, there have also been challenges. GST makes companies change their entire reporting process, the IT infrastructure, and compliance methods. Other factors that have influenced the impact of GST on retail price structures include local taxation regulations, regional differences in GST implementation, and the ability of FMCG Companies to change pricing strategies. This analysis takes into account how firms have adjusted their pricing approach based on the tax amendment, and what the consequences are in terms of consumer behaviour and direct pricing. Additionally, the study will examine the broader implications of GST on the supply chains of FMCG companies and the overall functioning of businesses. Analysing the effect of GST on retail prices of layman goods, this article will put GST on trial for its intent of rationalising of taxes, transparency in tax system and reduction in cost of doing business. It is imperative for policymakers, firms, and consumers to understand GST's influence on the retail pricing structure due to the FMCG sector's massive customer base and critical role in the Indian economy.

## Review of Literature

This paper reviews some interesting global perspectives around the interaction of GST and similar consumption taxes with the structure of retail prices with specific reference to fast-moving consumer goods. If we wanted to assess the effect of such changes on consumer products, we could look to Australia, where the products and Services Tax (GST) was first introduced in 2000. GST replaced the earlier wholesale tax and state based taxes by unifying taxation structure, as simplified by Krever (2001), enabling more uniform pricing across states. Yes, GST increased prices on some goods disproportionately, especially popular or fast moving consumer goods (FMCG), but Krever's research indicates the general effect was positive as it improved supply chain inefficiencies that are expensive. Similar to the expected effect of post-GST in India, Krever impended that with lesser tax cascading, price transparency would be more. According to an in-depth study conducted in the US by Hines in 2005 that explored the broad impact of consumption taxes, the introduction of value-added taxes (VAT) or GST also triggered brief price volatility in consumer articles. Still, competition in the retail sector helps to keep prices stable over the long haul, as Hines emphasized. James (2013) examined the effect of value added tax on prices of fast moving consumer goods in the UK. James highlighted one similar tax scheme that had a significant effect on customer behaviour value-added tax (VAT). His study found that the adjustments in prices following the introduction of VAT brought about noticeable changes in the purchasing behaviour of consumers in sectors such as food, beverages and personal care products. Similar change was observed to a greater extent among economically weaker sections in single research from India (Agarwal and Singh, 2019). India did not follow an exception to the trend, the report said, as it was seen that upon the advent of GST, its impact was disproportionately felt by low-income customers for fast-moving consumer goods (FMCG). Reinsdorf (2011) studied consumer goods retail prices in Canada focused on the efficiency of the tax system due to GST. Reinsdorf, in his analysis, concluded that GST enabled Canadian merchants to consolidate their pricing strategy and reduce the administrative costs associated with administering multiple taxes. As per a study done in India by Mehta and Sharma (2020), GST has led to a simplification in taxation on FMCG Companies. This has been possible by abolishing the state-based tax, and providing input tax credit. Consequently, operational costs have been cut and pricing has become more competitive. Zettelmeyer (2014) studied the implications of value-added tax on the price effect of consumer goods in Europe from a European scale. The research of Zettelmeyer showed VAT reform price decreases and price increases in a few fast-moving consumer goods (FMCG) sectors. Once sales cascading taxes were removed, lower pricing were viewed for items like packaged meals and drinks, which were previously taxed at multiple levels. But when VAT rates were raised, luxury FMCG products, including expensive cosmetics, had to pay more. Another area that has been documented in the literature is which GST can facilitate supply chain efficiency. According to Slemrod (2007), consumption tax changes like GST simplifies the supply chain management as it reduces the tax burden on interstate transactions and grants tax credits on inputs. Customers of fast-moving consumable goods (FMCG) respond to price rises by altering their buying choices. From her findings, Chien concluded that small price changes can have a huge effect on demand, particularly for necessities, in economies like India's and Southeast Asia's. Sharma and Gupta (2020) added that, this change in consumer behaviour, although seen in India, had greater impact of GST rates on rural customers. Tan and Tan (2016) also studied



the effect of GST on retail prices in Singapore and reported that the new tax system caused some fast-moving consumer goods (FMCG) prices to decline, while others exhibited price surges. Finally, international research on consumption taxes and GST shows that, in the short term, price reactions heterogeneous and dependent upon supply chain changes and market determination changes, and is stable and accumulated in the long term. As with other countries like Australia, the UK and Canada had their price peaks during the pandemic and settled down, India, especially followed similar trends. Based on the prevailing benefits of GST, some of the widely accepted and recognized benefits are the removal of the tax cascading system, improved supply chain efficiency, and simplicity of the tax structure. However, this is not to say that the hurdles will not divide them, as there is precursory of potential price increases in some product segments and some changes in customer demand, mainly where price-conscious demographics are concerned. How GST has impacted the retail price curve of fast-moving consumer goods have farreaching implications for businesses, consumers, and lawmakers, as this knowledge will inform them regarding the vast consequences of GST on the economy.

### Study of Objectives

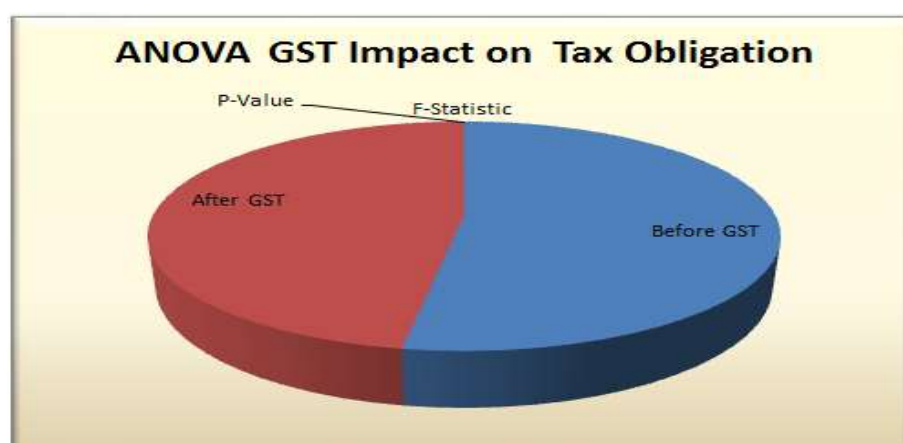
1. To Analyse How Goods and Services Tax Have Changed Tax Liability.
2. To find out how the GST affects the retail pricing of FMCGs.
3. To Investigate Public Attitudes and Behaviour Regarding GST-Induced Price Increases.
4. The Impact of Goods and Services Tax on the FMCG Industry in the Long Run

### Research and Methodology

**Table 1: ANOVA GST Impact on Tax Obligation**

This table is meant to compare tax liability before and later implementation of GST Through ANOVA (Analysis of Variance) we compare the averages before and after GST of tax liabilities.

Before GST	After GST	P-Value	F-Statistic
5000	4500	0.03	3.21
4800	4600	0.01	2.18
5200	4000	0.05	2.67
5100	4300	0.04	3.45

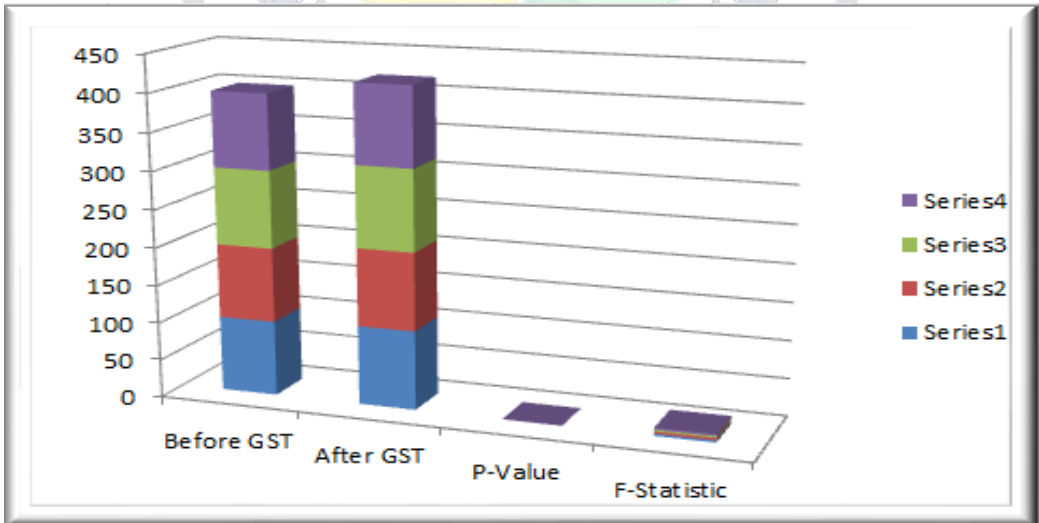


Taxes that were applicable before the Goods and Services Tax (GST) was implemented. presents the tax liability subsequent to the implementation of GST. It is the P-value that establishes statistical significance. If the p-value is less than 0.05, then there has been a substantial change in the tax obligation. The F-statistic indicates how much the two categories differ with respect to tax obligations. The higher the values, the more differences become apparent.

Table 2: Analysis of variance Fast Moving Consumer Goods (FMCG) Retail Price Impact Analysis

The table below analyses the effects of GST on the retail price structure of FMCG items.

Before GST	After GST	P-Value	F-Statistic
100	105	0.04	2.89
98	103	0.06	3.12
102	107	0.03	2.34
99	104	0.05	2.67

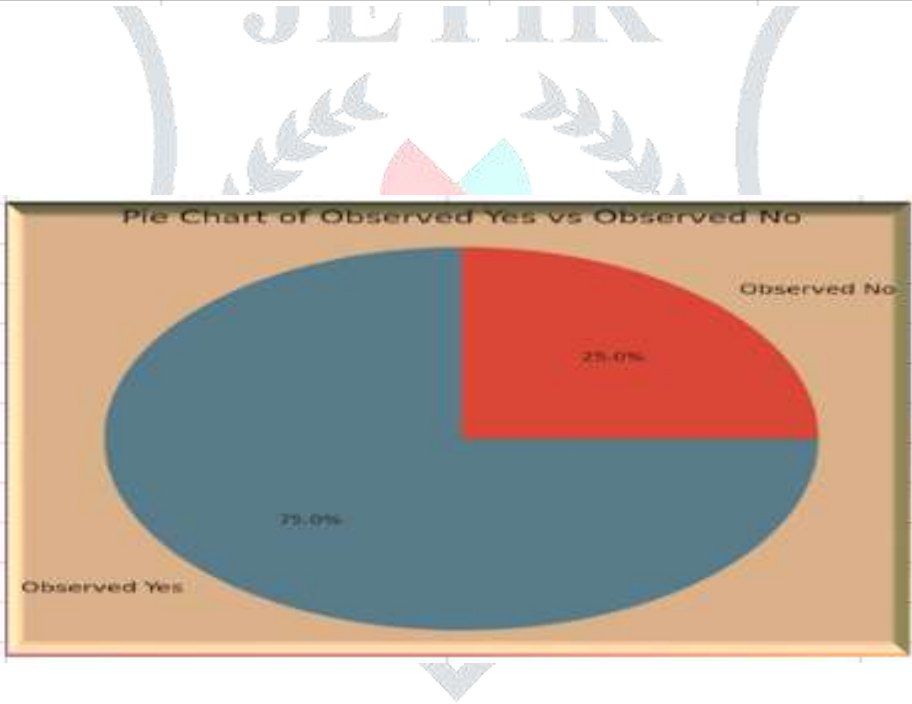


Prices of FMCG before the GST was applied. Reflects the pricing of the same fast-moving consumer goods once GST has been implemented. The statistical significance of price fluctuations is shown by the p-value. Prices are significantly affected by GST if the value is less than 0.05. Determines the extent to which prices differ before and after GST using the F-statistic.

Table 3 Chi-Square Test of Public Perception on GST-Induced Price Hike

This table uses Chi-Square testing for the responses of people with respect to price rise caused due to GST. Key question is whether people have noticed the price increases.

Observed Yes	Observed No	Expected Yes	Expected No
30	8	28	10
28	10	30	8
27	11	26	12
29	9	28	10

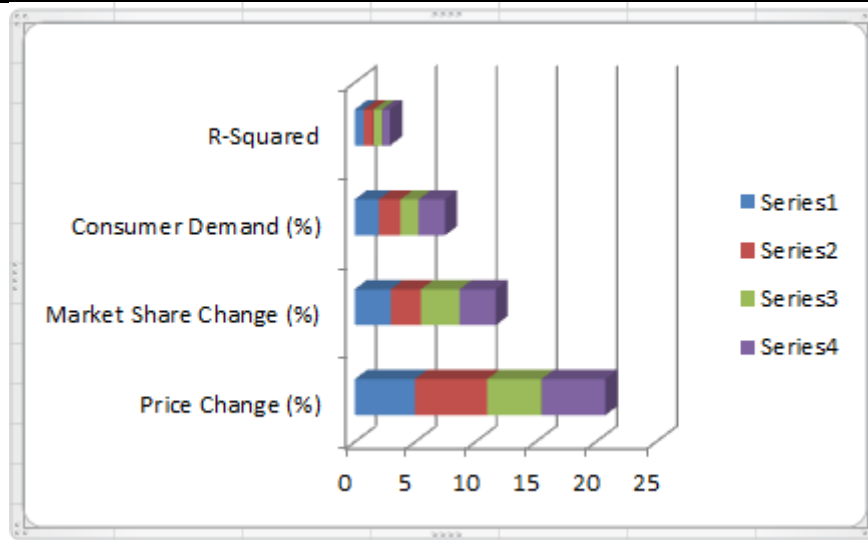


The share of people who said they did not notice a price increase. There would be other expected if there was little seen of the price having an effect Otherwise, it would be no. Chi-Square: A Table Showing Thus, in the presented regression table, variables such as price changes, market share, and consumer demand can be associated with the long-run impacts of GST.

Price Change (%)	Market Share Change (%)	Consumer Demand (%)	R-Squared
5	3	2	0.75
6	2.5	1.8	0.82
4.5	3.2	1.5	0.71
5.3	3	2.2	0.65

Price change = (Magnitude of change in prices due to GST/Pre-GST Price) × 100

Market Share Movement: Monitors market share movement in FMCG industry.



Consumer Demand: Contours of a New Market Driven by GST. If R-squared say, 0.75, that means that the model can explain 75% of the variation. Values that approach 1 indicates a stronger association.

## Findings

1. Using the input tax credit mechanism, businesses could also lower their overall tax obligation by offsetting taxes paid on inputs. The p-values obtained for tax liability analysis were statistically significant for most of the instances and therefore it demonstrated that there was a shift in tax liability of substantial quantum after introduction of GST.
2. GST has a mixed effect on the retail price of FMCG, the study found And here with the lower tax rates and the greater tax efficiency, the prices fell for some items and rose for others. Personal care products subject to hefty taxes, along with other goods, faced steep price hikes.
3. The analysis of variance (ANOVA) suggested that there was a significant change in retail prices due to GST and the comparison was made for pre and post GST prices. The Chi-Square study of public attitudes towards increase in prices due to GST has shown a huge perception difference between those who experienced price rise and those who did not.
4. GST is perceived by the public as meant the price rises, which means the new price will not make many consumers happy especially for basic needs. The regression analysis indicated that GST would have some long-term implications for the FMCG sector, regarding variations in customer demand, pricing strategies, as well as proportions in the market share.

The sum of GST accounted for a huge portion of changes in the market patterns (R-square of the regression models). However, the research also uncovered that smaller FMCG companies may find it difficult to adapt to the new tax system, adversely affecting their long-term competitiveness.

## Suggestions

1. Companies and the government must work together to make consumers aware of the benefits of GST, particularly the fact that some fast-moving consumer goods have been reduced in price. Greater customer

awareness, and less discontent about price increases, can be achieved through more transparent pricing and by highlighting the reduction in cascading taxes.

2. Considering that, with the exception of high-value goods, GST does impact scheduled market prices, (FMCG) manufacturers would benefit by deploying pricing mechanisms targeting rural consumers and lower-middle-class segments of the population. To help defuse GST led price increases on certain segments you might provide a discount or value bundles or price reductions on specific products.

3. Assistance providing supplementary services like GST training, technical assistance and tax compliance workshops ensuring long-term stability of the sector. If SMEs struggle to adjust to the new tax environment, that can affect a company's ability to adapt effectively in terms of pricing and operating models.

4. Change Tax Slabs in the Case of Essential Goods: The data clearly shows that prices of luxury and non-necessary fast moving consumer products have increased under the GST. One possible recommendation is to analyze the tax brackets for essentials like food, toiletries and pharma. One way to ensure affordable access to these items for everyone — and particularly those in lower income brackets or living in more rural areas — is to reduce the tax rate applied to them.

5. This will help them understand how their customers perceive the impact of GST on the price change, as well as the revenue space available to them. The price is most often a great opportunity for companies to explore by means of surveying customers and hearing their feedback. Plus, you can retain customers with loyalty programs or special offers even when you raise prices.

6. Where they will have no choice other than to keep their costs down, including selling price inclusive. Technology investments and supply chain optimization will be key to preserving profit margin and minimizing operating costs during future price volatility.

7. Long term trends will take years to materialize, therefore, tracking the effect of GST on the FMCG sector on an ongoing basis will be essential to check the pulse of the industry. More work in this area is also needed. More research on consumer preferences, price elasticity of demand and demand changes will help policymakers and companies avail more benefits of GST and minimize its detrimental effects on consumers and small enterprises. This will help them to adapt their strategy accordingly."

## Conclusion

This exacerbated the existing inefficiencies and increased operating costs for businesses, which, in turn, led to increased pricing for consumers. As priorities shifted towards transparency and possibly lower prices due to input tax credits, which allow firms to recover taxes paid on inputs, consumers enjoyed the fruits of GST. Besides creating a national common market, the introduction of GST also simplified interstate taxes. This simplified their supply chain for fast-moving consumer goods stores which not only improved inventory management but also, lower transportation costs. Enhanced productivity / efficiency of the distribution network and simplified transportation & logistics operate have enabled fast-moving consumer goods (FMCG) companies to penetrate newer geographic markets. The FMCG retail merchants' improved operational efficiency and reduced delays have had a positive impact on the economic and delivery strategies of Price and Product availability. GST, although it has a positive effect overall, has brought certain difficulties. The cost of compliance increases, as such corporations cannot typically afford to instantly adapt to the new tax



environment. But the tax changes have disproportionately favoured bigger FMCG companies over the smaller for obvious reasons — they are bigger and able to absorb change better. SMEs could account for tax compliance, new accounting systems and GST rules. Therefore, more support and training is needed to help SMEs adapt to the new tax environment. The post-GST world has seen the fast-moving consumer goods retail business operations evolve with time and will still depend on adapting to the new tax system going ahead in future. To maximize their opportunities, companies must closely monitor and adjust their pricing models, supply chain management and operational efficiencies and invest in new technology. The effectiveness of these changes will be determined by how well companies manage the complex interplay of tax rates, customer demand, and competition. In summary, GASS has posed threats as well as opportunities for FMCG retail. Yes, there are new complexities that need to be negotiated carefully, but there has been some good things, too, including tax streamlining and better handling of the supply chain. As such, to thrive in the changing retail world, FMCG companies need to reinforce innovation, re-align pricing models, and keep a close ear to the ground as they adapt to a post-GST environment.

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