

Exploring the influence of transition to GST on consumer behaviour related to FMCG in India

Nidhi Parashar¹, Deepa Joshi¹ and P. K. Chopra²

Abstract: *Consumer buying behaviour is the sum total of a consumer's attitudes, preferences intentions, and decisions regarding the consumer's behavior in the marketplace when purchasing a product or service. Situational influences are temporary conditions that affect how buyers behave whether they actually buy particular product, buy additional products, or buy nothing at all. They include things like physical factors, social factors, time factors, the reason for the buyer's purchase, and the buyer's mood. Many times it has been observed that people may have difficulty in understanding the tax system as well as they have different perception on taxes on consumption. The implementation of Goods and Services Tax (GST) is expected to affect consumer behaviour in India. This paper attempts to examine the perception of buyers and sellers of FMCG towards the transition from sales tax to VAT and from here to GST.*

Key words – buying behaviour, VAT, FMCG, habitual decision,

Introduction

Consumer buying behavior is the sum total of a consumer's attitudes, preferences intentions, and decisions regarding his/her behavior in the marketplace while purchasing a product. Situational influences are temporary conditions that affect how buyers behave whether they actually buy particular product, buy additional products, or buy nothing at all. They include things like physical factors, social factors, time factors; personal factors the reason for the buyer's purchase, and the buyer's mood. Consumer purchase number of products with varying elasticities of demand and magnitude of effort for making buying decision. A large number of goods under the umbrella of Fast Moving Consumer Goods (FMCG) are such for which purchasing decision can be made routinely without any conscious activity.

When consumers make decisions about which products to buy, elementary economics dictates that prices should matter. Taxes are an inescapable part of the purchasing experience, and they come in many forms: sales taxes, value added taxes (VAT), goods and services taxes (GST), and so on. In many countries the taxes that consumers must pay when they purchase a taxable good are included in its listed price and therefore not explicitly visible on account of being indirect in nature. Taxation of consumption of goods constitutes a large part of revenue of the government. Policy change with respect to such taxes influences consumer behaviour though indirectly. Inspired by the success stories of GST worldwide, India is on the line of Implementation of this comprehensive tax regime. Many times it has been observed that people may have difficulty in understanding the tax system as well as they have different perception on

¹ Research Scholars.

² Group Director, Oriental Collage of Management, Anand Nagar Bhopal M.P.
Corresponding author: Nidhi Parashar can be contacted at: nidhiparashar@gmail.com
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taxes on consumption. Effective implementation of tax regime definitely weight perception of stake holder's i.e the tax payers and thus recording of their perception would help effective planning .The implementation of Goods and Services Tax (GST) is expected to affect consumer behaviour in India. In order to outline the effect of GST, effect of the preceding taxes Sales Tax and VAT on buying decision of consumer would provide the ground. This paper attempts to examine effect of consumption tax and its collection system on the buying decision of consumers and also the perception of sellers on such taxation system.

The study focuses on buying decision related to FMCG segment which generally involves habitual decision making choice. The first section of the study gives an over view of the background of the study and the description of the structure of the paper. The next section deals with the theory building on the concept of consumer behaviour followed by discussion on tax in FMCG sector and moves further with discussion on perception of consumers and dealers on VAT regime .

Consumer's Behaviour and their Buying decision

Consumer behavior is a widely studied field though complex to understand as it deals with human mind which is difficult to predict exactly. Purchasing decision of the people are affected by many factors and many of consumers do not even know these factors that drive them to particular decision. There are characteristics behind every buying decision that can come from cultural, social, personal or psychological factors. As shown in fig 1.

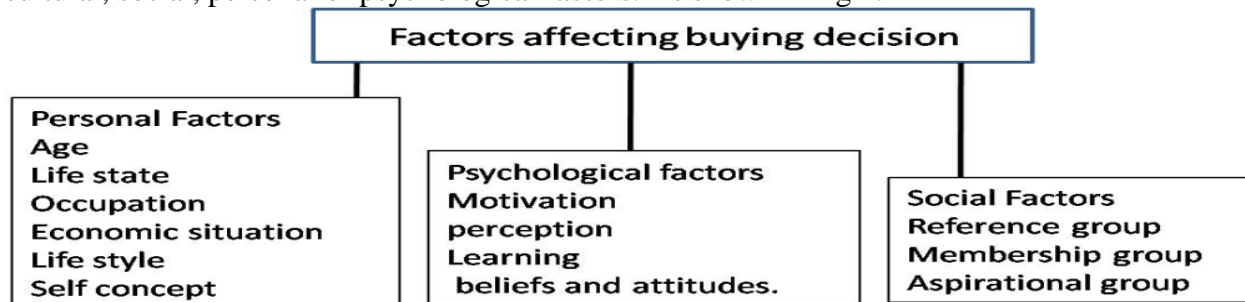


Fig.1. Buying Behaviour

Buying behaviour vary depending upon the nature of the product. Occasional purchases go through a rigorous decision making process while routine purchases need little efforts. Habitual decision-making choices are usually made routinely with little or no conscious effort. The products that are purchased frequently, like coffee, toiletry can be categorized to the habitual decision-making mode. Selecting a coffee brand does not need high consideration and the involvement level is low in this case and consumers are likely to stay with one brand for a long time. When people take decision about purchasing a product its price does matter. taxes are an inescapable part of the purchasing experience of all type of product while the frequency of purchase, price of the product ,bargaining position of the buyer affect the degree of attention to the issue of tax for habitual buying decision. Sales tax is imposed on consumption of goods which is an indirect tax and ultimate burden fall on the consumers. Imposition of tax affect the consumer behaviour but system of tax collection may affect the same. Habitual decision making is involved in Fast Moving Consumer Goods (FMCG) sector.

FMCH sector

Fast Moving Consumer Goods (FMCG), includes the products that are sold quickly and generally consumed at a regular basis as opposed to durable goods such as kitchen appliances that are replaced over a period of years. The sector primarily engages in the production, distribution and marketing operations of FMCG. FMCG product categories comprise of food and dairy products, pharmaceuticals, consumer electronics, packaged food products, household products, drinks and others. This sector is characterized by products having low unit value and requiring frequent purchases and consumer behavior reflecting less loyalty, impulse buying, and low involvement on the part of a consumer (Kotler). The following are the main characteristics of FMCGs:

<p>•From the consumers' perspective:</p> <ul style="list-style-type: none"> •Frequent purchase •Low involvement (little or no effort to choose the item -- products with strong brand loyalty are exceptions to this rule) •Low price 	<p>•From the marketers' angle:</p> <ul style="list-style-type: none"> •High volumes •Low contribution margins •Extensive distribution networks •High stock turnover
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FMCG Sector in India

The fast moving consumer goods (FMCGs) segment is the fourth largest sector in the Indian economy. The market size of FMCG in India is estimated to grow from US\$ 30 billion in 2011 to US\$ 74 billion in 2018. Food products is the leading segment, accounting for 43 % of the overall market. Personal care (22 %) and fabric care (12 %) come next in terms of market share. According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan UniLever. Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector. Composition of different products categories under FMCG are shown in fig.2.

<p>Food & Beverages (18 %)</p>	<ul style="list-style-type: none"> •Health Beverages, Staples/Cereals, Bakery Products, Snacks, Confectionaries, Tea/Coffee/Soft Drinks, Processed Fruits & Vegetables, Dairy Products & Branded Flour
<p>Health Care (32%)</p>	<ul style="list-style-type: none"> •Over The Counter Products •Ethicals
<p>Household & Personal Care (50%)</p>	<ul style="list-style-type: none"> •Oral Care, Hair Care, Skin Care, Cosmetics/Deodarants, Perfumes, Feminine Hygiene & Paper Products, Fabric Wash, Household Cleaners

Fig .2 Segments of FMCG

Source: India Brand Equity Foundation, January 2016.

Taxes in FMCG Sector

VAT

In India as in other countries VAT is applicable for goods covered under FMCG sector which will be replaced by GST in near future. The products are taxed at different VAT rates. VAT rate for 2015-16 are given in table .1

Table1: Rate of VAT

Product	VAT Rate	Product	VAT Rate
Boost/ Bornvita	14%	Processed fruits and vegetables	5%
Bakery Products	14%	Oral care	14%
Tea	5%	Household cleaners	14%
Coffee	14%		

Source: Commodity Ready Reckoner 2015

GST

Taxable Event-Supply of Goods and Services Under prevailing indirect tax structure there are multiple taxable events on account of multiple levies at Central and State level. That is, taxable event occurs on ‘manufacturing of goods’ in case of Central Excise laws, ‘sale of goods’ in case of State VAT laws, ‘supply/provision of services’ in case of Service tax laws. In addition, taxable event in case of other state levies such as Entry Tax/Octroi etc. are on ‘entry’ to goods into a particular jurisdiction. GST as a comprehensive tax reform just about to be implemented in India will do away with cascading effect of taxation still prevailing in the tax system in the country. Figure 3 presents an over view and gist of the tax regime.

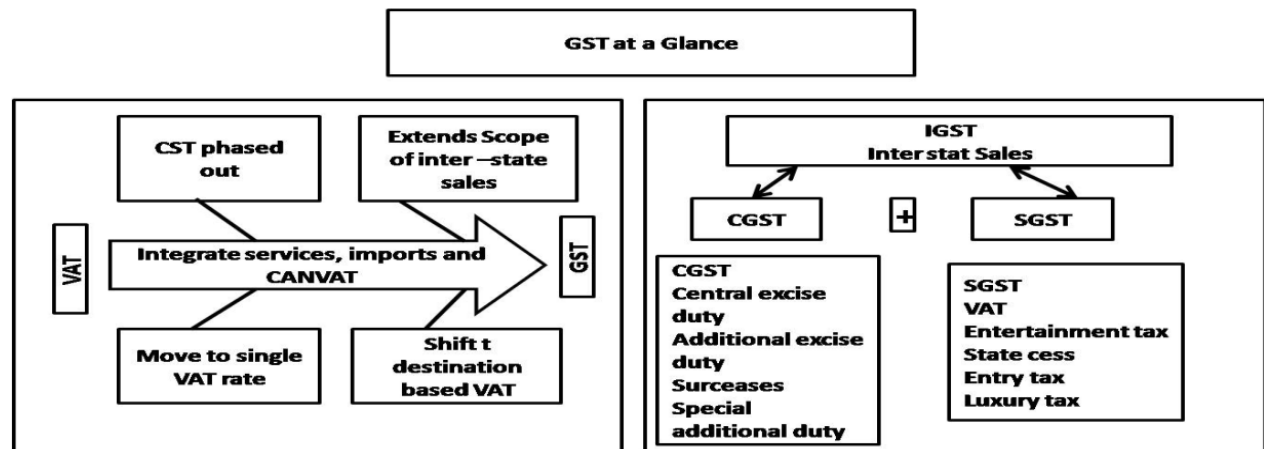


Fig.3. Tax Regime

GST has been viewed as a comprehensive tax system with minimum of tax rate slabs applicable to goods as well as on services (Table2).

Table 2. Tax rates GST (Proposed)

Indicative items	Tax Rate	Indicative items	Tax rate
50% of the consumer price	0%	Soap, oil, refrigerator	18%

Exploring the influence of transition to GST on consumer behaviour related to FMCG in India

basket including food grains			
Mass consumption items like spices edible oil	5%	White goods	28%
Processed food	12%	Luxury cars, pan masala	28%

Source: Saral GST

Working of the tax collection system

Tax collection under both the tax regimes follow the rule of value addition as taxable event and input tax credit at different stages in production- supply chain. It is a staged collection of tax where intermediaries pay their share of tax and ultimate burden fall on the final consumer. Tax collection under sales tax regime followed the rule of tax collection at the final stage of consumption only. The amount of tax paid by the consumers under sales tax regime and VAT regime comes put to be same however the collection centres differ. This can be explained as under in table 3.

Table 3: VAT Mechanism

VAT Mechanism				
Stage I – Raw material =Rs. 100000 Value added = Rs. 60000 Sales Price = Rs. 160000 VAT @ 4% = Rs. 6400		Stage II - Input cost = Rs. 160000 Value Added = Rs. 30000 Sale price = Rs.190000 VAT @ 4% = Rs.7600 Less : input tax credit= Rs.6400 VAT Payable = Rs.1200		Stage III - Input cost = Rs. 190000 Value Added = Rs. 10000 Sale price = Rs. 20000 VAT @ 4% = Rs.8000 Less : input tax credit= Rs. 7600 VAT Payable = Rs.400
Tax collection				
Stages	Total Tax Collected under VAT (Rs)	% of tax collected	Total Tax Collected under Sales Tax (Rs)	% of tax collected
I	6400	80%	-	-
II	1200	15%	-	-
III	400	5%	8000	100%
Total	8000	100%	8000	100%

When observed in comparison to Sales Tax from neutrality perspective it appears that imposition of VAT does not affect consumption decision of the consumers as they pay VAT which is a tax relies on a staged collection mechanism. Successive taxpayers are entitled to deduct input tax on purchases and account for output tax on sales. In the end, the tax collected by the authority through this supply chain equals to the VAT paid by the final consumer to the last vender.

It is evident that whatever is the system of tax collection consumers has to pay similar amount as consumption tax and thus find VAT as Neutral tax as was Sales Tax. Transition to VAT regime from Sales tax regime, keeping other things constant, should not affect the buying decision of the consumer. The same should emerge when the tax system in India will move to GST as it also follow the same system of staged collection of tax . Perception of stake holders related to change in buying decision due to transition can be observed with respect to VAT and Sales tax as GST is awaited.

Effect of VAT on Buying Decision

Replacement of VAT to sales tax has not affected the consumption decision as the tax liability in case of VAT and sales tax at the retail level turns out to be the same. This is because the total retail price is nothing but the value added to the raw material at different stages of production and trade. The final consumer has to pay the amount of tax and it does not matter at how many stages tax calculation is done and how much part of tax is contributed at different stages throughout the supply chain.

A survey was conducted with 150 dealers registered under VAT Act in M.P. and small sample of 50 consumers focusing on change in buying decision due to implementation of VAT as one of the issues. The findings of the study are presented in the following section.

Perception of Dealers

VAT is a tax collected at every stage of value addition. In total VAT creates similar type of burden on consumers as was created under sales tax. Business enterprises pay tax which they shift on to consumers. The survey found a large number of respondents feel transition to VAT has not affected buying decision on the ground that consumers have to pay tax whether it is VAT or sales tax. 47% of the respondents disagree on the issue of change in behaviour and the say that transition to VAT has not impacted buying behaviour of consumers at all. 29% of the respondents feel that they have observed changes in buying behaviour due to VAT and agree on the issue of change (table 4).

Perception of Consumers

Behaviour can be observed as the reaction of consumer to prices of the products and their decision to purchase or not to purchase the product. Their buying decisions are generally affected by the price of the product, preferences for the product. Imposition of tax on a commodity generally increases the price of the products and may affect the consumer's decision to buy or to postpone the purchase. FMCG are the product which are required on regular basis and involve habitual decision making has little to do with the system of tax collection when effect of such tax on price is taken constant. The survey found 72% of the respondent confirming that transition from sales tax to VAT has not affected their buying decision related to FMCG products and showed their disagreement on the issue of effect of change in system of consumption tax collection. With a view to record the perception of consumers on issues related to VAT survey was conducted and questionnaire was used with multiple options for each question. The questions were designed to study awareness about VAT as an important indirect tax reform introduced in the country, opinion related to importance of VAT provisions, attitude of consumers towards purchase with proper invoice and bill with all required details, consumer's behaviour as a responsible citizen helping tax authority in collecting taxes and effect of VAT imposition on buying behaviour of consumer. The analysis is presented in the following section.

Table 4

Respondents	Responses				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Dealers	3.3%	46.7%	14%	28.7%	7.3
Consumers	0	72%	0	28%	0

Source: Survey data

Exploring the influence of transition to GST on consumer behaviour related to FMCG in India

Awareness among Consumers Regarding Commodity Tax

Analysis revealed that majority (95.0%) of the participants were aware that as a consumer they pay VAT for most of the purchase. Around 91.0 % of the consumers were aware that bills issued by the shopkeeper contains amount of tax levied for the relevant products. Around 95.0 % of the consumers understand the importance of a proper bill issued by the shopkeepers. Eighty-nine percent of the consumers believed that VAT invoice ensure better accountability and transparency by a business.

Awareness about accountability of tax in bill and tax liability

Majority (71.0 %) of the respondents believed that both; they themselves and the shopkeeper are responsible for the issuing of bill for the purchase (Table 3). Majority (76.0 %) of the respondents also confirmed that shopkeepers get benefits in case of bill is not issued.

Practices related to commodity tax followed by the consumers

Survey found high level 95% awareness about VAT but there was variation in attitude towards considering importance of consumption tax. Only 36% always get VAT invoice and 45% get some times and if not get bill do not bother about it. 33% care to know the amount of tax on their general purchases i.e. FMCG products. 76% of the respondents were aware about GST.

Conclusion

Imposition of taxes may affect buying decision of consumers. VAT is imposed on goods which includes FMCG category also and buying decision of such goods require less of efforts. GST will replace the present regime in India soon .The question of interest that whether it will influence buying decision of consumers of FMCG category has been explored with VAT regime which has the same system of staged tax collection that GST will have. The study found that people are aware about the tax they pay on purchase of commodities but are not much interested in giving importance to such tax on their purchase of FMCG. However they recognise proper billing helps to decide accountability of tax compliance. Transition to VAT from sales tax has not affected the buying decision and same can be expected about GST as the tax regime will be based on staged collection of tax. It was found that people do not give much importance to invoice based purchases. In It would be in the interest of better revenue collection that for GST regime awareness programmes focusing on consumers should be conducted so that invoice based purchasing practices are promoted and GST regime turns out to be not only comprehensive but also revenue productive.

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