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GST Enhances Efficiency, Reduces Operational Costs

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This extremely high logistics spend makes Indian manufacturing activity economically unviable and uncompetitive on the highly competitive global arena



22 September, 2018 by Pirojshaw Sarkari

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Prior to purchasing your next branded sports shoes, or satiating those hunger pangs with delectable sandwiches from the nearby restaurant or maybe even munching succulent hot corn kernels by the roadside this monsoon – it would be pertinent to know that every product price includes a significant portion incurred towards logistics costs.

India's logistics costs are estimated at an exorbitant 14 per cent vis-à-vis merely 9 per cent in the United States and 8 per cent in Germany. This means that every product or service manufactured or provided in India involves approximately 14 per cent incurred towards logistics spend thereby enhancing its selling price.

This extremely high logistics spend makes Indian manufacturing activity economically unviable and uncompetitive on the highly competitive global arena. It furthermore puts into peril the government's flagship, 'Make in India' initiative.

In a welcome development, the logistics sector witnessed increased focus and momentum, especially post the last budget wherein announcement was made to set up National Logistics Portal as a single online window. This would enable the portal to link all stakeholders thereby minimizing dealings to a single ministry vis-à-vis seven different ministries earlier. In addition, the huge budgetary allocation for transportation infrastructure is expected to directly benefit the logistics industry

One of the primary reasons affecting enhanced efficiency across the logistics industry was multiple taxation and levies imposed by different states and civic bodies within their respective jurisdictions. This didn't merely enhance tax compliance costs but also led to lower efficiency across logistics and warehousing operations.

Taxation & Inefficiency:

To avoid costs such as the state value added tax (VAT), most logistics companies would follow the stock transfer model. As products supplied directly to dealers attract state VAT, the model involves transfer from warehouses since such deliveries were treated as merely stock transfer.

However, this model was extremely inefficient and involved extensive capital expenditure on creation of unnecessary warehousing infrastructure in various states merely to avoid state VAT. It was not designed to improve logistics efficiency but

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merely minimize taxation even at the peril of

Implementation of GST

The introduction of GST last year has led to l operational efficiency. For example, an avera 225km prior to the introduction of GST.

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enhancing currently vis-à-vis

It is estimated that trucks in the United States covered three times more distance vis-à-vis Indian trucks. Without an iota of doubt, the better road conditions and associated infrastructural amenities in the United States also contribute to higher efficiency of American trucks. However, a significant number of hours were wasted by Indian trucks on various state and municipal borders awaiting multiple taxation related clearances.

Through introduction of GST, some quarters have predicted that Indian businesses can shave off around 20 per cent of their current spend on logistics. It isn't merely about costs but also time and efficiency, since many products are perishable or simply lose value due to longer logistics timeframe.

Challenges:

Although, the introduction of GST a year-ago led to consolidation of multiple taxes, thereby simplifying processes, its implementation is taking time for customers and logistics companies as they are getting accustomed to the changed systems and the benefits it can offer. While the transactional part is getting stabilized with unbilled revenues reducing, we are witnessing delays in finalizing the new orders from customers. Customers are still grappling with their post-GST strategy and this has impacted the new business acquisition. For leading 3PL logistics players, the challenge is to educate customers on the benefits of outsourcing and focusing on total cost instead of just cost of logistics.

Additionally, there has been significant time saving and paper-work reduction, due to digitisation with advent of e-way bill. The recent announcement of increasing tonnage in trucks will also lead to optimum utilisation of manpower and resources.

Way Ahead:

The well-known American Actor Jimmy Dean has once rightly stated that, "I can't change the direction of the wind, but I can adjust my sails to always reach my destination." In a similar manner, the introduction of GST is a reality and hence all must adjust accordingly and fall in line. The short-term may witness some pain due to confusion and uncertainty but over the mid to long-term – GST will definitely benefit the economy through reduced costs, enhanced efficiency and thereby improve the overall rating of India in the Logistics Performance Index.













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