

# Introduction of GST in India- Impact on Supply Chain Network Design & Strategy

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*TCI Supply Chain Solutions is a Single Window enabler of Logistics and Supply Chain solutions encompassing all the needs of a value seeking progressive client – right from ‘conceptualization to implementation’. The company operates and provides customized solutions, for key verticals such as Auto, Retail, Telecom, Electricals, Pharmaceuticals, FMCG , Record Management and Cold Chain.*

## Introduction and Understanding of GST Bill

The recently passed GST bill is the largest tax reform to the current indirect tax structure in India.

While it brings uniformity to the tax structure for the entire country for all goods and services, it is also integrated into the tax, however there is a horizontal split in GST between central and state, known as CGST & SGST, which adds complexity to the filing of returns and impact tax credit.

The post GST regime is expected to broaden the tax base, foster a common market across the country reduces compliance as it is built on chain compliance.

## GST & Network Design

With the introduction of GST the supply chain network would be more logistically right than being taxation friendly.

With the elimination of multiple state taxes, post GST the decision of location on warehouse & distribution will be purely based on operational efficiency rather than tax consideration. However contrary



to many school of thought the no. of operating warehouses would not really come down in many regions because of other forces that impact the supply chain network design & strategy.

In terms of network design, the 5 main factors affecting supply chain as depicted in the TCI SCS supply chain 5 forces model will continue

to remain & GST/ taxation would not solely determine the network design & supply chain strategy.

## Understanding the Supply Chain 5 forces model:

We believe that there are few major factors which needs to be taken into consideration during design of the supply chain network. These factors

Sourcing	Procurement	Locations	Manufacturing	Others
<ul style="list-style-type: none"> <li>•Inter vs Intra state sourcing options</li> <li>•Own vs outsourcing decisions</li> <li>•Process Redesign</li> <li>•Contract renegotiation</li> <li>•Price renegotiation</li> <li>•Reliability &amp; quality</li> </ul>	<ul style="list-style-type: none"> <li>•Inter vs Intra state procurement decisions</li> <li>•Reliability &amp; quality consideration</li> <li>•Price negotiation</li> </ul>	<ul style="list-style-type: none"> <li>•Closeness to customer</li> <li>•Closeness to supplier base</li> <li>•Availability of logistics network (road, rail etc)</li> </ul>	<ul style="list-style-type: none"> <li>•Capacity Expansion</li> <li>•Inhouse vs Contract manufacturing</li> <li>•Manufacturing process redesign</li> <li>•Role finalization</li> <li>•Flexibility manufacturing</li> <li>•Capability realignment</li> </ul>	<ul style="list-style-type: none"> <li>•Direct selling vs stock transfer</li> <li>•Improve forecasting process</li> <li>•Inventory management</li> </ul>

are correspondent to each other & hence, all these factors needs to be given equal importance in supply chain networking.

Let us understand these factors to get a better picture of the situation.

**1. Logistics network:** The availability of logistics network i.e. road, railways, airways will continue to be one of the most important factor while designing the supply chain strategy.

**2. GST/Taxation:** Undoubtedly, GST will have an impact on supply chain network design. It will ring about changes in the way manufacturing, warehousing & distributions are carried out in India. Organizations have to restructure their supply chain strategy to overlook tax boundaries & will be able to position their warehouses & distribution network by focusing on cost & time. However, we need to keep in mind that these decisions can't be taken based on GST itself & the other forces will continue to impact these decisions.

**3. Closeness to customer:** Responsiveness is what makes a supply chain the most efficient. The popular belief that GST will lead to consolidation of small warehouses into larger but fewer warehouses in major locations may not hold true. Clients will continue to choose warehouse locations situated on a close proximity to them



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& for a 3PL to remain competitive, they must take this into account while designing the supply chain strategy.

**4. Supplier base:** In the same way, as keeping in close proximity to customer, closeness to supplier is also an important force which affects the supply chain network designing. Building a warehouse near to supplier base can help in management of lean inventory and thus lead to lower inventory cost.

**5. Supply chain cost:** Cost is always a main factor which comes into play while designing the supply chain network. There are various types of cost which fluctuate

accordingly with the supply chain strategy. The culmination of the supply chain forces lead to the lowest cost.

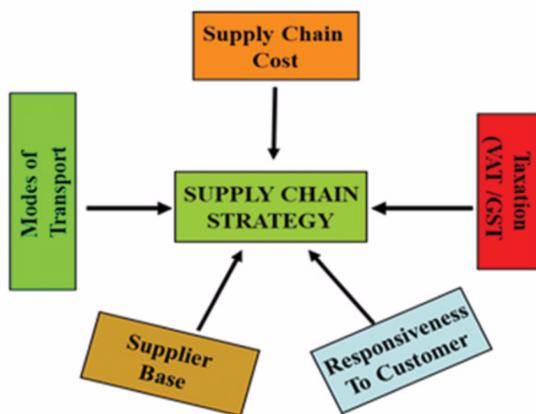
Above shown are the various supply chain costs & their relationship with increasing number of warehouses. These supply chain costs will also come into play while deciding on the supply chain strategy.

**Network Re-Engineering Post GST**

An optimum network design post GST would obviously be different from an optimum network design in the pre GST era. To stay competitive, companies should re-engineer their supply chain strategy post GST- with details of an optimum network structure & the steps that needs to be taken to get there.

**Summary**

GST may not be the only factor for companies to re-engineer their supply chain network & strategy but the recent GST introduction may be considered as a strong compelling factor & opportunity for companies to re-engineer their supply chain network. The optimum network design post GST may have many merits like mode optimization & robust network design with improved service levels for customers. This network design re-engineering may lead to closing of existing facilities or opening of new facilities. However, such transitions may not have any immediate effect. It will require some time for the entire supply chain to settle down into a rhythm with the transitions & become GST friendly. **CR**



© TCI –SCS Supply Chain 5 Forces Model