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Hail GST! Logistics Sector to Benefit Due to Streamlined Processes

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GST implementation has created both palpable excitement as well as apprehension at a level that could possibly be experienced only during a cricket match between India and Pakistan.

Several analyses and studies have been published to predict its impact as the bill has slowly meandered through the complex legislative process of our country.

It has been touted as a complete game changer that would propel economic growth in the long run and change the fundamental aspects of doing business.

Impact on Logistics Sector

Specifically, the logistics sector is predicted to benefit, with the World Bank estimating a forty percent decrease in overall costs.

Moving forward, it would be interesting to track certain trends that would indicate the magnitude of impact GST actually has and how the sector evolves in general. When talking about impact, it is critical to consider the long-term scenario.

It is widely acknowledged that the implementation of such a mammoth reform is going to be fraught with confusion and unpredictability in the short-term. This is a fact based on past experience of several countries that have implemented similar tax reforms.

Causes for Inefficiency

In order to assess the impact of GST, it is important to broadly understand two primary factors that cause inefficiencies at present:

1) High idle time: The logistics cost in India is almost three times higher than the global average in terms of product cost, primarily due to loss of transit times.

State border crossings can be extremely complicated due to the tardy document clearance procedures and delayed inspection of goods. Bribing is also prevalent given the power wielded by agents and middlemen.

In addition, there are other constraints like manual toll collection facilities, which together contribute approximately 60 percent loss of transit time according to the World Bank estimates.

2) Fragmentation and Low Utilisation: The overall supply chain sector in general is fragmented due to the prevailing multi-tax system. For example, a manufacturer typically owns a warehouse in each state to avoid paying the central sales tax by recording delivery of goods to these warehouses as a stock transfer.

The movement of goods to a large extent is controlled and influenced by small booking agents within a particular geography. This has been a major reason for the logistics sector to be unorganised.

Optimisation concepts like demand forecast, route and location planning, delivery bundling, etc., are seldom used, causing low utilisation. For example, it is a common sight to spot trucks traversing long distances with an empty load between two dispatches.

Hassle-Free Transport of Goods

With a common tax rate across all states, the idle time due to complex clearance procedures and lengthy document verification at state borders is expected to reduce drastically.

For example, the authorities have notified that transporters need to carry a copy of the E-way bill along with the regular invoice. These would be verified by an authorised person appointed by the tax commissioner only if deemed necessary.

Introducing a common taxation structure is projected to bring consolidation in the supply chain sector as a whole. It promises to facilitate seamless transfer of goods across the country.

For example, a manufacturer need not own warehouses in multiple locations. The entire warehousing and associated processes can be done at single central location from which goods can be dispatched.

A common model followed for such centralised control is the wheel and spoke distribution pattern. This will significantly influence the way logistics operators function. The role of sophisticated third party logistics services is bound to increase which would decrease the dependency on small scale and fragmented transporters even in the case of last mile connectivity.

Flip Side

Although the idle time would reduce due to easier clearance procedures, will GST help in overcoming the time lost at toll plazas? In other words, would reduction in idle time also entail the implementation of automated toll collection facilities?

The rules associated with the E-Way bill concerning the number of allowable transit days also remain contentious which could potentially increase the need for verification.

Another important aspect to consider is the fuel cost which is not included in the GST. Therefore, non-availability of credit for input taxes on fuel could potentially increase the tax burden.

Stimulus for Reform

The indirect benefits like consolidation and standardisation of the sector purely depends on how quickly the stakeholders adapt and implement the necessary measures.

Ideally for a centralised system of distribution and logistics to be efficient, it is essential that innovative concepts like data analytics, automation etc., are embraced although the initial OPEX (operation expenditure) might be large. Without investment in these aspects, the sector would continue to depend on obsolete practices which would negate the benefits of the GST.

Hence, although it is evident that there are huge benefits associated with the reform, it can be looked at as more of a stimulus which provides a foundation for improving the efficiency of the logistics sector in the medium term.

In the larger context, the role of different stakeholders including the central and state governments in addressing inherent issues like lack of automation or an optimisation framework could potentially be far more critical in order to maximise the benefits of the GST reform.

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