With the government targeting implementation of GST in the next financial year, the Indian industry will be busy understanding its impact and deciding on how to do business in the changed environment. The USD 40 bn. Pharmaceutical industry is no exception as it has to prepare itself for GST readiness and reevaluate its complex supply chain network which span across India.

Indian Pharmaceutical industry is plagued by drug & price regulations, complex multi-stage taxation and location based incentives provided by certain states. This has resulted in bringing inefficiency and undue complexity in supply chains in India. But the imminent roll-out of GST provides a silver lining for companies to simplify their operations, and achieve better efficiencies enabling them to serve customers better.

The GST - Supply Chain Challenge

The supply chain challenge for companies lies in redesigning their networks end to end along with optimizing their sales and operations planning. Companies must do a comprehensive evaluation of their existing supply chain and associated business processes in order to identify how they can achieve better economies of scale and adopt better processes in order to drive down costs and better serve customers.

Figure 1 describes various aspects companies need to look at while preparing for GST readiness.

From the perspective of legal and tax compliance, companies will also have to redesign their business processes to adhere to the rules set by GST. This will require them to invest in redesigning their systems and further change management within their organization. Companies will also have to engage with their supply chain stakeholders such as suppliers and logistics service providers in order to create a common platform for working together post GST implementation.

Driving such change management across the organization would require a dedicated Project Management Office (PMO) which can manage all the requisite aspects of preparing the company for the post-GST business environment. The change management would require a phased approach,

- The first stage would be to design and implement the systems for legal and tax compliance
- Next step is assessing the existing supply chain to identify opportunities for improvement such as sales and operations planning and network realignment
- The last step would be the change management process for aligning people and business processes to the
modified structure and generating gains from it.

**Network realignment may help reduce costs and improving serviceability**

On implementation of GST, the biggest benefit companies can see is reduction in their logistics and distribution costs along with improvement in market responsiveness by reconfiguring their distribution networks. Companies can do away with the current practice of having a warehouse in each state in order which was designed to reduce the tax burden in the current tax regime and adopt an optimized network with hub and spoke model consisting of larger warehouses, better routes and ideal modal mix to serve their customers better in the GST scenario (Fig.2).

Savings along the logistics and distribution chain can amount to ~5-8% in transportation, ~10-12% in warehousing and up to 25% in inventory holding costs, leading to an overall savings in the range of 10-12% of the total overall supply chain cost. For example, a company having multiple CFAs in Northern states can look at consolidating its network and plan a regional hub to serve different markets. This is possible mainly because of the easier accessibility to key consumer clusters from a central warehouse (in most cases the transit times are less than 12hrs). A detailed network realignment assessment is required to map OD pairs while identifying and designing new modal mix, delivery routes and new warehouse locations.

Other important benefit will be the mechanism of input credit offset which will be provided in the GST regime. The utilization of credit available in the electronic ledgers of IGST, CGST and SGST towards input credits at each value addition stage will result in avoiding the now prevailing cascading taxation which raises the final prices of goods and services to the consumer.

**Empowering domestic API manufacturing**

In the Make in India initiative, the Pharmaceutical industry is a priority sec-
tor for increasing the domestic manufacturing footprint. Even as India has become the largest source of high quality, low cost generic drugs for the world, we are still lagging behind in terms of domestic Active Pharmaceutical Ingredient (API) manufacturing.

Inverted duty structure currently prevailing in India is a key factor undermining the domestic manufacturing of API. Key raw materials imported for domestic production of API are taxed at a higher rate than the imported API making it uncompetitive against imports from China. Rationalizing this practice with the implementation of GST will benefit the country in the long run by developing domestic production capabilities. In 2002, the implementation of Auto policy and reversion of inverted duty has now resulted in India becoming an auto manufacturing hub.

**Current location based tax benefits may be converted into tax refunds**

One major concern would be the discontinuance of the area based tax exemptions that the companies enjoy for setting up their manufacturing plants in specific states and regions. Numerous pharmaceutical companies have setup their manufacturing plants in Baddi, Himachal Pradesh and Sikkim as the tax exemptions overrode higher logistics costs due to poor accessibility of these regions.

The discussion papers on GST proposed converting these to a tax refund mechanism, but even so it would have a neutral impact on the Pharmaceutical companies. Another drawback would be the taxation of free supplies to the sales and distribution in the form of schemes and bonuses which would require a rethink on the promotional practices of Pharmaceutical companies.

**Looking forward**

Pharmaceutical companies must pro-actively act on assessing their readiness for GST and reconfigure their supply chain and business processes by setting up a dedicated Project Management Office. TSMG’s customized NetOptix (network optimization) tool can help companies in assessing their supply chains and realigning them to take advantage of the GST policy as India becomes a single market without taxation related supply chain bottlenecks.

Those who move early are likely to gain an advantage on cost and service levels over their competitors and deliver a better value proposition to the customer.

The imminent implementation of Goods and Services Tax (GST) provides significant opportunities for Pharmaceutical companies in India to re-look at its business strategy by reconfiguring its supply and re-aligning its distribution network. Companies must be fast and agile to tap this opportunity by setting up a Project Management Office to tackle various changes and redesigning their businesses in order to work more efficiently. Those who are proactive in redefining their supply chain strategy will build a competitive advantage and win in the market says **Manish Panchal**, Sr Practice Head at Tata Strategic Management Group.