IJCRM
International Journal of Contemporary Research In Multidisciplinary

Research Article

Impact of GST on Competitive Advantage: A Case Study of Patanjali Ayurved in the FMCG Industry

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DOI: https://doi.org/10.5281/zenodo.21333327

Abstract

The Goods and Services Tax implementation in India on July 1, 2017, represented a paradigm shift in the nation's fiscal policy, aiming to dismantle internal trade barriers and unify the indirect tax structure. This research paper evaluates the impact of GST on the competitive advantage of Patanjali Ayurved Limited, a home-grown FMCG giant that disrupted the Indian market with its "Swadeshi" (indigenous) and Ayurvedic value proposition. While Patanjali enjoyed a 100% growth rate in FY2016-17, reaching ₹100 billion in revenue, the post-GST era saw a significant stagnation, with sales changing only marginally by March 2018. Through an analysis of supply chain dynamics, pricing strategies, and tax pass-through effects, this study explores how the formalization of the economy under GST leveled the playing field for multinational corporations and challenged Patanjali's cost-leadership model. The findings indicate that while GST provided structural benefits in logistics and tax rationalization, the increased compliance burden and the removal of regional tax exemptions previously leveraged by Patanjali temporarily eroded its competitive edge.

Manuscript Information

- **ISSN No:** 2583-7397
- **Received:** 08-06-2026
- **Accepted:** 26-06-2026
- **Published:** 13-07-2026
- **IJCRM:**5(4); 2026: 156-159

- **Plagiarism Checked:** Yes
- **Peer Review Process:** Yes

How to Cite this Article

Chandra C, Kishan S. Impact of GST on Competitive Advantage: A Case Study of Patanjali Ayurved in the FMCG Industry. Int J Contemp Res Multidiscip. 2026;5(4):156-159.

Access this Article Online

www.multiarticlesjournal.com

KEYWORDS: GST Implementation, Competitive Advantage, FMCG Industry, Patanjali Ayurved, Tax Structure.

1. INTRODUCTION

The Indian Fast-Moving Consumer Goods sector, the fourth largest in the economy, has historically been sensitive to indirect tax structures due to its high-volume, low-margin nature (Ramkumar, 2021). Before 2017, the industry operated under a complex web of Excise Duty, VAT, Central Sales Tax, and entry taxes, which often led to a "cascading effect" tax on tax estimated at 24% to 25% of the final product price (Maruthi, 2020). The introduction of GST replaced these with a single, unified tax at the point of consumption, aiming to reduce the overall tax burden to approximately 18% for most FMCG goods.

In this landscape, Patanjali Ayurved emerged as the "biggest disruptive force," challenging established players like Hindustan Unilever, ITC, and Colgate-Palmolive (Ahmed et al., 2018). Patanjali's competitive advantage was rooted in its lean operations and a brand identity closely tied to Yoga Guru Baba Ramdev (Ali, 2024). However, the shift to a formal, digital-first tax regime like GST forced a strategic re-evaluation. This paper examines whether GST acted as a catalyst or a constraint for Patanjali's sustained competitive advantage. The results of this study will be helpful in formulating policies to enhance the net profit after tax of company.

2. Theoretical Framework: Competitive Advantage in FMCG

Michael Porter's theory of competitive advantage identifies two primary ways a firm can gain an edge:

2.1. Cost Leadership: Patanjali initially adopted a cost-leadership strategy, pricing its products 15% to 30% lower than MNCs by reducing advertising costs and sourcing raw materials locally from Indian farmers.

2.2. Differentiation: The "Swadeshi" and herbal positioning created a unique brand resonance that MNCs struggled to replicate initially.

GST impacts both strategies. It alters the cost structure by streamlining logistics and changes the differentiation landscape by forcing all players into a transparent, standardized tax environment.

3. Pre-GST Era: The Patanjali Phenomenon

Patanjali's rise was meteoric. Starting as a small pharmacy in 2006, it grew into a ₹5,000-crore company by 2016 and doubled that to ₹10,000 crore (₹100 billion) by FY2017 (Ahmed et al., 2018; Ali, 2024). Its pre-GST advantage was multifaceted:

3.1. Tax Arbitrage: Like many domestic firms, Patanjali benefited from manufacturing in "tax-free zones" such as Uttarakhand. These areas offered exemptions from central excise and state-level VAT for set periods.

3.2. Distribution: Patanjali avoided the high margins of traditional multi-tier distribution by selling through its own Arogya Kendras and Swadeshi Kendras (Ahmed et al., 2018).

3.3. Low Marketing Spend: While MNCs spent 12-15% of revenue on advertising, Patanjali relied on Baba Ramdev's televised yoga sessions and word-of-mouth, keeping spends below 5% (Ali, 2024).

4. Mechanics of GST in the FMCG Sector

GST introduced a four-tier rate structure: 5%, 12%, 18%, and 28%. For FMCG, this meant:

- **Essential Goods:** Items like unbranded flour (atta), milk, and fresh vegetables were placed in the 0% or 5% slab.
- **Standard Goods:** Most processed foods and personal care items (soaps, hair oil) moved to 18%, a significant drop from the previous effective rate of 24-25%.
- **Luxury/Sin Goods:** Items like aerated drinks and premium cosmetics were taxed at 28% plus additional cesses.

4.1 Elimination of the Cascading Effect

GST allowed companies to claim Input Tax Credit for taxes paid on raw materials and services (like advertising and transport). This reduced the "deadweight loss" in the supply chain, theoretically allowing prices to fall and consumption to rise.

5. Impact of GST on Patanjali's Operations

The transition to GST was "arduous" and required years for stabilization (Ali & Kaur, 2021). For Patanjali, this period coincided with a notable slowdown in growth.

5.1 Logistics and Warehousing Rationalization

Before GST, FMCG companies-maintained warehouses in every state to avoid the Central Sales Tax on inter-state transfers. GST removed this need, allowing for warehouse consolidation (Ramkumar, 2021).

5.1.1. MNC Advantage: Large players like HUL, with superior digital infrastructure, consolidated hundreds of small warehouses into large "feeder hubs" located near consumption clusters, significantly reducing real estate costs (Ali & Kaur, 2021).

5.1.2. Patanjali's Challenge: Patanjali's distribution was less centralized. The move to larger, GST-compliant hubs required capital-intensive upgrades to their supply chain, which stalled their ability to maintain high inventory levels across all regions (Ali & Kaur, 2021).

5.2 Erosion of the "Swadeshi" Cost Gap

Under GST, the tax benefit is at the destination of consumption, not the origin of manufacture. This meant that Patanjali's manufacturing plants in Uttarakhand lost their competitive edge over MNCs who could now manufacture anywhere and pay the same tax at the point of sale.

5.2.1. Price Convergence: As MNCs passed on GST savings to consumers (driven by anti-profiteering laws), the price gap between a Patanjali soap and an HUL soap narrowed. Consumers who previously chose Patanjali primarily for its lower price began to weigh it against the perceived higher quality or better availability of MNC brands (Ramkumar, 2021).

5.3 Working Capital and Compliance Costs
GST shifted the tax burden to the point of supply. For a company like Patanjali, which dealt with a vast network of unorganized vendors (farmers and small processors), this was problematic.

5.3.1. Compliance Burden: Technical and legal costs for companies went up in the post-GST era. Patanjali had to ensure its entire vendor base was GST-registered to claim input credits.
5.3.2. Working Capital: The requirement to pay tax upfront while waiting for credits to be reconciled strained the working capital of domestic firms more than cash-rich MNCs.

6. Comparative Analysis: Patanjali vs. MNCs
A Critical Path Method matrix analysis of HUL, ITC, and Patanjali highlights the shift in competitive standing post-GST:

Table-1: Shows the comparison of the Critical Success Factors of HUL and Patanjali.

S.No	Critical Success Factor	HUL Score	Patanjali Score
01	Distribution Network	0.8	0.2
02	Product Quality	0.4	0.6
03	Promotion/Advertising	0.3	0.1
04	Market Share	0.4	0.2
Data source: (Raj & Aithal, 2018)			

The analysis shows that while Patanjali scored high on product quality/perception (0.6 vs HUL's 0.4), it lagged significantly in distribution (0.2 vs 0.8). GST exacerbated this by making the distribution network the primary driver of cost efficiency. MNCs used GST-led logistics savings to launch their own "natural" products (e.g., HUL's *Ayush*), fighting Patanjali on its own turf with better-funded distribution and marketing (Pandey & Paul, 2020).

7. The Stagnation Period (2017–2019)
By May 2017, Baba Ramdev predicted Patanjali would cross ₹20,000 crore in revenue by March 2018. However, the actual sales for that year changed only "marginally," signaling a plateau. The reasons included:

7.1. GST Transition Glitches: Disruption in the supply chain as distributors and retailers struggled with new GST-compliant billing software.

7.2. Inventory Mismatch: Patanjali's "stock out" rates increased during the GST transition as small-scale distributors were hesitant to hold stock without clarity on tax credits.

7.3. Formalization: GST brought many unorganized players into the tax net, increasing their costs. Patanjali, which sourced heavily from this sector, faced rising procurement costs that could not always be passed to the consumer.

8. Strategic Pivot: Post-GST Recovery
To regain its competitive advantage, Patanjali had to move beyond the "Swadeshi" rhetoric and focus on professionalization:

8.1. Professional Management: Moving away from a promoter-led model to hiring professional CEOs and supply chain experts.

8.2. Modern Trade Expansion: Partnering with big retailers like Big Bazaar and Reliance Retail, which were already optimized for the GST regime.

8.3. Digital Integration: Implementing SAP and advanced ERP systems to manage the complex GST filings across its thousands of SKUs (Ahmed et al., 2018).

9. DISCUSSION: THE LEVELING OF THE PLAYING FIELD

Was GST a net negative for Patanjali? The evidence suggests that while it was a short-term disruptor, it was a necessary "leveling" of the Indian market.

9.1. Efficiency Gains: In the long run, GST has reduced the "technical and legal cost" of doing business across state lines, allowing Patanjali to expand into southern and eastern India more efficiently.

9.2. Consumer Shift: GST changed consumer spending and lifestyle patterns. Consumers became more aware of "branded" goods as the price difference between unorganized and organized sectors narrowed.
However, the "blistering pace" of 100% growth was likely a pre-GST anomaly fueled by tax incentives and the novelty of the brand. Post-GST, Patanjali has had to compete as a "standard" FMCG player, where success is dictated by supply chain efficiency and consistent quality rather than just tax-advantaged pricing.

10. CONCLUSION AND RECOMMENDATIONS

The impact of GST on Patanjali Ayurved Limited serves as a case study for the "formalization" of the Indian economy. For Patanjali, the tax reform was a "double-edged sword." On one hand, it validated the company's scale by providing a national market without entry barriers. On the other hand, it stripped away the regional tax advantages and lean-compliance benefits that a domestic "outsider" enjoyed over established MNCs.
Recommendations for Patanjali:

10.1. Rural Distribution: While strong in urban markets, Patanjali must leverage GST-led logistics to penetrate the rural and "Bottom of the Pyramid" segments where HUL still dominates.

10.2. Product Standardization: As GST brings transparency, Patanjali must ensure its product quality remains consistent to justify its brand premium, as it can no longer rely solely on a "low-cost" label.

10.3. Supply Chain Resilience: Further investment in cold storage and specialized warehouses is needed, especially as Patanjali enters the dairy and perishables sector, where GST benefits are currently limited by high capital costs.
In summary, GST did not destroy Patanjali's competitive advantage; it matured it. The company's transition from a high-growth disruptor to a stable, compliant market leader is a direct result of the structural changes brought about by the Goods and Services Tax. The "Patanjali phenomenon" continues, but it now operates within the rules of a unified, formal, and hyper-efficient Indian market.

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