CHAPTER 8 - DEMONITIZATION AND GST

Explaining about the economic factor the two major decisions which are considered to be a giant interference of the government for every industries including Paints are demonetization and GST.

First briefing about the demonetization an unplanned and unknown incident for the entire country which does not give time for the preparation to the giant companies Asian Paints, merger and Nerolac making their business is difficult for 6 months due to the unavailability of the cash payments which is the major issue for every retail outlets in Saurashtra region.

Next factor is accounted as the GST, which is a tax structure imposed by the government on every small and big products off the paint industry making the people divert towards the white payment and systematic upgradation of the stocks and businesses at a level that every firms can be tracked by the IT Department which led an environment of fear among the dealers in the paint industry of Saurashtra region encouraging them to take the corrective measures to work on the streamline of the business.

The people were unaware of the accounting, tax slab, HSN code of different products as any counters where having minimum of 50 products of different categories related to the paint industry. The second impact is from the construction industry having the direct influence off the paint and coatings market which have connection with the end users on considerable terms. In addition to this every field of paint industry such as decorative segments, industrial segment as well as wood finishes is directly connected with the estate projects. But from last 2 years the construction industry has dropped significantly by 40% due to the demonetization factor as well as the increase in the price rate of the land for the sizeable projects considering the fact of the white payments and legal works.

The end use products is directly linked with the industrial segment of the market having influence of demand on large scale due to the production problems specially for the different types of paints on different applications. This has also led to the decline in the business as of transportation as the transfer of goods has gradually decreased in recent times due to the involvement of e-payments and other tax structures led by the government.

The decorative segment is however dependent on the seasonal business is and on the monsoons mainly in the Saurashtra region leading to the regional growth of the market of various areas.

8.1 Financial year 2017

This year was a mixed package of surprises for the paint companies as well as the suppliers and dealers related to this industry. At the first of when top companies has reported higher growth in the marginal sales and operating ratios while at the second half there was an unbelievable slack in the market.

8.2 Demonetization effect

On 8 November 2016 when Prime Minister Narendra Modi decided to stroke out the black money from the economy of India by demonetizing the bank notes of 500 and 1000 rupees on immediate basis overnight there was a surprisingly emergency situation of the crisis in the paint industry reported by Kuldeep Singh the managerial person of Berger Paints which is considered to be the second largest paint manufacturer in Saurashtra region responding to the growth strategy as per the report of business standard on 26th November 2016. He promoted the Paints especially in the Saurashtra market capturing 18% of the decorative sector to ensure the maximum cross limit of the
customers covering this sector and to adopt two pronged strategy by making default priority in the stock of the Berger Paints as the import was stopped on immediate basis. The top line management of the secondary referred priority of the Berger Paints strikes minimal hit on the customer’s financial report to promote its product.

From the period of October to January most of the firms were argued the decision of the government as the expected growth was considered to be more than 17% in the paint business is in Saurashtra which now has followed degraded alliance from 10 to 15%. This lead to the overnight decision of stopping the flow of goods to the warehouses due to the crisis of cash payments by the importers to the companies.

This span was considered to be the cash driven in the paint industry where more than 80% of the business is were carried out by cash payments and majority of the dealers shifting to the online banking downgraded the supply of the products to the retailers as per the Managing Director of the Berger Paints Mr. Abhijeet. He quoted that the company have changed the strategy to maintain the top line growth of the company and have made strict payment rules as per the current scenario. The crucial movement of not only top companies of the paint industry but also the small players were fascinating there dealers to shift over e-payments card swiping machines installations on their outlets which was not possible on short term period where most of the people were in shock to adjust their accounts and Bank balances as to deal with the IT Department rules and regulation.

As per the news of the business standard, companies told their clients that in near future the cash transaction would be at the shifting end and 50% of the paint dealers agreed to the shift to the E payments and mobile wallet payment networks while others were still in the clearance of their old stock and needed time for settling the business at the acceptable rate. This shift was easier in the metro cities and the demand for focusing in the upcoming markets in Saurashtra region where understandable for making them target towards debit cards and credit cards within 3 months what for the small cities and rural areas the shifting was not acceptable and their personal banking problems were priority rather than their businesses.

According to the company it is expected that the dealer network expansion in the targeted areas for the company’s overall sales to be decreased by 40% in the urban areas and more than 60% in towns and villages.

According to the ET news the fighting capacity of the decorative paint segments after the demonetization has slowed the project sector and added to the effect off market slack in removal of Black Money from the market.

Many business traders forecast real estate industry to be in the rise in the near future although the construction and building works has slowed down due to the long time payments and reduced the marginal sales due to the slack observed for 6 months after demonetization.

8.3 GST effect on paint industry

On the introduction of the GST from June 2017 there was disruption on the visible earnings of the analysis and last for more than a quarter for understanding the slab of the tax and its basic requirements for the bill making against the value added tax performed by the companies previously in the paint industry.

Pensive been classified in the GST tax rate slab of 28% which was previously 27.5% combining of the excise duty of 15% and VAT of 12.5% and other entry taxes but as for Saurashtra region most of the premium Paints and other decorative materials where sold on the black cash payments generally by the customers which benefited the retailers and dealers. For this reason there was not much
appreciation by the paint forms on the goods and services concerned in the process of implementation and also arranging the long-term supply chain network to manage the high hit downfall after demonetization. The fiscal year of March 2017 was observed to be the weakest point for showing the sales volume curative segment due to the impact of GST and the ignorance of the dealers of Saurashtra region regarding the process of billing and tax adjustment like not knowing the HSN code, GST number due to the online services portal delays, lacking of knowledge of the accountants for adjusting the supplies and purchase on taking on account of the bills and other spending. Due to this reason to operating margins of most of the companies fall from the peak point to the downfall escalating the prices of the raw materials and other adjustment leading to the downfall in the profits of the company.

As per the Global account the top companies in the paint industry have played the game by first increasing their base prices by 5% before 3 months of the introduction of effect of GST rates. As for attracting all the customers these companies have reduced by 3% of the basic rates providing the reason of higher duties by the government in the Tax slab. The main reason behind this strategy was to cover all the dealers which were not dealing on totally bill payment of their stock account as they knew that the paints will be covered in the 28% slab. Since the paint industry is considered to be the highly organised structure in terms of this market share, this sector does not benefit much from the key factor of GST and according to the analyst 90% of the companies in the paint industry are working in the widely spread had organised network structure which was interrupted for 8 months now in the market. On the brighter side the transportation cost of the logistics and warehouses where scene on the bottom line and the add margins were taken benefit by anticipating the larger firms of the paint industry. This also increased the competitiveness amongst the retail outlets and GST was considered to be a game changer for the new entrance simply by connecting the valuation and making understand the retailers of advantages of e payments on long term goals.

8.4 Combat of the downtown
The companies are always in the need of taking actions to manage the current scenarios and working conditions of the market of the paint industry in the Saurashtra region. The effect of the decline ratio of the businesses are studied according to the entire process undergoing in the paint industry such as supply of the raw materials, distributors, different formulations and supply to the end users. In order to work effectively in the environment of competition the company should focus on the smooth run of supply chain integration and the steps required for its betterment. Based on the recommendations for the improvement the key factors of focus for the Saurashtra market are mainly reducing the cost of operation, decreasing the working capital and involvement in the top line management. The companies also find different ways to reduce the overall cost by reducing the cost of energy and materials. A largest component that involves in the costing factor is the cost of raw materials and so every small savings can lead to the major impact. Requirement of the working capital to tie up with the significant sources especially for the manufacturers of chemicals increases the cost by 40% of sales. After sales services also plays important role in maintaining the target of the companies by focusing on two major areas data inventories and receivables. In order to complete with the downtown the supplies also need to arrange the value chain among the customers and attempt different risk in order to know the trend of the market and must be able to meet the needs of the shifting market in Saurashtra mainly focusing on the pricing categories,
credit terms, after sale services and variety of products. In order to gain the competitive advantage for new market opportunities the businesses need to be settled in well position on the basis of brand awareness as well as the technological involvement which needs constant updations.

After 2008 due to the period of recession in Paint industry specially focusing on the Saurashtra region the outsiders have always drag down the localites in order to establish their identity in the market. This has helped for the growth of the GDP on overall basis what does small companies and manufacturers have faced a crucial period due to the crisis of the raw materials and financial conditions pulled out the efforts of them and force them to manage with the semi urban and rural markets. With the introduction of the foreign brands in the domestic culture recovery of the economic investors had lead for the development of the project and joint ventures that bring out new innovations and textures for the surfaces that were totally new for the customers as well as dealers and so an easy entry was possible for these companies in the Saurashtra market.

The company should be aware of the knowhow of the market and the needs of the customers in Saurashtra as the choices of the customers differs from area to area and so in order to cover different identities different products with different prices affordable to the customers should be the main goal of the company. With the introduction of GST all the major companies have no choice but to play on the ground of quality. This has enabled the small players to enter into the premium products as they know that the tax structure is same for the big players as well as them. During the slack period from November 2016 to June 2017 for the paint industry in Saurashtra region when the customers were encourage to use e-payments for the purchase of the products production and logistical facilities which minimise the overall sales of the companies. As compared to the previous year the growth is same mainly in the distribution channel of the local players which has shifted from distemper segments to the medium range products.

**Strategies to be implemented for fighting against crisis in the saurashtra market.**

1. In order to counter the recession after the demonetization structure company should take decision actions in order to respond dramatic downturns in the paint industry in order to develop and implement essential formulations and Rising from the bad economies in order to sustain in the market.

2. The second thing that can be done to cash entered market in some parts of the Saurashtra region specially semi urban areas is to reduce the working capital requirement which will automatically reduce the inventory levels of the company by optimizing the planning tools at managerial levels which can be made understand to the dealers for long-term profits at no capital investment.
3. Once again the operational cost is important criteria for any paint business and that reduction in this process can streamline the efficiency of the organisation and will free up the requirement of cash during the process and thus slowly will improve the cash flow in the market.

4. The marketing strategy of knowing the changing shift of the customers from one mind set to another is very necessary to understand the need of the customers, to be prepared of dealing with the pricing strategies and credit terms that will help to reduce the competition at difficult Times by covering the flexible areas of strength.

5. For getting the competitive advantage it is important to follow the credit terms by reducing the Dept of the customers at a possible level and to provide some gaps for the payments of the goods so that a good impression can translate the business directions to the growth.

6. The expansion in the geographical areas is considered to be a game changer for the paint companies by covering every aspect of business at their profit rate in order to reach every customers in their needs at affordable prices and making the brand impact so that in you near future healthy relationship can be maintained which gives business in long run.

Future prospects
As the market is getting wider, in terms of variety of choices and differential price rates customers are moving towards the superior quality and branded products for cheaper price. There is an third segment of market which comprises of stronger distribution network, with the organised involvement of choices of product at cheaper prices then the Giants players like Asian Paints. Due to the sophisticated market, there is a narrow finish in the purchasing power of the customers which do not want to pay too much for the luxury items but still need them for their status. The trend towards these changing demands of the customer’s r and d department plays an important role for balancing the quality shift of the customers and to develop The Economic Strength of the companies by delivering the right product to the customers.

Distribution of the Saurashtra region also plays important role in determining the needs of the customers by accommodating the commodity business towards the setup of FMCG products and by concentrating on building the quality products at average rates in the market. The increasing income at the continuous power of decision making has spread Awareness of the product among the customers by witnessing shift from the disposable products to the durable products. The presence of the water based products has taken the major change in the pattern of the conception of the customers in the decorative segment which involves the eco friendly and solvent based Paints which ideologies the environmental problems faced by the country. As the modern
India also plays important role in promoting the use of the environmental friendly Paints there has been constant increase for the price and terms and duties providing the credit benefits to the customers referring the decorative Paints.

To generate higher volumes, marketing strategies are shifting from giving better quality than to give wider range of products for the multipurpose application by the introduction of new products having cheaper alternatives to generate higher volumes in the market.

The company gives priority to the distribution network followed by the crucial factor of building dealer network among the decorative paint segments so that the customers can easily Access for different types of products available in there convenient place. This also needs large amount of funding for development of vast rural markets in order to establish strong potential of the companies and fascinating the clients to involve their ideas for the betterment of the brand. The infrastructure of the rural and urban areas are separated by two different fundings and demands of the paint industry which has been reduced by influencing pressure and making profits by the cost of inputs whenever there is reduction in the custom duties of chemicals and other raw materials.

With higher demand from the market the top players also involved for the future growth of GDP to place right pricing structure in the paint industry by allowing other localites for generating future scope and expansion in the domestic market so that they can survive in the competition.

The analyst of the Saurashtra paint industry who have suffered set back from the end of 2016 till November 2017 are likely to see a steady growth in the upcoming years due to the reduction in the input cost, transportation, import duties which will put reduction in the prices of the Paints. The future scenario wills also open doors for the new entrance to establish their identity in the Saurashtra market due to the equality in the text structure now being followed by most of the dealers and retail outlets due to the fear of IT Department. The people have no adopted the idea of E payment and online banking due to the situations like demonetization which will in fact help the dealers in their businesses to work on the right path which will also help the economy of the country to rise at reasonable growth.

The inventory management is also becoming stable for required working capital and production volumes in the paint industry which will significantly help the real estate sector to get back on track after 2 years of declina. During 2016 paint companies have suffered 8 to 12% fall in the sales in terms of volumes which is a huge figure for the Giants players to cope up with.

Today the giant companies have been divided into three different zones such as decorative, industrial and high performance coatings for different business units. Due to the expansion of business in the industrial sector the companies are becoming complex and every structured the technological expects for understanding growth factor used as a quality strength in near future. Many of the companies who have small margins but large volumes or concentrating on rural markets as well in order to survive in the cut throat competition of low quality Paints and have built up communication Bridge between the customers, dealers and company itself to build a business relationship for seeking out expansion in their areas.

**Suggestions**

There is one common complain of the contractors and interior decorators working for the company which have been interviewed at regular intervals of time is that they do not have much of the communication with the company which makes communication gap with the market and customers
and thus sales officer should make sure cat after sales services for allowing regular interactions
between these two should be increased which can bring up more sales in future.
The training programs arranged by the company in the Saurashtra region are also not up to the mark
as it should be and so many painters and workers are not satisfied with it. For this reason a company
should make sure that proper training and workshops arrange for the painters so that they can learn
to develop new skills in designs and textures of modern customers.
Another step that should be taken by the company of Saurashtra paint market is that the decorative
segment products are having less coverage then earlier and so in order to increase the quality of the
paint and to make them thicker and better steps should be taken in order to satisfy the customers.
Another problem with the retail outlets is that enough shade cards or not easily available to the
customers and so company should make sure to deal with such situation.
The attractive designs and textures in the Saurashtra paint market should be increased for both
interior and exterior Paints for determining their versatility.
The promotion of the paints and their different products with the benefits should be explain to the
customers as well as interior decorators by advertising and communicating more in the market.