

# Regime change: CST to GST



## Network Modeling

India logistics is undergoing a major transformation as the Central Sales Tax (CST) taxation system is getting phased out, with the new federal Goods and Services Tax (GST) regime expected to be rolled out with effect from 1 April, 2010.

With the government's announcement of the GST transition process first draft anticipated in the last quarter of 2009, there is increased urgency to be prepared. To stay competitive, smart companies will be equipped with their new network 'blueprint' - detailing the optimal network structure and the steps that will be taken to get there.

Network modeling uses specialized software to accurately represent your existing structure. You can then run a series of "what-if" enquiries to explore alternatives for the future optimization of your network – and thus your company's ongoing competitiveness.

In building a network model, up to 80% of the time and effort is spent in preparing and calibrating the 'base case' (as-is) model. This work relies on the collation, collation and sometime cleansing of substantial amounts of operational data.

## How we go about it?

Our approach is to carry out a 2-phase study:



### Base Case and Modeling Platform Creation (Up to 80% of project time)

This usually takes between 4 and 8 weeks depending on data quality, availability and business complexity.

LCA modeling resource only work on the project (i.e. billable time) as and when data is available – minimizing project cost.

Main elements of this phase include:

- Data collection (operational and cost)
- Operational understanding (processes, logistics platforms, existing relationships and capabilities)
- Data cleansing and validation (test against reality)
- Construction of a 'base case' and modeling platform
- Run 'what-ifs' on a number of options that include a range of CST/GST scenarios
- Identify what steps will be immediately beneficial – with or without CST/GST changes



**At this point, LCA would halt the project, and 'stop the clock'.  
Once clarity of the new GST environment is known – we move to the next phase:**

PHASE **2** Post-GST

## Scenario analysis and Solution Development (Up to 20% of project time)

This usually takes between 1 and 2 weeks, depending on the number of alternatives to be modeled.

Main elements of this phase would include:

- Interpret the detail of the Gov't announcement
- Analysis and high level modeling of alternatives
- Short-listing most viable alternatives
- Detailed modeling of preferred alternatives



# So, are you going to stay sitting on the fence, or, are you going to be prepared?

## India Case Study: Global Top 10 Food Company

LCA recently completed a network optimization study for a top 10 multinational food company. The overriding reason for the study was to get prepared for the upcoming tax changes in India.

Main components of this study included:	Key study objectives included:
<ul style="list-style-type: none"> <li>• Where should products be manufactured and stored?</li> <li>• What is the optimal number and location of stock-holding points (DCs, depots)?</li> <li>• What transport modes should be employed and how can utilization be optimized?</li> <li>• Outsourcing vs Insourcing?</li> <li>• Optimize customer linkages to stock-holding points?</li> <li>• What is the best combination of stock-holding and non-stock holding (X-dock) points?</li> <li>• What flexibility is built in to cater for changes in the business environment (eg. tax laws)?</li> <li>• What is the financial impact and justification for alternative network designs?</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce total supply chain cost: Factory to Distributors via C&amp;FAs</li> <li>• Determine optimal number, location &amp; size of C&amp;FAs</li> <li>• Determine other functional interfaces to enable solution implementation</li> <li>• Determine automation opportunities to reduce cost</li> <li>• Increase service efficiency &amp; customer flexibility</li> </ul>

Key outcomes of this project were:

- **32%** Total supply chain cost reductions identified
- As much as **20%** of these reductions can be achieved pre-GST regime
- Cost of consultancy services has paid back multiple times over savings identified
- Implementation of recommendations is underway
- Base case and model platform now ready for 'regime change' inputs

**Pre-GST annual savings of 25X modeling project cost = a two-week payback!**

**The Bottom Line:**

The client is already moving to leaner, lower cost operations – and they are ready and waiting to react to whatever comes next.

### 3 Good Reasons Why You Should Start Now!

1. **Quality and cost**

Operational data is best (and most economically!) gathered without the pressure of short-term deadlines – which undermines the quality of the model build and the efficiency of the modelers

2. **Immediate Savings**

Experience in India suggests that many of the savings that can be achieved through a rationalized network can be achieved right now – prior to the removal of CST. You therefore have the option to make an early start in upgrading your network.

3. **Being ahead of the pack**

As and when CST phasing out and GST introduction details and roll-out timings become known, you can quickly and easily input them into the modeling tool and run a new series of 'what-ifs'.

Contact us for a 'no-strings attached' initial meeting!

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