

# A 'VUCA' Metrics Analysis of Organized Retail Sector in India

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## Abstract

Instability and arbitrariness are inherent in the business arena and the Indian retail industry is not unscathed from that. VUCA- buzz word of the modern dynamic business environment has its own footprint in the Indian retail industry and specifically the organized retail ecosystem. The presence of Volatility, Uncertainty, Complexity & Ambiguity (VUCA) in Indian organized retail industry cannot be underestimated. This paper analyses the characteristics of Indian organized retail industry on the basis of *Bennett & Lemoine's* VUCA metrics and illustrates how the Indian organized retail industry is exposed to each facet of VUCA environment.

**Keywords:** Volatility, Uncertainty, Complexity, Ambiguity, VUCA metrics, Organized retail, India

## 1. Introduction

The notion of VUCA was introduced by the U.S. Army War College to describe the more volatile, uncertain, complex, and ambiguous, multilateral world which resulted from the end of the Cold War (Kinsinger & Walch, 2012; Horney *et al*, 2010). The acronym itself was not created until the late 1990s, and it was not until the terrorist attacks of September 11, 2001 (commonly known as 9/11), that notion and acronym really took hold, but really gained currency in the private sector with the onset of the financial crisis in 2008-2009, when companies and organizations all over the world suddenly found themselves faced with similar turbulence in their business environments and, subsequently, in their business models(Lawrence, 2013; Kinsinger & Walch, 2012). VUCA was subsequently adopted by strategic business leaders to describe the chaotic, turbulent, and rapidly changing business environment that has become the “new normal” (Lawrence, 2013).

Day by day, the business environment is getting more and more complex. Customers are demanding products/ services anytime, anywhere, anyway and in any form. Companies like Nokia, Kodak, Blackberry and many others have gone astray just because of their inability to embark upon the VUCA environment. Countless articles are being published highlighting how Volatile, Unpredictable, Complex and Ambiguous (VUCA) the business world has become (Mancesti, 2015). The experiences of high-tech companies in the last few decades who failed to navigate the rapid changes brought about in their marketplace may be a warning to all the businesses, institutions and nation states that are now facing inevitable, even predictable, changes but lack the leadership, flexibility and imagination to adapt—not because they are not smart or aware, but because the speed of change is simply overwhelming them (Lawrence, 2013).

VUCA is an acid test that any business needs to pass today to survive. The days of SWOT analysis are gone. To understand the positioning and the future prospects of the company it is necessary to understand how the VUCA elements are affecting them and how the company is countering the same<sup>1</sup>.

## 2. Objective of the Study

- To have a clear understanding of Indian organized retail setup in the context of VUCA metrics.
- To analyze & illustrate how the Indian organized retail industry is exposed to each facet of VUCA environment.

## 3. Research Methodology

To analyze Indian organized retail industry in the VUCA context, the *Bennett & Lemoine's* VUCA metrics published in the Harvard Business Review (2014) is taken as the pedestal. Other required information are solely collected from secondary sources and by aggregating all, the VUCA metrics of the Indian organized retail industry is prepared.

## 4. Brief Literature Review

According to **Bennett & Lemoine (2014)** VUCA (Volatility, Uncertainty, Complexity, Ambiguity) is now a trendy managerial acronym, conflates four distinct types of challenges that demands four distinct types of responses. The authors describe the characteristics as:

- (a) *Volatility*- The challenge is unexpected or unstable and may be of unknown duration, but it's not necessarily hard to understand; knowledge about it is often available.

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<sup>1</sup> <http://moneybeeadvisors.com/2014/11/03/vuca-metric-to-measure-the-company-in-the-age-of-permanent-volatility/>

- (b) *Uncertainty*- Despite a lack of other information, the event's basic cause and effect are known. Change is possible but not a given.
- (c) *Complexity*- The situation has many interconnected parts and variables. Some information is available or can be predicted, but the volume or nature of it can be overwhelming to process.
- (d) *Ambiguity*- Causal relationships are completely unclear. No precedents exist; you face "unknown unknowns"

According to an article by **Moneybee Advisors (2014)**, experiencing the VUCA world means, the challenges and opportunities suddenly striking organizations without warning. The article adds, the days of SWOT analysis are gone. To understand the positioning and the future prospects of the company, it is necessary to understand how the VUCA elements are affecting them and how the company is countering them.

**Lawrence (2013)** in his study entitled *Developing Leaders in a VUCA Environment* expresses – "volatility, uncertainty, complexity, and ambiguity inherent in today's business world is the "new normal", and it is profoundly changing not only how organizations do business, but how business leaders lead. The skills and abilities leaders once needed to help their organizations thrive are no longer sufficient. Today, more strategic, complex critical-thinking skills are required of business leaders."

**Horney et al (2010)** in their article entitled *Leadership Agility: A Business Imperative for a VUCA World* says – "By all accounts, the 21st century is bringing a frenzy of innovation driven by the continuing digital revolution and expanding global markets. Our current environment of accelerated uncertainty and change is not going to blow over and settle down." The authors describe VUCA as follows:

- *Volatility* – The nature, speed, volume, magnitude and dynamics of change;
- *Uncertainty* – The lack of predictability of issues and events;
- *Complexity* – The confounding of issues and the chaos that surround any organization; and
- *Ambiguity* – The haziness of reality and the mixed meanings of conditions.

In the words of **Dash & Chandy (2009)**, even though Indian retailing is hailed as a huge sector in India, in reality, it is not so rosy when compared to the retail scenario in developed and other developing countries. Indian retail is still in the infancy stage, with the retail revolution gaining high momentum, and there are a number of challenging factors which need to be overcome and a number of opportunity factors which need to be leveraged upon.

## 5. Contemporary State of Affairs of Indian Organized Retail Sector vis-à-vis VUCA Environment

The organized retail currently constitutes a mere 8% of the total retail industry and the remaining 92% constitutes the unorganized retail. The nascent Indian organized retail industry is exposed to the VUCA environment. Highlighting the volatility of growth drivers a *Deloitte* report says, Indian retail ecosystem is witnessing new trends superseding the as of now growth drivers and driving forces leading to a seismic shift in the growth drivers.

In the words of Ninad Karpe, past chairman of CII Maharashtra State Council, "consumer will keep evolving and what the future holds is unsure, the consumer of tomorrow will be different from consumer of today.

According to Punit Shah, Head-West India, KPMG India – "With the ongoing processes and ever changing policies, VUCA, which means volatility, uncertainty, complexity and ambiguity, has become the 'new normal'. The VUCA world brings with it several changes spurred by growth opportunities, increased regulations, changed stakeholders expectations, technology led transformations and disruptive business models, to name a few."

Regulatory uncertainty under the previous government (UPA) prevented foreign supermarket chains from setting up shop in the country. So far, only Britain's Tesco has announced an investment. The Narendra Modi led Bharatiya Janata Party (BJP) has been a vocal critic of the country's multi-brand retail policy and have not yet shown any interest in the matter regarding. In its election manifesto, the ruling BJP vowed to ban foreign supermarkets. Due to such political ambiguity and policy hurdles, the Indian organized retail industry is in misery.

According to an article in *The Economics Times* (16<sup>th</sup> Jan 2015) Walmart India says, the Indian market is an opportunity that no foreign or domestic investor can ignore but it is "really difficult" to do business in the country and the government needs to change it. In the words of Walmart India President and CEO Krish Iyer, the government needs to work more on improving ease of doing business in the country as "the current perception is that it's not easy to do business here". Elaborating, he said: "In terms of ease of doing business, we (India) are ranking 142 out of 189 (globally)...So it's really really difficult in many areas<sup>1</sup>."

According to industry experts like Diljeet Titus (Founder Titus & Co Advocates) & Manisha Bapna (Analyst, Indiaretailing.com), there is existence of Volatility, Uncertainty, Complexity & Ambiguity in Indian retail ecosystem and efforts need to be made to build a favourable retail environment.

## 6. VUCA Analysis of the Indian Organized Retail Industry

VUCA metrics of the Indian organized retail sector is presented in Figure-1. The metrics depicts four facets of the

<sup>1</sup> [http://articles.economictimes.indiatimes.com/2015-01-16/news/58149707\\_1\\_retail-business-modi-government-50-wholesale-stores](http://articles.economictimes.indiatimes.com/2015-01-16/news/58149707_1_retail-business-modi-government-50-wholesale-stores)

VUCA environment vis-à-vis organized retailing in India. Here the Indian organized retail industry is analysed on the basis of “Bennett & Lemoine’s VUCA Metrics” published in the January 2014 issue of Harvard Business Review.

How well can you predict the results of your action?	<b>COMPLEXITY</b>	<b>VOLATILITY</b>
	Perfect for investment but expansion not so simple Political & policy instability Clumsy Taxation policy Central & state governments’ vague stand on entrance & operation of foreign players FDI guidelines Interpretation, implementation and enforcement of policies regarding multi-brand retail trade & e-commerce guidelines Emergence of channels, payment methods, multiple pricing structure (regular, promotional, market based)	Economic swing Changing consumer purchasing power Changing consumer demographic pattern (Growing middle class, urbanism, youth population) Changing consumer taste & preference Currency instability & resulting price volatility Sourcing obligation during calamities/ natural disasters (FDI norms)
	<b>AMBIGUITY</b>	<b>UNCERTAINTY</b>
	Underdeveloped & immature sector – In its infancy Emerging stage Government’s view on expansion of the sector Confusion/ conflict over allowing FDI among national & state government	Frequent regulatory changes Shift in consumer trend (offline to online) Uncertain global economy Uncertainty in whether customers will stick to traditional format or move to modern shopping or jump to the alluring e-tail The Marketplace-Deep discount combo model of e-tail puts a question mark on the fate of organized retail players
	— How much do you know about the situation?	+

Figure 1 : VUCA Metrics of Indian Organized Retail Industry

### 6.1 Volatility

With economic ups & downs, changing consumer purchasing power, change in consumer demographic pattern, changing mindset of highly expanding, young urban middleclass, and change in consumer taste and preferences the organized retail market has become more volatile than ever before.

India’s currency and climatology- both are known to be equally volatile and dynamic. Instability in currency resulting in price volatility, uncertainty over the matter of enforcement of domestic sourcing obligation & consequences thereof during calamities/ natural disasters are the contributing factors in Indian organized retail market volatility.

### 6.2 Uncertainty

Researcher Malobi Kar and Director Richard Cuthbertson (2014) of Oxford Institute of Retail Management (OIRM), University of Oxford, UK, reports high levels of uncertainty in Indian retail. The sector, they say, is in a state of flux, buffeted by regulatory changes, shifts in consumer trends and the state of the global economy<sup>1</sup>.

As the highly price sensitive Indian consumers are evolving with rapidly evolving digital space & technology, it is uncertain that whether consumers will abandon old ways of shopping, move to the organized retail stores or jump to alluring e-tailing. The *marketplace--deep-discount* combo model of e-retail is putting a big question mark on the fate of Indian organized retail players. This doubtfulness leaves big retailer’s future in India uncertain.

### 6.3 Complexity

According to Robert Gregory (2014), Global Research Director - Planet Retail, India’s under developed modern retail sector seemed to present the perfect investment – but expansion not proved so simple for retailers<sup>2</sup>.

The political & policy instability, unclear regulatory framework and taxation policy, no clear stand of central as well as state governments regarding entrance of foreign retailers in the multi-brand retail arena are

<sup>1</sup> <http://www.sbs.ox.ac.uk/ideas-impact/oxirm/news/indian-retail-sector-flux>

<sup>2</sup> <http://www.retail-week.com/comment/comment-carrefour-and-walmart-reveal-complexity-of-indian-market/5063382.article>

adding too much complexity to the emerging organized retail sector in India. Absence of complete clarity in relation to foreign direct investment guidelines on single-brand and multi-brand retail trading policies and the manner of their interpretation, implementation and enforcement is adding complexity and appears to be primary hindrance for entering and operating in Indian organized retail space.

Furthermore, Indian organized retail sector has become very complex with the emergence of different channels, payment methods, delivery options, multiple pricing structures (regular, promotional prices, channel & market based pricing) and facing complexity in providing customised experience.

#### 6.4 Ambiguity

Indian organized retail sector is in its infancy and the sector is underdeveloped, immature & emerging, which leads to ambiguous business scenario. Entrance of online players with the marketplace model at this juncture is generating ambiguity in the environment.

Not clearly spelt out policies, haziness of national government's view on multi-brand retail expansion and confusion over allowing FDI among national & state governments is the additional factor in ambiguity.

Diljeet Titus, legal consultancy service providers to clients like Swedish furniture retailer IKEA and apparel maker Hennes and Mauritz (H&M) to make entry into India, says – some issues remain unaddressed in providing complete clarity regarding foreign investment in Indian multi-brand retail trade<sup>1</sup>.

### 7. The Organized Retail Flux in India

During July 2014, there was full of news on the retail front. Carrefour and Auchan decided to leave the Indian market. Reliance Retail too decided to shut 100 Fresh stores in the country. Walmart put its plans in hibernation after its split with Sunil Mittal (Bhaskar, 2014). Walmart terminated its joint venture partnership with Bharti last year and has frozen expansion of its Best Price Modern Wholesale cash-and-carry stores until 2015 (Gregory, 2014).

Suddenly, Big Retail does not appear to be very promising in India. This could be partly because of the new government's unwillingness to allow Foreign Direct Investment (FDI) inflows into the multi-brand retail segment and unclear stand on expansion of the sector - as FDI has been sanctioned at national level; state governments have been free to make their own decisions about the policy's actual implementation. It could also be because, suddenly, big retail is coming to grips with the realisation that India is quite different from many other countries in which it has flourished. The reason could be combination of both.

Furthermore, pain is intensifying for the organized retail players due to lack of suitably located retail space, escalating real estate price, shortage of trained man power and sheer competition from domestic players as well as entrance of global retail giants and above all – the growth and ravishing sales potential of e-retailing. All these adversities could drive the future of Indian organized retail sector in to obscurity.

### 8. Winning in VUCA Environment

In the current decade a number of organisations are feeling the sensitivity of the term VUCA and found that it is pertinent to the business environment in which they are operating. The most emerging Indian service sector-organized retail is not out of range of the heat wave of VUCA. The organized retail marketers need to achieve congruence to sustain in a VUCA world by making continuous shifts in people, processes, technology and structure. Table- 1 depicts response proposition (borrowed from Colonel Eric G. Kail - 2010, 2011) to prevail over situations in different facets of the VUCA environment.

Table: 1 Response Proposition for Different Situations of VUCA Environment

<ul style="list-style-type: none"> <li>• <b>Volatile Situations...</b></li> <li>– Translate data into information</li> <li>– Communicate clearly</li> <li>– Ensure your intent is understood</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Uncertain Situations...</b></li> <li>– Get a fresh perspective</li> <li>– Be flexible</li> <li>– Glance back, look ahead</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Complex Situations...</b></li> <li>– Develop collaborative leaders</li> <li>– Stop seeking permanent solutions</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Ambiguous Situations...</b></li> <li>– Listen well</li> <li>– Think divergently</li> <li>– Set up incremental dividends</li> </ul>

Source: Colonel Eric G. Kail - 2010, 2011(Harvard Business Review)

### 9. Conclusion

The VUCA world is not going to disappear. As technology develops faster and the world becomes more and more a global market place, there is no place to hide. Change is relentless and the landscape in which we work is

<sup>1</sup> <http://www.thehindubusinessline.com/companies/india-needs-to-clear-all-ambiguity-regarding-fdi-in-retail/article4775615.ece>

constantly shifting. In a VUCA world, the top management faces dilemmas that have no specific solutions and yet they have to make sound decisions in order to sustain. The skills and abilities leaders once needed to help their organizations thrive are no longer sufficient. Traditional strategies are not enough to cope with the VUCA environment. Today, more strategic, complex critical-thinking skills are required of business leaders (Lawrence, 2013). VUCA is complex and challenging, but it is also an environment that can allow true leadership talents to emerge at all levels of the organisation<sup>1</sup>. In a landscape characterized by Volatility, Uncertainty, Complexity and Ambiguity (VUCA), organized retailers need radically dynamic approaches to develop their managerial leaders, ensuring these individuals can navigate what's in play now and what's coming next and can accordingly develop an agile organized retail culture. To properly guide the organized retail business operations in the Indian VUCA environment, top brass of management should act in-tune with the market dynamics and enable their team to adjust quickly as per market signals. A concluding remark for the organized retailers to stay in the game in the VUCA world is – “If you can't resolve the issue before it happens, at least know about it before your customer does”.

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