Research on Strategic Cost Management of Internet Unicorn Enterprises

--Take Xiaomi Company as an Example

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Abstract

In recent years, unicorn company has developed rapidly, which has attracted public attention. Based on this, in order to study the strategic cost management of Internet Unicorn enterprises, this paper selects a typical successful case of Unicorn enterprises, namely Xiaomi company. By analyzing the advantages and disadvantages of cost management in the early stage of its establishment, and the improvement of cost management through supply chain management and ecological chain management in the later stage, this paper summarizes the benefits of strategic cost management for enterprises. This paper puts forward some suggestions for the implementation of strategic cost management of other Internet Unicorn enterprises, hoping that other enterprises can learn from it, so as to improve their competitiveness.

Keywords

Unicorn Enterprise; Xiaomi Company; Strategic Cost Management.

1. Introduction

In the Internet era, some enterprises are growing at twice the speed or faster, growing from a cub to a beast in a short time. This fast-growing start-up has a new name, unicorn enterprise. The definition of "unicorn company" came from the famous American cowboy venture investor Aileen Lee. In 2013, she called a company with a private and public market valuation of more than $1 billion and a relatively short history "unicorn.". The quantity and quality of Unicorn enterprises can be used as an index to measure a country’s entrepreneurship and innovation ability and new economic growth ability. In recent years, with the continuous rise of Unicorn enterprises, many domestic scholars have studied its characteristics, risk management and other aspects, which is of great significance for the continued development of Unicorn enterprises and the learning and reference of traditional enterprises. However, there is little research on its cost. This paper attempts to take the classic case of Unicorn enterprises, Xiaomi company, as an example to make a preliminary discussion on the strategic cost management of Internet Unicorn enterprises, so as to enrich the research on related aspects of Unicorn enterprises.

Unicorn enterprises often appear in the regions with advanced technology and developed economy, and their new business model influences and changes the traditional enterprises. This will help traditional enterprises to improve their economic efficiency, reduce unnecessary costs and improve profitability. From the perspective of cost management, this paper discusses the scientific and reasonable cost management methods of excellent Unicorn enterprises, and summarizes the experience and lessons. This article hopes that other enterprises can extract their essence according to their own circumstances, and make the right decisions and enhance their competitiveness when facing the same choice.
2. Correlation Theory

2.1. Cost Control

Cost management refers to a series of comprehensive cost management behaviors, such as cost accounting, analysis, decision-making and control, in the whole process from production to sales. There is such a hypothesis in microeconomics, that is, rational economic man will always try to get the maximum benefit at the minimum cost. Therefore, whether the profit and the size of the profit are very important to the survival of the enterprise, and the cost management and control is an important factor affecting the profit. Scientific and reasonable cost management method first needs to run through a kind of cost leadership, namely low-cost strategic thinking in the whole enterprise. Cost management should not only exist in the enterprise leadership, should fully mobilize all staff. Cost management should be in the premise of ensuring product quality, strictly control the cost of all aspects of the enterprise production and operation process, formulate a reasonable plan, reduce costs, improve efficiency, and strive to spend the least production cost to obtain the maximum profit.

2.2. Strategic Cost Management

Strategic cost management is a cost management method to study the formation and control of cost from the perspective of strategy. Strategic cost management is the integration of cost management and strategic management. Different from the traditional cost management method, strategic cost management is not limited to cost saving, but through the analysis of the macro environment and the characteristics of the enterprise itself, to carry out cost management from a strategic perspective. Identify the cost driving factors from the source of cost, and manage the cost of value chain and supply chain, so as to improve the profitability and competitiveness of enterprises.

3. Analysis on Strategic Cost Management of Internet Unicorn Enterprises -- Taking Xiaomi Company as an Example

3.1. Overview of Xiaomi Company

2018 At 9 a.m. on July 9, 2000, Xiaomi was listed on the Hong Kong stock exchange with the stock code of 1810. This event once again makes people marvel at Xiomara’s a classic representative of Unicorn enterprises, Xiaomi’s successful listing has revealed its final valuation. The final offering price is set at HK $17, which is at the bottom of the range of HK $17-22. Xiaomi has entered the top three IPOs of global technology stocks in history. Founded in April 2010, Xiaomi company is a mobile Internet company focusing on the research and development of intelligent hardware and electronic products. It is also an innovative technology enterprise focusing on the construction of high-end smart phones, Internet TV and smart home ecological chain. As a start-up, Xiaomi develops very fast. In three years, Xiaomi developed into a super Unicorn company, and later invested in many other Unicorn enterprises. And it also cooperates with a number of ecological chain enterprises to build product ecosystem. It integrates its core business vertically and develops horizontally, which greatly reduces many costs of the whole ecological chain enterprises. However, in order to maintain the sustainable development of millet ecosystem, in addition to expanding the scale, systematic and scientific management of cost is particularly important.

3.2. Cost Management in the Early Stage of Xiaomi Company

3.2.1. "Hunger Marketing" Reduces Cost

At the beginning of its establishment, Xiaomi thought of "hunger marketing". When releasing the latest products, we take advantage of consumers' impatient curiosity, implement pre-sale
before production, deliberately control the output, and create the illusion that supply exceeds demand. This will reduce the increased cost due to inventory loss and depreciation, and improve the inventory turnover rate as much as possible. In addition, based on this marketing model, Xiaomi uses microblog, forum and other platforms, as well as Lei Jun's personal influence, to fully interact with netizens through we media to promote new products. This effectively reduces the cost of public relations, marketing costs, reduce a large part of the advertising costs.

3.2.2. Zero Inventory Supply Chain Management to Reduce Inventory Cost

Zero inventory management is not a static state of zero inventory in the literal sense, but a state of dynamic balance in which the turnover speed of means of production, goods in stock, etc. is particularly fast in all aspects of procurement, production, sales and logistics. In the era of cloud service and big data, Xiaomi makes analysis and prediction based on a large number of information data, such as the number of online pre-sale, the sales volume of the current month, the response of microblog forum, the feedback and evaluation of users after purchase, makes production plan, and then purchases and sells according to the production plan. This is conducive to reducing the inventory cost of millet.

3.2.3. "B2C" Business Model Reduces Fixed Cost

In the early days of Xiaomi's establishment, there were no offline stores, but the "B2C" business model was adopted, which saved a lot of rent. After all, "the wool comes from the sheep". The operating costs of third-party or physical stores are ultimately borne by consumers, so the price of products will rise. Only by eliminating the middleman link and effectively reducing the cost, can we meet the needs of consumers with high allocation and low price.

3.3. Problems

At the same time, there are still some problems in the initial cost management of Xiaomi. "Hunger marketing" is like a trend, which will cause fans effect in a certain period of time, but it can't last for a long time, so this strategy can't guarantee long-term profitability and sustainable cost management. In addition, with the increasingly fierce market competition, Xiaomi's competitors oppo and vivo are vigorously developing offline stores, which makes Xiaomi, which only relies on online sales, lose a large part of consumers with weak online purchasing power. Therefore, Xiaomi should abandon the traditional concept of cost management, should not only take cost saving as the goal of cost management, but should implement strategic cost management.

3.4. The Strategic Cost Management of Xiaomi Company in the later Stage of Development

3.4.1. Supply Chain Cost Management

For the upstream supply chain, Xiaomi takes the form of production outsourcing. Xiaomi outsources its own R & D products in the form of contracts, but strictly controls the procurement, production and quality assurance processes. For non self developed products, Xiaomi relies on ecological chain enterprises to supply finished products, and then sells products to users through Internet pre-sale direct sales channels. As for the downstream supply chain, starting from the strategic cost management concept, Xiaomi has implemented a new Omni channel retail distribution mode since 2015. This model is no longer limited to online sales, but through the self-supporting Xiaomi home stores to continuously expand the offline retail direct sales network. This model expands the sales coverage and provides better user experience for consumers, making the offline and online operation efficiency as high as possible.
3.4.2. Cost Management of Ecological Chain

Xiaomi relies on the brand effect brought by the initial smart phone to carry out low-cost expansion led by the brand. It cooperates with other enterprises to form Xiaomi ecological chain group to achieve mutual benefit and win-win results. It creates brand value in the core technology, which reduces the difficulty for start-ups to enter the hardware field, and enables enterprises to make good products and sell them to consumers at a lower price. This enables enterprises and consumers to achieve a win-win situation. For example, Xiaomi mobile power has good quality and low price. However, the premise of low price is low cost. Under the Xiaomi ecological chain, the huge supply chain integration ability makes the products of high quality and low price, and achieve value for money. If we do not rely on Xiaomi’s ecological chain system, the cost of most ecological chain products will be higher than the current price. So we have to set a higher price, which will lose a large number of consumers.

4. Suggestions on Strategic Cost Management of Internet Unicorn Enterprises

This paper selects Xiaomi company, the most representative case of Internet Unicorn enterprises, and finds out the existing problems by analyzing its advantages and disadvantages in cost management in the early stage of its establishment, which may also be the situation that many other Unicorn enterprises will encounter. The strategy given by Xiaomi is to adjust the sales channels of the downstream supply chain and constantly expand the ecological chain. This powerful "shared supply chain" and efficient distribution mode not only brings huge economic benefits, but also makes scientific and reasonable adjustment of its cost management. Based on the case analysis of Xiaomi company, the author gives the following suggestions for the strategic cost management of supply chain management and ecological chain management of other Internet Unicorn enterprises.

4.1. Improve the Level of Supply Chain Management

Although Xiaomi’s production outsourcing is very good, if it is not properly managed, it will bring risks and increase costs. Therefore, other enterprises should strengthen supply chain management when facing similar problems. Other enterprises should choose high-quality suppliers and cooperative enterprises, and try to establish a long-term and stable cooperative relationship. This can not only enhance the ability to resist risks, but also reduce the time cost and labor cost of constantly looking for new suppliers to discuss cooperation. Establish good relationship with cooperative enterprises. Both the upstream supply chain and the downstream supply chain should strengthen management, improve the level of supply chain management and reduce the level of operation.

4.2. Strictly Control the Product Quality of Ecological Chain Enterprises

Xiaomi’s ecological chain system has brought huge economic benefits, making Xiaomi grow into a super Unicorn at an amazing speed. However, the huge industrial chain caused by this makes it difficult to supervise the products. Therefore, unicorn enterprises should also consider the possible risks when they think about the benefits of building an ecosystem. We should strictly control the product quality of ecological chain enterprises, reasonably plan and strictly select investment enterprises, and not blindly invest. Only in this way can we carry out strategic cost management and make the ecological chain system develop scientifically and sustainably.

5. Conclusion

The quantity and quality of Unicorn enterprises can measure the country’s ability of entrepreneurship and innovation and new economic growth. Behind the success of the
enterprise is always inseparable from its new marketing model, excellent management methods, as well as the support of core technology. In order to become a unicorn enterprise with high quality and large development space, the effective implementation of strategic cost management becomes particularly important.

Facing the market of opportunities and challenges, high income and high risk, Internet Unicorn enterprises should analyze their own advantages and problems in an all-round and multi-dimensional way. They should suit the remedy to the case, take improvement measures, implement strategic cost management and improve their competitiveness. Start ups should cope with the unpredictable market situation, enhance the ability to resist risks, achieve rapid growth, strive to grow from a unicorn enterprise to a super unicorn, and then go public successfully.

References