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Hunger Marketing, Flash sale and Cost Optimization strategy of Xiaomi Inc. - setting a new trend through Etailing

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Abstract: *The scenario of world's manufacturing industry has greatly changed both in its approach and methodology. The world's biggest so-called manufacturing companies today may not be manufacturing even a pin in their premises. Companies like Apple and Xiaomi, which don't manufacture even a single component of mobile phones they sell, are among the Top 10 manufactures of cellphones internationally, today. The asset light model of Xiaomi allows it to leverage the assets of other companies. It allows Xiaomi to access the best sources out there, actually most of who are suppliers to the leading phone companies of the world. The '100% R&D and 0% manufacturing' strategy of Apple with its synergistic integration of software and hardware made Apple the numero uno of the Corporate world.*

These companies have stretched the limits of costing to unimaginable possibilities through innovative strategies and have elevated costing to the core strategy of their organizations. This article intends to discuss how the Chinese firm Xiaomi used hunger marketing strategy to cut marketing costs to a small fraction. Companies like LeEco, which entered the Indian Market with disruption strategy but with costing strategies that are diametrically opposite to that of Xiaomi, had to eat a humble pie.

Profit is the arithmetic difference between revenues and costs. Profits can be augmented, by boosting revenues, cutting down costs or both. But with more and more players entering the market, the blue oceans turn red making products into commodities. In this scenario augmenting profits becomes the Holy Grail. So every player eventually has to focus on cost reduction without compromising with any of the features that customer cares or values.

In the recent times few companies that could remarkably differentiate themselves from the rest of the competitors, successfully maintained the upper limit of the profit going high and steady. Their cash registers kept ringing due to high volume of sales at good prices. Corporate House like Apple can still keep the price of its mobiles higher than that of its competitors, chiefly because it could differentiate. So, can we assume that cost accountant has a very little role to play in such firms? No, one has to think twice before one concludes so. One has to remind himself that Apple is one such company, other than Xiaomi and Oneplus, which keeps its manufacturing costs ridiculously low. These companies may not be using the same age old costing techniques taught in the classrooms, but pretty well understood the prominence of cost minimization for profit sustainability in the long run, and designed innovative ways of Cost Optimization.

Cost and works accountant evolving into Cost and Management Accountant is not just adoption of a name but an evolution into a more responsible and strategic role. People who still think costing as accounting for and controlling of costs are mistaken and have to comprehend the role that is expected to be played by a Cost Accountant in the modern corporate world. With changing dynamics of competition Cost Accountants are reinventing themselves into more creative and highly strategic personnel in the corporate world, who rewrite the rules of the game of competition.

Costing is no more limited to just establishing of standards and adhering to them, finding deviations, measuring and rectifying them. In the intensely competitive and ruthless war games of the modern corporate world, cost accountant has to evolve into a creative brain, which can design cost optimization not just as a technique but also as a core strategy.

In all those industries where competition has been very intense, discovering novel ways to drastically bring down the costs has been the need of the hour. In the modern Corporate, where the theme of costing has been 'being creative' than just strict adherence to norms, firms which think out of the box made their mark and sculpted their places to the top in their respective industries.

Xiaomi is one example for this. Like Toyota that created JIT to minimize inventory costs, Xiaomi has taken costing from operating level to strategic level. Through its creative approach Xiaomi has brought down the cost of manufacturing good quality phones to stunningly low levels, that its phones cost almost half of those from Samsung or Sony with the same features and OS (Operating System).

While through JIT Toyota has cut short the costs involved in inbound logistics, Xiaomi worked amazing strategies to cut short the humungous costs involved in outbound logistics too. While JIT is mostly about operational efficiency, Xiaomi's strategies were more about a paradigm shift in the basic philosophies and strategies of brand positioning and distribution channels. How Xiaomi achieved this is a long story, but to cut the story short, it brought innovation into Costing. It redefined Values in the value Chain Analysis.

Hugo Barra, who is known to be the face of Xiaomi, says that the combination of 'a small portfolio and longer average selling life of each model', as the key strategy that brings down costs. Xiaomi continues to sell older devices in spite of the new product launches.

Most of Xiaomi products stay on shelf for almost 18 to 24 months and it is this longer run that allows the company to secure better component deals with suppliers. Xiaomi manages to negotiate a cut in component prices with its suppliers over time, which ends up leaving the books with a bigger margin, which after a while; the company would be willing to share with its customers, in the form of price cuts. To keep customers not to feel outdated with a model, with such a long shelf life, Xiaomi releases timely software updates, and keeps adequate supply of spare parts and other services that the consumers need.

The higher the initial sales, the earlier will be the price cuts that can be negotiated with the suppliers. So for a grand opening, Xiaomi applies techniques of Hunger Marketing. It keeps the supply slightly lower than the demand, creating an artificial shortage. This works in favor of the company with customers responding in great numbers for its flash sales, which lasts most of the times only for seconds. This creates a craze for its products, and Xiaomi over the years dubbed this 'stock-out' records as testimony for the quality of its products. Thus Xiaomi has built its image, not as a cheap Chinese knock-off, but a premium brand, and eventually became the world's 3rd largest manufacturer of mobile phones.

And for initial higher sales, Xiaomi prices its models much lower than the competitors, who use more or less the same components in their models. This costing wonder is possible because of its basic philosophy. Xiaomi believes that it is an e-commerce company and hence sells exclusively through e-commerce. As the price on e-commerce is essentially fulfillment and shipping costs, which are way much lower than the distribution margins, Xiaomi shares the whole of distributors' margins with customers in the form of low prices. Xiaomi uses no advertisements, but only social media and word of mouth to keep the brand's up-beat. Its razor thin Margins can starve the company initially, but Xiaomi also earns through selling software to its customers, who use its phones. It already has more than 30 million users, earning approximately $4.9 million monthly revenue from apps, games, and theme customizations installed through MIUI, its user interface. Thus by applying creativity in costing and making costing the key strategy, Xiaomi has taught new lessons to the world about costing.

Core competencies are seldom sustainable in today's markets. The new strategy of cost optimization and hunger marketing raised not just few eyebrows but also suspicions in the market. Few sellers even criticized it. But you can't avoid a trend by ignoring it. Lenovo and Gionee have discouraged and even at times warned customers not to buy products from online retail stores. But in a year and half both the brands had to eat humble pie and admit the new trend of etailing. They themselves had to release etail exclusive handsets to stay in the race. They tasted success too. But the game didn't end there. New brands in mobile phones are coming with newer variants of the game. With variations of hunger marketing, flash sale and publicity the competitors of Xiaomi are playing the game to the perfection and even at times better than Xiaomi. Competitors like LeEco that entered India broke all the records of Xiaomi and have set new Industry benchmarks.

10.30 Lakh pre sale registrations and 95000 orders in 20 seconds have definitely taken the bar too high even for the pioneer Xiaomi to break. In its first and second flash sale LeEco has created three records: The largest number of orders received in a single flash sale; the shortest ever time for the orders received and the highest pre sale registration number. But what happened to the LeEco with in a year? News that 85% of the staff being fired, and rumors that the company may exit India. The company's biggest mistake is to spend too heavily on advertisement, in India, which is diametrically opposite to what Xiaomi is doing. While Xiaomi created hunger in the market, LeEco tried to woo the customers through advertisement, a strategy, which eventually went south. The disruptive strategy of LeEco didn't generate enough cash for the company to sustain its disruption, which landed LeEco India in real trouble.

In the present state of dynamic markets and transient loyalties of the customers, it did not take much time for Xiaomi to claim its mastery in the strategies it pioneered. Through the stupendous success of Redmi Note 3, Xiaomi showed every player in the Indian Etail market who is the real star. With the new Redmi note 4 and Redmi 4, still ringing cash registers, market researches are expecting Xiaomi to break all old records and set new benchmarks in flash sales through the game of Hunger marketing it mastered.

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