

“Less” and “Slower” Spirits of Successful Enterprises

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Abstract: In the real world, we often see two contrasting scenes: countless companies that seek “more” and “faster” prosper and vanish suddenly, one after another. In the past few years, Costco and Huawei remind people that “less” and “slower” are still very important with their impressive performance.

1. Introduction

Lao Tzu said: “the movement of the contrary way”. It means to turn in the opposite direction, which is the law of movement of “Tao”. This is often the way of life. Those who blindly seek “faster” may be left behind in the end; Those who deliberately covet “more” may have little left in the end. On the contrary, who does not seek faster speed, and may lead in the end, and who focuses on doing less may win the world in the end. Here, Costco and Huawei are cases at point.

2. Costco's “Less” V.s. “Slower”

One of Costco’s co-founders, Jeffrey Brotman, noticed hypermarkets in France that combined discount stores and department stores and realized such form of business would be popular in the United States. So he teamed up with Jim Sinegal, a former Price Club executive, to open Costco's first store in Seattle, on Sept. 15, 1983. Today, Costco is the second largest retailer in the United States, the seventh largest in the world, and the largest members-only warehouse store in the United States. Under the fierce impact of Internet e-commerce, many large department stores in the United States have been facing declining, while Costco bucks the trend of growth and shows strong vitality.

Table 1 Performance of Companies

Company	Year of found	Main business	Maximum 2006 market value (USD)	Market value (30 August 2019) (USD)	Market value growth rate %
Amazon	1995	E-Commerce	17.5 B	867.76 B	4858
Ross	1950	Discount retail for clothing and home furnishing	4.6 B	38.66 B	740
Costco	1976	Retail	26.7 B	128.72 B	382
TJX	1981	Discount retail for clothing and home furnishing	13.7 B	65.71 B	379
Walmart	1962	Retail	214B	322.29 B	50
Target	1902	Retail	51.3 B	54.41 B	6
Best Buy	1966	Home appliances, electronic products retail	28.4 B	18.47 B	- 35
Nordstrom	1901	Department store	12.4 B	4.45 B	- 64.
KOHL'S	1962	Department store	24.2 B	7.49 B	- 69.

Macy's	1858	Department store	24.2 B	4.47 B	- 82.
J.C.Penn y	1902	Clothing retail	18.1 B	207.32 M	98.9
Sears	1886	Department store	27.8 B	27.31 M	99.9

Costco's business model can be summarized as four “less” and five “more”:

The first “less” is the limited variety of products and the limited number of customers. There were only 3,800 items on offer, the number equals as 3.8% of Wal-Mart's 100,000. Only members, friends and relatives of members are allowed to enter the store. It's basically making money from a specific group of people with a limited number of goods.

The second “less” is low profit from selling goods. The gross profit margin of goods is 1%-14%, and the average gross profit margin is only 7%. Hot dogs and soda have been charged with \$1.5 for 30 years. Beef is produced on self-owned farms with good quality at low price. Costco has two rigidity rules: (1) the gross profit margin of all goods sold is less than 14%, and any increase must be reported to the CEO and finally approved by the board of directors. (2) Outside suppliers have to offer the best quality products at the cheapest prices. Once Costco finds out that any products enjoys cheaper price at other stores, Costco will never put that product on shelf again. The gross profit rate of general supermarkets is 15%-25%, Amazon is even higher as 35%, while Costco has maintained it at 7% for a long time, and its net profit from sales is very low.

The third “less” is the low annual membership fee. Seventy percent of Costco's revenue comes from annual membership fees. Membership is divided into Gold Star Membership and Executive Gold Star Membership. Membership fees are adjusted from time to time according to inflation and market conditions. In the United States, annual fees for Gold Star Membership and Executive Gold Star Membership are \$60 and \$120, in 2017. In Shanghai, the individual/business membership fee is 299 yuan. Wal-Mart's Sam's Club offers four levels of membership in the U.S., each of which costs \$40 to \$100 a year, and 260 yuan in China. Costco, by comparison, isn't much higher.

The fourth “less” is low operating costs. Costco has no advertising, marketing or public relations department, and stores use skylights and surveillance lights to reduce energy consumption. 30% of goods are delivered directly to the store by the manufacturer and 70% to the central warehouse. The store adopts warehousing-type display, and all goods are sold in the original package. Days sales of inventory are one third less than those at Walmart and Amazon, and operating expenses are only about half of those at Walmart.

The first “more” is to focus on brand quality. Limited variety of products provides the conditions for the quality control. Costco mainly chooses middle and high-end brands as long-term cooperative suppliers. Strictly control the quality of goods, once there is a problem, Costco will not cooperate with the problematic supplier for at least 3 years. Kirkland Signature, a self-owned brand created by Costco, includes clothing, daily necessities, food, etc., which is also popular among members. Its own brands now account for about 20% of annual sales. The small number of categories of Costco's business means that each subdivision only has one or two varieties. After years of filtering, most of the preserved products have established firm links with members accurately, which effectively reduces the selection cost of customers and improves the consumption experience.

The second “more” is the persistence of a single product profit. Costco's signature hot dog pop combo, has been sold for low price at \$1.50 for 30 years, with hundreds of millions sold. Another popular item is fried chicken, sold for just \$4.99 and has been sold for more than 90 million units. It is the good real quality and low price that ensures Costco's customer unit price more than twice that of Wal-Mart's.

The third “more” is great benefits for employees. Costco employees earn an average of \$22 an hour and other benefits, which is the best in the U.S. retail industry. It is said to have even ruffled feathers on Wall Street, which prefers the Walmart-style model, as brings more returns to investors. But Costco's founders believe that if you pay your employees well and treat them well, you'll get positive feedback. Costco also has a strong focus on employee training. The company always reminds executives that they must spend 90 percent of their time coaching employees and doing what they say, or they are not qualified to be a top executive.

The fourth “more” is large numbers of loyal customers. Costco has more than 81.03 million paying members worldwide. Renewal rates for existing members are 91 percent in the U.S. and Canada, and remain around 88 percent in the rest of the world.

The fifth “more” is various service content. In sharp contrast to the limited variety of goods sold, Costco's service programs for member customers keep increasing, showing the momentum of providing unlimited service for a limited number of customers. For example, Costco cooperates with famous quality service providers in other industries to provide auto insurance, house insurance, life insurance, identity protection, repairing tires, refueling and other services. One of the most successful business is the car retail business, which made Costco becomes one of the top three car sellers in the United States. New businesses, such as car rental services, are also growing rapidly. Carefully maintain a group of loyal customers, and then continue to provide them with more quality services, this is the successful path of Costco business expansion.

3. Costco's “Slower” and “Faster”

The first “slower” is the slow increase in membership. Rather than defining Costco as a retailer, define Costco as a service provider would be more proper. Low-cost and high-quality retail services, in fact, are only its way to attract loyal members. While earning the annual membership fee, it gradually adds other high-quality services to its members, which is the basis of its survival. Membership acquisition and maintenance are the keys of all its business logic. Without advertisements and relying mainly on popularity, Costco takes a long time to build its brand and accumulate loyal members. So Costco keeps patient, even though membership is growing at rate of only 7% to 8% a year.

The second “slower” is being patient to nurture new services. For example, Costco has spent a lot of time educating its members to believe that its high quality, valuableness and trustworthy to buy products from other manufacturers through Costco's platform, such as car insurance and life insurance.

So-called the “faster” refers to the market value growth fast. Costco's approach, while “slower,” is none of the high-growth characteristics of some new economy form companies. However, after long-term accumulation, Costco successfully targets at a large number of members with high loyalty, which gives it a very strong competitive advantage and a very solid foundation, which helps Costco to gain popularity in the capital market. In 2006, Costco's market value was \$26.7 billion. As of August 30, 2019, Costco's market value was \$128.72 billion, an increase of 382%. Costco's growth is particularly impressive when it comes to the fading fortunes of many established department stores.

4. Huawei's “Less” and “Slower”

If Costco is the representative of “less” and “slower” to achieve success in the business service sector, then Huawei is the outstanding example of “less” and “slower” dialectics in the high-tech sector.

Ren Zhengfei repeatedly pointed out: “When Huawei only had a few dozen people, it attacked on a single 'battlement'. When hundreds or tens of thousands of men were there, they still attacked on this battlement. Now hundreds of thousands of people are still attacking on the same battlement – concentrate fire and intensive attack. Every year, more than 100 billion yuan of 'ammunition' is used to attack such the 'battlement', and 60 billion yuan each is used for research and development and marketing. Finally, we lead the world in big data transmission “.

Huawei calls this “pinprick strategy”. “We are a company with limited capabilities and can only catch up with US companies in a limited width,” Ren Zhengfei said. If the action surface is not narrowed, the pressure will not be big and there will be no breakthrough. We can only get ahead of American companies in areas as big as the tip of a pin, but never if we expand to the size of a matchstick or a stick. We only allow employees to give play to their initiative and creativity in the main channel, instead of blind innovation, which diverges the investment and strength of the

company.” Therefore, Huawei has a resounding slogan: “Do not consume strategic competitive power on non-strategic opportunities”.

What is particularly noteworthy is that Huawei's “less” is not only reflected in the business field, but also in the implementation of the profit target. It creatively transformed the principle of Dujiang Weir built by Li Bing and his son in the middle of the third century BC, “deep digging and low spill”, into the principle of business operation. Ren Zhengfei explained: “Deep digging 'is to ensure that the investment in strengthening the core competitiveness, to ensure that the investment in the future development, even during the financial crisis. At the same time, Huawei continues to exploit the internal potentialities and reduce operating costs. 'Low spill' means to control the greed for earning profits -- not to sacrifice long-term goals for short-term profits. Retaining less profit, and transferring more profit to customers, and to treating upstream suppliers well.” He said, “Why do I always prefer little profits over big ones? That's the business model. Because telecom networks are not highly profitable industry, some equipment providers have cut back on some aspects of their investment to allow us to catch up. If we continue to make small money when we dominate the industry, it is impossible for anyone to get into this industry and make big money. While making little profits, he has to stand loneliness. If he unable to stand the loneliness he would quit, and we still occupy this position. If we stay ‘hungry’ for a long time and don't try to make a lot of money, eventually we can make money for a long time.” Therefore, he repeatedly stresses: “Huawei's operating objective cannot pursue profit maximization, and all our compensation and operating guidelines cannot pursue profit maximization. Profit maximization actually sucks the future dry and hurts strategic position. 'Deep digging and low spill', we should deeply understand its extensive and profound meaning”.

Only fighting in the “big” field, but also insist on “making small money”, compared with some explosive expansion of the Internet companies, Huawei may appear relatively “slower”. But Huawei seems to value its slowness very much. They call it chasing the “dragon ship” with the spirit of the “tortoise”. Huawei's “slower” should more accurately be described as “steadier”. In an interview with the BBC on July 23, 2019, Ren Zhengfei called this approach “low-focus development”. “We think the pace of development should be steady,” he said. “If it goes too fast, it is easy to break. A break is a big disaster for an enterprise. We need to walk steadily, and we can only use the phrase 'live' to describe walking steadily and not being rash.”

5. The Key to “the Movement of the Contrary” is to Make Progress

Actually “less” and “slower” can make a big difference is not a phenomenon that only exists today, but a business rule that has been tested by countless cases. More than 2,000 years ago, the great historian Sima Qian revealed this rule of commerce.

Sima Qian divided the business model into “greedy” and “generous”. The so-called “greedy” is excessive pursuit of a certain business profits, just like the common people say, “once for all”. The so-called “generous” is not a lot of money, but small profits. In a single transaction, there is no doubt that “greedy” businessmen make a lot of money, but in the long run, it is the “generous” businessmen making more money. Sima Qian summed it up as “three times earned by the ‘greedy’ and five by the ‘generous’”, meaning that if the “greedy” businessman ends up earning three times as much, the “generous” one ends up earning five times as much. The first reason is the speed of capital turnover and the efficiency of capital use, which leads to different compound returns of capital; Second, the size of market share, resulting in the different marginal cost, economies of scale; Third, the difference of operating risk; Fourth, the difference of the sustainability of business. Sima Qian also took the position of official as an example to illustrate the importance of permanence: “Honest officials get richer as they last a long time, and generous businessmen get richer as they last.” It seems that the non-corrupt officials are not greedy, but because they can stay in the position for a long time, the total amount of wealth they can obtain is quite considerable in the long term. Therefore, the “honest” officials will surely return to wealth eventually. In Sima Qian's mind, Fan Li (later named Tao Zhu Gong) in the late Spring and Autumn Period was a representative of “generous” businessman, who “waits for the time changing and seeks profit” (*Records of the*

Historical Records of the Family of Gou Jian, King of Yue). Fan Li was one of the richest men of his time while earning only 10% on each deal.

Further more, will “less” and “slower” certainly be able to have a bright future? The answer is clearly no.” The movement of the contrary way” is not unconditional, but conditional. The key to the success of “less” and “slower” lies not in “less” and “slower” themselves, but in whether such business can be improved.

“Jingjin” is a word commonly used in Buddhism. It means striving upward for good, doing one good thing every day, and avoid one evil thing every day. Commonly understood is to keep improving, continuous optimization and continuous improvement. This spirit is what the *Book of Rites University* says: “If one can make things better for one day, one should make them better every day and never stop doing it.”

The problem with pursuing “more” and “faster” is that it is difficult to make progress. The mystery of “less” and “slower” is that we insist on improvement.

Huawei's unswerving and continuous reform, continuous optimization of organization and process, and improvement of internal efficiency are typical examples of progress. This spirit was epitomized in Ren Zhengfei's article *The Winter of Huawei* in March 2001, which emphasized “improvement” several times. For example, when it comes to targeting a man who is a good man or a loyal minister, there are four criteria. The first is “whether a man has professional dedication, whether he is serious about his work, and if he improves, can he still improve himself? Can it be improved? That's your work ethic.” “This year we are going to have a broad discussion about the crisis, about what is the crisis in Huawei, what is the crisis in your department, what is the crisis in your department, what is the crisis at that point in your process. Can it be improved? Can it be improved? Can it also increase per capita efficiency?. Do these things improve your work a little bit, and then we'll move on?”“Small improvements, big rewards' is our long-term strategy for improvement. Should be in the small improvement foundation, induces unceasingly, synthesizes the analysis. Study its conformity with the company's overall target process, and the harmony with the surrounding process, to simplify, optimize, and solidify “.The article calls for improvement tirelessly, urges improvement repeatedly, is not committed to progress? Without continuous reform and improvement and continuous optimization, Huawei would not be able to reach today's height.

This spirit is what Chinese enterprises need most. The report to the 19th National Congress of the Communist Party of China (CPC) has clearly pointed out that China's economy has shifted from high-speed growth to high-quality development. The statement on the “new normal” of economy in the Central Economic Work Conference held in December 2014 also pointed out that, after the development of reform and opening up, “the stage of imitative and wave consumption has basically ended, and personalized and diversified consumption has gradually become the mainstream; As the driving force of factor scale weakens, economic growth will depend more on the quality of human capital and technological progress. The market competition gradually turns to the competition of quality and differentiation “.China's economy is undergoing a major shift from “quantitative” to “quality”. In this context, the old model of extensive, quantitative and speed competition will become narrower and narrower, while intensive, quality-oriented, innovative and artisan competition will prevail.

High quality, low price, excellent service, and convenient are the eternal themes of public consumption. The basic tenet of enterprise management is to sincerely take customers as the center so as to win their trust. Only based on the nature of business, follow the law of development on the basis of continuous progress, unremitting efforts, enterprises can adapt to the unpredictable situation, with sustainable competitiveness. Costco, Huawei and other cases, while showing the dialectics of “less” and “slower”, more confirm the dialectics of change and invariability.

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