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### **Xiaomi: Success story of a Chinese startup challenging bigwigs of smartphone industry**

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#### **Abstract**

**Background:** This is a case study of Xiaomi- a Beijing based Chinese electronics company, Xiaomi Inc. The company was founded by Lei Jun, a serial entrepreneur and investor in association with Bin Lin, a former Google and Microsoft executive. The company has a reputation of coming up with top quality smartphones at affordable prices. It has followed a unique innovative business model which involves deciding product quality and requirements based on fan's inputs.

**Objectives:** the paper seeks to study unconventional business model adopted by Xiaomi and identify the success factors of Xiaomi in China and identify the challenges faced by Xiaomi and explore strategies adopted by company to overcome these challenges. The paper further seeks to examine the challenges that Xiaomi could face in gaining presence in intensely competitive markets like US smartphone market

**Methodology:** As it is an exploratory study, therefore all the data and information has been collected from the company's website, published interviews of its founders and key managerial personnel. However, the study faced a tough challenge in collecting information about its business strategies as it is a privately owned company and not much information is available on public platform.

**Findings and Results:** The study has revealed that the company initially started with assembly of hardware from known brands to contain costs and to produce low priced mobiles though not compromising on quality. To market the products again innovative techniques like flash sales and on line advertising was employed. These factors coupled with unique pricing model allowed Xiaomi to produce and sell good quality smart phones with features similar to Samsung or apple at very cheap rates. Later on, it has ventured into hardware production and selling its own software such as apps, games and cloud computing. It sells its smartphones at US\$200 to US\$300 as against highly priced Samsung and apple phones. Now to gain market in developing countries like India, it has also started opening its service centers and mobile stores.

**Keywords:** Xiaomi, Samsung, Apple phones, Chinese electronics company

#### **Introduction**

Late 1990s saw the first entry of smartphones in the market offering features such as e mail communication, built-in cameras, QWERTY keyboards; web browsing based on text and various other features and telecommunication world changed rapidly as never before. Today's smartphones come with HD touchscreen, countless apps and countless apps. Of course the credit for this goes to Apple (Launch of iPhone in 2007). Since 2007, more than one billion smartphones have been sold around the world and demand is only expected to grow. Nokia was the dominant global smartphones market vendor until 2010. However, today, Apple and Samsung are the top leaders. Other important leaders are HTC, RIM (Blackberry) and Sony Ericsson.

As regard mobile operating systems, Android became global leader last quarter of 2010 and has strengthened the lead since then. Apple's iOS is giving stiff competition followed by Symbian and RIM (Blackberry).

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**Table 1: Worldwide Mobile Phone Sales to End Users by Vendor in 2014 (Thousands of Units)**

Company	2014 Units	2014 Market Share (%)	2013 Units	2013 Market Share (%)
Samsung	392,546	20.9	444,472	24.6
Apple	191,426	10.2	150,786	8.3
Microsoft	185,660	9.9	250,835	13.9
Lenovo*	84,029	4.5	66,463	3.7
LG Electronics	76,096	4.0	69,094	3.8
Huawei	70,499	3.8	53,296	2.9
TCL Communication	64,026	3.4	49,538	2.7
Xiaomi	56,529	3.0	13,423	0.7
ZTE	53,910	2.9	59,903	3.3
Sony	37,791	2.0	37,596	2.1
Micromax	37,094	2.0	25,431	1.4
Others	629,360	33.5	587,764	32.5
Total	1,878,968	100.0	1,808,600	100.0

Source: Gartner (March 2015)

\*The results for Lenovo include sales of mobile phones by Lenovo and Motorola.

**Table 2: Worldwide Smartphone Sales to End Users by Vendor in 2014 (Millions of Units)**

Company	2014 Units	2014 Market Share (%)	2013 Units	2013 Market Share (%)
Samsung	307.6	24.7	299.8	30.9
Apple	191.4	15.4	150.8	15.5
Lenovo (incl. Motorola)	81.4	6.5	57.4	5.9
Huawei	68.1	5.5	46.6	4.8
LG Electronics	57.7	4.6	46.4	4.8
Xiaomi	66.0	5.3	18.7	1.9
Others	472.8	38.0	350.0	36.2
Total	1,244.9	100.0	969.7	100.0

Source: Gartner (March 2015)/ global IDC figures

The above table shows that Xiaomi, a four year old company is able to capture market share at a very huge rate. Its share in market rose from nearly 0% in 2010 to 1.9% in 2013 and then to 5.3% in 2014. Its share is expected to rise further in 2015. Due to this increase in market share, it is able to make an entry in top 5 smartphone players list. It has come to be recognized as the fastest growing player in Asia Pacific Region. This has led analysts to wonder as to how a new company is able to achieve significant growth whereas the established companies like Samsung and Apple are struggling to hold their ground. These companies have shown decline in their market share in smartphone market worldwide. Xiaomi has not only displaced Samsung from its top position as smartphone vendor in China but is also making its presence felt in other markets in developing countries like India and other countries in Asia Pacific region like Indonesia, Singapore, Thailand Russia, Brazil, Mexico and Malaysia. Therefore the present study is undertaken to understand unique business model of Xiaomi which helped it to emerge as fastest growing company given stiff competition faced due to established brands and pressure of ever changing business environment. This study aims to understand challenges faced by Xiaomi and how it adopted to emerge as a winner.

**Objectives**

**The objective of the case study are**

1. Understand and evaluate Xiaomi’s unique innovative business model
2. Understand the need and importance of innovations in ways of doing business to meet the challenges posed by rising competition and changing business environment

3. Identify the success factors of Xiaomi in China and identify the challenges faced by Xiaomi and explore strategies adopted by company to overcome these challenges (lessons for future businesses)
4. Examine the strategies adopted by Xiaomi to enter and make a mark in emerging markets such as India
5. Examine the challenges that Xiaomi could face in gaining presence in intensely competitive markets like US smartphone market

**Case overview-About Xiaomi (Key Features) and Lei Jun**

Xiaomi, Inc. is a privately held Chinese consumer Electronics Company headquartered in Beijing, China. Xiaomi Inc is a hi-tech mobile internet company for smartphones established in 2010. The company was founded by investor and serial entrepreneur Lei Jun in 2010 with a vision of setting up an organization which can provide high-end quality products at reasonable prices. This is based on philosophy of its founder Lei Jun who believes that high-quality technology doesn’t need to cost a fortune. Xiaomi has put together a team by bringing together smart talent from various large internet and technology organizations such as Google, Microsoft, Yahoo, Kingsoft, and Motorola to bring this vision to life.

Their mantra: "Always believe that something wonderful is about to happen".

Xiaomi Inc. having most of its founders from the top internet companies or universities with excellent experience can boast of solid technological background.

**Its founder technopreneurs include**

1. **Lei Jun:** Founder, Chairman and CEO (excellent engineering talent and sharp marketing skills, a part of founding team and former CEO of Kingsoft, a Chinese software company)
2. **Bin Lin:** President and Co-Founder, (a former Google's global technical director and Microsoft executive, Google China Engineering Research Institute)
3. **Wanqiang Li:** Co-Founder, Vice President, Head of Mi.com e-commerce team (former director of Kingsoft HCI design and Design Director and creator of popular internet key words such as “mobile phone geek”, “F code”, “Mi Fan Festival”)
4. **Guangping Zhou:** Co-Founder, Vice President, Director of Xiaomi’s Mi-Phone Team(former R&D center chief engineer, Motorola Beijing; vice chairman of Cellphone Quality Control, Motorola Asia Pacific)
5. **Jiangji Wong:** Co-Founder, Vice President; Leader-Mi Wi-Fi and Mi Could Teams (former Chief engineer of Microsoft Engineering Research Institute)
6. **Feng Hong:** Co-Founder, Vice President, Leader of MIUI Division (former Deputy director of Industrial Design School of Beijing Science and Technology University Liu De, and the first product manager of Google China)
7. **Chuan Wang:** Co-Founder, Vice President, and Director of Internet TV related Products (Former CEO Beijing Duokan Technology Co.)
8. **De Liu:** Co-Founder, Vice President; Leader- Xiaomi’s Design and Ecosystem Development Programs (completed Master’s Degree in Industrial Design from Art Centre College of Design in California, USA)
9. **Hugo Barra:** Vice President of Xiaomi Global Operations (former VP at google)
10. **Tong Chen:** Vice President: Content Investment and Operations (Former Executive Vice-President of Sina Corp and Chief Editor of sina.com)
11. **Shou Zi Chew:** Chief Financial Officer

All these guarantee a high quality product. It has got venture capital investment from Morningside, Qi Ming and IDG (International data Group), and now the enterprise is estimated to value 250 million dollars. The vision of Lei and other like-minded, accomplished veteran technopreneurs led to the birth of a company that moved, reacted and adapted to fast changing market demands and conditions. It embraced the new technologies and some unique strategies for production, pricing and marketing and found great favors amongst investors and users/customers.

Xiaomi Corporation develops, manufactures and distributes communication equipments and parts. The core businesses of the enterprise include Xiaomi mobile phone, android devices, smartphone software, smart set top boxes, MIUI and chatting software and related accessories. In August 2011, Xiaomi had launched its first smartphone Xiaomi Mi1. After successful launch of Mi1, Xiaomi has launched various models of smartphones successfully along with other products like tablets, smart TVs. The company targets lower middle class market and has gained a loyal fan base by incorporating user feedback into the designs of its latest sets. It offers internet value added products including TV boxes, backpacks, phone screen protectors, earphones etc. The marketing strategy of the Xiaomi mobile phone is a milestone in the marketing of the smartphones business. In the present era of information technology, it has set a perfect example of internet selling for the smartphone business. It is first of its kinds in various roles, be it launching competitively priced smartphones, release of products in phases, building a fan base, or inspiring loyalty of many consumers. It has come to be known as accurate master of the behavior and psychology of consumers. Through clear brand positioning, the reasonable target customers, the high end products and innovative marketing techniques like online marketing, hungry marketing and viral marketing all contribute to client experience, the fans and stupendous profit. Due to various such innovative methods it is able to have valuation of \$ 10 billion in 2013 now standing at \$45 billion in the fourth quarter of 2014.

**Table 3:** Xiaomi- Corporate Summary and Milestones

Company	Beijing Xiaomi Technology Co., Ltd
Website	www.xiaomi.com
Founders	Lei Jun, Bin Lin, Wanqiang Li, Guangping Zhou, Jiangji Wong, Feng Hong, Chuan Wang, and De Liu
Year of Founding and Headquarter	2010, Beijing (China)
Company ownership	Privately owned by venture capital investment from Morningside, Qi Ming and IDG (International data Group)
Products Offered	Smartphones, apps, internet service, consumer electronics, messaging service, computer hardware
Operation Area	China, HongKong, Taiwan, Singapore, Malaysia, Philippines, India, Indonesia, Brazil
Revenue	US\$12 billion (2014)
Employees	8100 (2014)
Share in market	Rose from nearly 0% in 2010 to 1.9% in 2013 and then to 5.3% in 2014 (sold a total of over 61 million phones in2014), 227% increase from last year
Rank in Smartest companies	Rank No 2 in list of 50 smartest companies by MIT Technology Review
Top mobile selling brands in world	In the start of 2015, Xiaomi catapulted into the ranks of the world’s third top selling brand of mobile phone maker, and replaced Samsung as china’s top selling smart phone company and became the world’s third top selling mobile phone maker.
Awards	Xiaomi’s billionaire CEO Lei Jun is named “Businessman of the Year” in 2014 by Forbes Asia for its breakthrough success in competing against heavyweights like Apple, Samsung
Guinness Word Record	Xiaomi managed to break the world record for "most mobile phones sold on a single online platform in 24 hours", by selling 2,112,010 handsets through its direct-to-customer website Mi.com, generating total sales of about \$320 millions on April 6, 2015 on its 5th birthday

Financials	net profit of \$56 million in 2013, Sales of \$4.3 billion in 2013; Sales of \$12 billion in 2014
Valuation	\$45 billions with investors including All Star Investment, DST Global, Hopu Investment Management, Yunfeng Capital, Singapore sovereign wealth fund GIC

**Xiaomi Financials: Quick Facts**

Financials of Xiaomi in 2013 shows net profit of \$56 million in 2013, Sales of \$4.3 billion in 2013. However as against expectation, the company showed operating margin of just 1.8%, very low as compared to Apple and Samsung. Apple has an Operating margin of 28.7% and Samsung has 18.7% in 2013. As per the analysts, Xiaomi had made less money than HTC and Sony last year (mobile divisions). However Xiaomi added a lot many feathers in its cap as

- The start of 2015 saw Xiaomi’s replacing Samsung as china’s top selling smart phone company with its combination of well specialized phones with low price tags and it became the world’s third top selling mobile phone maker.
- Xiaomi came into the ranks of the 5 top selling brands in a period of 5 years.
- It added a new feather in its cap on April,6 2015 for selling maximum number of mobile phones on a single day. It sold 2.1 million phones in 12 hours in a Mi Fan Fest promotion, generating total sales of about \$320 millions.
- Xiaomi’s billionaire CEO Lei Jun is named “Businessman of the Year” in 2014 by Forbes Asia for its breakthrough success in competing against heavyweights like Apple, Samsung.
- The brand is highly popular among youth in china and is making inroads across Asia. Making an entry into emerging markets such as India, Malaysia thereby making its products inherently accessible to world’s audience will bolster the company’s global status. With an extremely talented work force including bigwigs and senior engineers who have already worked at some of the best companies like Google, Silicon Valley, Facebook does give an edge to the company on technology front

**Innovative Business Model- Production Strategies, Pricing strategy, Marketing Strategy**

In words of Lei Jun, Xiaomi was modeled after two companies- Tongrentang, a 340 years old traditional Chinese medicine company and Hai Di Lao, a hot pot chain. From these two companies, Jun learnt a very important lesson- not to produce a low quality product just to reduce costs and the significance of customer service. Further the company has understood from its experience that content services are an important driver for consumer satisfaction. Therefore one needs to provide excellent content service according to the requirements of the users, along with excellent product design, hardware configuration, and affordable pricing. Therefore, launching an app store became a top priority for the company. Infact in this fiercely competitive smartphone industry, a company needs focus on two main issues in order to succeed:

- Providing content services for its users and
- Building a sustainable, global business.

**Production Strategy**

**The Challenge**

- Control costs
- Provide excellent quality product
- Achieve maximum customer satisfaction

**The strategy**

- Make use of available operating systems rather than creating a new one
- Reduce raw material inventory to reduce inventory costs
- Management of components and supply chain partnership
- No compromise on quality to reduce costs
- Customize local needs and content services to achieve customer satisfaction
- Keeping location close to manufacturing plants

**Selection of Operating System:** The company understands that making an entirely new ecosystem will not only involve huge costs but also a lot of effort and time which in other case can be utilized by company in improving the given platform. Therefore the company selected Android platform for operating system. It is not just having a phenomenal ecosystem but is also superior over other systems such as Firefox, Ubuntu. This helped it in reduction of costs. Thus the company is using Android as a base operating system and utilized its time, energies and efforts and skills in making changes /improvements as desired by fans. This helped in significant reduction of costs.

Having founded the company, Jun, Lin, and the other co-founders started working on Google’s Android operating system (OS) to make the OS more compatible and user friendly. This led to the launch of the MIUI (pronounced Me You I) interface. The MIUI OS resembles the iOS and Android but replaced the traditional Android app drawer with side-scrolling home screens full of apps. It has very iOS-like menus, toggles, and icons. The MIUI OS also provides users with Xiaomi’s device security, cloud messaging, and backup features.

**Reduce inventory costs:** Another objective of the company was to reduce the raw material inventory so as to reduce inventory cost and to increase the productiveness and effectiveness of the production system. To achieve the same Xiaomi has designed its production strategy that focused on small quality production at different intervals rather than going for bulk production. This not only resulted in reduced costs but also fulfilled another objective of creating artificial scarcity of its products in market. Xiaomi is able to drive the market for its products in such a way that demand for its products is always more than supply of its products. Xiaomi’s entire business operations are structured around ‘Just-In Time’ inventory holding technique to minimize logistics and holding costs. It gives the company the best opportunity to reap stupendous long term success and

profits. From a supply chain management perspective, Xiaomi's inventory management technique has helped it to keep costs down by lowering inventory holding costs and decreasing risks of overstocking of products which do not move. Its policy of buying components and manufacturing products only after the orders have been placed, allows it to the need to manage surplus raw materials and finished products. By literally delivering phones as soon as these have been rolled off the product line, it is able to drastically reduce holding/shipping costs by as much as 80%. Therefore Xiaomi's brilliantly thought of strategy of selling limited number of units (limited production runs) through flash sales has paid off well.

**Achieving customer satisfaction:** Apart from various strategies, Xiaomi has offered its products by customizing as per the local needs and also focused on increasing the service centers in countries in which the company is operating. To customize local needs it invented a new practice of including Xiaomi fans in relevant decisions, offering goodies to active fans and organizing fan festivals. This not only helped it achieve customer satisfaction but also enabled it to establish its brand and enhance customer loyalty. Xiaomi has setup various channels to get the feedback from the customers on their offerings and implemented the feedbacks to their offerings to gain the customer's confidence and competitive advantage. Various products offerings of Xiaomi include high Quality and android based smart phones, customized android with beautiful user interface, messaging mobile app known as MiTalk, TV service that offers various channels for your TV and known as MiBox

**No compromise on quality:** From the past experiences, its CEO has understood that one cannot build a big empire by proving cheap products to reduce costs. Therefore they know the importance of good quality products. Therefore, it uses sporting components mostly from such mobile phones that consumers love. Their phones are top-of-the class, full featured products containing components from top tech firms such as Sony, Sharp, LG assembled in factories such as Foxconn. So Xiaomi's phones are not cheap knock-offs which one may relate to Chinese products but really top class models

**Management of components and supply chain partnership:** Xiaomi Objective was to lower the procurement cost and reduced the production process/time and for the same Xiaomi took the parts from their suppliers such as camera from Sony and display from Sharp/LG. After procurement of components, components are shipped to Shenzhen (A port near Hong Kong). Xiaomi manufactured products based upon the quantity of order received and procured the components for the manufacturing after receiving the order. As production strategy is based upon the fact that production is dependent on the demand that's why organization is not having the surplus raw material in the inventory and able to reduce the inventory costs. Xiaomi has further reduced the shipping cost by offered its products on major e-commerce sites and hence utilized their warehouses and additional benefit that Xiaomi achieved in more reliability and speed in delivery.

**Location close to manufacturing plants:** By keeping location of its assembly units close to it is able to reduce transportation costs massively.

### Product Offerings

The company offers a wide range of products including mobile phones, smartphones, consumer electronics and various hardware and software services including web and mobile applications. It has continued to expand its products into other consumer electronics. The company has also released various TVs that connect to the web and run on the Android system. The strategy of the company is to create a connected ecosystem of consumer electronics, a strategy very similar to Apple.

### Products

- Mobile phones-Mi Series, Redmi Series, Redmi Note Series, Mi Note, MI Note Pro
- MiPad
- MIUI operating System
- MiWiFi (a network router)
- MiTV (a 3-D television)
- MiBox (a set top box)
- MiCloud(Cloud Storage Service)
- MiTalk (messaging Service)
- MiPower Bank (External Battery)
- Mi Band (Fitness monitor and sleep tracker)

Smart Home Products such as BP monitor, air purifier, Yi Smart Webcam, Yi Action Camera etc.

### Pricing Strategy

Xiaomi's pricing strategy is the result of mantra of its CEO "high-quality technology doesn't need to cost a fortune" and it is quite successful in delivering this promise. Xiaomi is able to have significantly lower price tags for its product

- Mi devices sells for around \$300
- Redmi Family at \$150
- Mi Note Pro has for the first time broken the barrier of \$500

In strike contrast, Apple's top range phones sells for over \$1000, Samsung note and Galaxy S are also similarly priced. So the big question is how can Xiaomi be so aggressive with its pricing at the same time providing top quality mobile phones and other products?

### Challenge

Provide excellent quality smartphones at affordable prices

### Strategy

- Control costs associated with marketing
- Lesser gross profit margin target as compared to its competitors
- Focus on apps and other web related services to make gains

**Control costs associated with marketing:** Mostly, Smartphone players make the availability of its products on various retail stores. This lead to various costs such as employee costs, building and maintenance costs. Not only this, companies spends a lot of costs on digital, print,

hoardings, banners, TV advertisements to popularize their products. It increases the cost for their products. On the other hand, Xiaomi has never focused on traditional ways of advertisement and sales. Xiaomi sells its products through ecommerce sites to escape from these costs. Xiaomi follows social media web sites and word-of-mouth of its customers for marketing to lower down the cost of its products. Xiaomi focuses on online sales thereby getting rid of the middlemen and all related costs and reducing prices to the consumers. The company has no marketing budget, doesn't have to account for markups from resellers, and has no sales team.

**Lesser gross profit margin target as compared to its competitors:** Instead of focusing on hardware profits to grow the company, it is trying to make money by offering services and other accessories to customers. As put rightly by its founder Bin Lin "The future of mobile internet is really about services". Therefore, the company doesn't offer a fully customized phone like apple or Moto X, here; customers can buy different color back plates and even batteries when they order their phones. The accessory business does make sense given the huge volumes of one particular model being sold. Operating margin of just 1.8%, very small as compared to Apple and Samsung where Apple has an Operating margin of 28.7% and Samsung has 18.7% in 2013.

**Launch of few products and longer average selling time per device:** The company launches few products every year. Technically they have only two product lines. Most of the components in their products are same. This enables them to stay on same supply contracts. In other words they are able to get same discount. So, they are able to get the benefit of lower costs. Thus the importance of having small portfolio works in their interest. most of its products have longer shelf life (Mi2 and Mi2s were on shelf for 26 months, Redmi 1 was on shelf for good 16 months after which redmi2 was released), during this time period the product goes for 3-4 price cuts. Xiaomi procures components directly from the dealers and also based upon the quantity of products to be produced. Longer shelf life enables the company to negotiate component costs. So the total costs decreases and the company is left with bigger margins than they had expected. So the company shares this benefit with their consumers in form of price cuts. Not only this, the company sells older devices (tweaked Versions) at reduced prices even after releasing newer models. Thus, Xiaomi has achieved to keep prices low by keeping the availability for its products up to 18 months after their launch unlike other smart phone players who generally keep the availability of their products till 6 months.

**Focus on apps and accessories to make profits:** Xiaomi does not want to make profit by selling its Smart phones and this is the pricing strategy which is also adopted by the Amazon where the organization wants to make the profit by its various offerings such as apps, games, MIUI, User interface, messaging apps and other related products.

**Just-In Time' inventory holding technique:** Its policy of buying components and manufacturing products only after the orders have been placed, allows it to the need to manage

surplus raw materials and finished products. By literally delivering phones as soon as these have been rolled off the product line, it is able to drastically reduce holding/shipping costs by as much as 80%. Therefore Xiaomi's brilliantly thought of strategy of selling limited number of units (limited production runs) through flash sales has paid off well.

## Marketing Strategy

### Challenge

- Control marketing costs
- Create brand loyalty and loyal fan base

### Strategy

**Control costs associated with marketing:** the company is able to reduce marketing costs through its three fold strategy

- **Lean online marketing focus:** Xiaomi is able to cut down on traditional cost associated with marketing and distributing by relying heavily on internet for sales. Thus, it has eliminated 20-25% cut that retailers/distributors get. This reduction in costs coupled with company's vision of earning profits from accessories and web applications/services and a conscious decision to forgo greater margins from the phones itself despite providing top quality sporting components has enable ti to sell world class phones at lower prices. This has enabled the company to carve out a substantial market share in no time at all.
- **Exclusive marketing:** Xiaomi sells its mobile phones and all accessories online via exclusive tie-up with flip kart. Certainly the company needs to be given credit for its exquisite pricing and inventive marketing. The company saves all the expenses relating to setting up of own stores and staff by selling their products online. The company also stays away from heavy advertising on TV and celebrity endorsements, a practice which the competitive brands indulges in. therefore it is sable to save on the unnecessary expenditure. These saving are graciously passed to the customers in form of lower prices.

**Create brand loyalty and loyal fan base: This is achieved through**

- Commitment to devices for a longer time like 2-3 years. Its policy of sticking to a product for 18 months instead of 12 months or six months give sit more flexibility with profits, better scope to sell accessories. It is able to take advantage of economies of scale and components and production costs decline over time. It not only gives them competitive edge in terms of reduced costs but also leads to loyal customers.
- Maintaining regular software updates, spare parts and other services required by customers longer than what most companies do. It rolls out weekly software updates based on input from its online community of fans, who spot bugs and propose new features. This gives them strong and loyal fan base.
- Online sales and customer engagements through various mediums. Xiaomi chiefly sells its phones online and tries to engage buyers/consumers and prospective buyers through social media life Face Book, Twitter Google Plus and Instagram to create repute and

goodwill. The company not only posts self-promotional stuff, the how to guides to create and facilitate interest but also gives incentives for re-tweets. It is followed interesting competitions, contests and tags like photo contests, to maintain the engagement.

**Aggressively enter the market and make a mark: This is done be**

- **Policy of hungry marketing:** From a consumer's perspective, the limited availability of its products in batches strongly leads to supply scarcity and built-up demand regardless of whether this scarcity is real or artificially implemented. As a result their product sells like hot cakes during flash sale
- **Create hype:** the company employs eccentric strategies to create a hullabaloo about its products and their temporary shortage in the market and then the mobiles are released through online flash sales.
- **Social Media Strategy:** Xiaomi chiefly sells its phones online and tries to engage buyers/consumers and prospective buyers through social media life Face Book, Twitter Google Plus and Instagram to create repute and goodwill. The company not only posts self-promotional stuff, the how to guides to create and facilitate interest but also gives incentives for re-tweets. It is followed interesting competitions, contests and tags like photo contests, to maintain the engagement.
- This reduction in costs coupled with company's vision of earning profits from accessories and web applications/services and a conscious decision to forgo greater margins from the phones itself despite providing top quality sporting components has enable ti to sell world class phones at lower prices. This has enabled the company to carve out a substantial market share in no time at all.

**Competitor Analysis**

In the start of 2015, Xiaomi a toddler company in its fifth year, entered into the ranks of the world's third top selling brand of mobile phone maker. It also replaced Samsung as china's top selling smart phone company. However, it is yet not able to prevent Apple from thriving in China. The powerful image of Apple's iPhone as a luxury item has helped it to continuously command a high price tag and a high market share.

**Xiaomi: Key Features/Success factors**

The Xiaomi's team's vision to rethink and rezig the traditional marketing models to come up with an innovative business model that has never been tried before has certainly paid off. The two important factors that affect survival and success of any new product are Branding and distribution. The social strategy as adopted by Xiaomi has enabled it to make Xiaomi a strong Brand and its distribution channels have ensured that consumers can locate its products and buy them in hassle free manner. A high quality smart phone at lowest price range is the key strategy of Xiaomi to get competitive advantage. These two factors have necessarily made Xiaomi a classic case in terms of achieving higher sales and commercial profits. Its various strategies include:

**Branding Strategy**

- Commitment to devices for a longer time like 2-3 years.
- Maintaining regular software updates, spare parts and other services
- Online sales and customer engagements through various social mediums.
- Solo design strategy to cater to high consumer demand (consider only one device at a time)

**Social Media Strategy and hunger market tactics**

- Hunger market tactics
- Create hype
- Social Media Strategy and hunger market tactics

**Exclusive Approach**

- No spending on endorsing and marketing
- Exclusive Flip Kart tie-up, then with Amazon and Snapdeal
- Create hype before every flash sale

**Effective inventory holding and stock management technique (The limited inventory concept)**

- Just-In Time' inventory holding technique
- Decreased risks of overstocking of products which do not move.
- Policy of buying components and manufacturing products only after the orders have been placed,
- No need to manage surplus raw materials and finished products.

**Internet Marketing**

- Cut down on traditional cost associated with marketing and distributing
- Eliminate 20-25% cut that retailers/distributers get
- Launching phones with excellent features such as tough case, high class screen, reasonable battery, customized android with beautiful user interface.

**The aggressive Pricing policy**

- Pricing of the products just above the cost of device and make the gains from the content
- Make profit by its various offerings such as apps, games, MIUI, User interface, messaging apps and other related products.

**Customer-obsessed strategy**

- Encouraging employees to speak with consumers get their feedback and use it as input to improve its products.
- Creating a fan club called Mi-fans on social Media and invited the people to join the same.
- Use of crowdsourcing to develop its mobile operating system, more than 600,000 fans helped create this
- Launch of MIUI ("my UI"), that allows the customizations.
- Use of AWS (Amazon Web Services) Cloud to meet the download speed that global users require

**An eco-system of smart product**

- Offering app services and accessories to customers as to make profits.
- Extremely customized version of Android installed on its phones.

- Launch of other smart products like MiWiFi, MiTV, MiBox, MiCloud, Mi Band and Smart Home Products such as BP monitor, air purifier

### **Xiaomi in India**

After making a grand entry in Indian market in July 2014 and the company has expanded rapidly. Xiaomi has always focused on hunger market strategy and used web portals to sell its phones to its target customers. In India too, the company followed same strategy. It first started selling its mobile phones through Flipkart in India through flash sales. In order to improve its retail base in India, it has entered into partnership with Amazon and Snapdeal as well. Later on considering the nature of Indian customers, it stated selling some of its selected devices through stores like Airtel Store and The Mobile Store. Now from 2015 onwards, it is in the process of setting up its own stores. It has stopped sale of its accessories through online stores. On August 6, 2015, its first anniversary in India, it has launched its first Mi Store App. On August 11, 2015, it has started its first factory in Andhra Pradesh in a partnership with Foxconn. This all clearly suggests that Xiaomi not only utilizes innovative techniques to reach customers but is also willing to make appropriate changes in their scheme of things given the requirements of new markets.

Xiaomi has launched the Mi3 with astonishing features and at the lowest price in the same segment. It has helped Xiaomi to capture the Indian smart phone market quickly. Xiaomi has developed the MIUI; a ROM skin based on Android, extends the Android platform with lot of features for Smartphones and tablets and also extends the capability of Android platform to allow the users to do the customizations as per their needs. This has attracted the iPhone and existing android users to move to Xiaomi platform. Xiaomi has not only focused on offer their smart phones in the Indian market but also made an strategy to have the service centers in the Indian market so that Indian buyers can easily get an after sales services in the domestic market.

Xiaomi India has also planned to setup 100 service centers across India. Some of these have been setup in Delhi and Bangalore and in the coming years more will be set up in Gurgaon, Chennai, Mumbai and Hyderabad. Xiaomi India plans to establish software engineering presence in Bangalore in a big way so that more and more products can be built as per the needs of Indian markets. Xiaomi is also planning to set up R&D center in India that will not only complement R&D capabilities of China but will also help it develop its products as per the Indian market needs. It also plans to enter into partnership with content aggregators to bring more content on mobile and TV. Specifically to boost sales in India, it is planning to build specific Indian themes as per the requirements of Indian users so that they can download such themes and change the look and feel of the device. So the company wants to boost familiarity factor for Indian customers.

Focus on after sales services in India, extending social space for MI Fans who can promote the products, providing the space to fans for technology talks, launch of highest selling fitness bands in China -MI band, a second-generation 49-inch TV MI TV 2 with an Android-based OS are some of the other steps that the company is planning to include in

Mission India to capture market in India.

But Xiaomi's venture in India was not free from controversies. Ericson has filed a law suit for violation of SEP (Standard Essential Patents). The patents are related to AMR (Adaptive Multi Rate) technology, 2G and 3G technologies and are licensed under FRAND (Fair, Reasonable and Non-Discriminatory Terms). Delhi High Court had ordered a prohibition on importing and selling Xiaomi products in India till February 5, 2015. The case is still pending.

### **Xiaomi Global: Future**

Xiaomi was initially focused to offer good quality products at affordable prices in Chinese market. Having successfully achieved the target, the company is testing new markets like Indonesia, Singapore, Thailand Russia, Brazil, Mexico and Malaysia and other countries in South East Asia and other BRIC countries. However the journey has just begun and company needs to evolve new techniques to come up as a big brand.

The company does not seem to be ready to target more developed markets dominated by Apple and Samsung. However, it has recently started selling accessories like headphones in the U.S. and Europe. But it is believed that the factors that made the company a phenomenon in China may not work here. The challenges ahead of company are

- The company lacks patent portfolio which is very much necessary to shield it from intellectual-property lawsuits from established companies like Apple
- The company was able to carve out a major share in smartphone market because of its value proposition—high quality products at low prices. But this may not work in developed countries where the mantra is "Most geeks and enthusiasts can afford an iPhone." "The sort of person for whom Xiaomi was developed does not really exist there".
- Celebrity status of its founder which worked in China has no practical relevance in US and UK
- Another problem is that Xiaomi has somehow got the status of affordable phone or poor man's Apple whereas people buy Apple or Samsung as status symbol to flaunt it. Same thing happened in India with Nano Car—a very ambitious venture of Tata Motors to provide affordable car. But the moment it was tagged as poor man' car, it was below the status of people to own it. Its sales never really took off and company is trying to sell it in various avatars.
- Therefore critics argue that the company's global ambitions will increasingly collide. Therefore while building on its strengths (efficient Effective inventory holding and stock management technique, Internet Marketing, Branding Strategy, The aggressive Pricing policy, Customer –obsessed strategy and Social Media Strategy and hunger market tactics), the company needs to reinvent itself, by thinking of redesigning the product line to make Xiaomi a brand on global scale.

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