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XIAOMI – TRANSFORMING THE COMPETITIVE SMARTPHONE MARKET TO BECOME A MAJOR PLAYER

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Abstract

Over the past six years, (between the period 2014 -2019), China's electronic information industry and mobile Internet industry has morphed rapidly in line with its economic performance. This is attributable to the strong cooperation between smart phones and the mobile Internet, capitalizing on the rapid development of mobile terminal functions. The mobile Internet is the underlying contributor to the competitive environment of the entire Chinese smartphone industry. Xiaomi began its operations with the launch of its Android-based firmware MIUI (pronounced "Me You I") in August 2010; a modified and hardcoded user interface, incorporating features from Apple's IOS and Samsung's TouchWizUI. As of 2018, Xiaomi is the world's fourth largest smartphone manufacturer, and it has expanded its products and services to include a wider range of consumer electronics and a smart home device ecosystem. It is a company focused on developing new-generation smartphone software, and Xiaomi operated a successful mobile Internet business. Xiaomi has three core products: Mi Chat, MIUI and Xiaomi smartphones. This paper will use business management models from PEST, Porter's five forces and SWOT to analyze the internal and external environment of Xiaomi. Finally, the paper evaluates whether Xiaomi has a strategic model of sustainable development, strategic flaws and recommend some suggestions to overcome them.

Keywords: Internet, Ecosystem, PEST, Five-forces, Value-chain, SWOT

1. Introduction

Xiaomi started the mobile phone business in 2011. By June 2012, the Chinese smartphone manufacturer market value was worth just US\$4bn. Following a funding round at the end of 2019, its market value increased more than 10 times as the firm's policy of tight margins and local focus swelled market confidence. The only Chinese Internet companies larger than Xiaomi are Tencent, Baidu, Alibaba, NetEase; and Xiaomi has surpassed China's established Internet companies such as Shanda and Ctrip (Robustelli *et al.* 2019).

Xiaomi has yet to spread its brand to Western markets, due to concerns over the patent wars that have beleaguered smartphone makers in the US and Europe. Initially, the business goal of Xiaomi was to develop more functions for the ordinary Android system and optimize the system interface. First of all, a successful Android system produced by Xiaomi is ROM&MIUI. This product has gained a huge recognition in the market, and it is downloaded and used by more than 200 different devices (Huang and Jitphrasong, 2016). In 2011, Xiaomi also officially decided to enter the mobile Internet mobile phone market, and its products are no longer just mobile phone applications. The name of Xiaomi's first mobile phone is Mi One. At the time, this was a versatile and advanced mobile phone. In the following years, Xiaomi's development was very rapid, and in 2014, Xiaomi's revenue was as high as US\$5 billion.

The three core products of Xiaomi are Mi Chat, MIUI, and Xiaomi smartphones. The first product, MIUI, is an Android mobile phone operating system customized by Xiaomi. Based on the original Android system, MIUI upgrades Android in more than one hundred places. On June 1, 2010, MIUI was officially released, and its user base covers 23 countries, which is very popular among mobile phone enthusiasts. The second product is Mi chat (Lee, 2017). This is a free instant messaging tool across iPhone, Android, Symbian mobile platforms and across mobile, Unicom, and telecom operators. Users only need to communicate with their contacts through Wi-Fi, 3G, and GPRS. Xiaomi Mobile is a high-quality smartphone designed by Xiaomi. Among them, the design of mobile phone ID is completed by the internal hardware team of Xiaomi. The mobile phone operating system uses the MIUI operating system independently developed by Xiaomi.

Xiaomi is different from other smartphone companies. The pricing strategy of Xiaomi is more transparent with little margin for dealers to make profit. Due to the incompatibility of the dual strategy, Xiaomi actually lost a large market. However, overall, the strategic high point of Xiaomi's entire business model is still "Consumer to Business (C2B) community e-commerce", which is also a community fan-operated business, and assisted by the dealer agency mechanism. At present, the growth rates of both businesses are slowing down. This is a challenge that Xiaomi has to overcome going forward, as investment enthusiasm is not high; and the profits distributed to shareholders are miniscule.

Xiaomi takes science and technology research and development as the core, integrates Internet resources and expands its advantages. Xiaomi hopes to become China's "Apple"; Xiaomi will also focus on improving the MIUI system and do its utmost to become China's "Google".

Xiaomi's mission focuses on:

- i. The main business line of the development, research and production of mobile phone products, and to become one of the major domestic mobile phone manufacturers; and
- ii. Providing customers with the highest quality products and services to win customer trust and customer loyalty. Xiaomi mobile phone hopes to achieve zero-profit sales (Lee, 2017). However, it must also ensure that sufficient profits are obtained later to support the growth of the company, which is also to achieve other goals of the company.

Xiaomi is committed to improving and developing better products, competing with other brands, becoming the leader in the Chinese mobile phone market, and ultimately leading Chinese mobile phone brands to the world (Yuan and Li, 2019).

The purpose of this paper is to evaluate Xiaomi as a rising star in a competitive smartphone market using PEST, Porter's five forces and SWOT to analyze the internal and external environment of Xiaomi against competitors. The forces shaping a technology-determined market nurtured by China's internet and mobile phone ecosystem have contributed to Xiaomi's success. The paper evaluates Xiaomi's strategic model and its sustainability and recommends measures to overcome its flaws.

The rest of the paper is constructed as follows: Section 2 reviews developments in China's Mobile Phone Market and Section 3 evaluates the internal environment of Xiaomi using financial analysis, Porter's Value Chain and SWOT. The recommendations are in Section 4 and Section 5 concludes with the Xiaomi's ecological chain plan.

2. China's mobile phone market

The Chinese mobile phone market has grown significantly over the past few years, where growth has been volatile, ranging from -1.0% to 6.3% (Statista Inc., 2019a). In the future, growth is expected to decelerate, intensifying rivalry. The leading players in the Chinese mobile phones market include domestic firms Huawei, Xiaomi and BBK Electronics, as well as US firm Apple. These are influential global technology firms with significant annual revenue, which allow significant investment in technological innovation for this market. The two driving technology forces will be foldable smartphones and 5G capability (Yen *et al*, 2019).

The mobile phone market includes mobile phone service revenues and average minutes of use (MOU). Market values are made up of total mobile revenues containing revenues from mobile service providers and other members of the mobile service value-chain for the provision of mobile telephony services, excluding revenues from the sale of devices.

Market volumes are made up of two segments: prepaid and postpaid, which consist of prepaid average monthly MOU and postpaid average monthly MOU. Minutes of use are made up from the average of voice minutes used in mobile subscriptions, including both incoming and outgoing calls, but not including M2M/IoT voice services.

Total revenue of the Chinese mobile phone market grew at a compounded annual growth rate (CAGR) of 3.7% pa in 2015-19, to reach US\$153.3bn in 2019. In comparison, the Singapore and Indian markets declined at compound annual rates (CARCs) of -3% and -3.7% respectively, over the same period, to US\$2.9 bn and US\$25.0 bn in 2019 respectively (Statista Inc., 2019a).

The trend in the Chinese mobile phone market is set by market leader Huawei. Huawei, by producing low-cost phones, which have similar characteristics to the rest of the market players, is able to gain market share. In addition, the company, through the technological advantages that it is able to offer, such as foldable phones and the promise of a 5G network, has grown significantly in the mobile phones market.

Market consumption volumes declined with a CARC of -9.7% between 2015-19, to reach a total of 631.4 average MOU in 2019. The market's volume is expected to fall to 203.9 average MOU by the end of 2024, representing a CARC of -20.2% for the 2019-24 period. Whilst market value has increased moderately, market consumption has decreased strongly. As mobile phone penetration increases in the country, leading players are shifting focus to sell more expensive high-ticket items.

With rising disposable incomes in China, this is likely to be the driver for future growth. Players such as Huawei initially rose to prominence for providing cheap phones but now produce high quality phones competing with firms such as Apple and Samsung.

Postpaid had the highest volume in the Chinese mobile phones market in 2019, with a total of 444.7 average MOU, equivalent to 70.4% of the market's overall volume. In comparison, Prepaid had a volume of 186.8 average MOU in 2019, equating to 29.6% of the market total (Statista Inc., 2019a).

Postpaid was the most successful segment for the mobile phone market because it seems to be the "cheaper" option according to consumers. Postpaid phones require consumers to sign a contract with a mobile network operator making them pay a monthly sum for their mobile phones, usually up to 12 or 24 months. The monthly sum varies according to the mobile network operator and is at least 500% cheaper than the total cost of the phone. Most consumers are willing to pay a smaller price for a longer period for a product, rather than a larger price for a shorter period, as prepaid requires a significant upfront fee, which not everyone can afford. By paying monthly, users can afford high-end phones without making a large one-off payment.

The performance of the market is expected to decelerate, with an anticipated CAGR of 1.5% for the five-year period 2019-24, to a market value of US\$165 bn by the end of 2024. Comparatively, the Singaporean and Indian markets will grow with CAGRs of 3.8% and 4.1% respectively, over the same period, to reach respective values of US\$3.5bn and US\$30.6bn in 2024 (MarketLine, 2019).

Due to the widespread outbreak of COVID-19 amidst plunging oil prices, it is difficult to predict how the market will perform in the next few years, until a vaccine is found (Chung and Ong, 2017). This novel coronavirus was declared a pandemic by the WHO in March 2020. While

the exact impact of COVID-19 is difficult to assess due to evolving changes, it will have a detrimental impact on market. However, as the majority of value come from contract and monthly pay as you go cards, the mobile phone market should be buffeted, and will not be as severely affected as other products.

2.1. Porter's Five Forces Model

The Porter Five Forces framework as shown in Figure 1 can be used to evaluate the competition that a company faces. This framework in Figure 1 and model were given by Porter. The model determines the profitability of a given market for a business and whether the company's investments are on good grounds. Porter five forces plays key role in increasing the level of competition. The more the level of competition, the more will be the profitability of the company (Ma'rifah, 2018).

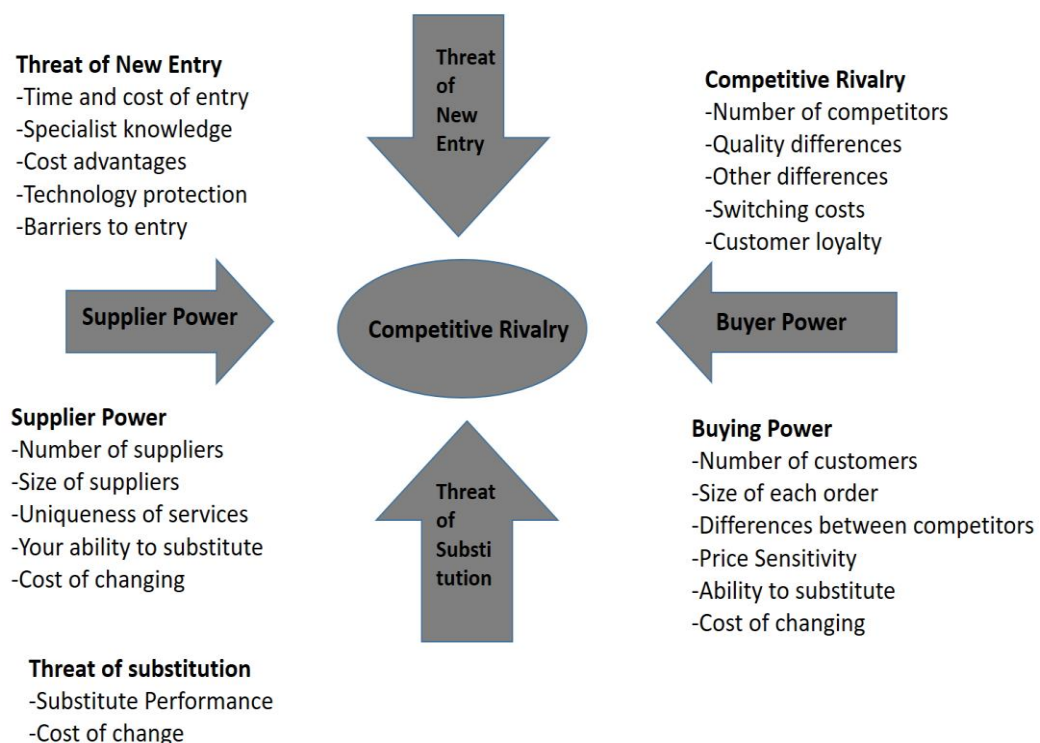


Figure 1. Porter's Five Forces Model
Source: Author's compilation

The five competitive forces identified by the Michael Porter are threat of substitute products; threat of new entrants; intense rivalry among existing players; bargaining power of suppliers; bargaining power of buyers as shown in Figure 1 above. If the Organization fails to sustain, it shall not be able to undertake any growth or renewal plans because of the uncertainty associated with its survival. This is what the Five competitive forces model assess. Porter's five forces model is undertaken for analyzing the environmental forces incidental to the formulation and implementation of strategy. Here, the Porter's Five Model is used to analyze the industrial environment for Xiaomi Corporation. Using the Five Forces in the mobile phones market, the mobile phone manufacturers will be players, the retailers as key buyers and network operators, and technological manufacturers for mobile telephony as the key suppliers.

Buyers tend to be large, and are therefore able to negotiate favorable contracts, although their bargaining power and profitability is limited regarding new, popular products due to price and stock competition with other buyers. Overall, buyer power is assessed as strong. Suppliers provide technology, equipment and parts for mobile phone manufacturing. Such technology is

often highly specialized, leaving suppliers reliant on this supply agreement, particularly as some parts can be unique to a certain manufacturer. Overall, supplier power is assessed as moderate.

The rise of the smartphone allows new entrants to exploit a burgeoning position in the market, although in many developed economies such as the US, this market is becoming highly saturated. As such, the threat of new entrants is assessed to be moderate in China. Considering the increasingly high penetration of smartphones, newcomers may be put off by high capital outlay, the scale economies necessary to compete with incumbents who have excellent brand reputations, and strict regulations regarding health and safety and the environment. Therefore, the threat of substitutes is assessed to be weak.

2.2. Degree of rivalry and competitive landscape

The Chinese mobile phones market is dominated by a small number of large-sized companies, such as Apple, Huawei, BKK and Xiaomi. Rivalry is expected to increase due to the limited number of competitors and the high penetration of mobile phone devices, which intensifies R&D expenses and price competition. The introduction of smartphones has added another competitive dimension, with Apple and those using the Android operating system (including HTC, LG, Samsung and Sony) establishing themselves as major players.

While Apple operates independently of many players in the market by virtue of its closed iOS ecosystem – which itself serves as a means of differentiation and appeal, especially amongst its large and loyal customer base – the open Android platform is much more fragmented and competitive. In the Android sector, budget devices sit alongside high-end, flagship smartphones from the major manufacturers, varying in form, screen size, build quality, processing power and, most importantly, price.

As far as Windows' mobile operating system is concerned, Microsoft has a competitive disadvantage due to its low acceptance by consumers. Particularly, the majority of mobile applications are available only in iOS or Android operating systems, which makes consumers less inclined towards a Microsoft mobile purchase. However, as the market progresses, the differentiation that premium devices hold over their budget competitors will diminish. Huawei, known for providing cheap smartphones, which provide excellent value for money, now also produces some of the most premium devices in the market. This has helped enhance the firm's reputation amongst consumers.

2.3. How is technological innovation shaping the strategy of leading players?

In the mobile phones market, technological innovation is a key strategy for leading players. New technological features can give leading players an edge over rivals. Apple has taken steps to improve the camera capabilities of its new iPhones. For example, the iPhone XR introduced a number of new capabilities such as Portrait Mode, Smart HDR, Portrait Lighting, and Depth Control. The marketing campaign behind the XR was also predominantly focused on demonstrating these new features. Another camera upgrade on the more recent iPhone 11 is Deep Fusion, which improves photo quality and optimizes details for pictures taken in medium-light settings. The phone also has a 12-megapixel front-facing camera.

A new smartphone trend which emerged in 2019 was foldable phones. Huawei released the Huawei Mate X in China in November 2019, which they claim is the “world's slimmest” foldable phone at just 11mm thick. It is also the most expensive foldable phone costing US\$2600. Xiaomi also announced a new foldable phone in 2019, currently referred to as Mi Fold and Mi Flex. The Xiaomi phone will be a cheaper alternative to the Huawei model costing around half the price yet displaying similar folding features. BBK subsidiary, Oppo, has reportedly patented numerous designs for a foldable phone but it is still unclear on which path the firm will take. However, it is clear the firm is looking to provide rival foldable phone to those already announced.

Another key technological innovation for the Chinese mobile phones market, which rose to prominence in 2019, is the introduction of 5G. The Huawei Mate X will have a 5G compatible edition. Additionally, Huawei announced a more conventional 5G compatible device, Huawei Mate 20 X 5G, an updated model of the Huawei Mate 20 X. The Xiaomi Mi 10 and Mi 10 Pro, the

company's flagship devices of the year, both come with 5G version. The Oppo Find X2 will only be released with 5G capabilities with the firm stating it does not want users to purchase 4G only devices and be left behind with the widespread rollout of 5G. Apple has yet to announce a 5G capable device, but this is likely to change with the release of the iPhone 12 in 2020. In November 2019, Chinese mobile operators made 5G services available to consumers as the nation seeks to be a global technology leader. The service became available in 50 Chinese cities, as part of one of the largest global 5G deployments. As 5G becomes more widespread in China, demand for 5G phones will increase, helping to boost the market value.

2.4. What are the strengths of the leading players?

Apple and Xiaomi use both direct and indirect distribution channels to effectively reach its customers in the consumer, small and mid-sized business, and education, enterprise, and government markets. In most of its major markets, the company sells its products and resells third-party products directly to consumers and small-and mid-sized businesses through its retail and online stores and direct salesforce. The company's retail stores are typically located in high traffic locations in shopping malls and urban shopping districts. By operating its own stores and locating them in desirable high-traffic locations, the company is better positioned to ensure improved customer buying experience and attract new customers. The stores are designed to simplify and enhance the presentation and marketing of the company's products and related solutions.

BBK Electronics offers its mobile phones through numerous different subsidiaries and brands giving the firm a diversified mobile phone business model. This means that if one of the brands suffers, the company can rely on its other brands to sustain its performance in the mobile phone market.

2.5. What threats do the leading players face?

With the postpaid segment accounting for 70.4% of the Chinese mobile phones, market firms are heavily dependent on the cellular network providers. Firms rely on cellular network carriers for distribution and related services. The inability of these network carriers to attract and retain customers, or widespread termination of any agreements, may prove unfavorable for leading players. Dependence on network providers could affect the profitability of players in the case of a failure of a cellular carrier.

In this highly competitive market, competition is characterized by aggressive price cutting and downward pressure on gross margins, and the frequent introduction of new products. Competition is intensified by evolving industry standards, rapid adoption of technological and product advancements by competitors, short product life cycles, and the price sensitivity of consumers. Companies must compete on factors that include product price, features, relative price and performance, quality and reliability of product and services, design innovation, third-party accessories and software ecosystem, distribution and marketing capabilities, and corporate reputation.

3. Internal environment

3.1. Financial analysis

In 2019, Xiaomi's total revenue has leaped phenomenally as shown in Figure 2. According to Xiaomi's 2019 financial statements, the total revenue for the year reached US \$ 29 billion. This is a major breakthrough in sales of Xiaomi (Phones, 2017). However, according to the data in the report, although Xiaomi's sales growth rate is very fast, Xiaomi's net profit in 2019 is US \$ 1.4 billion, and 2018's net profit is US \$ 2 billion. Profit decreased by 26%. According to the 2019 financial report, it is also worth noting that Xiaomi's mobile phone sales in the fourth quarter reached 326 million, and its sales were approximately US \$ 4.3 billion (Phones, 2017).

Compared with the sales price in 2018, the average price of Xiaomi smartphones has increased by 2.2% (Phones, 2017). Xiaomi has been devoted to the development of high-tech

mobile phones, and its main purpose is to make Xiaomi mobile phones not lose the performance of other brands of mobile phones. This allows consumers to enjoy technology without paying too much money. Xiaomi's financial report mentioned that in the future, Xiaomi will develop more different products to suit different consumers. However, due to the high research and development costs of 5G network mobile phones, the sales price of Xiaomi's 5G mobile phones will increase in 2020.

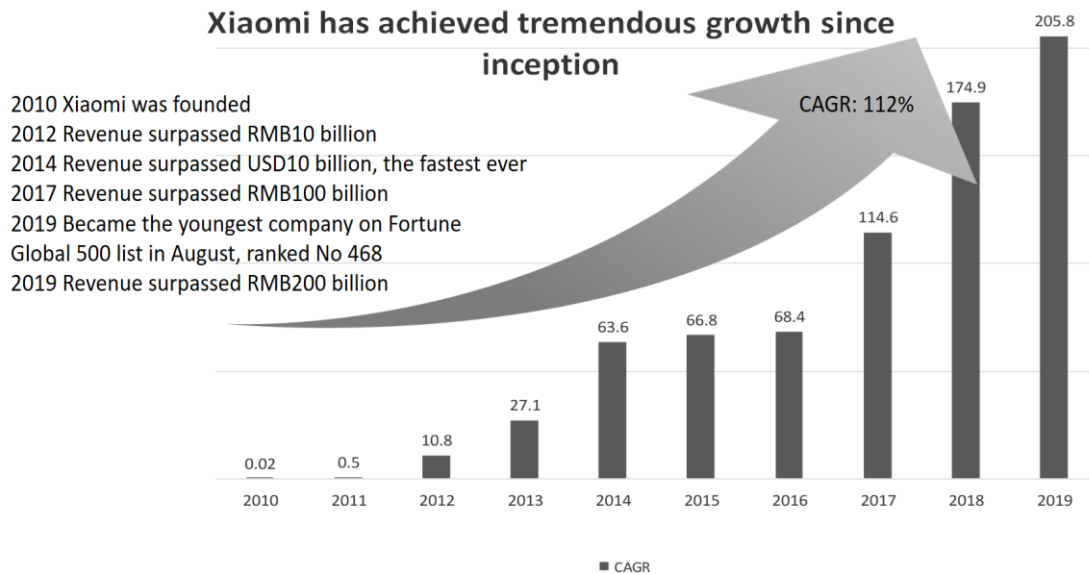


Figure 2. Revenue of Xiaomi Ltd
 Source: Statista, Inc. (2019b)

3.2. Financial ratio analysis

Our analysis in Figure 3 indicates that the Xiaomi's business has maintained a safe level of current assets to meet its obligations, with the current ratio at 1.6x currently and a return to equity of about 12.5%. For Tech companies, this ratio is within a sensible range since there is an enough cash cushion without leaving too much capital idle or in low-earning investments (Gartner.com, 2018). With a debt-to-equity ratio of 15%, Xiaomi's debt level may be prudent. This range is considered safe, as Xiaomi is not taking on too much debt obligation, which can be restrictive and risky for equity-holders (Gartner.com, 2018). Risk around debt is very low for Xiaomi, and the company has the ability and headroom to increase debt if needed going forward. Low debt indicates room for improvement as its cash flow covers less than a quarter of its borrowings, which means its operating efficiency could be better. However, the company exhibits an ability to meet its near-term obligations, which is not a surprise for a large-cap.

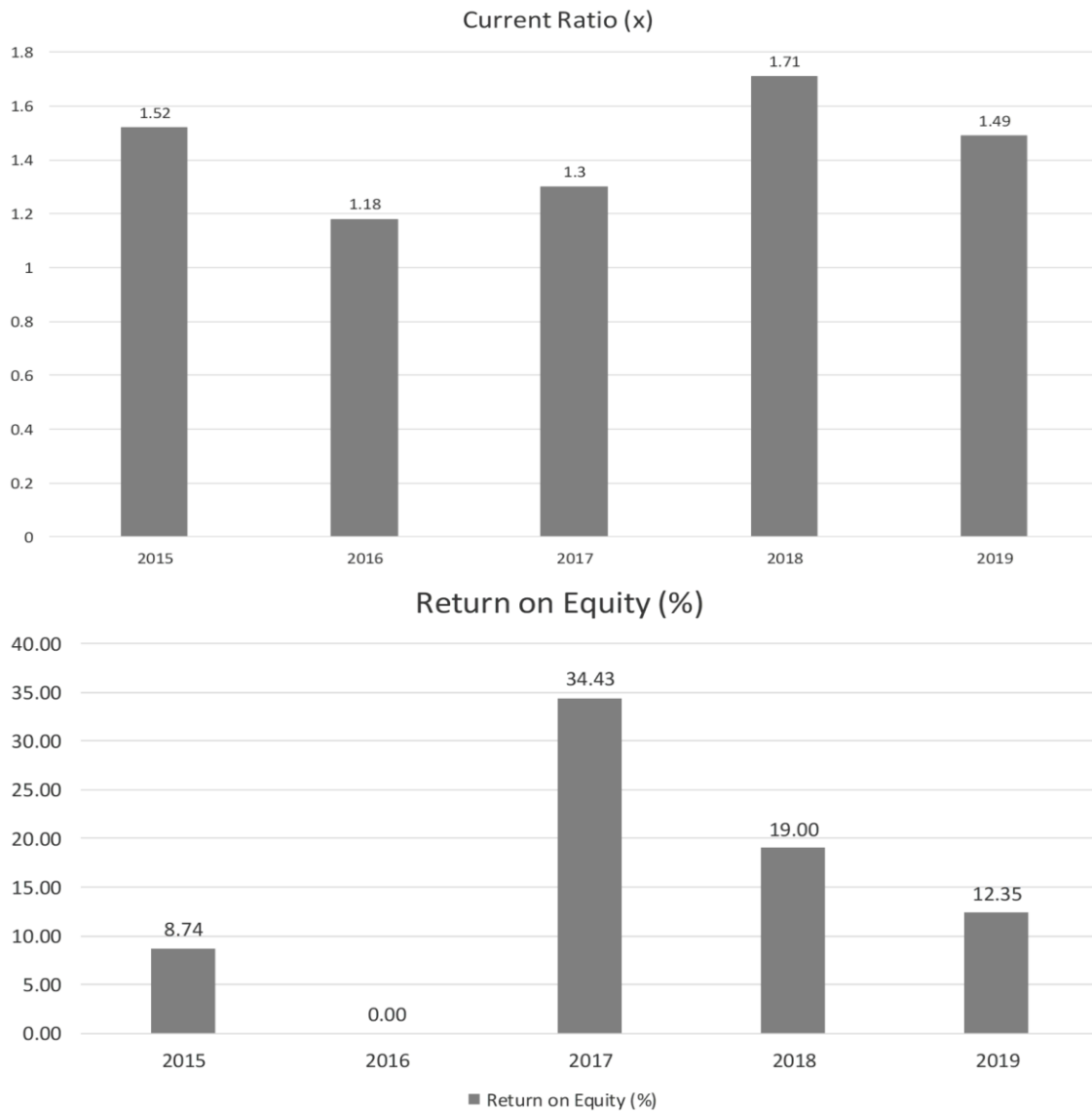


Figure 3. Financial Ratio analysis of Xiaomi
 Source: Xiaomi Ltd. (2019)

3.3. Value chain

The value chain at an organizational level is the combination of various activities, which results in the business profits or margins as shown in Figure 4 of Porter's Value Chain Model. It is the combination of vertical and horizontal components. Vertical components is also termed as 'primary activities' inclusive of supply chain management, Operations, Sales and Marketing works towards the promotional aspects and selling the product to the customer by creating wide range business value; Services are the all types of activities performed effectively to deliver the product after customer buys a product (Sun *et al.* 2018). The horizontal components are called as support activities inclusive of Infrastructure which are the combination of basic functions needed for an organization such as finance, risk and compliance, legal, quality assurance and control, PMO or strategic management, human resource management and so on (Sun *et al.* 2018). Technology relates to the types of software, hardware, machineries, systems, technical knowledge acquired and used to generate results from the internal resources (inputs); Human Resource Management

includes recruitment and hiring, Talent Development and Trainings, Performance Management, Compensation and Employee Benefits, Health Benefits etc.; and Procurement is responsible for acquiring services or goods from the external vendors or sources.

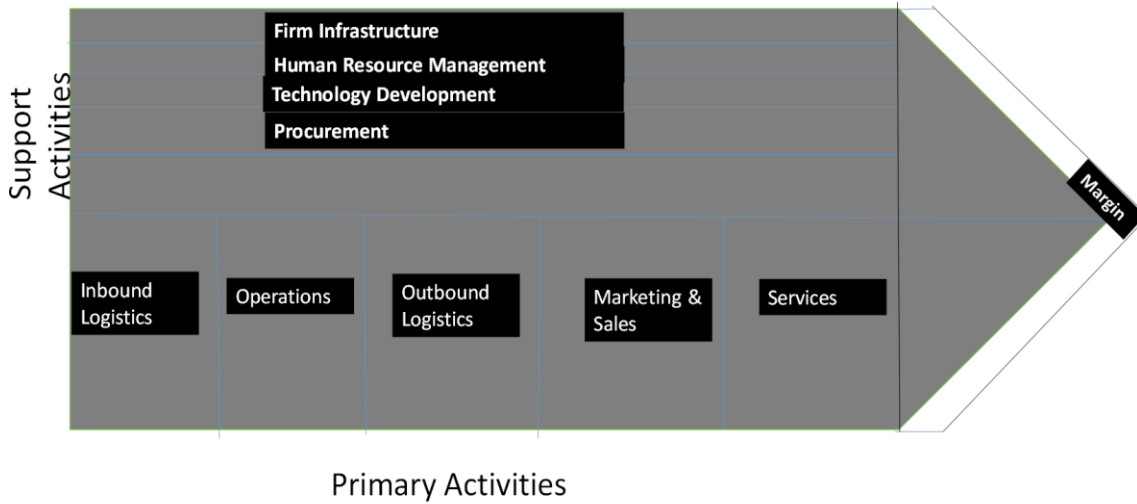


Figure 4. Porter's Value Chain Model
Source: Xiaomi Ltd. (2019)

3.4. SWOT analysis of Xiaomi

SWOT analysis as shown in Figure 5: The SWOT Analysis Tool, is a detailed structured planning method that explains the internal strength (S), weaknesses (W), and the external opportunities (O) and threats (T) of a particular organization. This tool helps a company achieve the organizational objectives.

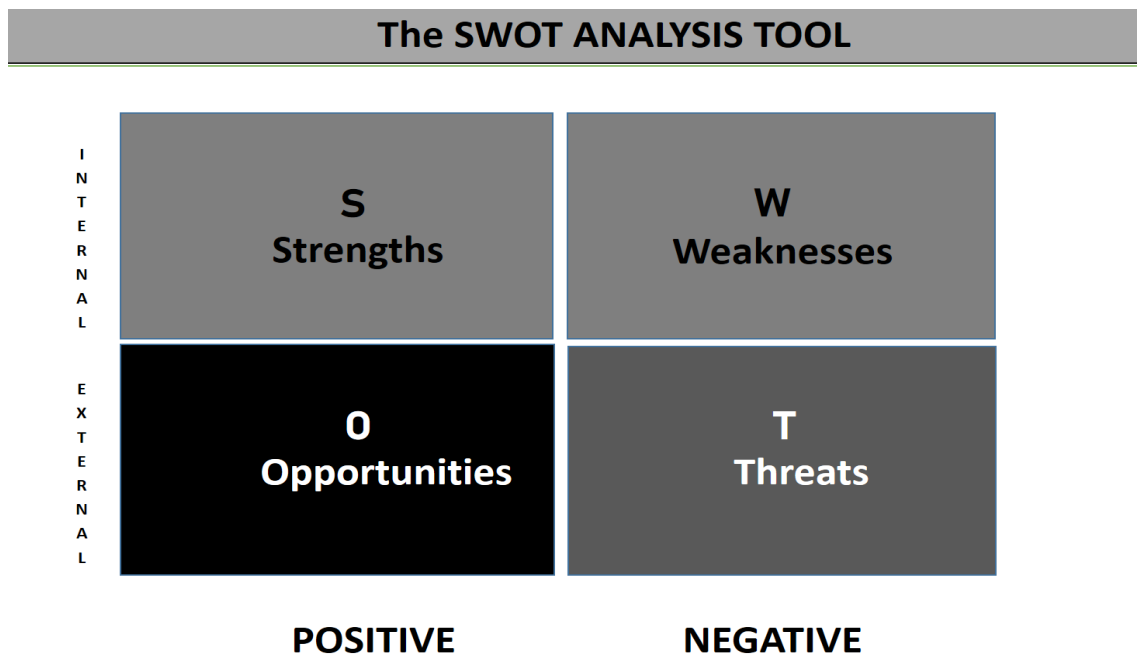


Figure 5. The SWOT Analysis Tool
Source: Author's compilation

3.4.1. Strengths

Xiaomi has an advantage in smartphones. The first is the quality of the mobile phone, which has reached the high level of international manufacturers, for example, mobile phone manufacturers as Motorola and Samsung (Chen *et al.* 2019). The size of the Xiaomi mobile phone is very in line with Chinese preference, for example, the screen size is 4 inches, such a size can improve the user experience. Moreover, the design of MIUI is in line with the habits of most Chinese users. The Xiaomi mobile phone uses a large battery of 1930 mah, which exceeds the battery capacity of mainstream smartphones by nearly 30%, and the Xiaomi mobile phone can support up to 450 hours of network standby and 15 hours of continuous talk (Russell, 2017). "No matter how to grab the handpiece, it will not affect the signal of the Xiaomi mobile phone", forms a powerful advantage of the Xiaomi mobile phone.

The choice of Xiaomi's sales method is online sales. This can save costs, and online shopping is a fashionable way of consumption. The online booking method creates a feeling: scarcity. If you refer to the mobile phone sales at the same price, Xiaomi's booking is very hot. Xiaomi announced that it currently only supports online purchases on Xiaomi. It supports online payment and cash on delivery. Cash on delivery is currently only supported by cash payment. In the future, Xiaomi will open a POS card swipe service. In addition, for online payment methods, if the order amount is greater than US\$28, shipping will be waived.

The core of personal brand implantation is to use Lei Jun as the product spokesperson for Xiaomi mobile phones. As a successful internet person and angel investor, Lei Jun's struggle history, professional experience and success stories have a great appeal to the younger generation, so his personal charm and influence have strengthened the Xiaomi mobile phone brand (Xiao *et al.* 2017).

3.4.2. Weakness

There is no front in Xiaomi phones. This is a shortcoming that Xiaomi phones cannot avoid and cannot make up for by post-optimization. The times are evolving, and technology is improving (Xiao *et al.* 2017). The front camera naturally has its value. For example, the latest version of mobile phone QQ supports video calls with PCs. From this point of view, the front camera is still very important.

The screen of Xiaomi's mobile phone is a little warped; after using it for a long time, the mobile phone will lose paint; the gap of the back cover of the mobile phone is not closed tightly; the mobile phone body shakes and there is a noise; when buying, there are no headphones in the original accessories (Russell, 2017). In the Xiaomi Forum, there were also many problems found, including the slow delivery speed of logistics, the paint falling off, the camera unable to take pictures, frequent crashes, the inability to turn on the phone, and the serious sound of broken calls.

Because Xiaomi started late, just over a year after its establishment, when smartphones such as HTC, Samsung, and iPhone occupy most of the market share, Xiaomi's mobile phone is obviously insufficient in market share and market share, and the word of mouth has not been established in the public's mind (Chen *et al.* 2019). In addition, Xiaomi's mobile phones frequently leak light, paint, frequent crashes, broken calls, and incomplete after-sales services. Therefore, these problems are a challenge to Xiaomi's reputation.

Xiaomi mobile phone currently announced three major after-sales channels: telephone customer service, micro-blog service and online customer service. However, telephone customer service is generally recognized as almost impossible to enter, and messages to the microblogging service and online customer service are almost dead, and users who encounter mobile phone problems face nowhere to complain (Chen *et al.* 2019). The customer service staffs of Xiaomi also said that under normal circumstances, returns and exchanges only take 3 to 5 working days, but they need to go through "application for replacement, cross-region mobile phone express, mobile phone engineer detection, and re-delivery of mobile phones (Russell, 2017). Such steps may take at least 6 - 8 working days. This also makes it difficult for the Xiaomi mobile phone to complete the repair within five days.

3.4.3. Opportunities

Modern smartphones are gradually becoming more intelligent and multifunctional. Therefore, the market demand and requirements for smart phones will be higher (Retnowulan, 2017). There are only 78 companies doing RMCPU in China, and the price will fall linearly, which promotes the computing power and cost optimization of the entire smartphone. This is a very big driving force for the entire mobile phone industry.

The Xiaomi mobile phone cooperated with China Unicom in the early stage of its release in 2011. After launching the China Unicom contract machine, in 2012, the Xiaomi mobile phone turned to China Telecom to jointly launch the CDMA version of the Xiaomi mobile phone. In addition, Xiaomi will surely gain many benefits in its cooperation with China Unicom and China Telecom (Kline, 2017). Whether it is dealing with the interests of telecommunications providers or developing value-added package services with China Telecom and China Unicom, these strategies have promoted the promotion of Xiaomi mobile phones. The combination with the telecommunications provider is the highlight of Xiaomi's technology strategy (Sitompul, 2019). China's 5G market ushered in a new pattern. Xiaomi's entry into the 5G smartphone market is to leverage on this extremely advantageous factor.

There is currently no mobile phone brand in China that rivals large foreign companies. The development of Xiaomi represents the future of national enterprises. China has the world's largest mobile market with unlimited potential. In the short term, there are no opponents with the same configuration and the same price. The price of the Xiaomi mobile phone is lower with the same configuration. In the mobile phone industry of the buyer's market today, low prices mean more sales, which also means an increase in market share (Kline, 2017).

3.4.4. Threats

The big question is how to make Xiaomi stand out in the fierce smart phone competitive market. Regardless of the design of the Xiaomi mobile phone or the MIUI system, the independent property rights barriers are not very high. Xiaomi's hardware applications are interconnected (Kline, 2017). In addition to Qualcomm, other partners of Xiaomi's mobile phones are also top-level suppliers of meta-components, including Sharp, Samsung, TPK, Wintek and Desai. Lei Jun's mobile Internet layout of "terminal + content + service" has also taken shape. With the support of the top suppliers, Xiaomi, a domestically produced mobile phone, has also shown a weakness that its independent property right barriers are not high, which undoubtedly poses a major threat to the future development of Xiaomi phones.

The research and development of Xiaomi mobile phone products adopts the mode of user participation. Of course, this can also be understood as a hype. It is a low-cost and efficient hype marketing, but this is indeed a new product form. After the release, Xiaomi will face the crisis whether it will disappear quickly. Secondly, "Mihei" (as opposed to "Rice Noodle", a group that specifically questioned Xiaomi) tried to use and fabricate various negative news to destroy the image of Xiaomi's mobile phone (Sitompul, 2019). In addition, due to the defects of Xiaomi's mobile phone and the question of users' after-sales service, the media and the general public are actively discussing the Xiaomi mobile phone, and public opinion has exerted great pressure on the future development of Xiaomi mobile phone. High-end brands of mobile phones have seized the domestic mobile phone market through price reduction measures. Although they cannot sell at a low profit like Xiaomi in the short term, in the near future, Xiaomi's cost-effectiveness will continue to weaken.

4. Strategy goals

In 2019, Xiaomi's development trends are achieving its goals and objectives as Xiaomi has increased its smartphone market share. Xiaomi's objective is to increase its smartphone market share in 2020, and do its utmost to make Xiaomi mobile phones the most cost-effective at the same price level. In 2020, Xiaomi plans to create more new products, such as electric bicycles, Xiaomi boxes and routers.

A bold new design - the sale of the two new phones of Xiaomi are very good: Redmi note 7 and Redmi 8. Customers can experience the unique design of Xiaomi Technology on new mobile phones, such as hole-punch cameras and high-performance processors. Most notably, their prices are not high.

Value flagships - Xiaomi has launched a new mobile phone Mi 10 series, which is used to compete in the global market, with the following advantages: very good material touch; high-definition camera; support 5G network; powerful processor Snapdragon 865.

Focusing on European market - the 5G network will become more and more popular in the future smartphone market. Xiaomi's Mi mix 3 series of mobile phones have all been upgraded, and this phone will have 5G functions (An *et al.* 2016). Xiaomi phones with a price of US\$ 280 or higher will support 5G networks, and Xiaomi is entering the European and American smartphone markets. Xiaomi's goal is to make more innovations in 2020, even though the world economy is mired in an era of low oil prices (Chung and Ong, 2017).

4.1. Strategy formulation

Xiaomi should continue to promote the "hardware + software + Internet service" model, adhere to the development direction of Internet mobile phones, and build an ecological chain of "smart phone terminals + mobile Internet". In recent years, Xiaomi's mobile phones have maintained a high market share in the mid-end smartphone market, but they lack the advantage in the most profitable high-end smartphone market. Under the competition from WeChat, Mi Chat only has a small share of the attention and the number of users in the comparison of the entire market, and the prospect is not optimistic (Zhang and Zhou, 2018). However, Xiaomi Technology is temporarily unable to abandon Mi Chat. Mi Chat registered users exceeded 12 million (Dianah and Welsa, 2017). What Mi Chat must do is to provide users with convenient communication free, but also to provide users with a convenient way to chat. Based on these two experiences, Xiaomi can meet the consumers' expectations, thereby adding more services and building a huge mobile internet (Zhang and Zhou, 2018).

Xiaomi's mobile phone has won the market's attention due to its powerful configuration and high-end performance. According to the current published data, the demand for Xiaomi mobile phones is very high. Xiaomi's corporate strategy does not have a clear positioning and long-term development plan. The profit model through software services can also be divided into multiple development directions. Building the entire industrial ecosystem and building platform in depth, it is an optional path. However, the development direction of Xiaomi is currently very vague. Among the so-called software and services are the relatively less mature Mi chat, so the entire company urgently needs a clear development direction to guide the development of the entire company.

4.2. Strategy implementation

4.2.1. Building a "three-stream" industrial ecosystem

The main purpose of constructing the ecosystem of the entire industrial chain is to fully control the information flow, capital flow and logistics between the management of the entire industry, grassroots and customers (Fortunato *et al.* 2019). Xiaomi needs to continue to expand production and market share. When Xiaomi controls the ecosystem of the entire industry, the manufacturing of accessories for Xiaomi mobile phones can achieve economies of scale, thereby reducing costs.

4.2.2. Building a network platform

The specific method of constructing a successful network platform is to create a platform through a high market share, so that a virtuous circle can be formed. Take Amazon as an example: its core commodities are advanced terminals and excellent content, the first is to sell electronic reading as a low price device, through the Kindle terminal to sell more e-books, and then profit from the sale of e-books, and users can get more content at a cheaper price (Fortunato *et al.* 2019). Similarly, Xiaomi can use this form to form a virtuous circle. First, Xiaomi can gain a place

in the market based on the characteristics of low prices and high-quality products. At the same time, the Xiaomi team develops various software and services when the market holds. After the rate reaches a certain level, Xiaomi can create a network platform belonging to Xiaomi, learn the platform operation mode of the app store, and encourage the majority of software developers to continue to develop excellent software to obtain benefits. With availability of such services, Xiaomi mobile phones will become more competitive, and then further attract developers to develop software, and finally form commercial barriers.

4.2.3. Cost leadership strategy

Regarding product development costs, Xiaomi needs to strengthen MIUI system development and accelerate cooperation with related manufacturers. The advantages of the MIUI system and the cooperation of the manufacturers have created huge advantages (Leavy, 2016). The development of the core device of the MIUI system has not only created a basis for cooperation between enterprises, but also reduced the research and development costs of Xiaomi Company and to achieve differentiation of its products. Xiaomi should actively carry out marketing cooperation with third parties to improve the credibility of Xiaomi products. Reduce sales costs through Weibo marketing and website marketing (Xie *et al.* 2016). At present, Xiaomi's aggressive marketing and after-sales service strategies have brought some negative effects to Xiaomi.

Xiaomi product logistics is a logistics company contacted by Xiaomi. On the basis of ensuring product quality, it should try to reduce logistics costs, create lower logistics transportation, reduce logistics costs, and achieve cost leadership (Song *et al.* 2019). In the case where the core part is almost the same as competing products, Xiaomi can create different brand images to obtain the advantages of brand differentiation (Xie *et al.* 2016). This can make Xiaomi's service and user experience a unique competitive advantage. Eventually, Xiaomi will have more fans and users (Rawal *et al.* 2017).

4.2.4. Differentiation strategy

In terms of marketing, compared to the common marketing methods used by general mobile phone manufacturers such as TV promotion and outdoor advertising, Xiaomi mobile phones can target mobile phone enthusiasts and then comprehensively adopt multiple marketing methods (Fortunato *et al.* 2019).

Xiaomi Technology can promote Xiaomi mobile phones through new Internet information dissemination channels such as Weibo and forums, and allow these customers to participate in the development of Xiaomi mobile phones, which can provide many pertinent opinions for the development of Xiaomi mobile phones.

The most important point in the personnel differentiation strategy is that Xiaomi Technology is established by excellent software engineers from well-known IT companies at home and abroad, such as Microsoft, Google, Motorola, etc., and has obvious technical advantages.

5. Conclusion

The rapid development and success of Xiaomi Technology has attracted everyone's attention. Xiaomi mobile's phone is a smartphone manufacturer that entered the mobile phone market in 2011 (Safiya and Shylesh, 2019). In just three years, it has increased its sales from 500 million Yuan to 30 billion Yuan. In the first half of 2014, Xiaomi sold 26.11 million mobile phones, a year-on-year increase of 271%, and completed 60 million sales throughout the year.

There are important reasons for the success of Xiaomi: Xiaomi has relied on the innovation of various modes implemented by Internet thinking. Lei Jun, chairman of Xiaomi Technology, admitted frankly, as a smartphone manufacturing company, the Internet is the wing of Xiaomi. The Internet is a way of thinking and a way of thinking about the future (Rawal *et al.* 2017).

The so-called Internet spirit means openness, transparency, and cooperation. Xiaomi Company projects these key points to all aspects of design, marketing, and value-added services, and then penetrates into the ecological chain of Xiaomi Company's industry. The "Xiaomi Model" came into being (Fortunato *et al.* 2019).

The "Xiaomi model" has begun to have an impact on related companies in the industrial ecological chain (Song *et al.* 2019). Xiaomi started the "Ecological Chain Plan" in 2019, with the goal of copying its model to expand to 100 companies, building the Xiaomi mobile phone industry chain through software, hardware, and services, and marching into new areas such as home furnishing and wearable devices. Up to now, a series of products including routers, cameras, smart bulbs, and smart sockets have been released (Safiya and Shylesh, 2019).

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