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Xiaomi's Business Development Strategy

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Abstract

Xiaomi is a Chinese corporation that is engaged in research, development and sale of smartphones, Internet of Things (IoT) services, as well as the production and sale of goods for life, the provision of Internet services and investment business. The company operates in China and in global markets. Implementing the classic scenario of "turning bad into good", Xiaomi used its almost fatal decline to create a radically new business model. Sales began to grow again, the company began to explore new markets again, and Xiaomi owes this triumphant return to its unusual model. Xiaomi has established itself well in the global smartphone market with its latest premium products and affordable but high-quality models. Today, the company has also taken a strong position in the promising Internet of Things industry. Xiaomi attaches great importance to the development and preservation of talents in the field of technology. The company announced new incentive benefits for young engineers, technical specialists, middle and senior managers, as well as participants in a new 10-year Entrepreneurship Program. However, this is a strong dependence on smartphone sales, which leads to fierce competition in the industry with players such as Samsung, Huawei and Apple. Due to the rapid development of Xiaomi technologies, it is necessary to work tirelessly to protect its market share by developing more and more new models and bypassing competitors.

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Keywords

Strategy, business model, competition, internet of things, ecosystem, smartphones.

Introduction

Xiaomi is a Chinese corporation that is engaged in research, development and sale of smartphones, Internet of Things (IoT) services, as well as the production and sale of goods for life, the provision of Internet services and investment business. The company operates in China and in global markets.

Xiaomi began its history in the capital of China, Beijing in 2010. But the beginning of the elaboration of its concept and the way it all started is usually associated with the personality and processes, the success of which was predetermined long before the founding of Xiaomi. The founder of the Xiaomi brand is Lei Jun. This talented engineer, professional businessman went through a difficult path of success even before he launched the company [Xiaomi's Business Model..., www]:

- 8 years (from 1992 to 2000) climbed the career ladder from an ordinary engineer to CEO at Kingston;
- launched a popular Chinese social network-an analogue of YouTube, yy.com;
- created a successful online store of Vancle.

Thanks to excellent ideas and their professional implementation, even before the Xiaomi brand was launched, its founder was already among the dollar billionaires.

At first, the company was developing an operating system based on Android, MIUI. The production of the company's first smartphone was announced a year and a half after its foundation in August 2011. It was Xiaomi Phone Mi-One, the launch of which was successful: during the first day of sales, the company collected 300 thousand pre-orders.

In 2013, Smart-TV appeared in the product line. In 2014, humidifiers, tablets, routers, Xiaomi set-top boxes and the legendary Mi Band fitness bracelets appeared. You and your pet won't have enough fingers to count the products in the line of devices and accessories, but the main market for the company is still the smartphone market [What is behind the rise and fall..., www].

According to the results of the first quarter of 2022, Xiaomi remains in the top three in the global smartphone market with a share of 12.6%. In China, Xiaomi ranks fifth in the market with a share of 13.9%.

The company has also created the world's leading AIoT consumer platform, artificial intelligence plus the Internet of Things, to which 478 million smart devices, excluding smartphones, tablets and laptops, are connected by the results of the 1st quarter of 2022. Xiaomi products are represented in more than 100 countries [ibid.].

In August 2021, the company entered the Fortune Global 500 list for the third time, taking 338th place and rising 84 places compared to 2020 [How Xiaomi became a giant in the Internet of Things market, www].

Methods

In the study, the authors used some methods such as analysis and synthesis, induction and deduction, historical and logical, abstraction and concretization.

Results

Xiaomi's strategy has always been different compared to other competitors. From the very beginning, the company used a small profit margin from its hardware products.

There are more than 150 types of products that Xiaomi sells. They sell chargers, air purifiers,

suitcases, television and more. Xiaomi also provides cloud storage, which requires a subscription.

Xiaomi's services also include online games and TV shows. It was noted that Xiaomi is also developing its AI engine. In the coming years, Xiaomi's AI could have a huge impact on Xiaomi's business model.

Xiaomi's unique business model includes several types of activities. The company has also invested in several small startups. The main goal of the company is to expand by creating a diversified chain of products and services. The startup ecosystem also benefits from this.

Xiaomi's business model offers a range of products, services and support for startups.

Xiaomi also offers affordable products. This increases the fascination of his specific products in his target audience. They offer the best products with the best customer service. Customers can get Bluetooth speakers, fryers, rice cookers and more on the website.

Xiaomi always supports the product class. These innovative and cost-effective products are on a separate platform called Mi home by Xiaomi. These creative and innovative products also show uniqueness in Xiaomi's business model.

Xiaomi's business consists of four main divisions [How does Xiaomi dominate the global smartphone market, www]:

1. Smartphones: 63.6% of revenue. In this segment, the company manufactures and sells smartphones under the Xiaomi and Redmi brands. The segment margin is 9.9%.

2. Internet of Things and products for life: 25.9% of revenue. In this segment, the company manufactures and sells televisions, air conditioners, washing machines, humidifiers, vacuum cleaners and other household appliances, as well as tablets, laptops and wearable devices: headphones and fitness bracelets. The segment margin is 15.6%.

3. Internet services: 8.6% of revenue. In this segment, the company earns money from advertising, selling a shell for SmartTV, games and creating content with streaming partners. The segment margin is 70.8%.

4. Other: 1.9% of revenue. What exactly accounts for this segment, the company does not disclose. The segment margin is 22%.

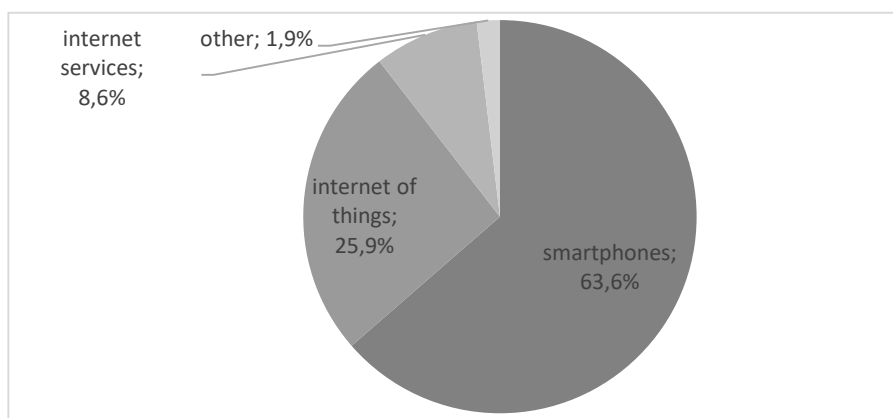


Figure 1 - Xiaomi business units [compiled by the authors]

China accounts for 50.2% of the company's revenue [Xiaomi's Business strategy..., www].

Smartphones account for 63.6% of the company's revenue. The company predicts that the share of 5G devices among newly sold smartphones will grow from the current 53% to 78% by 2026 and exceed a billion devices per year. This will help maintain high sales growth rates.

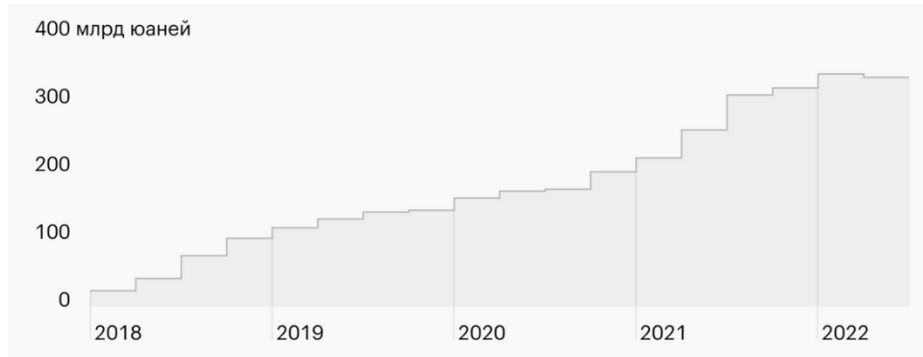


Figure 2 - Xiaomi Revenue [What are Xiaomi's business strategies, www]

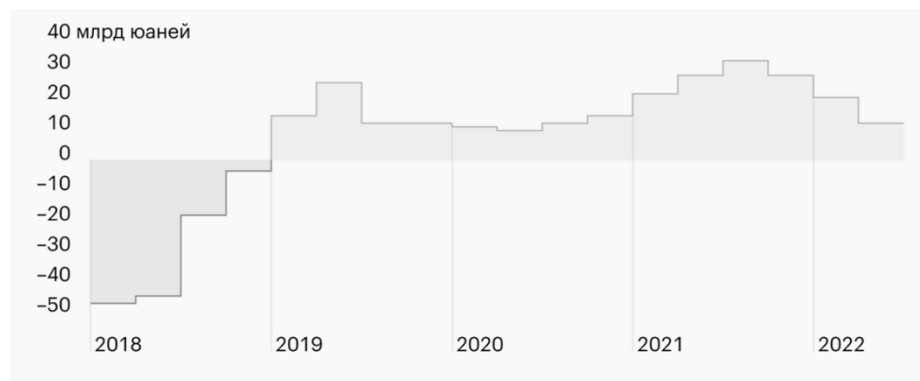


Figure 3 - Xiaomi's Net profit [ibid.]

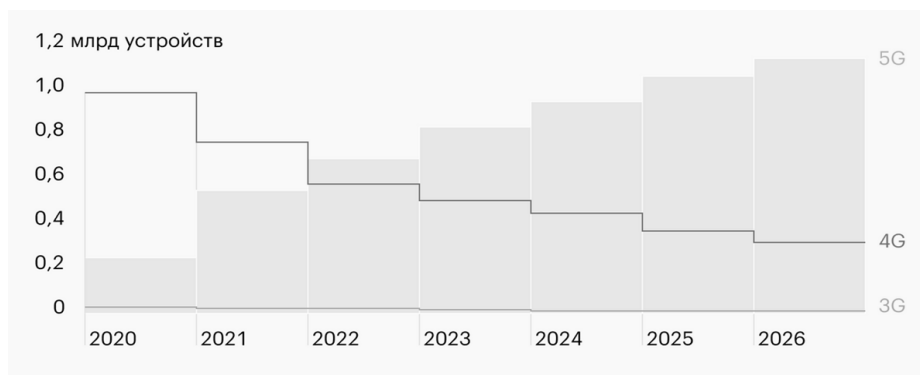


Figure 4 - Forecast of smartphone shipments [ibid.]

Xiaomi is implementing the Smartphone × AIoT strategy, which is built on the basis of the smart home ecosystem and interconnected devices. The launch of 5G networks improved the quality and speed of interaction between devices, which increased sales in the company. The company predicts that the number of Internet-connected devices will double by 2025 from the current 12.3 billion to 27 billion devices. The number of devices in the Xiaomi ecosystem in 2021 increased by 36.2% to 478 million. The smartphone penetration rate in developed countries exceeds 75%, but Xiaomi's main markets are China and India, where 63% and 32% of the population use smartphones, respectively. Sales growth in these regions will outpace global growth rates.

In 2021, Xiaomi sold 190 million smartphones, and this is 30% more than a year earlier. At the same time, the global smartphone market is growing at a rate of 6% per year, and in India faster, 10.5%

per year. [ibid.]

The company is constantly developing and already in March 2021, Xiaomi announced the launch of an electric vehicle manufacturing division and plans to spend \$ 10 billion on its development over the next 10 years. In the same year, the company announced the construction of a factory in Beijing. The plant is due to open in 2024 and will produce 300 thousand cars a year.

The electric car market is huge, and it will grow 10 times over the next 15 years, and China will lead in this growth. In China, electric vehicles will account for 19% of all passenger car sales against 14% in Europe and 11% in the United States. If Xiaomi can gain a foothold in this market, it will have a positive impact on financial results [Xiaomi performance indicators, www].

It is worth noting that the markets in which Xiaomi operates are unstable, there are problems that the company has to deal with. Let's look at them in more detail.

1. Slowing growth in the smartphone market. 63.6% of the company's revenue is accounted for by the smartphone market. Xiaomi is moving towards business diversification. From 2019 to 2021, the share of revenue in the smartphone market fell from 86% to 78.9%, but this is still a lot, and problems in the sector will affect the company's business.

According to forecasts, smartphone shipments will decrease by 3.5% in 2022. All this is due to the unstable situation in the world. Perhaps, with favorable events, the market will return to growth in 2023 and will grow by 1.9% per annum until 2026 [9]. At the same time, smartphones with 5G technology support will become the driver of growth, and if the company manages to retain market share and adapt to this transition, then the technology change will be painless for business.

2. R&D and marketing. Xiaomi spends a lot on research and development. In 2021, the R&D budget grew by 42.3% to 13.2 billion yuan, 4% of annual revenue. In the next 5 years, the company plans to spend 100 billion on research and development. Marketing expenses for 2021 increased by 44% to 20.9 billion yuan, or 6.3% of annual revenue [What is behind the rise and fall..., www].

The problem with such expenses is that their effectiveness does not manifest itself immediately, and the final results may disappoint shareholders. But the hope is inspired by how quickly Xiaomi has grown from the creator of the operating system into one of the largest manufacturers of smartphones and consumer electronics in the world.

Problems in India. At the beginning of 2022, India confiscated the assets of the Xiaomi division for \$ 725 million for violating the country's currency legislation. Xiaomi representatives deny the charges because the confiscated payment was intended for Xiaomi's parent company in China and did not violate any prohibitions. Earlier, India banned the use of applications by Chinese companies due to concerns that they threaten the national security and defense of the country. Among the banned applications were Xiaomi applications. Xiaomi's share in the Indian smartphone market is 23%. Today, India is one of Xiaomi's main markets with the highest growth potential [How Xiaomi became a giant in the Internet of Things market, www].

Recommendations and conclusions

Xiaomi has implemented a unique procedure for finding and developing partnerships, which has provided several important advantages.

1. Partners were selected by Xiaomi co-founders and senior management through their personal networks of contacts. Thanks to close personal ties, Xiaomi executives knew each partner well, imagined their technical capabilities and the values of the management team, which helped to more accurately assess the prospects for successful cooperation.

2. Personal acquaintances with partners meant that Xiaomi executives knew well the circle of acquaintances of each of the partners. If one of them began to fulfill their obligations poorly or violated the partnership agreement, this would mean indispensable reputational costs, and it would be more difficult for them to use their connections for further business projects, and this is the most important success factor, especially in the business context of China. Of course, such manual selection has its drawbacks: it limits the range of potential partners from which Xiaomi can choose.

3. Xiaomi invested in partner companies, but did not buy controlling interests in them. Xiaomi had access to information about the cost structure and production of each of the partners and could participate in decision-making. Control over the business remained with the partners, and this motivated them to develop and sell successful products. And as a shareholder of Xiaomi, the growth of business and profits of partner companies was beneficial [How does Xiaomi dominate the global smartphone market, www].

4. Xiaomi purposefully selected small companies or startups that were very useful to cooperate with it. Such projects usually dealt with one product category and, due to specialization, are more likely to produce excellent products.

Xiaomi played the role of an incubator for partners: it helped with R&D, directing teams of its engineers, helped to find the most important suppliers and negotiate contracts. Thanks to Xiaomi's investments and operational support, partner companies (in comparison with other nameless startups) were able to count on more favorable supplier conditions. By doing everything so that partner companies work with good designers and high-quality materials, Xiaomi guaranteed the quality and price attractiveness of their final product [Xiaomi performance indicators, www].

These steps have helped Xiaomi to effectively manage the partner network and expand the portfolio of product offerings that match the style of its brand in design, aesthetics, quality and technical and cost characteristics. Development together with partners has also created a foundation for Xiaomi to become a global IoT giant.

In comparison with the main competitors in the smartphone market, Xiaomi has no advantageous differences. The estimate for the future P/E is slightly lower in comparison with Apple, the revenue growth rates for 2021 are the same, but the marginality of the business is noticeably lagging behind.

Table 1 - Comparison with competitors [How does Xiaomi dominate the global smartphone market, www]

Indicators	Apple	Samsung	Xiaomi
Capitalization, billion dollars	301,14	2313,19	41,72
Market share	24%	18,2%	12,6%
Forecast P/E	8	23,3	18,1
Final margin	14%	25,7%	3,37%
Debt / EBITDA	0,2	0,8	1,5
Revenue growth for 2021	18%	33%	33%

However, Xiaomi is actively competing with tech giants.

Xiaomi's risk management team is quite effective. They work according to the time and trend. There have been several ups and downs in business. However, Xiaomi has always returned with perfection.

Customer reliability is one of Xiaomi's most important strengths. Xiaomi always produces affordable products. This thing still fascinates the customer in relation to the brand [Kong, 2021].

Xiaomi's business can reach a very high level, but even in China it is not easy to earn a lot on

affordable electronics. This is a very competitive market, and although it is obvious that Xiaomi is more than just a manufacturer of cheap phones.

According to investors, Xiaomi has every chance to become one of the most expensive companies in the world, but first it needs to justify this assessment. There are also concerns about the Chinese government, which has begun to buy out small shares and seats on the boards of directors of several local Internet companies in order to better influence their activities.

Xiaomi faces many challenges today. Xiaomi's main goal is to make the company a strong player in the world. Meanwhile, while continuing its expansion beyond China – the company is already operating in 60 countries – Xiaomi is also working in other directions. Having already spent about \$4 billion on the development of the partner ecosystem in China, the company now plans to invest another \$1 billion in cooperation with 100 startups in India, the largest market for Xiaomi, not counting home [Xiaomi's Business strategy..., www].

Thus, in general, Xiaomi's business model is one of the effective, successful and inspiring business models for companies of the new century who want to use the latest technologies and opportunities of the digital world to optimize their presence, growth and sales.

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Стратегия развития бизнеса компании Xiaomi

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Аннотация

Xiaomi – китайская корпорация, которая занимается исследованием, разработкой и продажей смартфонов, услуг интернета вещей (IoT), а также производством и продажей товаров, предоставлением интернет-услуг и инвестиционным бизнесом. Компания работает в Китае и на мировых рынках. Реализуя классический сценарий «превращения плохого в хорошее», Xiaomi использовала свой почти фатальный упадок для создания принципиально новой бизнес-модели. Продажи снова начали расти, компания снова начала осваивать новые рынки, и этим триумфальным возвращением Xiaomi обязана своей необычной модели. Xiaomi хорошо зарекомендовала себя на мировом рынке смартфонов благодаря новейшим продуктам премиум-класса и недорогим, но качественным моделям. Сегодня компания также заняла прочные позиции в многообещающей индустрии Интернета вещей. Xiaomi придает большое значение развитию и сохранению талантов в области технологий. Компания объявила о новых льготах для молодых инженеров, технических специалистов, менеджеров среднего и высшего звена, а также участников новой 10-летней Программы предпринимательства. Однако имеет место сильная зависимость от продаж смартфонов, что приводит к жесткой конкуренции в отрасли с такими игроками, как Samsung, Huawei и Apple. В связи со стремительным развитием технологий Xiaomi необходимо неустанно работать, чтобы защитить свою долю рынка, разрабатывая все новые и новые модели и обходя конкурентов.

Для цитирования в научных исследованиях

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Ключевые слова

Стратегия, бизнес-модель, конкуренция, интернет вещей, экосистема, смартфоны.

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