

Research on Xiaomi's Business Model

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Abstract: In the context of a rapidly evolving technological landscape, it is imperative to gain insight into the fundamental principles underpinning the success of business models in this sector. This paper examines the strategic approach of Xiaomi, a leading technology company, with a view to elucidating the factors that have contributed to its considerable growth and market penetration. This paper focuses on Xiaomi's distinctive business model, which integrates internet, hardware and new retail concepts. It explores the company's value proposition, customer segmentation, sales channels, key resources, partnerships, revenue streams and cost structure through a comprehensive analysis. This paper specifically employs a strategic analysis framework to examine Xiaomi's strategies for building an ecosystem and penetrating overseas markets. The findings indicate that Xiaomi's success can be attributed to a cost-effective marketing strategy, robust Internet marketing capabilities, strategies for adapting to local markets overseas, robust ecosystem partnerships, and a symbiotic ecosystem encompassing smartphones, IoT products, and Internet services.

Keywords: Xiaomi, Business model, Ecological chain construction, Technology enterprise.

1. Introduction

In the contemporary business landscape, the concept of a business model has become a pivotal area of research, particularly as companies strive to innovate and adapt to the rapidly evolving digital economy. The business model, as defined by Joan Magretta, serves as the narrative that explains how a company creates, delivers, and captures value[1]. Among the myriad of companies that have embraced this concept, Xiaomi stands out as a prime example of a firm that has successfully integrated the principles of the "Internet + Hardware + New Retail" model to meet the demands of a cost-conscious yet technologically savvy consumer base[2]. The company's unique approach to value proposition, customer segmentation, channel pathways, key resources, partnerships, and revenue sources has garnered significant attention from both academia and industry practitioners. For example, from the perspective of 'Internet +', Wen Xinya comprehensively analyses the value proposition, value creation, value transfer, value acquisition and other components of the business model of Xiaomi Technology[3]. This paper analyses Xiaomi's business model, focusing on the strategic components of its innovative online and offline channels, its technological R&D capabilities, and its symbiotic ecosystem ranging from smartphones to IoT and consumer products. The research adopts a qualitative approach, using a combination of publicly available data, case studies and industry reports to gain a comprehensive understanding of Xiaomi's operational strategy. The significance of the study is to provide valuable insights into modern business models, especially for companies in

the technology industry. Other companies can gain strategic insights into innovation, market expansion, and sustainable growth by understanding how Xiaomi leverages the power of the Internet to co-create value with customers and drive a collaborative ecosystem. In addition, the study contributes to the academic debate on business models by providing detailed case studies.

2. Analysis of Xiaomi's Business Model

2.1. Theoretical background

The objective of business model theory is to identify the most effective means of achieving business success, which it defines as the creation, delivery and capture of value. The theory places emphasis on the relationship between technological potential and the realisation of economic value, and on the ways in which the potential value of technology can be realised through the implementation of effective business models. To illustrate, Xerox Corporation was able to successfully commercialise a technology that had previously been rejected by other leading companies due to the adoption of an effective business model[4]. An effective business model integrates internal and external resources, improves operational efficiency, reduces costs, and enhances the customer experience. This enables businesses to achieve their profitability and growth objectives.

In contrast, open innovation theory represents a strategy for accelerating the internal innovation process based on external knowledge and resources[5]. The theory emphasises the dissolution of corporate boundaries and the utilisation of both internal and external ideas to propel the advancement of the business. The essence of open innovation lies in the utilisation of a diverse array of knowledge sources and partnerships to expedite the innovation process, thereby enhancing a firm's innovation performance and market competitiveness[6]. The implementation of open innovation necessitates consideration of the management of intellectual property rights, the strategic management of knowledge in collaborative contexts, and the effective integration of internal and external resources[6].

Building upon this, the application of open innovation theory in Xiaomi's business model is evident, as the company actively engages its community in the development process, leveraging external feedback and ideas to refine its products and services.

2.2. Xiaomi's Business Model

Value Proposition: Xiaomi's value proposition is centered on the model of "Internet + Hardware + New Retail", which aims to meet the needs of young consumers by providing cost-effective products and services. The Internet platform enables customers to participate in the product development and updating process, thereby facilitating the co-creation of brand value[2].

Customer Segmentation: Xiaomi's target market comprises young consumers who prioritise cost-effectiveness and have high expectations regarding technology products. By leveraging online communities and offline activities, Xiaomi has effectively transformed this group of users into devoted brand advocates and disseminators of positive brand sentiment through word-of-mouth[7].

Channel Pathway: Xiaomi has adopted a sales model that combines online and offline channels. Online sales are conducted via the company's official website and e-commerce platforms, while offline sales are transacted through physical retail outlets, including Xiaomi Home. This model enables Xiaomi to reach a broader consumer base while also facilitating enhanced interaction and consumer experience.

Key resources: Xiaomi's key resources include its robust technology research and development capabilities, extensive user base, and streamlined supply chain management. Furthermore, Xiaomi has established a business ecosystem encompassing smartphones, IoT products and internet services, which collectively represent the company's core competencies[8].

Partnerships: Xiaomi has formed close alliances with numerous suppliers and eco-chain enterprises. Through a non-controlling investment model, Xiaomi has empowered these eco-chain enterprises, collectively promoting the advancement of the entire ecosystem[8]. This collaboration has not only expanded the range of products and services available to Xiaomi, but has also created avenues for growth for the eco-chain enterprises.

Revenue Sources: Xiaomi's revenue is derived primarily from the sale of smart hardware products and internet services. In response to changes in market competition and consumer demand, Xiaomi has continued to expand new profit points in the areas of AI technology and the Internet of Things (IoT)[9].

Cost Structure: Xiaomi's cost structure is primarily comprised of research and development expenses, production costs, marketing expenses, and supply chain management expenses[10]. By optimising the production process and enhancing the efficiency of the supply chain, Xiaomi aims to control costs while maintaining the cost-effectiveness of its products.

3. The Strategic Analysis of Ecological Chain Construction

The ecological chain is of considerable importance with regard to the development of enterprises. Firstly, the implementation of an ecological chain strategy can assist enterprises in achieving transformation and development within the context of the Internet economy[11]. Secondly, the formation of a green value chain can enhance the sustained competitive advantage of enterprises. This is achieved by integrating environmental management and corporate strategy, thereby forming a green value network that promotes sustainable development[12].

An overview of the Xiaomi ecosystem reveals that it is a business ecosystem that spans multiple fields, including smartphones, the Internet of Things (IoT), consumer products, and Internet services. Since its inception in 2013, Xiaomi has utilised a non-holding investment mode to empower supply chain, brand, channel and user resources for the benefit of ecological chain enterprises, thereby establishing a symbiotic and mutually beneficial business ecological model[8].

Ecological chain model: The Xiaomi ecological chain model is primarily based on the sharing effect, synchronisation effect, complementary effect and spillover effect, which collectively facilitate coordination within the ecological chain and enhance overall performance.

Construction strategy analysis: Xiaomi's platform strategy is dedicated to the establishment of an "ecosystem" that facilitates the integration of resources for the generation of value amongst participating organisations[13]. This strategy serves to reinforce Xiaomi's market position while simultaneously facilitating the advancement and stability of the entire ecosystem. In this manner, Xiaomi is able to retain its leading position in a highly competitive market.

Cooperation and competition in the ecological chain: In the ecological chain of Xiaomi, cooperation is the primary mode of interaction, yet competition also plays a role. For instance, although ecological complementary enterprises have flourished due to the Xiaomi ecological chain, they are also confronted with the challenge of strategic decision-making and market competition. This dynamic of coexistence between cooperative relationships and competitive relationships necessitates that enterprises in the ecological chain continually adapt their strategies to align with the rapidly evolving market landscape.

Value creation of ecological chain: The value creation of the Xiaomi ecological chain is primarily manifested in the realisation of value co-creation through the resource sharing and capability complementation of enterprises within the ecosystem. This not only serves to enhance the market competitiveness of Xiaomi and its associated enterprises, but also serves to improve the efficiency and capacity for innovation of the entire system.

4. Analysing Xiaomi's Overseas Market Strategies and Practices

Xiaomi's international market positioning is primarily focused on attracting global consumers through the provision of cost-effective products. Xiaomi leveraged its technological prowess in smartphones, smart homes, and other domains, coupled with an Internet-centric marketing approach, to swiftly establish a formidable brand presence in India, Southeast Asia, and other regions [14]. Xiaomi's target market is primarily concentrated in developing countries and emerging markets, where price sensitivity is high but there is a strong demand for new technologies and products[15].

Market entry mode

In terms of market entry, Xiaomi's strategy encompasses both direct sales and collaboration with local partners. In certain countries and regions, ShareSave represents a cross-border e-commerce platform initially launched by Xiaomi in the Indian market. Its objective is to furnish overseas consumers with a convenient and cost-effective avenue to procure Xiaomi eco-products that would otherwise be exclusively available in mainland China[16]. Xiaomi has elected to construct its own e-commerce platform for the purpose of selling its products via online channels. In other regions, Xiaomi is pursuing an expansion of its market share through the formation of strategic alliances with local retailers or e-commerce platforms. Xiaomi has established a global strategic alliance with Cheung Kong Hutchison Industries Limited (CKH) for the distribution of Xiaomi products across CKH's telecommunications and retail divisions on a global scale[17]. Furthermore, Xiaomi has employed a range of strategies to penetrate the international market, including export, the establishment of overseas subsidiaries, and other avenues.

Localisation strategy: Xiaomi's localisation strategy in different markets is reflected in three key areas: product design, marketing strategy and supply chain management. To illustrate, in the Indian market, Xiaomi not only provides the MIUI system in a multitude of languages but also modifies the phone's features and colours to align with local users' preferences[18]. In the European market, Xiaomi has also adopted a strategy of localisation in its marketing activities[19]. The Facebook page of Xiaomi International, a multinational technology company, has a presence in over twenty countries or regions and posts with greater frequency than the average page of this kind. This approach is designed to enhance brand awareness and user engagement.

Transnational Cooperation and Partnership: Xiaomi's success in overseas markets has also been facilitated by its strategic alliances with local companies and institutions. In the Indian market, for instance, Xiaomi has formed a collaboration with local telecommunications operators with the objective of launching an app store and a plan that preinstalls local services[20]. Furthermore, Xiaomi has formed collaborative arrangements with other technology enterprises and nascent businesses with the objective of jointly developing innovative products and services[21].

Cultural Adaptation and Market Acceptance: Xiaomi's cultural adaptation strategy in overseas markets encompasses two key elements: firstly, respect for local culture and customs; and secondly, the provision of products and services that align with the needs of local users. By undertaking a detailed analysis of the cultural characteristics of different countries, Xiaomi is able to adapt its product design and marketing strategies in a manner that facilitates a more seamless integration into the local market. Concurrently, Xiaomi encounters obstacles resulting from cultural divergences, including a dearth of brand recognition and intense market rivalry[18]. In the European market, one of the challenges that Xiaomi faces is how to alter its brand image in the minds of consumers in order to more effectively integrate into the local market[19].

5. Discussion

The incorporation of user participation in the product design and iteration process. Xiaomi places significant emphasis on the active involvement of users in the product design and iteration process.

By gathering user feedback and requirements, Xiaomi is able to rapidly modify its product design to align with market demand and user expectations. This "seamless open innovation" model has the additional benefit of increasing user satisfaction while simultaneously reducing the cost of value creation for the company[22].

The application of Big Data and Cloud Computing: Xiaomi employs sophisticated technologies, including Big Data and Cloud Computing, to meticulously examine and extract insights from customer browsing behaviour, thereby gaining a deeper understanding of consumer needs and patterns. These technologies assist Xiaomi in innovating its marketing strategy in the context of "Internet Plus," thereby enabling precision marketing and the optimization of products and services[23].

A design-driven ecosystem: Xiaomi has established a collaborative innovation ecosystem based on design, in which design management serves a guiding and protective function. This model not only facilitates the integrated utilisation of advantageous resources and synergistic development among enterprises, but also enables Xiaomi to maintain its leading position in the context of intense competition[24].

The incubation of Huami Technology represents a key aspect of the Xiaomi Group's ecosystem strategy[25]. The Xiaomi Group incubated Huami Technology through its business ecosystem, a move that served to reinforce Xiaomi's position in the wearables market, while also fostering technological innovation and product diversification. The successful incubation of Huami Technology exemplifies Xiaomi's effective utilisation of the resources and support inherent within its ecosystem, thereby facilitating the growth of its affiliates and enhancing the value of the entire ecosystem.

A strategic partnership was formed with Midea. Another notable illustration of this is the partnership between Xiaomi and the home appliance conglomerate Midea. This cross-industry collaboration has enabled the two parties to share resources, technologies and market channels in order to jointly develop smart home solutions, thereby enhancing their competitiveness in the smart home appliance sector. This collaborative approach has effectively expanded Xiaomi's product range and enhanced its market presence in the home appliance sector[25].

Xiaomi has a shareholding in Xunlei. Xiaomi has identified opportunities for collaboration in sales, operations and investment through its shareholding in Xunlei. This cross-industry investment has the dual benefit of generating new revenue streams for Xiaomi while simultaneously strengthening its position in the digital content distribution and cloud services sectors. In this way, Xiaomi is able to more effectively integrate its resources and enhance the efficiency of its capital utilisation, while also providing Xunlei with capital support to facilitate growth in its business[25].

Xiaomi's entry into the new energy automobile industry is based on a comprehensive consideration of its own advantages and the external environment. Through SWOT analysis, Xiaomi adopts the combination of strengths-opportunities (S-O) strategy, which indicates that Xiaomi's car is an important initiative to make use of existing resources and market opportunities[26]. It is also an extension and deepening of its 'Internet +' business model, through which it tries to expand, enhance brand influence and open up new sources of income and growth. In the construction of the ecosphere, the Xiaomi car helps to build a 'people's car home ecological' closed loop. With Xiaomi other products and services to form a synergistic effect, improve user experience and enhance user stickiness. Finally, in terms of enterprise value creation, Xiaomi's investment in automotive and R&D shows Xiaomi's long-term commitment to emerging markets.

6. Conclusion

Xiaomi's business model, characterized by its "Internet + Hardware + New Retail" approach, has been instrumental in its rapid growth and market success. The company's value proposition revolves

around offering cost-effective products and services to young consumers, facilitated by an integrated online-offline sales strategy. Xiaomi's competitive advantage lies in its cost-effective marketing strategies, strong internet marketing capabilities, and a symbiotic ecosystem that includes smartphones, IoT products, and internet services. The company's overseas market strategies, particularly its focus on cost-effective products and localized marketing approaches, have been pivotal in its global expansion. While this paper provides a comprehensive analysis of Xiaomi's business model and strategies, it is not without limitations. The study primarily relies on secondary data and may not fully capture the dynamic nature of the technology industry. Additionally, the paper's focus on Xiaomi's business model and strategies may not account for all external factors that could impact the company's performance, such as geopolitical tensions and global economic fluctuations. Future research could delve deeper into the impact of external factors on Xiaomi's business model and strategies. A longitudinal study could provide insights into the long-term sustainability of Xiaomi's approach.

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