

## How Xiaomi is beating Apple and Samsung in China

Howard Yu says the mobile phone company got ahead by breaking away from the traditional Chinese business model

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Xiaomi, a Beijing-based mobile phone company, stunned the world last week by raising \$1.5 billion in its latest investment round, pushing the company's valuation to a staggering \$40 billion. It now exceeds the combined value of Sony and Lenovo, and commands a market share larger than Samsung and Apple in China.



By eschewing the traditional way in which Chinese firms grow and by operating more like a Silicon Valley company, the four-year-old startup is now a major player in the Chinese and international telecommunications markets.

Large Chinese firms usually develop by becoming manufacturing giants at home first and then competing internationally with low-cost products later. They are able to do this because their production costs are lower since they produce such large-scale quantities. Haier, Huawei and Lenovo all went down this path in the past.

Xiaomi, interestingly, appears to break away from this pattern for several reasons.

The firm outsources all the assembly to Taiwan and doesn't own any factories. Nor does it have battalions of software engineers. It is an asset-light company whereas mass manufacturing had been the key for the major Chinese firms before it.

Xiaomi only sells its products online, via its own website, and its phones are not available in shops or at telecom carriers. This cuts out middlemen and enables Xiaomi to pass savings on to consumers.

Its users are at the heart of its product development. Xiaomi phones come with the pre-installed MIUI operating system – an Android interface that allows hundreds of thousands of advanced users to customize it and invent new features. While Apple releases its iOS every 18 months, Xiaomi launches a new version of MIUI every week. Its fan base has translated the original version into 24 different local languages for markets outside China, all done without a dime spent on research and development.

Such a set up has allowed Xiaomi to wring out disproportional profits even when a comparable mobile phone model from Samsung would cost at least twice as much. According to the *Wall Street Journal*, Xiaomi's net profit in 2013 rose 84% to 3.46 billion yuan (\$566 million) from 1.88 billion yuan in 2012. Its revenue more than doubled to 27 billion yuan in that time.

Xiaomi has risen to the top of the mobile industry in China by practicing open innovation, building a community of users, and branching out into different mobile services in a concerted effort to monetize its base of phones—not very different from the strategy of many Silicon Valley start-ups. Xiaomi—which means "little rice" in Chinese—is no longer small enough to ignore.

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