

THE ROLE OF MANAGEMENT STRATEGIES FOR START-UP GROWTH: A CASE STUDY OF XIAOMI TECHNOLOGY COMPANY

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ABSTRACT

Strategic management can be considered as a collection of decisions and actions taken by the business management in consultation with all levels within the organisation to determine the long-term activities. The implementation of strategic management has become particularly important for technologically innovative systems and start-ups. This manuscript analyzes management strategies and its implementation at technologically innovative start-ups. In the theoretical part, the manuscript described the definition, process, benefit and challenge of strategic management. In the practical part, the manuscript performs a quantitative strengths, weakness, opportunities and threats analysis with a case study of Xiaomi Technology Company, one of technologically innovative start-up associated with specific motives for internationalization and expansion into foreign markets.

Keywords: SWOT, Strategic Management, Innovation, Entrepreneurial Integration.

INTRODUCTION

Growing a start-up rapidly in any competitive industry is a very challenging task for an entrepreneur. Generally, it is regarded that because of liabilities of smallness and newness of start-ups, their failure rate is much higher than their older and larger competitors (Freeman and Engel, 2007). According to Forbes magazine (2015) almost ninety percent of start-ups fail. Besides this their life expectancy is very short; almost fifty-four percent of start-ups companies survive one and half years. Only one-fourth of them survive six years (Van de Ven et al., 1984). There are many challenges that start-ups face (Amit & Zott, 2001; Morris et al., 2005; Dyer & Wilkins, 2015; Saparaliyev et al., 2019; Saiymova et al., 2018). Normally they have very limited financial power, to operate in an industry the capital requirements appear as a critical entry barrier for a start-up company (Ireland et al., 2003). Therefore, it requires disruptive innovations and substantial effort to convince investors besides this start-up usually having a fewer number of engineers, managers and other employees which makes it problematic for them to perform a

diverse range of activity adequately. Moreover, start-ups have unequal opportunities to access established distribution channels which make it harder to reach customers quickly. On the other hand, because of expensive promotional activities, they run out of cash rapidly (Porter, 2008). Incomplete or even absent business processes and evolving administrative structures are also challenges to grow start-up company (Freeman & Engel, 2007).

Smartphone and consumer electronics industry is one of the highly challenging industry. Some giant and established companies who were pioneering in the industry in terms of innovation and market share like Nokia, Motorola, BlackBerry are no longer in their pioneering position some are finding difficult to compete, and even some are out of the market. There were several large companies back in 2011, for example, Samsung, Apple, Huawei and Lenovo. Besides this, there were around four hundred smartphone manufacturers in China at that time. Thus, this industry was enormously competitive as well as challenging. A successful advancement in the industry has appeared from a new company named Xiaomi Technology Company. Xiaomi is one of the fastest growing start-up companies in Chinese market found in 2010, and produces wide range electrical product varieties, but the foremost focus of the company is smartphones. In 2017, Xiaomi sold more than 70 million smartphones (Xiaomi Corporation, 2019). Xiaomi is in the top five smartphone vendors and maintains strong momentum in Chinese market, as well as they have achieved over 50% of market share in online sales in Indian market in 2016 (Shirky, 2015). Xiaomi adopted the consumer-obsessed strategy, which enables the customers to involve in designing and process of development through the forums, thus the company meets customer expectations. Consumer feedback is one of the most important areas that company focuses and try to keep the customers satisfactory at high level (Markides, 2006). According to expectation-disconfirmation model customer satisfaction is important as the product itself. Therefore, it is very interesting to what strategies have been used to grow its business rapidly.

The study aim is to understand Xiaomi success from its strategic management perspective. The purpose of this article is to get an insight into Xiaomi success and how it has overcome the challenges that can provide important suggestion and valuable lessons for start-ups who may face similar challenges in any other industry.

METHODOLOGY

This article applies strategic management analysis for examining a chosen case company. In general, strategic management analysis involves environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control (Hill & Westbrook, 1997; Wheelen & Hunger, 2011). They emphasize the analyzing and evaluating of external opportunities and threats in terms of an organization's strengths and weaknesses (SWOT). SWOT analysis is an important support tool for decision-making, and is commonly used as a means to systematically analyze an organization's internal and external environments. By identifying its strengths, weaknesses, opportunities, and threats, the organization can build strategies upon its strengths, eliminate its weaknesses, and exploit its opportunities or use them to counter the threats (Houben et al., 1999). The strengths and weaknesses are identified by an internal environment appraisal while the opportunities and threats are identified by an external environment appraisal (Pavitt, 1990). SWOT analysis summarizes the most important internal and external factors that may affect the organization's future, which are referred to as strategic factors (Kurttila et al., 2000). The external and internal environments consist of variables, which are outside and inside the organization, respectively.

The organization's management has no short-term effect on either type of variable (Dyson, 2004).

In addition to strategic management analysis and SWOT, this article applies marketing analysis. The classic division of marketing management is into the categories of: price product pricing decisions; place distribution decisions; product product line and feature decisions; promotion advertising and public relations related decisions (Jauch & Kraft, 1986; Shrestha et al., 2004). These four areas are widely recognized as distinct yet interdependent, each is utilizing models that may draw on facets and parameters of the others (Meyer, 2003). Interdependence in marketing decisions means that pricing decisions will affect the distribution decision; the distribution decision may affect the packaging decision; and the packaging decision may in turn influence the pricing model. Interdependent decision making requires a smooth data flow between the different, yet related, decision models (Eriksson & Kovalainen, 2008).

RESULTS

SWOT Analysis-Strengths

Xiaomi has different generic and marketing strategy compared to giants like Samsung and Apple. The company has unique business model "*The Triathlon Model*" which combination of the hardware, software and internet service. As the company does not have physical retail shops in other markets except Chinese, software and internet services are company's primary business model. They approached bill-of-material price strategy, which grants them greater market share and ability for market penetration. As the hardware sold nearly by the factory price, company's revenue generation comes from aftersales service and complementary goods such as headphones, cases and other products. Online sales, word-of-mouth and social media marketing strategy help Xiaomi to sell the products at manufacturing costs and as well as cut the middlemen thus eliminating intermediary costs. As well as, Xiaomi's products have longer product life cycle of 24 months, unlike the competitors like iPhone and Samsung which is 12-month life cycle. Due to the longer product life cycle manufacturing cost becomes lower (Tse, 2015).

One of the main strengths is the strong momentum that has the Xiaomi in the Indian market. The company has more than 10% market share and the marketing strategy. Xiaomi introduced WeChat as distribution channel and was able to inform the customers and retain customer base. Thus, Xiaomi gained good customer relationship and brand awareness. Alliance with Indian online shop, Flipkart, granted the company more sales in the Indian market. "Make in India" policy pushed the company to open the production plant in India, and this is enabled the Xiaomi to target the local market and secure the price competitiveness by avoiding the tax burden, transportation cost and the by cutting the manufacturing cost. Xiaomi built research and development (R&D) center in India and in 2015 launched the first locally produced model, Redmi 2 Prime. Approximately 75% of the products manufactured in India (Xiaomi Report, 2019).

Production strategy of Xiaomi is to produce each component of their phones with help of the experienced companies. Such strategy in production gives number of advantages, this eliminates the phone being exceptionally perfect in one specific feature, but on average level on rest of the features. Xiaomi phones cameras have Sony modules, Snapdragon processors and Sharp touchscreens. In addition, the high-end design of the Xiaomi products, according to the

Lim et al. (2013) products' design and technical features is important in determining consumer satisfaction level. Modern design and stylish appearance of the product attract the consumers.

Weaknesses

Xiaomi's core competency in pricing strategy might be considered as weakness, although it helps to increase the market penetration and market share. Due to the bill-of-material strategy the company's net profit is minimum compared to its overall revenue. In 2014 company's revenue was \$4.3 billion however, the net profit made up only \$56 million. Operating margin of the company was 1.8% which is extremely low compared to world leaders like Apple (28.7%) and Samsung (18.7%) (Forbes, 2014).

Country-of-Origin (COO) effect refers to the stereotype and reputation that consumers relate and attach to the product based on the specific country where the product is made (Lin & Kao, 2004). "*Made in China*" tag forces people to think stereotypically associating Xiaomi products with low quality goods. Empirical research conducted by Hastak & Hong (1991) shows that the COO effect has impact on perception of quality which is comparable with the price of the product, as well as the research by Darling & Arnold (1988) COO effect can have more significant influence rather than brand name of the company, because it influences the perception of quality. This has negative impact on the brand image and selling statistics as the label is one of the most important criteria that people rely on before purchasing the product. Thus people think twice before considering the product to purchase. Regarding this, Schaefer (1997) argues, familiarity with the brand and specific knowledge about the product significantly influence the COO effect in product evaluation. In addition, growing criticism and accusation of copying the Apple, also creates unfavorable reputation for the Xiaomi, which might hinder the future sales. Stereotypes like "*Made in China*" and "*Copy of Apple*" have massive negative impact on brand image of Xiaomi (Li et al., 2019).

In addition, there are number of reports and negative feedbacks from customers of lack of service centers in the India and low quality of aftersales services (Quora, 2016). According to Gallagher et al. (2005) field service is the one of the main connection point which consumers have with the brand after purchasing the product. Thus, such negative attitude of the customers towards to the Xiaomi's aftersales service might trigger the brand loyalty of existing customers and thus decrease the sales and market share in India. After-sales service is one of the ways to identify the problematic points of the product and continuously improve the design of the product and quality. Hence, it is important to enhance the aftersales services.

Despite the fact of presence of Xiaomi in Indian market in production plant industry and having experience in doing business in the market and the strong market share, the company cannot only rely on these factors as the level of corruption, ease of doing business and the bureaucracy would be the main problems in operating in the market (Shih et al., 2014). Moreover, due to the Xiaomi's lack of experience in retail shop market in India, lack of knowledge of marketing techniques which would be suitable to Indian market and most importantly lack of internationalization experience, hierarchical mode of entry is out of the question. Joint Venture is the combination of forces like, intellectual and financial resources, specific local knowledge and partners' networks, thus MNEs most likely to enter in JV especially if there is a high psychic distance. JV contributes to the decrease of transaction cost and increase the chance of strategic positioning. Furthermore, internationalization into the new market requires certain type of adaptation of services, products and resource commitment, as

well as gaining insight information about the local market mix. Due to this factors, it is more suitable to enter into joint venture with the well-established local company.

Opportunities

Xiaomi has all the opportunities to penetrate the Indian market, one of the reasons is the Indian government regulations which is favorable for the Xiaomi's future development. "Digital India" policy that was undertaken by the Indian government is aimed to transform the India into a high-tech country through introducing the digital infrastructure (Digital India, 2017). Aim of the policy to encourage citizens to have and use the mobile phones in every home. Thus having electronic programs for all monetary transactions. Given the government policy which indirectly pushes citizens to purchase the smartphones, smartphone penetration would reach its peak.

Potential growth of the Indian smartphone market is huge, as the market penetration is less than 30%, compared to Chinese market is 70% (Statista, 2017). Taking into consideration the GDP (PPP) per capita (\$6600) which is lower than Chinese (IMF, 2017), Indian consumers are more price conscious. Hence, it is highly likely that demand on Xiaomi's products will increase gradually. In this case Xiaomi will not only generate more revenue but as well as the production efficiency which will decrease the cost of production (Tse, 2015).

One of the opportunities that offers India is the ability to expand R&D and to establish the English-speaking support center, which enables the Xiaomi for further internationalization. Different well-known multinational companies establish call-centers in India, because of the time zone difference, which enables the companies to be available 24/7 and the for knowledge of the English language.

Threats

Presence of the main competitors in Indian market both from domestic market and international market pushes Xiaomi to invest in R&D and in marketing in order to gain more market share. Although Xiaomi obtained 10% market share in India, main rivals such as Lenovo group and Vivo have nearly the same percentage of the market share 9.9% and 8.6% respectively (Dhupola, 2017). Taking into consideration the cash reserves that these companies have, it is highly likely that they will invest in the phones which will be designed to be in the same price category as the Xiaomi's products. Noteworthy, the fact of establishing physical stores in the Indian market will increase the price of the products, as result, more aggressive marketing strategy which will be more focused on the offline marketing and the rental payment and the cost on the premises and staff, all these factors might substantially increase the price of the goods. Thus, threat of increase of price of the mobile phones, as result of the entrance might end with the loss of potential market share. As well as the status of the India as the world's 2nd mobile phone market share and growing potential of the Indian market itself encourages many mobile phone companies to enter the Indian market, especially pricing category, which Xiaomi focuses on is nearly 41% market share with sales of worth 10000 Indian rupees (150\$). Thus, there will be more and more companies which would be eager to have share out of this market (Tse, 2015).

As was mentioned patent portfolio might be considered as one of the biggest threats of entering into the Indian market. Limited patents can cause number of problems to the Xiaomi, as Ericson law suited the company in India and as well as lawsuit by Blue Spike in US, as result ban on certain products end up with the lost in revenue. As well as, the fact of Indian Air Force reported that Xiaomi smartphones are threat to national security and they transfer personal

information through remote servers to China (Dsa, 2014). However, after several months it was removed and no official report was given, such acquisitions might have negative impact on brand image and people's attitude to brand might change substantially, especially if it is international brand.

Marketing analysis -Product

Production strategy of Xiaomi is to produce each component of their phones with help of the experienced companies. Such strategy in production gives number of advantages, this eliminates the phone being exceptionally perfect in one specific feature, but on average level on rest of the features. Xiaomi phones cameras have Sony modules, Snapdragon processors and Sharp touchscreens. In addition, the high-end design of the Xiaomi products, according to the Lim et al. (2013) products' design and technical features is important in determining consumer satisfaction level. Modern design and stylish appearance of the product attract the consumers.

Adaptation of the products for the Indian market would be the necessary process for the Xiaomi, however, would not require big financial investments. Smartphone adaptation based on the specific market is the typical. Through the adaptation process usually goes keyboards, language and in some cases color of the devices.

Price

Xiaomi offers two different smartphone models MI and Redmi. Price range for smartphones in Indian market varies from under Rs.6000 (\$93) to Rs.27000 (\$420). Xiaomi pricing strategy for majority of the products is in the mid-range priced devices from Rs.6000 (\$93) to Rs.12000 (\$187). Xiaomi smartphones can compete with the well-known brands like Apple and Samsung although nearly half of its price. For example, brand new Mi5 which is designed to compete with the flagship smartphones like iPhone 7 and Samsung Galaxy S8, in terms of technical characteristics Mi5 is in the same range, but comparing the prices, I-phone7 costs Rs.59000 (\$912), Galaxy S8 costs Rs.64000 (\$989) and Mi5 costs Rs.23000 (\$355). Xiaomi offers high-end product nearly less than half the price of the competitors and with the similar characteristics. Such pricing strategy enables middle-class users to purchase the luxury quality phones at lower price. However, taking into account the price sensitivity of Xiaomi's market target in India, adaptation of the prices might be required for some of the models. For example, flagship smartphone Mi5 which costs Rs.23000 (\$355) allow customers to buy for longer-term payment plan. As well as, singing with one of the leading mobile (Shih et al., 2014).

Xiaomi has wide range of products for lower middle-class users as well, phones like Redmi 4A which costs Rs6000 biggest competitor in this segment is Vivo and Vivo Y51 model costs Rs.6800. The core competency in pricing of the Xiaomi allows lower middle-class of users to buy phones which are cheaper than closest competitors without compromising technical features and quality. Initially, Xiaomi launched top MI phones and after introduced the Redmi models in the Indian market, such entry strategy was necessary because reduction in price of products would not be too drastic and consumers would be able to gain confidence in quality of products.

Most of the smartphone users are price-sensitive and pay huge attention on price of the product before considering the adoption. Thus, Xiaomi should adopt rapid penetration pricing strategy and keep low prices for their products, despite the fact that they will open stores and this will require investment. Xiaomi's consumers are price sensitive and increase in price might be

risky in losing market share. As the Xiaomi has two assembly plants in the India, this increases the efficiency and gain economy of scale and as well as the absence of taxes would compensate the investment in stores.

Place

Xiaomi should enter the Indian market simultaneously in five six different cities, these cities considered 1st tier cities in India and has at least six million people population each. Those cities are Ahmedabad, Delhi, Kolkata, Mumbai and Hyderabad. The reason why Xiaomi should follow aggressive entry strategy and enter five cities at once is that the company is well established and has brand image and has relatively big market share in the market. In addition, the presence of the competitors in these cities like, Vivo, Oppo, Samsung and Apple. Xiaomi should open official showrooms with interactive features in order to acquire new customers. Empirical study illustrates that valuable information which was collected by the customers in the showroom effects the purchasing decision positively. Through showrooms potential customers would be able to evaluate the products of the Xiaomi and in this way it would be easy to attract them. Furthermore, Xiaomi should open number of stores with the service centers in each city, as the number of service center in the Indian market in extremely low and there are negative feedbacks on the quality of the service centers in the Indian market. Through opening official showrooms and stores with the service centers Xiaomi would be able to increase the quality of the aftersales services and increase the efficiency of customer oriented policy.

Promotion

Xiaomi hugely rely on the social media marketing as this strategy of promoting the product among people worked in Chinese market remarkably without relying on the TV and printed ads. However, in Indian traditional marketing plays bigger role compared to internet marketing strategy to get considerable markets share, due to the lack of internet penetration. Because of the lack of internet access, Xiaomi should more focus on the printed and TV adverts and word-of-mouth strategy alongside with the internet ads. Word-of-mouth strategy is one of the marketing strategies which is chosen by Xiaomi, and word-of-mouth might potentially influence the decision of the customer on purchasing and thus increases the market share and revenue of the company. One of the strategies which Xiaomi use to strengthen the word-of-mouth strategy is the flash-sales strategy. Flash-sales is the limited number of products that go on sale in specific period of time. This strategy creates more demand than supply of the products, and known as “*Hunger Marketing*”. Shortage in number of products creates hype among the customers and through word-of-mouth and consumers mimic to each other to buy the product. The combination of word-of-mouth, flash-sales and adverts guarantees the brand awareness and market share in the market. In addition to the above mentioned marketing strategies, Xiaomi should use celebrity endorsements. Cricket is the most popular type of sport and nearly 1 billion people follows the cricket games. Empirical study shows that celebrity endorsement has positive impact on consumer’s perception of ads. Xiaomi should sign one of the popular cricket stars as a brand ambassador and use celebrities in promoting the brand.

Market Segmentation

Currently Xiaomi is present as an internet company in the market, and it has automatically segmented the consumers to the people who are able to use the online-shopping platforms and tech-savvy. Thus, Xiaomi's marketing strategy would be the youth marketing. This group of people comprises 55% of smartphone users in the country (EMarketer, 2015), however it is important to take into account the target market of the Xiaomi is people with the slightly lower average income. Individuals in these segments are usually educated and technologically savvy, thus they will expect reasonable price and the high-end product with suitable features. In addition, Younger generation is more open to new products and brands rather than being loyal to one brand. As well as, it is often that trends are set by the young adults and teens and these trends are adopted by the other demographic groups (Tse, 2015). It is important that Indian middle class growing rapidly and the number of companies offering products in this segment growing as well.

Another market segment for the Xiaomi is the teenagers aged between 12-19, good potential market because approximately 48% of them come from middle class taking into account the 600million Indian citizens are middle class (Shih et al., 2014). Thus, it is highly likely that their family willing and able to provide them with smartphones which costs around \$120-150, which are the mid-range phones getting popular among Indian citizens (Shih et al., 2014).

CONCLUSION

In SWOT analysis, strategic alternatives are selected in the light of the strengths, weaknesses, threats and, opportunities of the organization as determined through internal and external environment analysis. This study performs a quantitative SWOT analysis with a case study example of technologically innovative enterprise Xiaomi. Xiaomi started its business by offering smartphone which was not something completely new product. Moreover, the smartphone industry was very competitive. There were already many companies selling smartphones and some of the company dominated smartphone industry in terms of market share and brand. Therefore, it was not the discovery of new product or radical product innovation rather it was business model of the company that enabled it to achieve rapid growth. It has established an innovative business model by radical and incremental innovation of its business model building block. Initially, when Xiaomi decided to produce smartphone, it faced the problem of low brand recognition as there were existing some strong brand. Moreover, the customer would not be attracted to Xiaomi if it were offering same value proposition like other companies. Thus, Xiaomi innovated value proposition by repositioning smartphone in the market. It offered the high quality smartphone for less money consequently it was able to attract a specific customer segment swiftly. Furthermore, being a start-up company, with limited resources it was not possible to reach its target customer quickly because of high distribution cost. Thus, Xiaomi choose a new channel by taking an asset-lite and more digitalised approach where it started to sell only online. Besides this, it cut its cost significantly in marketing by using social media that was an innovative move which also made it possible to reach customer faster. In terms of internalization and market expansion, despite the fact of the middling corruption index as well as the ease of doing business index is not favorable for business environment in India, it is worth taking risk of entering into the Indian mobile phone market due to several reasons. First of all, India is the biggest international market of Xiaomi, secured market share

and brand awareness of the Indian citizens are the prerequisite for the further success in this market. Secondly, constantly growing overall middle class in India is one of the reasons which secures the market share and further increase of market share of Xiaomi. Thirdly, presence of production plant in the market secures from the artificial increase in price as well as the increase in efficiency of producing. It is vital to enter the market in Joint Venture mode due to the lack of local specific knowledge of the way of doing business as well as the psychic distance between the India and China. Furthermore, lack of knowledge in marketing techniques which suitable to the local people and one of the most important reasons of why Xiaomi should build JV is the lack of network with the government officials and the local businesses. With the knowledge of local partners Xiaomi will be able to build product and promotional strategies.

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