

International Business Strategies of Firms with Political Changes: A Case of Xiaomi's Entry into the Indian Market

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Abstract. Due to the instability of the global economy, an increasing number of firms are seeking to expand their businesses into other nations, which has contributed to the development of a variety of international business strategies. The primary purpose of the study is to investigate the impact and theoretical support of international business strategies on global expansion. The article argues for the importance of international business by infusing international business strategy into Xiaomi's globalization strategy. The article describes the current state and future outlook of the Indian smartphone market. It highlights Xiaomi's unique internationalization approach by applying SWOT analysis to determine the company's strengths, weaknesses, opportunities, and threats. In conjunction with the practicalities, it also assists in the development of unique strategies for a certain target market. The findings indicate that Xiaomi needs to be more locally developed and operated to match the requirements of the Indian market in order to preserve and expand its market share.

Keywords: International business strategy; Xiaomi; India; smartphone.

1. Introduction

Economic globalization is an inevitable trend in the development of the international economy, which has a substantial impact on the economic development of the globe. This development trend demonstrates a pattern of interplay and interdependence by driving the business investment of all countries and areas in the world to eventually break through the original closed status of each country and territory [1]. The internationalization of enterprises is an indispensable aspect and manifestation of economic globalization. Prior to engaging in international operations, the most important consideration for a company is the implementation of an international business strategy. It should examine its strengths and capabilities, notably the difference between the firm and leading foreign enterprises. Besides, comprehensively assess the allocation of resources and capability required for worldwide development and build a clear road map for the firm's international operations [2].

International business strategy is currently the most studied topic in corporate development strategies. Why Globalization Works by Martin Wolf, demonstrates that international business plays a crucial function in the framework of economic globalization for both multinational corporations and local governments [3]. External factors and other instabilities affect the efficiency of international business strategies when applied to firms. Kim argues that external factors are primarily the cultural, political, and legal settings, which are the three key environmental influences with the most significant effects on enterprises growing internationally [4]. Specifically, in the aftermath of a pandemic, citizens are less willing to spend and more willing to preserve for an uncertain future [5]. For these reasons, it is evident that these external pressures substantially affect the continuous operation of worldwide business strategies and that no viable solutions have yet been identified. Nevertheless, there is limited evidence to substantiate the particular issues connected with changes in political relations and the economy. This research emphasizes the specific impact of deteriorating Sino-Indian relationships on Xiaomi as a theoretical addition to the pertinent concerns.

Mobile phones are a category of technology items that may be adapted to other countries' languages and satisfy global consumers' communication demands. As smartphone market penetration in developed regions continues to rise, the North American, European, and Chinese mobile phone markets are rapidly becoming saturated¹. Strong competition is causing many mobile phone brands

¹ Source of data comes from Newzoo (2022). Available at: <https://newzoo.com>

to look to overseas markets. According to IDC data², in the third quarter of 2022, Samsung, Apple, Xiaomi, Vivo, and OPPO shipped the most mobile phones worldwide, with Xiaomi, Vivo, and OPPO all being Chinese mobile phone brands. Xiaomi, the brand with the shortest history in the mobile phone industry, has expanded exceptionally rapidly and is not only successful in China but also the market leader in India. As the subject of this research article, Xiaomi serves as a role model for organizations seeking to implement foreign business strategies. It also reveals that the significance of this research is to present empirical examples to help other similar technological start-ups recognize the necessity of internationalizing business operations. Furthermore, the article highlights the risks and challenges associated with and provides insights into the development of a company-specific internationalization strategy. The article begins with a synopsis of the smartphone industry in China and India. The third section comprehensively analyses Xiaomi's SWOT strategy for entering the Indian market. The fourth section recommends the shortcomings and threats that Xiaomi and similar companies face in entering the Indian market.

2. Case Study on Xiaomi

2.1 Company Background

Xiaomi is a Chinese innovative technology company dedicated to developing high-performance and low-cost smartphones, Internet TVs, and the construction of a smart home ecosystem [6]. It pioneered MIUI, a smartphone operating system developed through the Internet model, the advantages of which were fully proven in Xiaomi's first year of business. Namely, it is the ability to make good products that cater to the changing needs of consumers in real time through user participation in development and improvement. Furthermore, Xiaomi has focused on constructing a high-end configuration of its phones to differentiate itself from other domestic mobile phone manufacturers and enhance its products' competitiveness. It is worth noting that Xiaomi is the fourth technology company capable of producing its own semiconductors for mobile phones, following in the footsteps of Apple, Samsung, and Huawei.

2.2 Smartphone Industry in China

China's domestic smartphone market is currently the largest in the world after a rapid rise in recent years. However, smartphone sales growth has slowed to a cease in recent years. IDC³ reports that since 2016, smartphone shipments in China have declined overall. In addition, the domestic smartphone market in China appears to be saturated, as the average growth rate of smartphone sales in China from 2014 to 2017 slowed to less than 10%, representing a dramatic deceleration from the growth rate of over 100% in 2012. Even in 2017, smartphone sales on the domestic market decreased by 4% compared to 2016, representing the first year of negative growth. Simultaneously, as the lifespan of smartphones increases, the competitiveness of the domestic smartphone market is gradually evolving. Small and medium-sized mobile phone companies have less room to exist, while high-end mobile phone producers continue to increase their investment. Therefore, the extension of Xiaomi's business into additional nations is an imperative requirement.

2.3 Smartphone Industry in India

As a result of the disparity in socioeconomic development, smartphone penetration in a number of developing nations is generally low and consequently has considerable growth potential. It can be forecasted that numerous countries with low mobile phone penetration rates are potential open markets since it is found that high mobile phone penetration rates are not accompanied by rapid growth in sales [7]. India, which has the second-largest population in the world, offers a substantial

² Source of data comes from International Data Corporation (2022). Available at: <https://www.idc.com/promo/smartphone-market-share>

³ Source of data comes from International Data Corporation (2022). Available at: <https://www.idc.com>

amount of undeveloped market potential. By 2021, Kanungo reports that India's smartphone penetration rate will be 43.5% [8]. Moreover, Statista predicts that by 2040, India's smartphone penetration rate will be 95.81%, meaning that the number of smartphones in India could reach 1.5 billion⁴. There is no doubt that the smartphone market in India has a lot of upsides for overseas companies to explore and develop.

In 2014, Xiaomi entered the Indian market and started a voluminous journey to the sea by making India as first international stop. In March of that year, Xiaomi launched its first smartphone in India, the Xiaomi 3, which was then only available through online channels. Under the direction of Hugo Barra, formerly Google's Android product spokesperson, Xiaomi entered the Indian market by partnering with Flipkart, a well-known e-commerce company [9]. It replicated the "hunger marketing" and value-for-money strategy that had worked effectively in India [10]. This mode of business proved to be effective, with Xiaomi's Indian business exceeding US\$1 billion in revenue and becoming profitable in 2016, just two years after entering the market.

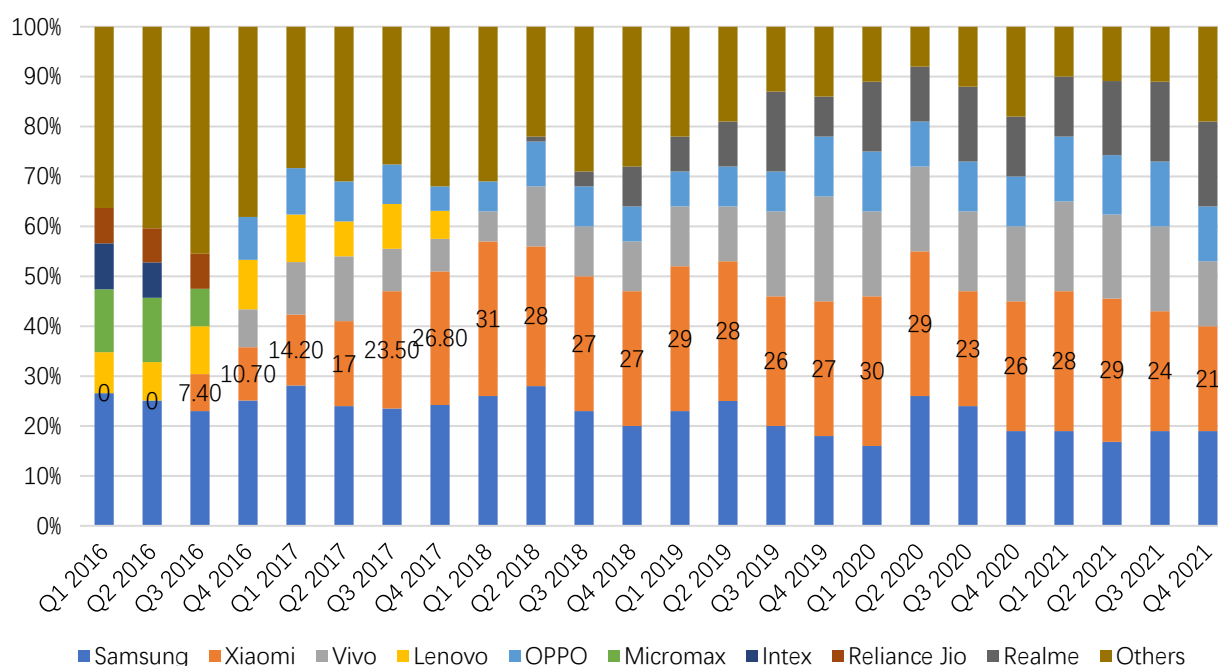


Fig. 1 Smartphone market share held by manufacturers in India from 2016 Q1 to 2021 Q4

As seen in Fig.1 above⁵, Xiaomi reached its highest share of 28% of Xiaomi in 2020, with 40.7 million annual shipments. However, this compares to Xiaomi's 21% share of the Indian smartphone market in 2021, with annual shipments of 40.5 million⁶, ahead of other smartphone brands in the Indian market. It is evident that Xiaomi has made great results in the Indian market as far as it is concerned. Nevertheless, as the chart still shows, the smartphone market in India is highly competitive. In addition to Xiaomi's long-standing rival Samsung, whose market share has stabilized. Realme⁷, a mobile brand in the same category as Xiaomi, uses the same market entry strategy as Xiaomi in India. Furthermore, according to the figure, Realme's market share in India was only 1% when it first entered the market in 2018, but by 2021 Q4 it had increased to 17%. It is reasonable to assume that Realme has been successful in the Indian market and could become one of Xiaomi's most formidable rivals in the near future.

⁴ Source of data comes from Statista (2022). Available at: <https://www.statista.com>

⁵ Source of data comes from International Data Corporation (2020). Available at: <https://www.idc.com>

⁶ Source of data comes from Canalys (2022). Available at: <https://canalys.com>

⁷ The specific global strategy of Realme can be found from <https://www.realme.com/global/>

2.4 Difficulties with International Relationships

Apart from the brand competition in the Indian smartphone market, the biggest issue Xiaomi is currently facing is how to continue to expand its mobile business in India despite the deteriorating Sino-Indian relations. Since the sharp deterioration of Sino-Indian relations after the Sino-Indian border conflict in 2020, some local Indians have started to boycott Chinese products, representing a possible shift in Indian buying preferences for mobile phone brands [11]. Furthermore, the shift in India's attitude towards Chinese products could be a major hindrance to Xiaomi's mobile phone sales in India. Moreover, the Modi government has established Foreign Direct Investment (FDI) norms. Its content Indian government censorship of Chinese companies investing in India is considered to increase the restrictions against Chinese companies investing in India [12]. Implementing this policy in India could also significantly reduce investor confidence in Xiaomi's entry into the Indian market and significantly impact Xiaomi's future sales strategy in India.

3. SWOT-Analysis of Xiaomi's Business Strategy

3.1 Strengths

High price-performance ratio. Xiaomi's market positioning is mainly in the low to mid-range market in China, with an introductory price of around RMB 1,000, which is in line with the current situation of India's underdeveloped mobile phone market and the country's low spending power. According to World Bank, India's GDP per capita in 2021 is \$2,277⁸, and the average price of a smartphone in India is \$196⁹, while the average price of a Xiaomi smartphone is \$162¹⁰. Moreover, Xiaomi focuses on offering high-quality, affordable phones that represent advanced technology rather than luxury items [13]. At the low and medium price points, Xiaomi's smartphones are equipped to the highest level in their category, which gives the company a strong advantage over other competitors.

Online sales. In response to the rapid changes and advancements that have taken place in the contemporary digital world, the conventional offline sales model was abandoned by Xiaomi in favor of an increased emphasis on online sales channels. Regarding zero inventory and on-demand customization, reservation rush can accomplish a significant advance compared to the traditional sales approach [14]. Typically, instant online payment is used for online purchases, which greatly assists in resolving the problem of bad debts and could also enhance the effectiveness of capital collection and utilization.

Higher research and development technology. China's mobile phone industry is marching through a life cycle of progressively robust development. The existence of a technology gap between China and India has driven China's mobile phones to an advantageous position and a more privileged development position. Overall, Chinese mobile phone companies have the leading research and development (R&D), design, and mass production capacity of mobile phones due to their R&D capabilities ahead of Indian mobile phone companies. It has enabled Chinese mobile phones to occupy a niche in the Indian market.

3.2 Weakness

Labeled as low-end. Xiaomi's mobile phone prices have always been competitively priced, and the company's policy of dropping prices when releasing new devices has been incredibly successful in increasing its market share and attracting a vast number of users. The advantageous price is used as a competitive tool to deter competitors from entering the market to increase the product's competitiveness. However, if Xiaomi decides to alter the value proposition of its devices and intends to produce high-end phones, the company's low-end image in the Indian market may impede the company's smartphone transformation.

⁸ Source of data comes from World Bank (2022). Available at: <https://www.worldbank.org/en/home>

⁹ The data of Indian smartphones' average price comes from Statista (2021). Available at: <https://www.statista.com>

¹⁰ The data of the average price of Xiaomi's smartphones comes from Statista (2022). Available at: <https://www.statista.com>

Lack of competitiveness in patents. The increase in the number of enterprise patents necessitates the long-term accumulation of technical expertise and the long-term, constant, and considerable funding of research and development. Consequently, a company's number of patents illustrates its technological prowess and serves as the foundation for its ability to generate superior products. In 2013, Xiaomi¹¹ applied for 1,034 patents; in 2015, the number of patents increased rapidly to 34,077 patents worldwide. Among these 34,077 patents, 14,970 have been granted, and over 77% are active patents. Nonetheless, Xiaomi is still at a definite disadvantage in terms of the number of patents compared to Samsung and Apple.

Lack of experience in human resource management in the Indian market. India is a country with a complex human environment, cultural differences, and different religious beliefs. Even though China's domestic mobile phones have rich marketing experience and have their own mature human resource management model, Chinese companies do not have talents who are particularly familiar with the Indian situation and environment [15]. In addition, in the absence of an understanding of the human environment in India, the company's hiring of talents, the regulations of the system, and the improvement of the human resource system will become a stumbling block to the development of China's domestic mobile phones in India.

3.3 Opportunity

Enormous potential for market development. Since 1990, India has been implementing economic reforms at a national level [16]. The economic situation in India is growing faster than before the reforms, and the country has a large population base with a high proportion of young people. The GDP per capita is low, and labor is abundant and cheap. Therefore, India's economic growth is expected to be very rapid in the future. Inevitably, this rapid economic development will lead to a rise in national income and a corresponding increase in domestic consumer demand, hence the emergence of Chinese domestic mobile phones in India.

Possibility of diversification in Indian culture. India has a large variety of ethnic groups, each with its own culture and humanity, so their consumer needs are diverse [17]. It leads sellers from all walks of life to win the hearts of different people by developing and producing differentiated products. Therefore, China's domestic mobile phones have an advantage over India because China's domestic mobile phones are functional, colorful, and cheap. They can segment this complex market and thus pinpoint consumer preferences and needs.

Policy support from the Chinese government. As Chinese companies are facing severe competitive pressures in the domestic market, such as overcapacity and exchange rate risks, the state has issued a series of policies to support Chinese companies to invest and expand their business abroad, including the "Belt and Road" program in order to avoid risks and seek their long-term development [18].

3.4 Threats

Fierce market competition. The smartphone market has reached a phase of stability following a fairly frantic and rapid expansion. Apple and Samsung, two multinational heavyweights, are not content with the high-end market and have started manufacturing multiple low- and middle-range products in an attempt to dominate the industry on all fronts and establish new profit growth areas. Despite the fact that Xiaomi's mobile phone sales are outstanding, the brand's recognition remains low and its portion of the market share is declining, making the company's competitive situation even more severe.

The deterioration of Sino-Indian relations. The most severe problem Xiaomi is currently facing is how to continue to expand its mobile phone business in India in spite of the deteriorating Sino-Indian relations. The sharp deterioration in Sino-Indian relations since the 2020 Sino-Indian border conflict and the fact that some local Indians have started to boycott Chinese products represent a possible shift in Indian buying preferences for mobile phone brands. Moreover, the shift in India's attitude towards

¹¹ All of data about patents are come from Insights (2022). Available at: <https://www.insights.com>

Chinese products could be a major hindrance to Xiaomi's mobile phone sales in India [19]. In addition, the Modi government's provision for the Indian government to review Chinese companies' investments in India is seen as increasing restrictions on Chinese companies' investments in India [20]. Implementing this policy in India could also significantly reduce investor confidence in Xiaomi's entry into the Indian market and significantly have an impact on Xiaomi's future sales strategy in India. For this issue, Xiaomi would need to look for opportunities within the current foreign investment rules. Xiaomi could attempt to exploit the smartphone's Soft Power as an entry point if it is unable to make a breakthrough in the policy area. Improving Xiaomi's smartphone design concepts to be more customized to Indian preferences would solidify the source of existing customers and attract new ones. Adapting a smartphone for the Indian market necessitates enhancements to both its hardware and software designs. Moreover, the improvement includes adjusting Xiaomi's marketing strategy for the Indian market by recruiting a management team conversant with the culture of India.

4. Suggestions for Smartphone Companies Entering the Indian Market

4.1 Clear Product Positioning in the Target Market

Consumer preferences differ considerably between markets. With a clear product positioning and a deep understanding of the target country's import policies, traditional culture, consumer preferences, and business environment, firms can effectively evaluate the compatibility between their products and customer needs and thus advertise precisely. Emerging country markets are generally price-sensitive, whereas European consumers are more interested in the experience and feel of the phone. In 2019, 5% of significant overseas high-tech corporations have market research units [21]. To adopt exact company strategies, companies hire professional research companies to undertake industry analysis and market research before making important decisions.

On the other hand, Chinese companies generally do not pay much attention to market research and are lagging in their ability to observe industry dynamics. Therefore, after gaining a firm foothold in the target market, Chinese mobile phone manufacturers should consider their products' actual sales, which pay close attention to the changing trends of the macro environment. Continuously follow up on market research and promptly adjust their product positioning to suit the market.

4.2 Localization of the Company's Management and Design

Localization is essential for every firm attempting to penetrate international markets and increase market share, and the Indian market is no exception. India is a complex environment distinguished by diversity and cohesion [22]. It is necessary to understand Indian cultures and local peculiarities to respond to the preferences of Indian consumers and produce mobile phone products that fulfill their needs and aesthetic preferences. The statistics show that there are 1,652 Indian dialects, which can be used to attract consumers by offering language packs on mobile phones. A few pre-programmed languages with a high prevalence rate could differentiate Xiaomi from other phones in its category, even if not all are available [23]. Furthermore, Xiaomi could hire the appropriate managers from other multinational corporations and utilize their solid cross-cultural management abilities and expertise to teach and establish its multinational management team in India. It is the only method to overcome the barrier between Xiaomi and local consumers while establishing international markets, breaking the impasse, and building the Indian market successfully.

5. Conclusion

The study investigates the entry of Xiaomi's smartphones into the Indian market. As a case study, the paper explains the purpose and significance of Xiaomi's entrance. It introduces the development status of smartphone companies in the Indian market and provides a preliminary analysis of the localized business environment for multinational companies in India. In addition, the paper focuses

on the new dilemma Xiaomi faces due to the deteriorating Sino-Indian relations, which substantially negatively influences the company's sales. On this basis, a SWOT model was developed for the analysis of Xiaomi's globalization strategy and the firm's localization strategies. Moreover, the research discusses the difficulties encountered by the corporation in implementing its localization strategy in India and provides recommendations for resolving such difficulties.

The finding of the article provides an overview of the implications of Xiaomi's localization initiative in India for Chinese multinational corporations. Prior to conducting product design, Xiaomi should conduct market research to define the product positioning among its smartphones. Besides, Xiaomi could engage local employees familiar with the local environment and customer preferences to match the design and satisfaction requirements of Indian mobile phone users. There is a lack of literature on interpenetration between developing nations and even less on mobile phone firms extending their operations by implementing localization strategies in foreign markets. The objective of this paper is to contribute to the research literature on the sales industry in international markets by analyzing Xiaomi's localized operations in India, thereby assisting similar companies in entering foreign markets.

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