

International Marketing Strategy for Xiaomi



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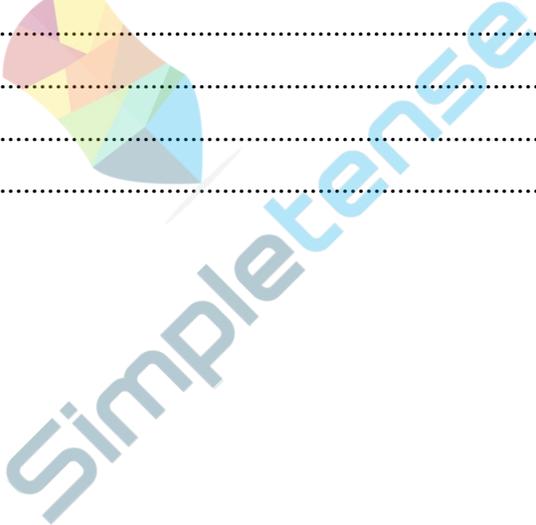
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INTERNATIONAL MARKETING STRATEGY FOR XIAOMI

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## International Marketing Strategy for Xiaomi

### 1. Background

As the third-largest cell phone producer in the world, Xiaomi has the opportunity to expand into global markets such as India, the United States, the United Kingdom, and less-developed parts of Africa and Latin America. Before expanding, company executives must assess the competitive environment, determine marketing objectives, and develop a competitive strategy. With a viable marketing strategy in place, Xiaomi has an excellent chance at a successful expansion effort.

### 2. Situational Analysis

#### 2.1 Opportunities and Threats

An in-depth situational analysis revealed that Xiaomi has two major competitors: Apple and Samsung (Sin and Yazdanifard). Both companies are expanding aggressively in Asia, making it more expensive for Xiaomi to convert customers. Executives must also consider the cultural implications of expanding in each market. With expansion into underdeveloped countries in Asia and Latin America, there is the threat of having to deal with political instability and inadequate infrastructure. Xiaomi must also consider opportunities for growth in the current competitive climate (Hill). Few Westerners have heard of the company, so there is the possibility of developing brand positioning in the United States and the United Kingdom. Executives may also want to consider further penetrating the Asian market. Because Xiaomi does not currently spend any money on marketing, there are many opportunities for executives to attract new customers and build brand loyalty.

#### 2.2 Strengths and Weaknesses

As a key player in the mobile electronics market, Xiaomi has several strengths. The company values customer satisfaction, giving it a strong reputation among consumers in the global market. As the company grows, it develops a stronger brand image, making it easier to attract new customers. Because Xiaomi offers lower prices than competitors, the company's products appeal to consumers who are not willing to spend a lot of money on products made by Apple and Samsung. Despite these strengths, there is one major weakness affecting Xiaomi's global expansion efforts. Xiaomi was accused of infringing on Ericsson's international patents, resulting in a total ban on Xiaomi products in India (Sidak). The total ban has been reduced to a partial ban, but Xiaomi may have difficulty penetrating the Indian market because of it. Xiaomi executives must also be careful not to infringe on international patents in the future. Apple successfully sued Samsung for producing products with rounded edges, a patent-protected design feature, resulting in a large award (Cusumano).

### 3. Objectives

Ansoff argues that there are only two issues to consider when developing a marketing strategy: customers and products (McDonald). Using Ansoff's matrix, there are four viable marketing strategies for Xiaomi to use in its global expansion efforts. Quadrant 1 of the matrix involves delivering existing products to existing customers. Because Xiaomi is already familiar with its current products and customer base, this is the easiest strategy to pursue. In Quadrant 2, Xiaomi has the option of delivering new products to existing customers. The high costs of product development make this strategy unappealing. Quadrant 3, known as market development, involves finding new customers to buy the company's existing products. The main

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challenge associated with market development is the need to spend capital to find new customers. Finally, Quadrant 4 addresses diversification. Using this strategy, Xiaomi would attempt to develop new products and find new customers to buy those products. Diversification creates more sales opportunities for the company, but it is risky to develop new products until it is clear that there is a demand for them. Considering the competitive climate, Xiaomi should focus on delivering existing products to new customers.

Before setting marketing objectives, Xiaomi executives must define a target market. The company should target individuals in the urban prosperity and comfortably off categories of the ACORN Classification System. These categories include well-off professionals, affluent urban professionals, young educated workers, young couples, and middle-income homeowners. Members of these groups have the resources necessary to purchase cell phones, tablets, and other electronic devices. All marketing objectives should conform to the SMART framework. Goals must be specific, measurable, attainable, realistic, and timely.

### 3.1 Potential Marketing Objectives

Based on Xiaomi's desire to expand globally, the company should focus on cost control, market entry, and marketing penetration. Several marketing objectives would help Xiaomi accomplish its expansion goals within three to five years. Because the company competes on price, scaling the business to take advantage of bulk discounts is essential. An appropriate marketing objective would be to reduce manufacturing costs by ten percent within two years. Expansion opportunities exist in several markets, including India and the United States. Competing brands are entrenched in the United States market, but there is a lot of opportunity in the Indian market. Therefore, Xiaomi should attempt to increase its Indian market share by twenty percent within the next three years. While Xiaomi is expanding in India, the company needs to take advantage of existing markets. Increasing Chinese market share by five percent within six months would give Xiaomi an opportunity to generate the revenue necessary to fund its Indian expansion efforts. Finally, Xiaomi does not currently spend any money on marketing, so spending £100,000 on promotional efforts within six months is a realistic marketing objective.

### 3.2 McKinsey 7-S Framework

Before pursuing any of these objectives, marketing executives must assess organizational effectiveness. According to the McKinsey 7-S model, there are seven internal criteria that must be aligned if an organisation is going to meet its objectives. Peters and Waterman developed this framework to help executives improve corporate performance, assess the potential for future changes, and determine the best way to implement a new strategy. The McKinsey 7-S model classifies the seven internal criteria as hard elements and soft elements. Hard elements are those that are easy to define, such as organisational charts. Soft elements are often intangible, making them difficult to assess. Peters and Watermen define strategy, structure, and systems as hard elements and staff, style, skills, and shared values as soft elements.

## 4. Strategy

### 4.1 Primary and Secondary Targets

Of all the possible marketing objectives available to Xiaomi, it makes the most sense to focus on increasing Indian market share by twenty percent within three years. The total ban on Xiaomi products in India has been reduced to a partial ban, giving the company a new opportunity to introduce Indian customers to its products. Samsung has a cultural ally in South Korea, but there is no such ally in India, making the Indian market a viable one. The country also

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has more middle-class consumers than ever before, giving Xiaomi an opportunity to promote its products as a lower-cost alternative to devices manufactured by Apple and Samsung. The company should also set a secondary target of spending £100,000 on marketing within the next six months. Increasing promotional spending has the potential to increase brand awareness and help Xiaomi enter the Indian market.

### 4.2 Competitive Strategy

Xiaomi has a distinct competitive advantage over Apple and Samsung in terms of product appeal in the Indian market. Middle-class consumers are not interested in purchasing expensive mobile devices and upgrading them annually. Xiaomi's competitive strategy should be to position its products as affordable alternatives to devices made by Apple and Samsung. Because Xiaomi manufactures cell phones that do not need to be upgraded every year, the company's product offerings are more likely to appeal to consumers in the Indian market.

### 4.3 Market Entry

Xiaomi must consider several market-entry methods (Agarwal and Ramaswami) before moving forward with its global expansion efforts. One option is to sell products directly to end users in India. With direct-to-consumer sales, there is no need to pay fees to a distributor or agent. The company would also have direct contact with the consumer, creating additional opportunities for sales. However, it would be difficult for Xiaomi to sell to Indian customers via the World Wide Web, as China has strict rules regarding the use of websites and social media. To sell to Indian consumers directly, the company would most likely have to create a wholly owned subsidiary in India. Indirect exporting is another market-entry option. Instead of selling direct to consumers, Xiaomi would use a local agent or distributor. The major benefit of doing so is that a local agent or distributor has in-depth knowledge of local laws and customs. Agents and distributors are also aware of potential cultural barriers.

Xiaomi should start with indirect exporting as a means of exploring the Indian market. Working with a local agent or distributor gives executives the opportunity to gather marketing intelligence and develop a better profile of the target audience. Indirect exporting is also less risky than spending a lot of capital to establish a wholly owned subsidiary. The drawbacks to using this market-entry method are the potential for logistical issues, exchange-rate fluctuations, trade barriers, and the expense of paying custom duties, import taxes, and tariffs.

## 5. Tactics

### 5.1 Analysis of Cultural Environment

Xiaomi executives must consider the marketing mix before attempting to increase market share in India. In doing so, it is important to address cultural considerations related to foreign expansion. Due to rapid technological advances in India, consumers are receptive to products that help them save time and effort. Indians also value products that make it easier to complete specific tasks. In Indian culture, views of material comfort are shifting rapidly. In the past, Indian consumers felt they were living in material comfort if they had more things than other people. They now feel that they are living in material comfort if they have higher-quality items than other people. Indian consumers also tend to value youthfulness, but they believe youthfulness is about acting young regardless of age. It is important to distinguish between the views of rural Indian consumers and urban Indian consumers. In urban India, consumers are more receptive to smaller products. Rural consumers still cling to the belief that bigger items are better than smaller ones. Xiaomi executives must also respect gender norms in the Indian culture. Although

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the country has some strong antidiscrimination laws, men are perceived to be the heads of their households. As a result, men have a great deal of input during the buying process.

Xiaomi must examine the consumer segments present in India. Socialites, or members of the upper class, look for high-value items. These consumers are not in Xiaomi's target market. However, middle-class conservatives are cautious about spending money and making good financial decisions. They are more inclined to save than spend their money, so Xiaomi's competitive strategy is more likely to resonate with members of this consumer segment. With these considerations in mind, Xiaomi executives have the information they need to develop a viable marketing mix. Borden developed the concept of the marketing mix after reading a research bulletin written by James Culliton. In the bulletin, Culliton described a business executive as a "mixer of ingredients." Borden originally developed a marketing mix involving twelve components: product, pricing, branding, distribution channels, personal selling, advertising, promotions, packaging, display, servicing, physical handling, and fact finding and analysis.

Under Borden's framework, the marketing executive had to consider pricing strategies, target markets, brand policies, wholesale and retail distribution, selling plans, packaging and labeling, customer service, warehousing, inventories, transportation, and the collection of marketing intelligence. The current marketing mix has been simplified to meet the needs of modern marketers. Executives now focus on the four Ps of marketing: price, product, place, and promotion. Although the current framework is used by companies around the world, Goj outlines several criticisms. First, the mix focuses on the internal workings of the company rather than the behaviour of the target consumer. The modern marketing mix also neglects the interactions that occur between consumers and marketing professionals. Finally, the simplified marketing mix does not recognize the importance of relationship building.

### **5.2 Marketing Mix**

If the company's primary target is to increase market share in India, Xiaomi should use the direct exporting method to sell inexpensive phones to middle-class consumers in India. The company's promotional strategy should be to position these cell phones as an affordable alternative to expensive models manufactured by Apple and Samsung. In promoting their products Xiaomi executives should use a pull strategy. Product demand is high, and executives have the opportunity to differentiate the cell phones based on price. Users have a high degree of involvement in the selection process, making a pull strategy ideal for promoting mobile devices.

### **6. Action and Control**

Reviewing the company's marketing mix brings up several issues for Xiaomi executives to address. Because Indian consumers prefer products that simplify tasks and make it easy to save time and effort, Xiaomi should make consumers aware of the productivity applications available on its cell phones and tablets. Xiaomi also needs to use caution when creating packaging for products sold on the Indian market. Because men have a great deal of buying power, the package designers should use masculine colours and symbols to attract the greatest number of new customers to the brand. Finally, executives must decide if they want to focus on the urban Indian market or the rural Indian market. If they determine the urban Indian market is the most promising, logistics issues are likely to stem from the traffic congestion on urban roadways.

## 6.1 Performance Measurement

Xiaomi executives must measure marketing performance to ensure they are meeting their objectives. Hollensen describes several methods of objective measurement. Sales by market segments, sales growth rates, market share, and return on investment are some of the measures of performance related to the product aspect of the marketing mix. In this case, it makes the most sense to measure performance according to market share. The initial objective was to increase Indian market share by twenty percent within three years. If executives determine that market share has increased by twenty percent or more, they have met their objective. Price changes relative to sales volume and price relative to competitor are two measures of performance related to the pricing aspect of the marketing mix. Xiaomi should use price relative to competitor as a measure of success because the company's competitive strategy is based on pricing.

Using Hollensen's framework, marketing executives typically measure the performance of the distribution and communication aspects of the marketing mix. Sales by channel type, sales relative to market channel, and percentage of stores carrying the product are all viable ways of measuring performance related to distribution-related objectives. Determining cost per contact, sales per sales call, new accounts per time period, and lost accounts per time period are all acceptable methods of measuring performance related to communication-related objectives. These measurement methods are not applicable here because Xiaomi did not set any objectives related to distribution or communication.

## 7. Conclusion

Xiaomi has a viable opportunity to increase market share in India. A situational analysis of the opportunity showed that the company should pursue a priced-based competitive strategy and set a primary target of increasing market share by twenty percent within three years. Based on the cultural considerations associated with expansion into the Indian market, Xiaomi's target market is fiscally conservative Indians with middle-class lifestyles. By offering this market inexpensive mobile device, Xiaomi has a real opportunity to compete with Apple and Samsung.

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