

**BUILD BRAND COMMUNITY TO EXPAND THE MARKET A CASE
STUDY OF XIAOMI'S MARKET EXPANSION IN CHINA**

Yong Cao, Professor of Marketing, College of Business and Public Policy, University of Alaska,
Anchorage, AK 99508, U.S.A.,

Jiong Gong, Professor of Economics, School of International Trade and Economics, University
of International Business and Economics, Beijing 100029,

Abstract

Just a few years ago, Chinese smartphone maker Xiaomi did not exist. Now it's on the verge of becoming a \$90 billion company. What's its secret? World-class technology combined with a digitally created "fan culture" allows the company to thrive with no physical stores or traditional marketing.

Introduction

According to conventional wisdom, China is a manufacturing powerhouse but no home to radical new business models. Yet, in just three short years, Chinese Smartphone maker Xiaomi went from its first product release in 2011 to racking up \$10 billion in sales and an 11% share of the Chinese market. The startup's success is even more remarkable when you consider the obstacles it overcame, including taking on major global and national brands already entrenched in China and competing in one of the fastest-moving, most cut-throat markets in tech.

What's the secret to Xiaomi's success? It comes down to the company's innovative use of digital technologies not only to cut costs—but also to cultivate fanatical devotion among its consumers. By exploiting a host of social media technologies in savvy ways, Xiaomi created a model that does away entirely with physical stores, relying solely on online channels for sales. It's a true creature of the social media age.

The Rapid Rise of Xiaomi

Xiaomi Technological Inc. lays claim to a long list of impressive statistics. Founded in April 2010 in Beijing, it's one of China's fastest-growing tech companies. Xiaomi is the sixth-largest handset maker in the world and the fourth-largest in China, based on shipment volume in the first quarter of 2014. Its current flagship Smartphone, Redmi, was listed as the most popular Android Smartphone in the world in June 2014.

Xiaomi holds a leading 11% of penetration in the Smartphone market in China. The company grossed more than \$5 billion in revenues during the first half of 2014. With only 2,600 employees (as of June 2013), it has a market capitalization of over \$10 billion. Its top executives have technological backgrounds and experiences from many other high-tech multinational companies in the west.

A truly digital company, Xiaomi is also a truly revolutionary one. It doesn't sell its products in stores and it doesn't have a traditional advertising budget. It offers phones in batches directly through Sina Weibo, China's Twitter-like micro blogging platform with 400 million active

members. Within two days of a typical sales event announcement, Xiaomi usually sells out all of its planned production. For example, at a flash sale during this year’s Mi Fan Festival, an event organized annually to celebrate the company’s founding, Xiaomi sold 500,000 smart phones within 15 minutes once the event started.

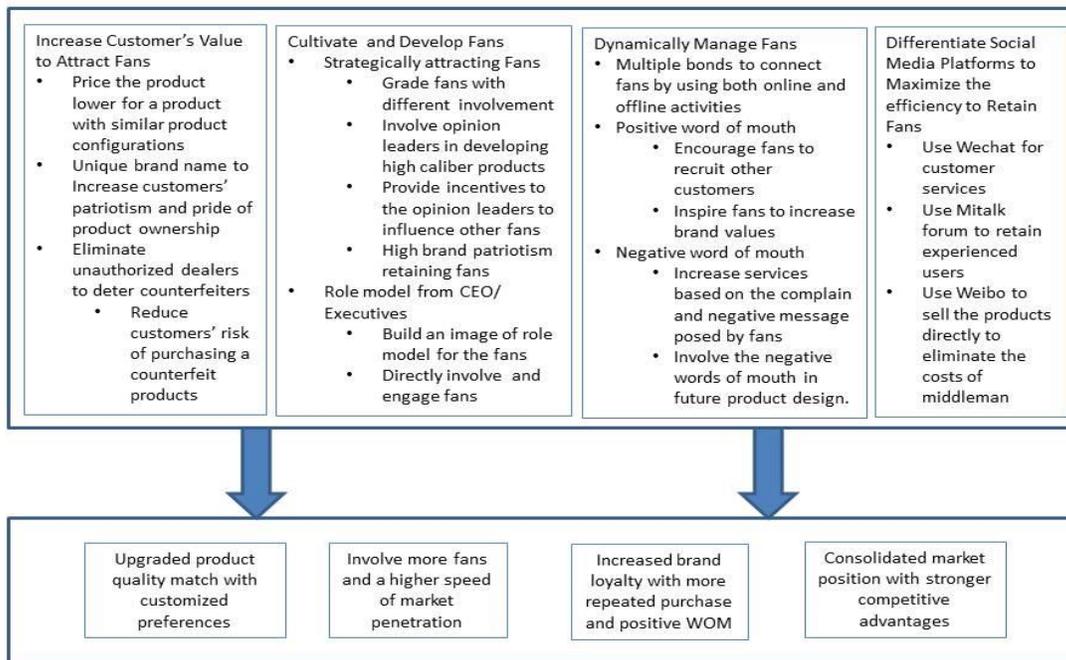
Remarkably, the company has an almost “zero input” marketing model: it relies exclusively on online forums, micro blogs, and other social media platforms to build a well-known brand with a following of tens of millions of die-hard fans.

How did Xiaomi become so successful so quickly? How has it grabbed such a large piece of the market? And how does it manage to keep building the kinds of products that clamor for?

Experts have come up with several theories to explain Xiaomi’s success. In this paper, we propose a four-step model showing that the company’s focus on cultivating and developing a brand community is the decisive factor in its success. Its “just-for-fans” culture speeds up its market penetration quickly.

Figure 1 below summarizes Xiaomi’s model of success. Its rapid growth depends on its fan culture and value system. Xiaome relies on enhancing customers’ value to attract fans. It cultivates and develops fans enthusiasm via its CEO and executives taking on a role model for customers. It also dynamically manages fans by building emotional bonds with them. Finally it uses a set of different social platforms to maximize the efficiency to retail to fans.

Figure 2. Xiaomi’s Fan Culture and Value System



First, Build a Fan Base

You can’t build a fan culture without first attracting a significant number of people who love your product.

High Quality, Low Prices

Xiaomi knew from the start that it needed a product that wouldn't just compete with other major offerings, but would stand out. It decided to offer a world-class product at a much lower price by relying on word of mouth to drive traffic to online sales channels. By not having physical stores, the company could cut costs by 30% and pass those savings onto customers. But Xiaomi didn't just want to offer a cheap product. It wanted to build a Smartphone that delivered more value to customers than they expected. A strong value proposition would go a long way toward building customer loyalty and brand equity.

The strategy Xiaomi developed focused on providing "high configuration at a lower price." Xiaomi's products typically sell for a fraction of competitors' prices, but have the same level of configurations, if not higher. The company released three generations of phones so far, and each generation contained the industry's highest configuration. Although the product quality configuration is based on the preferences of Xiaomi's most enthusiastic customers, the product targets the mass market. Because these products have the appeal of being the first in their class, customers are excited about showing off their Xiaomi phones.

This combination of low price and high configuration lets the company attract both price-conscious and quality-conscious customers. For the same price, Xiaomi offers better value than low-end competitors. For the same quality, Xiaomi offers better pricing than similarly high-quality competitors.

This strategy has worked remarkably well and steadily generated momentum. Every single product Xiaomi has released so far, including the Redmi and the Mi1 to Mi3 smartphones, the Xiaomi set-top box, and the Xiaomi television, has become incredibly successful. Consider Xiaomi's Mi1 phone, which was an instant success with demand far exceeding supply at the time of its introduction. Mi1 is the first Smartphone in China that uses a dual-core 1.5G chip but is also very affordably priced at under RMB 2000. Its configuration-adjusted price is much lower than customer expectations and competitors' prices.

How has Xiaomi been able to match or exceed key product configurations at cheaper price points? There are three main reasons. First, using online sales channels exclusively cuts costs by an estimated 30%.

The second reason is its clever product strategy. While one of Xiaomi's biggest competitor's is famous for concentrating on one smart phone version at a time, another major rival caters to the mass market by offering a large number of phones under different names and a complicated set of pricing strategies. Xiaomi's product strategy takes salient elements from both competitors – it sells only one phone at a time, but with different software release versions. When customers order online, they have the option of customizing their phone, a capability that differentiates Xiaomi noticeably from competitors. Xiaomi's Android-based operating system (MIUI) provides customers with continuous software updates and bug patches that prevent previously released products from becoming obsolete. By comparison, Xiaomi's two Asian competitors produce a large variety of Smartphone models, but they only provide software updates for a select few strategic products.

Third, innovations in value chain management also help hold down costs. Xiaomi uses its Smartphone as a conduit for introducing other paid software and application programs. So far, Xiaomi customers have downloaded applications about one billion times. Aside from generating an additional revenue stream, the cultivation of a value-added ecosystem also helps Xiaomi grow by involving customers in developing additional applications, games, and other services.

A brand that appeals to national pride

A good brand name serves as an effective vehicle for connecting with customers. Xiaomi uses the prefix “Mi” in all its products: Mi1, MiUI, MiCloud, and MiTalk, for example. However, Xiaomi’s brand name has a much richer meaning for Chinese customers that may not be well understood by the Western audience.

Xiaomi’s name, which means “millet” in Chinese, can be traced back to the Communist Red Army’s slogan “millet plus rifle.” Used in the 1930s and 1940s, the phrase describes the Red Army’s formula for winning the revolution and defeating the Japanese invasion. Literally, it means using primitive means to defeat something larger and stronger. Thus, the phrase connotes a strong indigenous, patriotic, and even nationalistic message.

To inspire customers’ national pride, the company carefully designed a bunny mascot, called the Mi-bunny or Leafing bunny, that wears a red star, red scarf, and the type of hat worn by Lei Fang, a Communist era soldier and cultural icon. These bunnies promote a distinct Chinese identity, a strategy that is resonating particularly well as Xiaomi takes on global powerhouses. So far, Xiaomi has been successful in using this strategy to promote its brand image and has extended its brand influence in China in all demographic groups.

Figure 2: Building the Brand with the Xiaomi Mascot

The “Mi-bunny” is more than cute: it resonates with Chinese consumers as a distinctive patriotic image.



Unique sales model

As an online-only business, Xiaomi can operate with smaller overhead costs and offer more affordable prices than its competitors. Xiaomi relies on B2B partnerships to keep ahead of the competition. It rigorously pursues unauthorized dealers legally, thus reducing customers' risk of purchasing counterfeit products

What also makes Xiaomi different is its strategy of selling phones in batches of a limited units at a time, and then not selling any more until the next scheduled release. The much-anticipated sales events usually happen during press conferences. Dubbed "hunger marketing," this unique sales strategy appears to have artificially created a sense of competition among fans and boosted demand as a result.

Second, Cultivate and Develop the Fan Community

Cultivating and developing a fan community is the cornerstone of Xiaomi's digital brand development strategy. It uses a combination of tools and methods to achieve this goal.

Customer engagement

Xiaomi's product development and business models are completely different from the industry leader's top-down approach. Xiaomi's approach is decidedly bottom-up. The company embraces open innovation. Xiaomi actively engages customers in designing and improving its products, using social media platforms to get fans even more involved.

Prime example is how Xiaomi seeks out customer input on the design of its operating system. Every Friday evening, Xiaomi releases a round of software updates. Within hours, fans usually provide feedback that is rigorously reviewed and followed up on by Xiaomi's online staff. This activity creates a cost-effective way to continuously improve software, while enhancing customer loyalty to Xiaomi's products.

Xiaomi's open platform also affords customers the flexibility to customize their products, a feature that competitors are not able to offer. This lets customers run numerous applications simultaneously with highly customizable products. While competitors focus on features, intricate design, and more standardized hardware, Xiaomi focuses on customization and flexibility in running its system and applications. Customers are also able to have various personalized experiences with download of different applications from Xiaomi's app store. Xiaomi generates a significant portion of its revenues from its app store. Its Mailbox runs a similar business model as Google Play Store and Apple's iTunes.

Xiaomi attracts customers who are usually techies or fad-conscious. Its core customer base consists of avid fans and mobile device experts. They care more about performance and customization than style and design and are knowledgeable about advanced phone features. They also tend to be opinion leaders who give advice to friends and family members.

Xiaomi uses these influencers to generate buzz on social media platforms. These opinion leaders like to share information and new ideas, thus broadening Xiaomi's potential customer base. Xiaomi systematically classifies its fans into different grades in terms of their participation and number of comments posted on online forums. This grading system enables Xiaomi to allow fans to have varying degrees of privileges, and to receive different incentives for their further participation in product design, promotion, and other development activities.

Role model of CEO and executives

Xiaomi's executives play a critical role in cultivating and maintaining the company's relationship with fans. CEO Lei Jun, charismatic and energetic, is a role model to many die-hard Xiaomi followers. His web account has 4 million followers and he spends hours interacting with fans nonmetal, the company's messaging app, and other social media sites. Dressed in black t-shirt and jeans, Lei exudes a rock-star image when hosting Xiaomi's events, bounding on stage and delivering lively presentations to loudly cheering crowds.

Xiaomi's other executives are equally engaged with consumers and enthusiastic about tech. Co-founder Waning Li is passionate about photographic and audio equipment. Co-founder Feng Hong enjoys playing cell phones with robots he invented. He also uses a robot to attend company meetings when he's out of the office. MiUI chief system engineer Sun Peng is passionate about system upgrades. He has updated many of his phones on his desktop with Xiaomi's MiUI operating system. Tang Yanglin, the marketing chief, likes to explore Xiaomi products in unconventional ways. For example, he has programmed his mobile phone to pilot radio-controlled model airplanes and cars. All of these executives actively use Weibo and other social media platforms to interact with fans.

Third, Dynamically Manage Fans

Xiaomi's fans play a critical role in the company's development—which is why the company pays attention to its fans all the time. The company has developed a strategy for creating bonds with fans on many levels, listening to and quickly responding to positive and negative feedback, turning fans into brand ambassadors, and dishing up a continuous range of activities to keep customers engaged with the brand.

Xiaomi treats good and bad feedback as equally important. Fans volunteer their time and effort to review Xiaomi's products or services and provide comments and suggestions and Xiaomi uses those comments as valuable insights.

For example, some fans wanted to record the times when they answered the phone. Xiaomi responded by incorporating this function into the next release. Xiaomi handles customer complaints quickly and constructively, using negative messages as important information for improving future product design and development. As a company that lives and dies digitally, Xiaomi understands how quickly bad word-of-mouth can spread—and how it can damage the company's reputation and competitiveness.

Xiaomi customers are connected by their use of these products. By that we mean they are not just using their phones, but are actively playing with the phones amid a sense of community belonging. Fans connect through online and offline activities, including product launches and company anniversary events. Xiaomi's use of social media platforms is geared toward engaging users to cultivate further this sense of participation. By encouraging fans to recruit other customers, the firm has inspired fans to increase the brand value.

Figure 3: A Radical Approach to Marketing



Ways to Use the Phone	Sell mobile phone for users to use the phone	Sell mobile phones for users to play with the phone
Product	Sell the product	Sell a sense of participation
Advertising	Spend heavily on advertising and often via celebrity endorsement	Identify and cultivate fans on the Internet at little or no cost
Product Design	Have a closed-door policy, relying on elite technicians and own R&D staff	Pursue open innovation with elite customers
Employees and Internet	Do not allow employees spending time talking on online forums	Encourage employees to fully participate in direct contact with users
Sources of Revenue	Rely on hardware to make money	Rely on value-added services

Xiaomi’s key weapons a “topic + activities” strategy. Xiaomi carefully selects topics for fans to discuss and then creates activities based on these topics. It uses a variety of social-networking platforms to spur interest around these topics and conversations among employees and customers. This strategy creates lasting impressions of how well customers are treated and how Xiaomi tailors personal connections for each individual. For example, Xiaomi used the “box brothers” picture, which went viral overnight across the Internet. And when it released a puzzle of “My 150 grams” question, it immediately generated a heated debate among fans on the internet—my next generation of Xiaomi product may be lighter and better. These viral examples on the Internet generate curiosity among fans, help to maintain their enthusiasm and attract more fans to join in the group.

By using social-media platforms, topics of interest, and prize incentives, Xiaomi has adopted an entertaining, effective way of telling its product story. Consider how successful it has been in using Weibo: its posts have been forwarded a total of 2.6 million times, attracting more than 1.5 million fans.

Fourth, Strategically Use Social Media to Retain Fans

In Xiaomi’s early days, the company’s biggest technology challenge was developing the MiUI operating system on a limited budget. Xiaomi’s solution was to recruit volunteer programmers on Internet forums. After invitations were posted to experts on online forums, 100 super-users out of 1,000 candidates were selected for the design and development team. This was the foundation of the Xiaomi fan culture.

Today, Xiaomi strategically uses several social-networking channels for different purposes. Weibo is the platform for new customers, the Xiaomi forum is the platform for experienced customers, and We chat, the popular messaging and social-media service owned by Ten cent, is

the home for customer service. This combination has become the mainstay of Xiaomi's core marketing channels. With effective communication on these channels, Xiaomi spends significantly less on marketing and virtually nothing on conventional advertisement. By the end of 2013, Xiaomi forum had reached nearly 10 million registered users and 100 thousands posts. SinaWeibo and Tecent. Weibo had attracted 2 million fans, while We chat had 2.56 million fans and 30 thousand messages per day in just three years after the company was founded.

Consider how Xiaomi makes the most of the forum. Netizens gather there to discuss Xiaomi's innovation activities, strategic directions, and even influence the product's features. To encourage these involvements, Xiaomi established a "Popcorn Award" to recognize the most popular weekly feature as determined by users. Every Friday, dubbed Orange Friday, new updated features of the operating system are released. On the following Tuesday, the executives will attend the ceremony and personally give out the Popcorn Award, which is based on user-submitted data regarding their experiences. Popcorn Award may include more than 20 different types, such as Mi-girl Award, Mi-boy Award, the Most Creative Star Award, the Best Honorary Consultant Award and etc. This high level of customer interaction enhances user retention, since it creates social capital through a sense of accomplishment and motivates Mi fans to keep coming back to the forums.

In 2010, the company created the Metal messaging service as a mean for sharing user experiences and expectations for future Xiaomi products. Just six months after the launch, 3 million active users were registered. Based on this online community, Xiaomi is able to constantly improve its phones. When a new product is ready to be released in the marketplace, a small batch of pilot products is first released for gathering customer feedback. An updated version is then developed. This routine, interactive engagement significantly reduces development costs.

Mi fans' participation determines marketing as well. The performance of Xiaomi's marketing team is evaluated against the level of involvement of Mi fans. This links employee rewards with consumer experiences, ensuring that future product improvements truly reflect feedback.

Instead of investing in conventional advertising, such as TV and billboards, Xiaomi adopted an innovative social media promotion model for distributing company news, communicating with customers, and selling products.

Conclusion

Xiaomi has turned the conventional R&D, marketing, and sales models in the mobile device industry upside down. Rather than sell products, the upstart sells lifestyle and identity. Instead of top-down brand enhancement, Xiaomi relies on bottom-up brand creation. And where some companies keep product development tightly locked up, the firm embraces open innovation. The startup represents a new generation of technology firm in the digital age.