Emerging Multinationals in Emerging Markets: Xiaomi Experience in the Indian Smartphone Market

Jae Hoon Hyun*

This study explored the strategical dimension of the evolving mentality of an emerging multinational company, particularly focusing on the experience of the Chinese company Xiaomi entering the Indian smartphone market. Specifically, we explored this emerging multinational company shared common background and motivation concerning overseas expansion and whether limited resources influenced any particular strategies in emerging markets.

This case study extensively used secondary information together with company’s internal reports and focused interviews. In particular, in order to distinguish the strategic characteristics of the emerging multinational company from established companies, the experience of Samsung is compared. Characteristics common with other advanced multinational companies included global and localization strategies focusing on global integration and national responsiveness. Xiaomi was distinguished from competitors in having a recycled localization strategy in India to the global strategy. Due to the human resource limitations of emerging multinationals, Xiaomi sought efficiency by implementing the knowledge acquired in the Indian market to its global market strategies.

Keywords: Xiaomi, India, Emerging Multinational, Emerging Market, Globalization, Localization, Transnationality

JEL Codes: F23, M16 and M39

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1. Introduction

Companies in India and China that have established robust domestic markets are expanding to the global market. Their technological acumen is poised to compete with other established multinational companies from developed countries.

From 2001 to 2010, the emerging market in India and China experienced record high economic growth of 5.8%. As well, the number of emerging multinational companies in the Fortune global 500 increased by 31.2%, from 49 to 145 companies (Fortune global 500, 2014). Those emerging multinationals have become the biggest competitor to the current multinationals. The reasons for this marketplace shift are unclear. To clarify this issue, consideration of the Indian marketplace expansion of the Chinese smartphone company Xiaomi is instructive.

Xiaomi released the Mi1 smartphone, Mi1 in 2011. While initially criticized as being reminiscent of Apple’s iPhone, Mi1 has gained a solid share of the global smartphone market. The success of the Mi1 in China led to its introduction in Brazil and Africa, become a global smartphone brand. In 2014, expansion continued, with the introduction of the Mi1 in India.

The objectives of this research were to determine the intrinsic motivations of Xiaomi’s decision to expand to the Indian market and how this Chinese company efficiently localized its production and marketing practices in India.

We first investigated Xiaomi’s current business activities in the Indian market and the background of its expansion to the market by considering recent changes in the business environment in India. Secondly, we examined Xiaomi’s production and marketing strategy in India considering the companies’ evolving mentality of transnational competition. Finally, we examined differences between Xiaomi and Samsung, a strong Korean competitor in India.

2. Literature Review

Emerging market multinational corporations (EM MNCs), also termed Emerging Market Global Companies (EMGCs), have established a marketplace presence in the newly industrialized BRIC countries of Brazil, Russia, India, and China (Yeung, 1994; Luo and Tung, 2007). The importance of the BRIC marketplace in the world economy is increasing and is predicted to exceed 50% of global production by 2050. Accordingly, globalization of multinationals from emerging economies has drawn particular attention as many firms actively expand their businesses globally beyond their national borders by instituting global technical standards (Jung and Pyo, 2013).

Figure 1. Emerging economies’ share of global gross domestic product
In the 1980s, a number of studies sought to identify outward expansion by ‘third world’ multinationals (Lecraw, 1997, 1983; Wells, 1983; Lall 1984). The results suggested that they share some common characteristics in basic strength, such as cost advantage, and weaknesses like limited knowledge and experience in overseas markets. As these suggestions remain reasonable, it is also obvious that emerging multinationals are not following traditional beliefs as they are less path-dependent and more risk-taking (Luo and Tung, 2007).

The established multinationals were able to open up foreign markets through foreign direct investment using ownership advantages formed from their home base. On the contrary, emerging multinationals are basically specified as the companies that export products based on location-specific advantages like government protection, abundant natural resources or low-cost labor (Guillen and Garcia-Canal, 2009). Nevertheless, the 2008 global financial crisis resulted in a 13% decrease in foreign direct investment, while emerging multinationals’ foreign direct investment increased by 3%. In particular, China’s foreign direct investment increased 111% compared to the previous year (UNCTAD 2013).

Existing MNE theories explaining the overseas expansion via outward foreign direct investment include eclectic paradigm (Dunning, 1981, 1988, 2001), and the leapfrog effect with evolutionary process theories (Johanson and Vahlne, 1977), late development, and latecomer advantage (Dore, 1990, Buckley and Casson, 1981). These are useful theoretical applications for emerging multinationals. It was suggested that most important globalization motive of the emerging multinationals are push factors of currency appreciation, rising labor shortages, escalating operating costs, and saturated domestic markets (Wells, 1983; Kumar and Kim, 1984; Deng, 2004). Pull factors to secure important production factors, acquirement of advanced technology, management skills, and customer access have also been identified as valid motivations for emerging multinationals’ global expansion (Lou and Tung, 2007).

Due to lack of core competency, emerging multinationals often use global alliance and acquisition as the foreign market debouchment strategy. Especially, the giant home market obtained by the emerging multinationals are used as a negotiation tactic in alliance discussions with established multinationals (Bonaglia et al., 2007; Buckley et al., 2007). Several emerging multinationals try to do a strategic asset seeking debouchment that can obtain advanced technology and brand value through
the mergers and acquisitions about the established multinationals (Table 1). For instance, in 2005 the Chinese computer company Lenovo had bought the personal computer portion of IBM, and acquired IBM’s server business team in 2014. Another example is Ziri Motor, a Chinese vehicle company, which took over the Swedish vehicle company Volvo (Lee et al., 2015).

Table 1. Major Global Mergers and Acquisitions by Emerging Multinationals

<table>
<thead>
<tr>
<th>Acquiring country</th>
<th>Acquiring company</th>
<th>Target company</th>
<th>Cost</th>
<th>year</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Industrial and Commercial Bank</td>
<td>Standard Chartered Bank (S. Africa)</td>
<td>USD 5.6 billion</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Yanzhou Coal Mining Company</td>
<td>Felix Resources ltd. (Austria)</td>
<td>USD 2.6 billion</td>
<td>2009</td>
</tr>
<tr>
<td>India</td>
<td>Hindalco</td>
<td>Novelis (Canada)</td>
<td>USD 6 billion</td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>Tata Motors</td>
<td>Jaguar/Landrover (US)</td>
<td>USD 2.3 billion</td>
<td>2008</td>
</tr>
<tr>
<td>Russia</td>
<td>Evraz</td>
<td>IPS CO Tubulars Canada)</td>
<td>USD 4 billion</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td>Rusal</td>
<td>Glencore (Switzerland)</td>
<td>USD 3.6 billion</td>
<td>2007</td>
</tr>
</tbody>
</table>

Source: Asian Economy, 2010

One of the popular perspectives is the political economic view, as a higher percentage of emerging multinationals are state-owned for historical, political, and economic reasons (Andreff, 2002; Kalotay, 2004). Government subsidies provided to emerging multinationals has been used for acquisition and horizontal investment to compensate for the lack of ownership advantages compared to established multinationals (Lall, 1983). However, more recently there has been more activity from non-state owned, private multinationals focusing on specific geographical markets or particular segments to leverage their strengths (Luo and Tung, 2007). The case of Xiaomi is germane; political economic relations with home country government seem less relevant. In contrast, political inducement from the host country government is likely to profoundly affect emerging multinationals compared to influential established multinationals. In particular, stringent trade barriers, such as quota restrictions, anti-dumping penalties, and special tariff penalties, may be bypassed with outward investment for emerging multinationals producing technologically standardized products (Luo and Tung, 2007).

Emerging multinationals often have the technical competency to compete with established multinationals in terms of product manufacture. Other strengths are the profits realized and manufacturing experience gained in their home country, and experience in expansion to under-developed/developing countries. Emerging multinationals can bring a fine-tuned efficiency ethic, acumen in seeking natural resources in the developing market, and talent in seeking out markets and strategic asset (Guillen and Garcia-Canal, 2009) (Table 2).

Emerging multinationals seeks strategic assets by entering developed markets.
However, their strategic approaches are not limited to developed markets as they actively seek other emerging markets beyond their limited or saturated home markets. Market seeking motive of emerging multinationals provides the opportunity to avoid economic risks by spreading revenue sources to multiple countries (Lou and Tung, 2007).

Table 2. Emerging multinationals from emerging markets

<table>
<thead>
<tr>
<th>Company name</th>
<th>Company overview</th>
<th>Competitive source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embraer (Brazil)</td>
<td>Aircraft manufacturing</td>
<td>Small and mid-size aircraft</td>
</tr>
<tr>
<td>Sasol (S. Africa)</td>
<td>Coal liquefaction</td>
<td>Coal to liquid technology</td>
</tr>
<tr>
<td>Suzlon (India)</td>
<td>Wind power generation</td>
<td>Technical capability via global M&amp;A</td>
</tr>
<tr>
<td>Cemex (Mexico)</td>
<td>Global cement manufacturer</td>
<td>Merging competing companies</td>
</tr>
<tr>
<td>TSC (India)</td>
<td>Global IT service</td>
<td>Training and acquiring IT technicians</td>
</tr>
<tr>
<td>CIMC (China)</td>
<td>Container manufacturing</td>
<td>Aggressive M&amp;A</td>
</tr>
<tr>
<td>Vale (Brazil)</td>
<td>Ironstone processing</td>
<td>Global financing and M&amp;A</td>
</tr>
<tr>
<td>LDK Solar (China)</td>
<td>Solar cell components</td>
<td>Acquiring technology via full term for TCN</td>
</tr>
</tbody>
</table>

Emerging multinationals may also be more nimble and so more adept at adjusting to conditions in the emerging market than established multinationals, because of their similar domestic business environment (Kim, 2013). An example is Marico, a household goods company based in India. Marico successfully expanded to the Middle East by inventing a hair gel that is easy to wash and contains no alcohol. It was an immediate success with Muslim customers, who abstain from consumption and other uses of alcohol. Marico had the advantage of an existing Muslim customer base in India. In particular, despite the overall inferiority of emerging markets as a production base for technologically standardized products, companies have access to readily available open market with the latest infrastructure in applied technologies that emerging multinationals can simply buy. Emerging multinationals’ capabilities for mass production through original equipment manufacturer (OEM) arrangement and low-cost position may be best exploited in these locations (Luo and Tung, 2007).

3. Xiaomi in India

In 2014, Xiaomi had 5.3% of the global smartphone market, placing them third after Samsung (23%) and Apple (12%) (Figure 2). In China, Xiaomi overtook Samsung and Apple by the end of 2015, and also showed its competitiveness against other domestic companies including Huawei and Vivo.

Figure 2. Smartphone market share in China 2015
Xiaomi commenced selling smartphones in India in July, 2014. By 2016, the Indian market had become the second largest market for Xiaomi. The Indian smartphone market was the sixth largest globally by 2015 and is expected to grow to become the second largest by 2019, with 225 million smartphones sold annually. The growth potential of India’s smartphone market was thought to be low because 70% of the population used feature phones. Instead, by 2014 India had become an important location for smartphone production and use based on the availability of a low-cost (<$190 USD) smartphone that has captured 77% of the mobile phone market (Figure 3).

Xiaomi’s share in the smartphone market in India was 4%, which was less than Samsung and local competitors, such as Micromax and Intex (Figure 4, left pie). Xiaomi occupied 31% of the 4G smartphone market in India in the same year (Figure 4, right pie).

Figure 3. Market Share in India: Smartphone vs. Feature Phone

Source: IDC Asia Pacific Quarterly Mobile Phone Tracker 2014.

Figure 4. Smartphone vendor share in India by 2014.
Considering the strategic importance in both market as production base, India has become critical to the future of Xiaomi. The following sections investigate how Xiaomi expanded and adapted to local Indian markets.

### 3.1 Localization: Reaction to Political Inducement

One of main considerations for business management by multinational corporations is the legal and political environment restrictions imposed by local governments. The different localization strategies of Xiaomi in India also have been affected by the government policies. The Indian government under the government of Prime Minister Narendra Modi has pursued “the development of domestic economy” and “big bang economic reforms” right from the onset of his regime in May, 2014. Policies affecting multinational corporations may be summarized as “Made in India” and “Digital India” initiatives.

The Indian government has actively sought to produce more jobs by supporting manufacture and reducing the dependency on expensive products from China. To this end, the government amended customs regulations to encourage foreign companies to manufacture in India. Regarding the oversupply of Chinese products, the Modi government also instituted anti-dumping tariffs and emergency safeguard measures to limit imports from China as part of the “Make in India” campaign.

The Indian government also has initiated “Digital India”. A particular goal is to transforming India into a knowledge society through the introduction of digital infrastructure. This policy explicitly aimed to have every citizen own a smartphone, with an Internet connection in every home, an electronic system for all monetary transactions, and an integrated system between government agencies and Cloud Computing services. The overarching goal has been to expand the market for overall communication infrastructure.

Under the “Make in India” initiative, the Modi government tried to establish pro-business environment in policies by minimizing unnecessary administrative procedures encouraging multi-national and national companies to manufacture their products in India. The government aimed to draw overseas technology and investment to India, aiming to increase the ratio of domestic manufacturing from current 15% of GDP to 25%. Under such an ambitious initiative and along with the policies of overseas technology and investment, the government expanded the
The influence of local networks and received consulting on investment by attracting strategic investment from Ratan Tata of Tata Group, a well-known businessman in India, and through capital investment in Hungama, India’s leading digital content and streaming company with about 65 million users, the government aimed to accelerate the advancement of Indian market (Platum, 2016).

Most notably, as part of the efforts to encourage local production and investment by Chinese companies, the government in the 2015/16 budget raised the consumption tax rate from 6% to 12.5% on imported mobile phones but applied a 1% tax rate on products assembled in India.

As a consequence, Xiaomi raised their smartphone a little bit including customs duty and surtax from the existing price. Sri City in the state of Andhra Pradesh offered various incentives to investment companies, with enough manpower; Xiaomi began to produce smartphones there to counteract the tax rate hike. In addition, Xiaomi also targeted India’s fast-growing e-commerce market. By selling Xiaomi phones at much lower prices in the e-commerce market than the price Xiaomi had maintained, the company strove to counteract the policy.

3.2. Localization: Production

Xiaomi entered India’s rapidly growing smartphone market starting from 2014 and has since sought to increase market share. Xiaomi shifted from the export of Chinese-made products to establish production facilities in India that produced products for Indian market. The company also built a research and development (R&D) complex in India in cooperation with Foxconn, the world’s largest manufacturer of electronic devices, and has subsequently developed and launched local modes.

In 2015, Xiaomi released the first locally produced model, dubbed the Redmi 2 Prime. The Redmi 2 Prime device was made in Foxconn’s factory located in Sri City in the southern state of Andhra Pradesh in India. The factory was where Foxconn used to make Nokia mobile phones. Priced at 6,999 rupees (about USD$110), the phone is a low-priced model sold through the Xiaomi web site. By complying to the “Make in India” initiative, Xiaomi was able to target the local market and secure price competitiveness by cutting down the manufacturing cost of the product. Subsequently, Xiaomi released the second model made in India, “Redmi Note Prime.” Priced at 8,499 rupees (about USD$120), the phone’s price was a little higher than the previous model. The device, whose price was reduced due to the use of locally available raw material, was relatively affordable to price-sensitive Indian consumers.

Currently, 75% of Xiaomi smartphones sold in India are locally manufactured. Xiaomi plans to build two more factories in India and to invest in R&D centers, factories for terminals, and date centers (Economic Review, 2016).

In addition to local production, Xiaomi participated in a USD$25 million investment project by Hungama, India’s leading digital content company. The investment is part of Xiaomi’s strategic investment to secure contents to expand smartphone sales in the Indian region. Moreover, it appears that, through the investment, Xiaomi plans to expand its business field by additional markets other than smart devices and contents sector in this major target market.

3.3. Localization: Marketing
An obvious market strategy of Xiaomi is utilizing on-line marketing channels. At the time of Xiaomi’s entry into the India smartphone market, the market was already occupied by global competitors like Apple and Samsung. As a startup company, Xiaomi was challenged to set up their own distribution network. As a strategic reaction, Xiaomi attempted to reduce distribution and inventory management expenses by establishing an on-line distribution network instead of offline distribution.

In particular, with limited marketing resources, Xiaomi used engagement marketing as a strategy to promote products through customers. Xiaomi was able to maintain strong customer relationships and increased their brand awareness through customers’ social network activities. For instance, by introducing WeChat as the new distribution channel, Xiaomi was able to send information more easily to customers and help retain the customer base.

By significantly reducing distribution costs, Xiaomi was able to increase price competitiveness. The online distribution network system reduced distribution expenses by 30%, which contributed to a smartphone price reduction (Figure 5).

![Figure 5. Sources of low price of Xiaomi smartphones.](image)

Source: Kim and Seo, 2014

When Xiaomi expanded in India, its' online distribution network was the same as used in China. In 2014, Xiaomi altered the Indian version, by establishing an alliance with an Indian online shopping mall, Flipkart, and expand their sale channels by cooperating with Amazon, Snapdeal, and Paytm. In 2015, Xiaomi bolstered their on-line distribution capabilities by establishing an international sale platform called Mi.com. Xiaomi reduced marketing expenses by 2~5% in China by promoting their products on the social network and their official website (Figure 5). At that time, Xiaomi’s online sale occupancy at their total smartphone sale rate however was lower than offline sales. Recently, Xiaomi announced a plan to change their on-line sales and marketing strategy in the face of slow market growth and intense competition.

As a strategic reaction to the situation in the Indian marketplace, Xiaomi began marketing off-line marketing in 2015, with the announcement by Manu Kuma Jain, the CEO of Xiaomi India, that Xiaomi smartphones were now available at the mobile store in Delhi. Xiaomi altered the supply management strategy by forming an alliance with the Indian supply company, The Mobile Shop. This distribution network for the Hong mi note 4G and Mi4 phones comprises 800 stores. An alliance was also
established with the Airtel telecommunication company, the largest mobile carrier in India; the Hong mi note 4G phone is available in Airtel stores in six main cities including Delhi and Mumbai.

When Xiaomi was expanding to India, electronic commerce in the country was rudimentary. Only in 2014 did the Indian government permitted business-to-consumer (B2C) electronic commerce. Recognizing the limitations in online sales in India, Xiaomi for the first time opened an offline store to expand its sales network. The offline strategy was also prompted by the companies’ realization that most smartphones were sold at shops on the street, as Indian consumers prefer cash transactions.

Another facet of the shift in marketing strategy was the beginning of print advertising in six Indian newspapers including The Times of India beginning in 2015. Because India’s cellphone market was concentrated on offline sales, viral marketing was not feasible.

3.4. Transnationality: Xiaomi’s global strategy to seek efficiency

Competitive advantage for the global expansion that has occurred in a relatively short period of time has been based on the efficiency of the company. Xiaomi was founded by five ex-employees of another company. It has become synonymous with efficiency in the global electronics market. As a latecomer in the global IT industry, Xiaomi has learned how to nimbly react to global pressure for efficiency from the experience of established MNEs by taking advantage of the scale and scope of the economy, and having a rapid learning curve. In addition to its localization strategy in the midst of the different business environment in India, the global strategy of Xiaomi centered in India has been pivotal and is discussed here.

The cost efficiency and price-based competitiveness are most important sources for the global competency of Xiaomi. Compared to the global competitors, Xiaomi products are 50% and 60% the price. Xiaomi released its first smartphone, the Mi1, at a price of 1,499 to 1,889 yuan. The following Mi2, Mi3 and Mi4 models, which featured improved design and capacity, were priced at 1,999 yuan based on a 16GB device.

The efficiency of Xiaomi stems from its manufacturing strategy that limits the number of models. Xiaomi’s prime cost advantage has been obtained through secured foreign manufacturing network and exclusive distribution focusing on limited number of product models. Xiaomi’s has established close relationships with two Taiwanese manufacturing companies, Foxconn and Invent Tech. Relying on the manufacturing side on these specialized companies, Xiaomi was able to focus on software development and dedicated its profit and management resource on the development of new products and innovation. By concentrating to the limited number of models, Xiaomi was able to prevent encroachment of similar brands. In addition, it was able to reduce the danger of asset specialization by outsourcing, which enabled Xiaomi to reduce primary costs as technological innovations modulated the main smartphone components.

In India, Xiaomi assimilated the prime strategy for efficiency by producing a limited number of models in local outsourcing manufacturing. Xiaomi expanded in India by building a new factory and R&D complex in cooperation with Foxconn. Foxconn agreed with the state government of Maharashtra to build local
manufacturing facility by investing USD 4.87 billion. Xiaomi was able to take advantage with cost leadership in India as it assembled the Hong mi 2 prime and Hong mi note prime models in this facility. Outsourcing by OEM and limiting of the number of products are not new in the smartphone industry. However, the application this strategy for efficient offshore manufacturing was initiated by Xiaomi. Apple has followed suit, recently announcing plans to establish a local manufacturing facility in cooperation with Foxconn to exclusively make Apple products by investing USD 10 billion.

Efficiency has been based solely on manufacturing. Marketing efficiency has also been realized. While the most of global brands employed significant amount of resources on promotion with ever changing models, Xiaomi was able to minimize expenses with limited and long-lasting models.

In the burgeoning smartphone market in India, Xiaomi has operated a cost leadership strategy and a strategy that considers the differences in the Indian market by means of localization and differentiation. To differentiate the meaning of localization strategy in the specific context of Xiaomi, it is necessary to understand that the lexical meaning of localization strategy suitable for established multinationals might not be appropriate for the case of Xiaomi because its experience of globalization in terms of length and number of countries this company operates are different from established multinationals. Thus, this case study attempted to identify any differences in the juxtaposition of Xiaomi’s localization and global strategy in pursuit of flexibility and efficiency.

The differentiation and localization strategies of Xiaomi can be separated into Xiaomi’s response to the Indian policy and marketing strategy, which is important to smartphone sales. As mentioned above, Xiaomi simultaneously used a global strategy that supported efficiency obtained from their learning curve, and the economic scale and scope of the current global integration pressure in their expansion in India, and responded to the Indian government’s policy by deploying a localization strategy appropriate for the Indian market and to secure their place in the Indian marketplace.

The obvious difference of localization efforts of Xiaomi in India is that the company had applied products, innovation, and experience acquired during the localization efforts in China and elsewhere. This may be interpreted as seeking a global strategy for efficiency beyond the localization strategy for flexibility.

Strategic outsourcing in the search of efficiency has been the primary approach in China. But Xiaomi had to alter its strategic direction in India to comply with the ‘Make in India’ initiative by producing its product locally. This provided the opportunity for the company to learn and embrace flexible manufacturing and supply chain efficiency. This critical learning experience has been applied to another manufacturing facility in Brazil. In addition, as one of the localization strategy in India represents a response to many Indian consumers who prefer to purchase phones offline, Xiaomi started offline marketing. This experience has also been applied to the Chinese market.

Figure 6. Evolving Mentality of Xiaomi in India to Transnationality
Localization efforts were also applied to the global distribution of products. After releasing the 4i phone (called Mi in India), which was made in response to Indian customers and those in several south east Asian counties, this localized phone was marketed in the Chinese smartphone market and distributed globally after that. This instance exemplifies Xiaomi’s approach to globalization; applying its localization efforts to pursue efficiency simultaneous with the global distribution of localized model to lower R&D costs. This transforms MNEs from a limited multinational strategy to a transnational strategy.

4. Comparison with Samsung in Indian Market

This case study attempts to analyze the experience of Xiaomi in India in comparison with that of Samsung, a Korean company that is the global leader in smartphone sales. In particular, this study focuses on the mode of market entry and marketing strategies concerning product, promotion and distribution. In India in 2015 Samsung was the largest smartphone vender with 23% of market share followed by Micromax Informatics, Intex and Lava. As a foreign company that has established a major market position in India, Samsung is considered as established multinational that might show different characteristics and market behavior from emerging company like Xiaomi.

4.1 Entry Mode

At the early stages of market entry, Samsung deployed an incremental expansion strategy, which involved creation of a joint venture to investigate the market and to configure a distribution network, focusing on mid-low priced products. By 2002, Samsung had adopted an aggressive localization strategy by acquiring the remainder of the partner company the JV. Samsung thus became a wholly owned subsidiary. Since 2004, it changed the marketing strategy by shifting from the mid-low price market to the premier market. By end of 2004, Samsung started to produce
and market products with high-end technology by means of global standardization. Samsung attempted to enhance its brand image by not focusing on short-term increase in revenue but rather by focusing on the long-term benefits to be realized by the premier market.

In contrast to Samsung, the market strategy of Xiaomi has been relatively aggressive. From the inception of its 2014 expansion into India, Xiaomi adopted various marketing activities by founding a subsidiary in India and focusing on increasing market occupancy by manufacturing locally in conjunction with Foxconn. To shift from the saturated Chinese market and expand into the fast growing Indian market, Xiaomi exploited various investment opportunities and local manufacturing. In particular, Xiaomi has focused on low- and mid-priced cellphone market, which has resulted in adequate market expansion with price-sensitive Indian consumers.

4.2 Product and Price Strategy

As described above, Samsung focused on high value added products and increased market share in the high-end. Samsung also increased commitment to the local market by local production since 2006. More recently, Samsung expanded to include the low-price segment of the market, considering Indian customers who prefer a low-price product that has a robust hardware capacity.

According to The Times of India, in 2015 Samsung had 29% of India’s entire smartphone market and 38% of the premier smartphone market (i.e., price more than 30000 Rupee). Samsung released several low- and high-price smartphone models to increase their market share.

Xiaomi, as an emerging multinational in the Indian market, adopted different product and price strategies. Xiaomi was able to create product and price competitiveness based on low price and high capacity products. New products were launched almost at cost. This was possible based on its long product life-time (Table 3).

Table 3. Comparison of Products between Samsung and Xiaomi in India

<table>
<thead>
<tr>
<th>Samsung Electronics</th>
<th>Xiaomi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung Galaxy J5 (2016)</td>
<td>Xiaomi Redmi 3 Pro</td>
</tr>
<tr>
<td>Rs. 12,999</td>
<td>Rs. 9,999</td>
</tr>
<tr>
<td>Samsung Galaxy J7 (2016)</td>
<td>Xiaomi Redmi Note 3</td>
</tr>
<tr>
<td>Rs. 19,999</td>
<td>Rs. 9,998</td>
</tr>
<tr>
<td>Samsung Galaxy S7 Edge</td>
<td>Xiaomi Mi5 Plus</td>
</tr>
<tr>
<td>Rs. 56,900</td>
<td>Rs. 31,999</td>
</tr>
</tbody>
</table>

An example is the Mi2. It has been sold over 2 years since the release date, with control on the number of units available for sale. The life cycle of most Samsung models is less than 2 years. Table 4 shows the market segmentation strategy of Samsung dividing markets into low-price and premium markets. Xiaomi has focused on cost leadership in all markets, with prices lower than the cheapest Samsung model.

4.3 Promotion Strategy
Samsung has attempted to strengthen the brand recognition in India, since it is the fastest growing smartphone market in the world. One strategy has been an aggressive promotion strategy utilizing its financial capabilities in India to secure the foothold in Indian smartphone market. In 2007, it had invested 2.95 billion Rupee in advertising only, mainly via TV advertisements, to establish premier image has been the critical marketing strategy in India. At the time Samsung entered the Indian market, national access to TV was poor and restricted to wealthy individuals. Samsung attempted to deliver the high-end brand recognition to customers by using advertising that emphasized the companies’ global leading advanced technology. Subsequent marketing strategies remained essentially the same, as TV and mass communication with customers was limited. Samsung began the ‘Samsung Dream Home Shop’ campaign in 135 cities in India. In this initiative, customers had hands-on with products technology. Other approaches to better connect with consumers including support and presence at sports like cricket and world cyber game events. The promotion resulting from their support of a cricket tournament was markedly greater than traditional advertising.

Xiaomi’s marketing expenditures have been insignificant compared to Samsung. Xiaomi adopted minimal marketing expenditures in China, emphasizing efficiency through social networks and viral marketing. In India, the companies’ marketing and promotion approach differed. Xiaomi deployed off-line market efforts and focus on customer service, such as pre-release of new smartphone models in India for the first time anywhere in the world, instituting a return goods policy and using newsprint advertising.

4.4 Distribution policy

As discussed previously, Samsung’s marketing strategy has focused on premier brand image using a selective distribution strategy based on customers’ purchase capabilities. The distribution strategy focused on nine major cities in India including New Delhi, Mumbai, Chennai and Calcutta. The rational was that customers in large Indian cities are more inclined and able to purchase expensive Samsung smartphones, as the GDP per capita in the target cities was much higher than the average GDP in India. The network featured a limited number of agencies because India’s retail system was not developed at that time and the available agencies were not exclusively selling Samsung products. Since then, this indirect distribution channel in India has changed. Samsung initiated its own sale network called ‘Samsung digital home’ that sold Samsung products exclusively. This allowed direct access to potential consumers.

Different from Samsung, Xiaomi expanded in India by on-line distribution channel same, as it had used in China. The distribution network involved collaborations with Indian online shopping options including FlipKart, SnapDeal and Paytm. In addition, smartphones were retailed through the companies’ own online sale platform. With time, the distribution strategy was altered with the introduction of an offline distribution channel to meet the different business environment in India, where street-level sales remain popular. This initiative was new for Xiaomi and involved collaborates with The Mobile Store and Airtel. Despite a lack of financial capabilities at that time, Xiaomi attempted to achieve efficiency in the online/offline marketing.

Table 4 provides a comparative summary between the two multinationals
(Samsung and Xiaomi) in the Indian marketplace. Xiaomi’s characteristics as the emerging market and strategic difference of Samsung as an established multinational are highlighted. Despite financial, technology and brand awareness, Xiaomi has been successful in exploiting a niche in the Indian smartphone market.

Table 4. Comparative Analysis between Samsung and Xiaomi

<table>
<thead>
<tr>
<th></th>
<th>Samsung Electronics</th>
<th>Xiaomi</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entry Mode</strong></td>
<td>1995 Joint venture</td>
<td>2014 Direct export</td>
</tr>
<tr>
<td></td>
<td>2002 Wholly Owned Subsidiary</td>
<td>2015 Local production</td>
</tr>
<tr>
<td></td>
<td>2004 Focus on premier market</td>
<td>Mid- and low-price range</td>
</tr>
<tr>
<td><strong>Product</strong></td>
<td>Local production for particular model</td>
<td>Low cost strategy</td>
</tr>
<tr>
<td></td>
<td>Clear distinction between low price models and premier line up</td>
<td>Long full term for PLC and few models</td>
</tr>
<tr>
<td><strong>Promotion</strong></td>
<td>Image promotion</td>
<td>Hunger marketing</td>
</tr>
<tr>
<td></td>
<td>Supporting sports event such as full term for WCG, Cricket</td>
<td>Offline and online marketing</td>
</tr>
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<td></td>
<td>Experience marketing</td>
<td>Promoting local models</td>
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<td></td>
<td>‘Samsung Dream Home Workshop’</td>
<td>Hassel free return</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>Focus on selective cities</td>
<td>E-commerce and full term for SNS</td>
</tr>
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<td></td>
<td>Premier independent distribution channel</td>
<td>Introducing off-line stores in particular areas</td>
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<td>Samsung Digital Home</td>
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5. Discussion and Implications

This case study analyzed Xiaomi as an emerging multinational that has responded to the emerging consumer smartphone market in India. Different from established multinationals with financial capabilities and network, principally Samsung, this study focused on how Xiaomi as an emerging company with less resources and limited experience has successfully expanded in India.

The market expansion of Xiaomi involved an adequate differentiation and localization strategy. The differentiation strategy responded to the ‘Make in India’ policy of the Modi government, by complying with the local manufacturing requirement. Market expansion was accelerated by participating in the TATA group’s aggressive investment and attraction of investment of the Indian content company Hungama. Xiaomi also instituted offline sales by recognizing the limit of Indian online market, which included its’ first foray into print advertising. The localization marketing strategy secured more than 100 customer centers in 56 cities in India.

The active compliance with government initiatives and localization in the Indian market is largely the result of inactivity in China, which once was the manufacturing center of the world. The recent hike in labor costs has eroded China’s competitiveness. As well, increase energy demands have led to electricity shortages domestically. Unfavorable conditions, such as the tyranny of state-owned enterprises
and inflation of raw materials have been additional detriments to China. At the same time, the price competitiveness of the Indian manufacturing sector has been maintained for the past decade. The economically active population in India, aged between 15 and 65 years, comprises about two-thirds of the country’s total population, providing a stable supply of quality manpower.

Xiaomi’s philosophy in India has been to adopt a differentiation strategy adequate for the local Indian market and a global strategy that focuses on efficiency through the current global pressure for integration. Xiaomi’s primary competitive advantage has been price and cost leadership with acceptably quality products. Xiaomi’s global strategy that emphasizes efficiency through the economies of scale, scope and learning effects has been embodied in outsourcing and focusing on limited number of models with long product life cycle. A new factory and R&D complex was built in collaboration with Foxconn and to permit local production. Marketing focused on price sensitivity of consumers and profit to be realized from software and service. Both online and offline marketing ensures wide market availability of Xiaomi’s smartphones.

The findings of this study imply that Xiaomi attempted to realize transnationality by utilizing its localization efforts to acquire efficiency by multiplying the strategy to other locations including China. Xiaomi’s primary competitive source stems from cost leadership and efficiency, and the adoption of an offline marketing strategy. Its localization efforts did not stagnate in India but applied to product strategy by shipping local models, such as the 4i, to other countries including China.

Finally, the findings highlight the transnational strategy of Xiaomi is to a certain extent, related to the nature of emerging multinationals. Emerging multinationals like Xiaomi naturally face limitations in critical resources, global network and experiences compare to established multinationals. Xiaomi has gained efficiency through global strategies and multinational strategies at the same time in India to meet the different local needs, similar to other established multinationals, but by reusing indigenous innovation and knowledge acquired locally, it has overcome inherited limitations as the emerging multinational. In particular, this strategy derived from the necessity seems to have properly executed in India as the emerging smartphone market that provided similar production and marketing condition to China also has been emerging market and comfortable cradle for Xiaomi.

6. Conclusions

This case study investigated Xiaomi as the emerging multinational entering and operating in India, an emerging and fast growing smartphone market. By analyzing various sources of information, this study detailed strategies and experience of Xiaomi entering Indian smartphone market from China. The aim was to assess if emerging multinationals share common backgrounds and motivations of overseas expansion and whether challenges due to limited resources and capabilities cultivate any particular strategic differences in the emerging markets. This case study extensively used secondary information together with company’s internal report and few focused interviews. In particular, in order to distinguish the characteristics of emerging multinational company from the established, the experience of Samsung is compared to provide strategic implications.

Xiaomi aimed to deploy a global strategy aimed at efficiency in producing standardized quality product with low price in India, as was done in China. Political
and cultural differences in India prompted Xiaomi to deploy a localization strategy both in production and marketing. Xiaomi attempted to overcome the limitations of an emerging multinational by pursuing a transnational strategy that added efficiency with no additional costs. As a result, Xiaomi has been able to reuse innovation and knowledge acquired in the local market to gain further efficiency globally.

This case study contributes to theoretical and practical perspectives. The concept of emerging multinationals in an emerging market is relatively new and few studies have addressed the issue. In particular, the emerging multinational in an emerging market has not been considered and should be important field to in pursuit of a new theory and practical implication as more cases will be found in the near future. In particular, the specific case of Xiaomi in India maintained efficiency by utilizing knowledge acquired in the course of localization seem to provide critical implication for the future of emerging multinationals in emerging markets.

Though this particular study provided valid implication, it has limitations as a single case to generalize findings of this study related to emerging multinationals in emerging markets. Therefore, it is necessary to examine further cases of emerging multinational together with empirical examination on this subject.
References

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