

The Little Rice Recipe for Continuous Business Growth in an Emerging Economy

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Abstract

Achieving “continuous business growth” amidst high competition is challenging for a young company. However, Xiaomi India did it with the philosophy of “innovation for all and honest pricing.” It became a smartphone market leader in just 42 months in the world’s second-most populous country. However, this article identifies it as a continuous innovation business beyond any product company, considering a six-year research timeline. The managerial implications highlight the business growth recipe with reforming the product innovation outside just cost focus, process innovation past efficiency, and business model innovation beyond own existing business boundary.

Introduction

Continuous innovation is the only way to ensure successful business growth, which is “more important now than ever before.”¹ It means the “innovation” should define the complete business execution, similar to most successful companies globally, including “GE, Google, Apple, Honda, Sony, Microsoft, HP, P&G, and Tata Group.”² Such growth leaders generally have a centrality of innovation as the growth enabling narrative.³ However, does the centrality of innovation work for any new entrant also? How any new entrant overcome the established players and survive? Is there any chance that it can grow and become a market leader? The learnings from the growth

journey of Xiaomi India provide such spirit. This article represents the **Little Rice** growth (“Xiaomi means *little rice* in mandarin.”⁴) in India. Xiaomi India became the most successful Indian smartphone market player in just four years with the philosophy of “*Innovation for all and honest pricing*.”⁵ Manu Kumar Jain, *Global Vice President- Xiaomi*, and *Managing Director-Xiaomi India*, continuously pursued “market pulse and customer orientations”⁶ to overcome the fear of failure alongside celebrating the milestones of a meteoric rise. How did the philosophy of “Innovation for all and honest pricing” help Xiaomi? How did Xiaomi overcome the competitive challenges with Samsung? What recipe lies behind the innovation strategies of Xiaomi India for continuous business growth?

Addressing the above, in general, we considered an in-depth case analysis of the growth journey of Xiaomi India. In particular, we analyzed it against the competitors, indicating innovation dilemma (i.e., a dilemma which causes delayed innovation response)⁷ of the leading competitor (i.e., Samsung). We observed Xiaomi India since it began in 2014 by crashing the online retail platform “Flipkart” due to heavy customer traffic to buy its first smartphone.⁸ Our evaluation included relevant published articles, insights of the executives’ interviews, market research reports, and relevant executives’ statements in the public domain. The findings reinforce the importance of decision-making for business growth with “innovation” at the core. Continuous innovation with the product innovation (beyond just cost focus), process innovation (beyond just efficiency), and business model innovation (beyond just for an existing business) are the main managerial implications. They suggest the reform or revision of the associated business activities. Overall it is a practitioner-oriented investigation of “continuous innovation for continuous business growth,”^{9,41} focusing on a *single real business* in practice.

Xiaomi India: The Beginning and Growth

After becoming the *Apple of China*, the Xiaomi corporation (established in China in 2009 by Lei Jun) entered various emerging economies in 2014, including India, Malaysia, Singapore.¹⁰ Wang Xiang (Senior Vice president-Xiaomi) mentioned the company’s intention to be everywhere, “to realize the dream to let everyone enjoy a better life affordably,” so *honest pricing* is necessary.¹¹ This refers to customer benefit by directing them all the cost-cutting, so the company follows below the 5% profit margin cap for all hardware product offerings. Manu Kumar Jain mentioned it during the Mint digital innovation summit 2019, held in Bengaluru (*hereafter*, Mint event).¹² Following that notion only, in August 2014, they launched Redmi 1S, a budget smartphone at INR 5,999 or \$100, along with Redmi Note (i.e., Xiaomi’s

phablet) at INR 8,999 or \$150 (3G) and INR 9,999 or \$167 (4G).¹³ By the end of 2014, they have been known for *value for money* offerings. However, many potential buyers criticized the inability to meet the demand. Some users expressed their distress with delivered defective units.

In 2015, Xiaomi India resolved the above concerns by launching Redmi 2 Prime in August 2015. It was the first-ever “Made in India” smartphone in an assembling factory in Sri-city (Andhra Pradesh), with their declaration of commitment towards the Indian government’s “Make in India” campaign.¹⁴ It reduced the demand-supply time gap from 2 months to 2 weeks. Xiaomi continued to build on its value for money offerings launching various other models, including Mi 4 and Mi 4i. By the end of 2015, they achieved a 3% market share overall, which seems meager, but performed with only online sales, which was more than 50% market share.¹⁵

In 2016, new smartphones, Redmi Note 3 and Redmi 3S/Prime, improved Xiaomi India's total sales to 7.5 million units, resulting in over one billion U.S. dollars revenue. Now, they manufacture 75% of smartphones sold in India, within India. Further, they also plan to expand offline with Mi home, Mi stores alike based on the awaited single-brand retail license.¹⁶

In 2017, Xiaomi India launched more smartphones, including Redmi Note 4, Redmi 4, Redmi4A, Mi Max 2, Mi A1, Mi Mix 2, Redmi Y1, Redmi Y1 Lite, and Redmi 5A, on various dates of the year.¹⁷ In the last quarter of 2017 and throughout 2018 (except the second quarter), Xiaomi India became the number one smartphone seller in India, but with Mi LED TV4, it also penetrated the Smart-TV market. Later in the same year, Redmi Y2 and Redmi 6 series continued the business growth. In 2019 and early 2020, Xiaomi India launched various updated smartphone models, including Redmi Note 7/7S/7Pro, Redmi Y3, Redmi Note 8/8 Pro, Redmi 8, and introduced Mi LED smart bulb continuing offerings of other Smart-devices.

Overall, Xiaomi India increased its product portfolio supported by online selling with more than 50% market share. Beyond that, there was limited growth scope in online mode; therefore, they aggressively went for an offline presence.¹⁸ Such a move is significant in the high-tech industry, defined by increasing capabilities beyond existing premise independently and considering partners’ associations.¹⁹ By January 2020, the company successfully executed the strategy of establishing nearly 10,000 offline outlets (approximately in just two years), which included Mi stores, Mi-home, Mi-studio, along with Mi preferred partner stores (3rd party stores).²⁰ Mi stores are analogous to enormous Mi Home, with 2—3 floor space, which operates in metro cities, and along with Mi preferred partners stores, these constitute three retailing channels. Mi preferred partner stores are *mobile retailers*, typically independent small shops/stores analogous to *Cornershop* and

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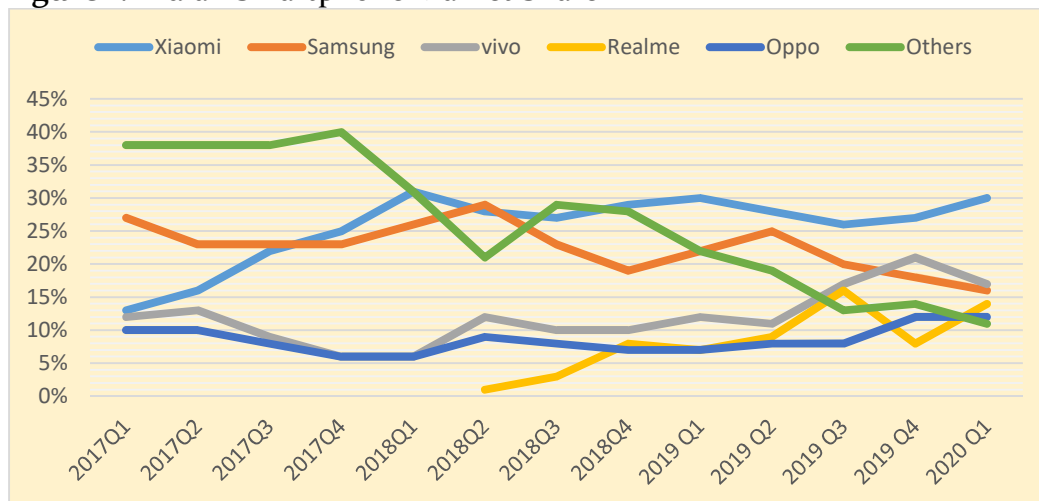
traditionally selling only the smart/feature phones and associated mobile accessories. The company further extended to four channels in 2019 by the latest edition of “Mi Studio” of an average of 400-600 square feet size store.²¹ In an aggressive expansion, Xiaomi India also opened “Mi Express Kiosk,” first in Bengaluru in 2019, basically a vending machine accepting payment modes including credit/debit cards, cash, and UPI for selling smartphones and mobile accessories. Such “strategic channel design” helps more market coverage, effectively indicating a different customer contact.²² Xiaomi India aims to open many such Kiosks in high footfall areas like airports, malls, metro stations, tech parks.²³

So, where is innovation in offline expansion? Adopting Mi Express Kiosks (first of a kind for the Indian smartphone market), Xiaomi India always surprised all with such an innovative strategy. They also convinced the mobile retailers to sell TV and became the first brand to instruct such a move. Though it is challenging, they always try to ensure that the offline mode is as closely efficient as online.²⁴

The Indian Smartphone Market: Competitive Dynamics

The Indian smartphone market is the second-largest market in the world, behind China.²⁵ The smartphone users in India has grown from 590 million (in 2014) to 726 million (in 2020) and expected to be 1.2 billion by 2025.^{26,42,43} The market value expects to cross the INR 2-trillion (roughly 27.3 billion USD) mark by the end of 2021.²⁷ In terms of competition; various new players enter every year; however, the market is dominated by mainly the companies such as Samsung, Xiaomi, Oppo, Vivo, alike since 2017. We see how did the relevant competitive dynamics evolve among them, as indicated in Figure 1.

Figure 1. Indian Smartphone Market Share



Source: Figure is the authors' own. Data from the Counterpoint research report²⁸

Samsung dominated with the top position for six consecutive years until 2017.²⁹ But, replacing it in 2017Q4, Xiaomi India held above 25% market consistently from 2018Q1 to 2020Q1. From 2018Q1 to 2020Q1, the biggest losers are “Samsung” and “others” (includes Micromax, Huawei, and more). However, Oppo, Vivo, and Realme emerged as market winners by 2020Q1, each gaining a market share above 10%. Thus, on an individual performance basis, Xiaomi India sustained it. Oppo, Vivo, and Realme, with growth, soared as successful players.

From 2017Q3 to 2019Q3, the rivalry between Xiaomi India and Samsung is evident. In 2019Q3, a significant drop (i.e., 5%) of Samsung and a substantial rise of Vivo (i.e., 6%) and Realme (i.e., 7%) are noteworthy. A continuous drop of Samsung in consecutive quarters led to changing market dynamics. The rising Oppo, Vivo, and Realme belong to one parent company in China, BBK electronics;³⁰ overall, it holds 43% market in 2020Q1. Thus, it signals the shifting of the main rivalry of Xiaomi India with Samsung to BBK electronics from hereon.

Rivalry with Samsung and Role of Innovation

We notice the competitive dynamics, including the rivalry between Xiaomi India and Samsung for market dominance. However, Samsung was always in denial of threat from its counterparts until Xiaomi India replaced it in 2017Q4 for the top position. Nonetheless, Samsung gained the top position in 2018Q2, resulting from the new launch of Samsung’s Galaxy J6 in May 2018 at below INR10,000 (\$150 equivalent), a clear strategic move with Xiaomi India’s pricing strategy. They continued it launching the Galaxy J8 model in July 2018.³¹ Xiaomi India had just one new model Redmi Y2, against the above extremely popular “J-series” models by Samsung, until the company launched Redmi 6-Series in September 2018. Xiaomi India regained its top spot for the next two quarters of 2018 and continued it in 2019Q1, with the Redmi Note 7 and 7 Pro launch. However, Samsung’s Galaxy M series (M10 and MM20) launch on January 28, 2019, with an aggressive price point, was the primary concern during this quarter for Xiaomi India; they now focused on advertisement tactics. They tweeted in support of the newly launched Redmi Note 7, indicating “M” phone referring to Galaxy M20 with TFT-display as outdated technology, promoting 48MP sensor of Redmi note 7.³²

Xiaomi India upheld the top spot in 2019Q1; yet, a new e-commerce policy employed from February 1, 2019, restricting a maximum sale of 25% from e-commerce, was a challenge. Though it was helpful for Samsung; because of its strong offline presence across India.³³ 2019Q2 reflected the relevant effect witnessing Xiaomi India with 28% and Samsung with 25% market share.

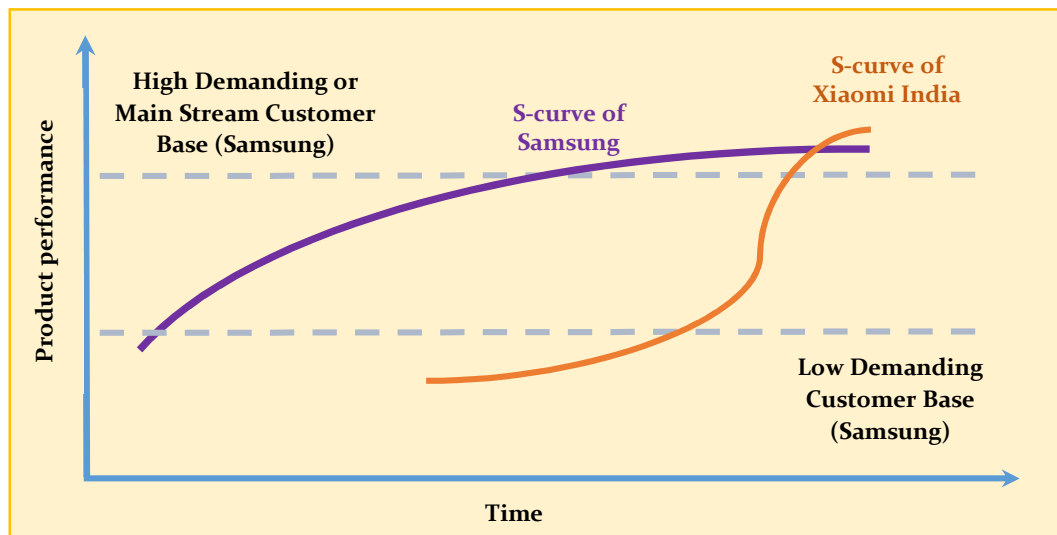
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Nonetheless, the rivalry faded hereafter since Xiaomi India aggressively invested in offline outlets; additionally, other market players gained significant market share.

So, where exactly did Samsung miss the chance? Is there any role of innovation? We associate the relevant answers with Samsung's delayed innovation response due to the "Innovation dilemma" described below. Figure 2 illustrates it.

Initially, Xiaomi India's offerings were considered inferior to Samsung's offerings, with the same value drivers' criteria (i.e., the first part of the dilemma is the S-curve, *Value to innovation*). It led Samsung to believe that their large customer base may not be interested in any such offers. Thus, Xiaomi India niched some customers from Samsung for whom different value drivers, as offered by Xiaomi India, were more attractive. However, since Samsung had an enormous customer base expecting a yearly target sale, they continued their business as usual (i.e., the second part of the dilemma, the *incumbent-sized deal*). This move incurred more customer loss, actually at this point, the incumbent firm (i.e., Samsung) should have responded strategically. Usually, incumbent firms do not invest in products appealing to this low profitable customer base due to rational investment decisions. Although, with the loss of the top position, Samsung launched various J-series and M-series models to catch up against the product and market share of Xiaomi India. However, Xiaomi India's offerings were on the vertical portion of its S-curve by this time; it was too late for Samsung to compete.

Figure 2. Xiaomi India's continuous innovation vs. Samsung's Innovation dilemma



Source: Author's creation based on the concept by Clayton M. Christensen³⁴

Innovation Strategies Applied by Xiaomi India

Xiaomi India's success mantra lies in its philosophy of "Innovation for all and honest pricing." It is more relevant to price-sensitive emerging economies like India, where customers refute the notion of "high quality with higher expense only." With continuous innovation, the company introduces more innovative products with a commitment to utility, quality, and superior technology at an affordable price comparable to that of competitors with better or at least similar specifications (refer to Figures 3a, 3b, and 3c).

Along with smartphones, other Smart devices, including Smart TV, power banks, etc., are also included in expanding the product portfolio of Xiaomi India. Most players add brand premium in their offerings, while Xiaomi India follows its honest pricing philosophy and reinforces its brand via diverse product offerings. No wonder how Xiaomi maintains its continuous growth. These business activities relate to *product innovation*.

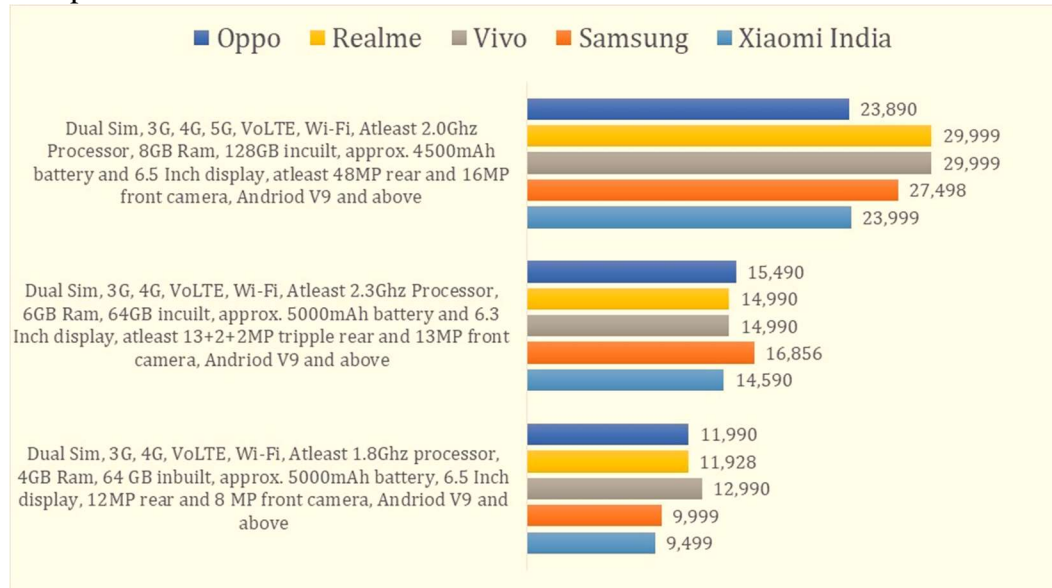
Xiaomi India expanded aggressively offline in recent years. It developed different customer contact modes by beginning with online mode only and later with innovative offline "Mi Express Kiosks" based on the concept of a vending machine apart from traditional retails. Thus, the digital mindset at the strategic level, representing the organizational climate or culture towards digital transformation initiatives, transformed the customer experience and operational processes.³⁵ Next, selling TV through mobile retailers might have challenged the traditional thought rationality and efficiency. Since it is more of a diligence-based approach, which "rewards diligence, perseverance, and a capacity to get things done;" rather, an economic approach, which "neglects strategic management's human and behavioral realities."³⁶ Xiaomi India was the first company in India to convince mobile retailers for such a strategic move. All the above business activities better relate to *process innovation*.

Thus, we found the considerable significance of product and process innovation efforts. However, it is not limited to that. During the Mint event, Manu Kumar Jain explained building innovative technologies, Smart devices, and connecting all through AI ("Artificial intelligence") and IoT ("Internet of things"), referring to as "AIoT." They aspire to increase their product portfolio around the smartphone. Like they did with power banks, headphones, etc. Similarly, they look forward to other Smart devices in the surroundings, including Air conditioners, refrigerators, and washing machines alike. Eventually, he mentioned Xiaomi's "**Triathlon business model**," which has three pillars- (a) **Hardware** (e.g., smartphones, other smart devices including TVs, bulbs, air purifiers, etc.); (b) **New retails** (e.g., Mi.com, partner e-commerce like Flipkart, Amazon, etc., offline stores, multi-brand retail partner, etc.); and (c) **Internet services** by MiUi platform, Mi cloud, etc. and the advertisement or virtual goods it develops. Xiaomi's CEO, Lie

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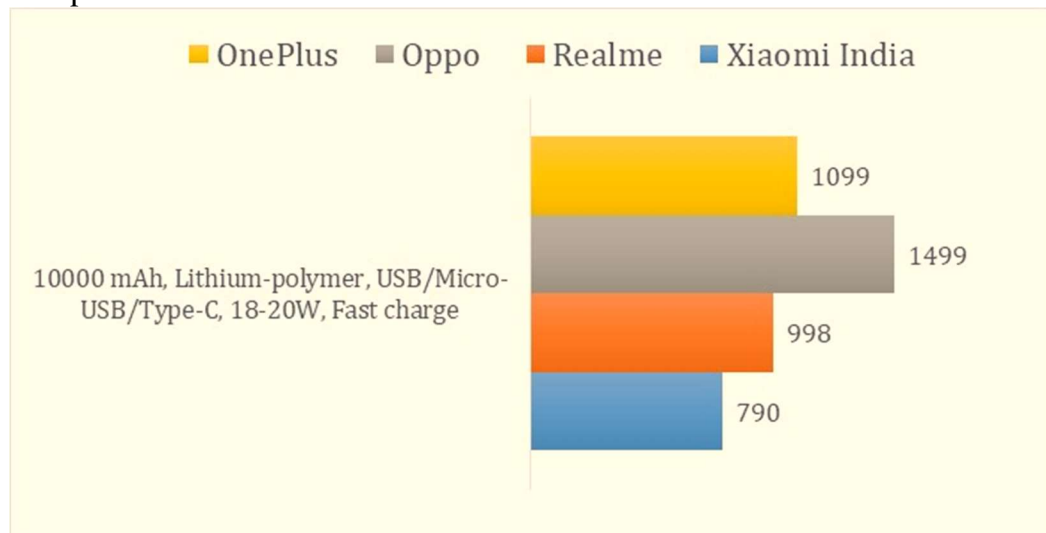
Jun, consider it as a unique and three-in-one company in the world.³⁷ Thus, it is more than just a smartphone company. Manu Kumar Jain promoted it as an *internet company* during the event.

Figure 3a. Prices (in INR) of comparable smartphones offered by different companies



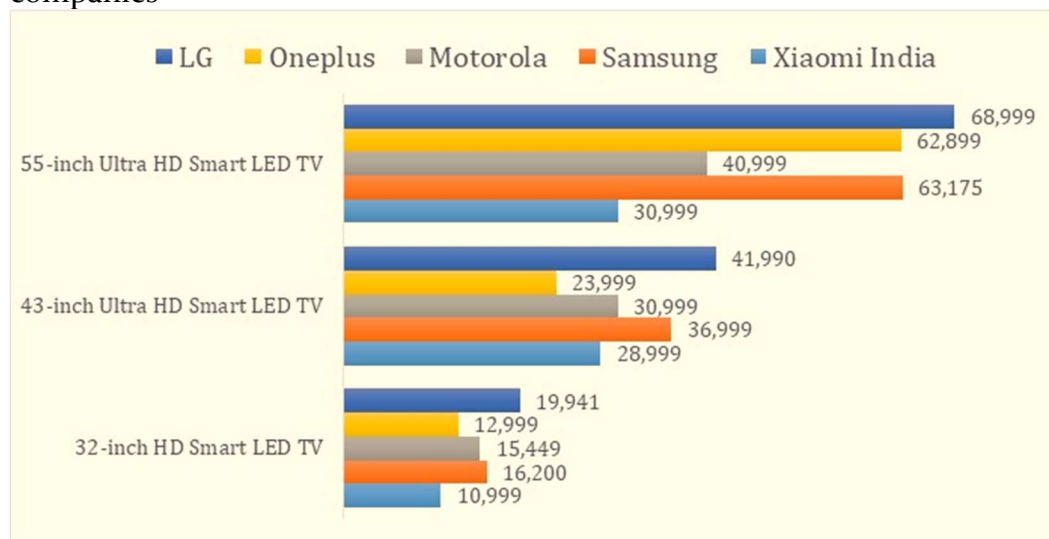
Data source: smartprix.com

Figure 3b. Prices (in INR) of comparable powerbanks offered by different companies



Data source: smartprix.com

Figure 3c. Prices (in INR) of comparable smart TVs offered by different companies



Data source: smartprix.com

Based on the above analysis, we highlight various critical success factors in Table 1.

Table 1. Critical success factors for Xiaomi India

Critical Success Factors	Description
“Predatory-plus” pricing strategy	<ul style="list-style-type: none"> ✓ Ability to launch product models that are better or at least similar in features and more economical than competing brands. ✓ In addition to offering lower prices (following a predatory approach), Xiaomi also offers something more, i.e., “honest pricing.”
Brand extension	<ul style="list-style-type: none"> ✓ Xiaomi's brand extension into other electronic products ✓ Simultaneously improving Xiaomi's brand presence.
Channel innovation	<ul style="list-style-type: none"> ✓ To be able to come up with innovative channels to reach out to new and existing customers. For example- by installing vending machines like “Mi-Express Kiosk.”
Consumer lock-in	<ul style="list-style-type: none"> ✓ Ability to create customer stickiness and lock-in through an AIoT enabled system. ✓ To be able to develop customer-lock-in that are exclusive across Xiaomi's electronic products.

Finally, we can recognize that with the driving philosophy of “innovation for all and honest pricing,” the *Little Rice* recipe of product, process, and

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business model innovation strategies, and “AIoT” (AI + IoT) support system helped achieve the above success factors for continuous business growth in an emerging economy like India. Eventually, Xiaomi India maintained its business growth by retaining more than 25% market share since the last quarter of 2017. In brief, Table 2 depicts the relevant innovations and associated evidence or outputs.

Table 2. Xiaomi India's innovation activities and associated evidence or outputs

Innovation activity	Evidence/Output
Product innovation (achieving the same value offerings at a better affordable price for the variety of customers)	<ul style="list-style-type: none"> ✓ Value for money offerings with honest pricing. ✓ Range of products for the different customer base across various businesses.
Process innovation (Expanding the customer contact interface with innovative offline outlets along with the traditional offline and online retailing)	<ul style="list-style-type: none"> ✓ "Mi Express Kiosks," which is similar to a vending machine installed in high footfall areas. ✓ The first company to Sell their smart TV through mobile retailers.
Business model innovation (making hardware products and devices, using new retails to sell them, and providing services through the internet)	Triathlon Business Model followed for <ul style="list-style-type: none"> ✓ Manufacturing many Smart devices (not just smartphones), smartTV, smart Bulbs, power bank, etc. ✓ Electronic transactions in various retail include Mi.com, partner e-commerce like Flipkart, Amazon, offline stores, multi-brand retail partners, etc. (This includes limited and exceptional cash transactions, if customers want). ✓ Internet services by MiUi platform, Mi cloud, etc.
Continuous business growth (executing the growth recipe of product, process, and business model Innovation)	<ul style="list-style-type: none"> ✓ Successful as the market leader, for example, in maintaining the market share above 25% every quarter since the last quarter of the year 2017. ✓ Expanding the domain of product offerings beyond smartphones, customer contact interface beyond traditional means of online and offline retails, and customer lifestyle towards the notion of smart home with AIoT connected smart-devices (e.g., Smartphones can operate the associated AC, TV, bulb, etc.)

Discussion

The case of Xiaomi India highlighted its continuous business growth with the driving philosophy of “Innovation for all and honest pricing.” We considered the time coverage very carefully from July 2014 from its beginning to 2020Q1 to avoid any other business activities and innovation strategies in the wake of Covid-19. Overall, the present article chronicled Xiaomi India's rise with challenges faced, strategies implemented, crowned with top position in the Indian smartphone market, and changing business landscape within the study period.

Managerial Implications and Lessons

The generic takeaway represents the continuous innovation approach for “continuous business growth.” Various aspects, including regulations, customers, competitors, and relevant business decisions (e.g., online vs. offline mode or appropriate combination, the timing of innovation response to competitors, various innovative offerings in the product portfolio, etc.), need careful attention. The specific takeaways include the following profound focus on the product, process, and business model innovations, which could be the game-changer.

First, the product innovation approach should be beyond just the cost focus. Prime focus on the cost may help grow sales with low-priced offerings (mostly competitor-focused) in the short run. However, the price-quality value driver (representing customer-focused value offering) is more relevant for the long run and, eventually, continuous business growth in an emerging economy. Xiaomi India focused on that and succeeded in building a large customer base; the offerings only with low prices would have been insufficient.

Second, process innovation should go beyond the efficiency driver. It means competing for an efficient way of doing business with existing norms should complement the effective business execution with new or innovative ways considering the human behavior realities or vice-versa. Xiaomi India started with an efficient online mode-only model, later supplemented by expanding offline outlets for more customers and the contact interface. Unique approaches, Mi express kiosks in high footfall areas like malls, metro stations, etc., and selling Mi TV through mobile retailers made Xiaomi India the first brand to do that in India.

Finally, the business model innovation should include providing potential business growth with expanding business offerings beyond the boundary of existing business and its execution. Xiaomi India introduced innovative smartphones and created a large customer base. However, its business model embraces it as more than a smartphone company. It indicates various

potential offerings as Smart devices, including home appliances such as refrigerators, washing machines, etc., all connected through AIoT with a smartphone to realize the notion of Smart home and Smart lifestyle. Moreover, the business model includes the provision for competitive product developments (a) in *fintech*, such as MiPay, Mi credit and many more against Paytm, GooglePay, PhonePe, etc.; (b) in *advertising*, for internet services based on the MIUI platform; and (c) in *gaming*, Survival Game against PubG, Fortnite, etc.³⁸

Furthermore, the firm should eventually move to multiple offerings for growth from the customer base perspective. Connected or complementary offerings are better, appealing to various businesses and addressing customers' varieties, whether low profitable or otherwise. Ultimately, it is the customers' perspective that dominates instead of sellers' intent.³⁹ The above approach directs towards continuous innovation efforts with the *Little Rice* recipe for multiple revenue streams via a broader customer base. The recipe of various innovations may not need "distinctive resources," but "distinctive use of generic resources" is necessary.⁴⁰ Eventually, it assists in "continuous business growth" in an emerging economy like India and similar price-sensitive markets.

Conclusions

The current work highlights the *Little Rice* recipe as the varieties of business activities and the importance of reform and revision of the product, process, and business model innovations, beyond the usual focus on cost, efficiency, and existing business execution for continuous business growth, in an emerging economy. Even as a new entrant with the centrality of innovation, Xiaomi India became a market leader within just four years. The company achieved successful product innovation activities with value for money offerings based on honest pricing across various businesses and not just the smartphone product business. Reforming the process innovation past efficiency expanded the customer contact interface beyond traditional offline and online retailing by opting for innovative "Mi Express Kiosks" and selling the Mi TV through mobile retailers. Finally, the business model innovation, recognized as the "Triathlon business model," represents strategic activities making hardware products and devices, using new retails to sell them, and providing services through the internet. All above activities executed leveraging the AIoT support system exclusive to Xiaomi's electronic products.

The dilemma of priority focus among diverse customer bases has always been an issue. Due to rational investment decisions, firms usually focus on high profitable customers limiting their innovation efforts and offerings. In

an emerging economy like India, quality may be the value driver for such customers and price to the opposite; however, price-quality value drivers (representing value offerings) are vital, attracting most of them towards various available alternatives. Almost everyone expects the desired quality at a lower price. The *Little Rice* recipe addressed the above concern appealing to a more extensive customer base, following their “innovation for all and honest pricing” philosophy. Nonetheless, the changing business scenario may counter reflects the testament of the relevant learnings from various business activities for Xiaomi India itself in the future. Hence, it might be interesting to encounter more such articles, case studies, analysis works, etc., towards relevant innovation strategies and continuous business growth.

Closing Remarks

Overall, the article highlights various valuable managerial insights and directions towards continuous business growth with the centrality of innovation in an emerging economy scenario. It is also helpful as a case learning for extensive participants, including business scholars, practitioners, or business executives.

Discussion Questions

1. *What do you understand with the philosophy of “Innovation for all and honest pricing?”*
 2. *How do you explain the role of innovation for Xiaomi India’s success?*
 3. *How do you relate Samsung's innovation dilemma, ending in favor of Xiaomi India?*
 4. *What is your opinion about changing market dynamics based on the current article?*
 5. *In your opinion, what could be the future challenges for Xiaomi India towards continuous business growth, and how can they be addressed?*
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