Discussion on the Business Model of Mobile Phone—Taking Xiaomi and OPPO as Examples

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Abstract. The world's mobile phone market is already a red sea, the mobile phone brand competition is fierce, including the Chinese market. This paper takes the Xiaomi mobile phone for the case of mobile phone business model analysis, which entered the mobile phone market in late period and achieved good performance, and analyzing the business model of OPPO phone at the same time to get the conclusion that the brand business model has a certain applicability and limitations. It is only by constantly finding the market segments to meet the needs of consumers that it can be a successful business model.

Introduction

The background of this study is that we would like to know why the Xiaomi can made such a big success just after launching in the mobile phone business, and the reason why the shipments of Xiaomi in 2015 are less than expected. We found that OPPO phone does not use the Internet business model, but it has made good sales in today's Internet age. Finally, we’d like to explore the perfect business model for mobile phones.

Frankly, a business model is the way companies make money. Systematically it is the way to complete the customer value creation and self-interest acquisition. In other words, the business model not only brings profits for the enterprise, but also brings value for partners and consumers to get a win-win.

Literature Review

Definition of Business Model

Management master Drucker once said that the competition between enterprises today is not the competition between products, but the competition of business models.

There is no uniform definition of the business model. Timmers (1998) argues that business models refer to the basic logic of corporate value creation, that is, how firms provide products and services for customers in a given value chain and value network and make money.

Elements of Business Model

This article uses Southeast University Professor Liu Dong’s summary on the business model, which is divided into four points. The first point is the resource program, which includes the positioning of key resources and the acquisition of key resources, namely, what is the indispensable resource in the new model and how to develop resources at low cost through various cooperative innovations. The second point is the customer value proposition, that is, who is the customer and how to solve the customer problem. The third point is the customer problem solution, enterprise services and customer’s detailed situation, the complete process of companies’ serving for customers. This part emphasizes innovation the most. The fourth point is the profit model, including subsidized business design and profitability design, which stresses the settlement innovation.
Business Model Analysis of Xiaomi

Xiaomi was formally established in April 2010, a mobile Internet company focusing on independent smart phones research and development, who officially released Xiaomi phone in August 16, 2011. Convinced that users are power and the product concept "born for burn". Xiaomi advocates innovative and fast Internet culture.

Xiaomi is set up with top experts from Google, Microsoft, Jinshan and other companies. Chairman and CEO is Lei Jun, also the founder of Jinshan. Hong Feng is a senior engineer from Google; Lin Bin is from the Google Research Institute and the vice president of it; Li Wanqiang is the general manager of Kingsoft; Huang Jiangji is the chief engineer of the Microsoft Academy of Engineering; Zhou Guangping is the chief engineer of the Motorola center in Beijing; Liu De, the industrial designer, graduates from the world's top design institute ArtCenter. Many of the executives from the world famous enterprises and high-end technical personnel provide more cooperation with other mobile phone-related business channels, so that Xiaomi has more advanced and completed technical support.

From 2009, China's mobile phone industry has developed rapidly, becoming the world's largest one. Facing the huge billions of dollars, domestic and foreign mobile phone manufacturers are eyeing the Chinese market. Domestic mobile phones encounter Apple, Samsung, HTC and other mobile phone manufacturers. And Xiaomi created a domestic mobile phone sales myth.

Xiaomi Business Model Analysis

At the beginning of January 2013, "2012 China Business Model Summit and 2012 Chinese Best Business Model Award Presentation Ceremony", Xiaomi won the Best Business Model Innovation Award. The award-winning reason is "to create a new model of online sales, resulting the industry's rapid rise." This award shows the success of Xiaomi lies in its unique business model.

Lei Jun himself proposed the triathlon concept: hardware + software + Internet services. Xiaomi achieves the integration of "triathlon" in the business level. At the operational level, Xiaomi not only sells hardware to users, but also provides software and services; at the strategic level, Xiaomi introduces the Internet service thinking into the hardware and software business. Combined with the above elements of the business model, we evaluate the Xiaomi phone business model.

Resource Plan. Key resource targeting. Xiaomi has been advocating the high configurations with low prices. For hardware, the component suppliers are almost the first three mobile phone industry giants, such as the LG screen and Sharp IPS screen; for prices, 1999 yuan for the positioning range, a clever blue ocean positioning interval; for appearances, the use of simple design to maintain a balance between beauty and cost. In short, this is the Xiaomi mobile phone development concept: 1999 yuan price + top hardware configuration + decent appearance. Over time, they left users the image “the best configuration with the low price”. For obtaining key resources, no offline channel to reduce the middle cost to maintain low inventory.

Customer Value Proposition. Accurate customer positioning. Xiaomi hopes to provide products with high configurations and low prices for enthusiasts. Xiaomi mainly positions mobile phone, who differ from mobile phone freshmen users. Enthusiasts pay more attention to configurations rather than appearance and so on. At the same time Xiaomi has a favorable price at the same time, which makes it naturally become the first choice.

Customer Problem Solution. Design team and production outsourcing. Hardware design is responsible by the internal hardware design team, and production and assembly uses the business outsourcing. Design and production separately occupy the relative high-end industrial chain location and low-end position. Xiaomi grasp the high-end design links to ensure the quality and core technology security, but also makes the team can quickly respond to the needs of users. This also caters to the product positioning of high configuration. At the same time outsourcing relatively low-end links to streamline the team to ensure the focus on core business for core competitiveness. And outsourcing manufacturers will try to meet the requirements of Xiaomi in order to obtain this production.
R & D model. Xiaomi allows users to participate in R & D, which makes consumers agree with the brand identity and permit the R & D team to know the user's needs. For example, the current users are mainly using the ISO and Android system, Xiaomi develops the MIUI operating system based on the Android system, which solved meet the Chinese operating habits better. Xiaomi even set up a "honor development group" to test the new version of the phone. Xiaomi team will improve the new design based on user recommendations.

Profit Model. The real success of the business model must own a profit harvest point. Today's profitability, especially in the Internet business, is usually "wool out of the pig". That is settlement innovation. For example, Baidu is a search engine company, but its main profit is advertising instead. It is done by doing a good job of search engines to have access to a large number of users to become an excellent platform for advertising. Xiaomi is not an "advertising company", but mobile phone business cannot bring it a huge profit. Xiaomi uses cost-effective mobile phone to enter the market to win the customer's attention so that it can obtain more profits from the peripheral products.

Xiaomi also used hunger marketing and network marketing. Hunger marketing fully mobilizes the curiosity of consumers and the desire to buy. Internet marketing is suitable for Xiaomi with no solid brokers and adapted to the Internet era. No offline channels reduce the intermediate links, which expands its profit margins.

Advantages and Disadvantages

Business model has a certain applicability. That is the timeliness. The rapid growth and decline sales of Xiaomi due to this. Xiaomi’s target customers are enthusiasts, but consumer preferences are changing. Now the low-end market has been almost saturated. Network marketing provides Xiaomi a profit space, but it can be copied. Meizu and other brands have imitated the mean of network marketing. Hunger marketing has led to a large number of “cattle”. “Cattle” increase the price in the channel to solve the shortcomings of channels. But with the increase, the channel can no longer increase the price, resulting in a lack of channels. At the same time hunger marketing will damage the brand image, which consumes the brand loyalty.

Performance of Xiaomi

A report released by Market research firm IDC shows that China smart phone shipments reached 431.3 million in 2015, with an increase of 2.5%. From the manufacturers in the Chinese market performance, Xiaomi has the shipments of 64.9 million in 2015, with an increase of 23.2% and ranking first; Huawei has the shipments of 62.9 million, with an increase of 53%; Apple has the shipments of 58.4 million, with an increase of 56%.

Xiaomi mobile phone market share in 2015 is still higher than in 2014, but less than the proposed target of 100 million shipments, and ultimately did not reach the mid-year set of 70 million goals. But we can see that other mobile phone brands in the Chinese market share year on year increase is -25.5%, in addition to several competitive brands, others’ profit margins are becoming smaller and smaller. This reflects the smart phone has entered the maturity of the life cycle and the market is basically saturated, which explains why Xiaomi did not reach the expected target shipments reasons to a certain extent.

Table 1. Comparison of shipments of top five smartphone manufacturers by 2015 (China market).

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<tbody>
<tr>
<td>1.Xiaomi</td>
<td>64.9</td>
<td>15.0%</td>
<td>52.7</td>
<td>12.4%</td>
<td>23.3%</td>
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<tr>
<td>2.Wuawei</td>
<td>62.9</td>
<td>14.5%</td>
<td>41.1</td>
<td>9.7%</td>
<td>53.0%</td>
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<tr>
<td>3.Apple</td>
<td>58.4</td>
<td>13.4%</td>
<td>37.4</td>
<td>8.8%</td>
<td>56.0%</td>
</tr>
<tr>
<td>4.OPPO</td>
<td>35.3</td>
<td>8.1%</td>
<td>25.9</td>
<td>6.1%</td>
<td>36.2%</td>
</tr>
<tr>
<td>5.vivo</td>
<td>35.1</td>
<td>8.1%</td>
<td>27.9</td>
<td>6.6%</td>
<td>26.1%</td>
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<tr>
<td>Others</td>
<td>177.5</td>
<td>40.9%</td>
<td>238.3</td>
<td>56.4%</td>
<td>-25.5%</td>
</tr>
<tr>
<td>Total</td>
<td>434.1</td>
<td>100%</td>
<td>423.3</td>
<td>100%</td>
<td>2.5%</td>
</tr>
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Source: IDC
IDC report also pointed out that the fourth quarter of 2015, China's smartphone shipments reached 117.3 million, an increase of 8%. Among them, Huawei smartphone shipments is 17.9 million, with an increase of 50.8%, ranking first; Apple smartphone shipments is 17.1 million, with an increase of 16.8%, ranking second; Xiaomi smartphone shipments is 16.9 million, with an increase of 15.3%, ranking third. Through the comparison of the two tables, you can find the shipments of Xiaomi in Q1, Q2, Q3 are better than Q4, that is, the fourth quarter of 2015 are reduced, and the market share is reduced too.

Table 2. Comparison of shipments of the top five smartphone manufacturers in the fourth quarter of 2015 (China market).

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<tbody>
<tr>
<td>1. Huawei</td>
<td>17.9</td>
<td>15.2%</td>
<td>11.9</td>
<td>10.9%</td>
<td>50.8%</td>
</tr>
<tr>
<td>2. Apple</td>
<td>17.1</td>
<td>14.6%</td>
<td>14.6</td>
<td>13.5%</td>
<td>16.8%</td>
</tr>
<tr>
<td>3. Xiaomi</td>
<td>16.9</td>
<td>14.4%</td>
<td>14.7</td>
<td>13.5%</td>
<td>15.3%</td>
</tr>
<tr>
<td>4. OPPO</td>
<td>11.7</td>
<td>10.0%</td>
<td>7.6</td>
<td>7.0%</td>
<td>53.3%</td>
</tr>
<tr>
<td>5. vivo</td>
<td>11.0</td>
<td>9.4%</td>
<td>8.3</td>
<td>7.6%</td>
<td>33.8%</td>
</tr>
<tr>
<td>Others</td>
<td>42.8</td>
<td>36.4%</td>
<td>51.7</td>
<td>47.5%</td>
<td>-17.5%</td>
</tr>
<tr>
<td>Total</td>
<td>117.3</td>
<td>100%</td>
<td>108.8</td>
<td>100%</td>
<td>7.9%</td>
</tr>
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Source: IDC

We believe that “standing in the outlet, the pig can really fly; but a little wind passed, the pig had to fall.” This article sums up a few winds of the mobile phone industry during the past few years: the trend varies from the function to the aesthetic, and in this trend Nokia that focuses on the function lost to Apple; Xiaomi catches up the chance of the Internet; Lenovo, Cool and other one thousand yuan machine brands gain great sales in 2015; OPPO, vivo fully dig three or four lines cities with low electricity business penetration rate to get amazing sales in 2016.

From some statistics, we can find a substantial decline in sales of Xiaomi, the wind of thousand yuan machines mentioned before has been have passed. The high-end market has almost saturated, with the price competition mode is not appropriate. The main consumer of smart phones already have a certain purchasing ability, the demand for low prices is not so high. One of the highlights is OPPO, whose sales in 2016 H1 accounted for second place, and the proportion of offline sales is quite high.

OPPO Business Model Analysis

Resource Plan. OPPO is inextricably linked with BBK, and BBK has been paying attention to the design since the MP3 business. OPPO phones have access to the original distributors all over the country of BBK, while other mobile phone brands do not have.

Customer Value Proposition. OPPO advertising costs are very large for selecting big stars from South Korea, Europe and the United States to advertise. Boss of OPPO, Chen Mingyong, once said "We have a good product and we have to pass to the consumer." This also reflects that OPPO’s main positioning are young people and it focuses on appearance and design, which is different from the Xiaomi. We can say Xiaomi positioning customers are the enthusiasts, and then the users of OPPO are almost freshmen, who care the appearance and camera function instead of the configuration. Compared to Xiaomi, OPPO has a relatively lower cost-effective.

Customer Problem Solution. OPPO pay attention to product design to meet consumers’ needs. When consumers care more about the camera function, OPPO also seized the users’ pain to design a rotating camera.

Profit Model. OPPO has a strong distribution network and high profits at high prices. In the past two years through the three or four lines in the city's market share, a strong profitability of the mobile phone brand.
Discussion

In this paper, we analyzed Xiaomi business model and compared it with OPPO. We concluded that the business model has a certain applicability and limitations and there is no universal business model. Only to find the market segment and constantly to meet the needs of consumers can it be a good business model.

Xiaomi has been trying to build a Xiaomi ecological circle, "to connect everything with smart phones" strategy. It has launched Xiaomi boxes, routers, tablets and air purifiers and so on. Lei Jun once said in an interview that Xiaomi business model can be copied, but such a Xiaomi ecosystem is no way to copy. That is to say Xiaomi has recognized the shortcomings of Xiaomi business model, by creating an ecological circle and solving the supply chain problems to improve the Xiaomi business model.

When Xiaomi and OPPO launch mobile phone products, the mobile phone market has been very competitive, but they can achieve certain results. They all choose to enter special market segment based on their own advantages and disadvantages, and by recognizing the needs of the target users to obtain profitability at different profit points.

References


