

The role of Business model innovation and leadership for start-up growth: A case study of Xiaomi

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Abstract

It is very common that most of the start-up companies cannot grow rapidly and fail within a short period. Absence of brand, Limited financial power and Lack of accessibility to different strategic resources are some of the common obstacles a start-up faces that limits its growth. Moreover, today's dynamic business environment poses new challenges that even established companies fail to survive in a competitive industry. However, instead of various difficulties, it is seen that some start-ups manage to achieve rapid growth. So, it is really attractive to investigate an exceptional case.

In this research, a start-up company Xiaomi has been studied which entered in smartphone industry in 2010 and managed to grow rapidly. Within only two and a half years it became the number one smartphone producer in China. Now it is one of the largest Chinese technology company that is operating in seventy countries.

To conduct this research business model and leadership theories has been used. Business model theory is very useful to represent an overall picture of a company. Business model innovation theory help to measure competitiveness and growth potential of a firm. Business model theory advocates if a firm can innovate its business model substantially it can expect tremendous growth. Therefore, outcome of Xiaomi case provides theory testing opportunities. On the other hand, leadership theories used as complementary of business model theories because researchers argue an innovative business model is the result of a strong leadership. So, success or failure of a firm cannot be understood completely without studying its leadership.

The research has done an extensive search to collect the relevant data, but the available data was very limited. Large part of the data came from the company website and newspapers. So a fully non biased outcome could not be confirmed.

The result of the investigation shows that the case company has largely innovated the business model to overcome barriers and attain a faster growth which confirms that business model innovation is a way to achieve growth. The study also finds that the leadership played a crucial role in innovating and implementing the business model.

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Table of Contents

1	Introduction.....	1
1.1	Background	1
1.2	Problem statement	2
1.3	Purpose of the study	2
1.4	Research question.....	2
1.5	Contribution	3
2	Methodology	4
2.1	Research Paradigms	4
2.2	Research Purpose.....	4
2.3	Research Approach	5
2.4	Research Methods	6
2.5	Collection of Data.....	7
2.6	Validity and Reliability.....	8
2.7	Limitations.....	8
3	Theory	9
3.1	Business Model	9
3.2	Importance of Business Models.....	11
3.3	Business model component.....	12
3.4	Business model Types	16
3.4.1	Business model Platform	18
3.4.2	Importance Business model Platform	18
3.5	Business Model Ecosystem	18
3.5.1	Importance of Business Ecosystem.....	19
3.5.2	Development of Business ecosystem	19
3.5.3	Ecosystem structure and strategy	20
3.6	Business Model Innovation.....	21
3.6.1	Degree and measure of innovativeness of business model.....	21
3.6.2	Type of business model innovation.....	24
3.7	Business model approaches.....	24
3.7.1	Asset-Light approach.....	25
3.7.2	Customer centric approach.....	25
3.7.3	Efficiency centric approach.....	27
3.7.4	Novelty centric approach.....	27
3.8	Leadership.....	28
3.8.1	Charismatic Leadership	29

3.8.1 Entrepreneurial leadership	29
4 Empirical data	31
4.1 Company background	31
4.2 Mission and Vision	32
4.3 Products & services	32
4.4 MIUI platform	33
4.5 Mi Fans Community	34
4.6 Key Partners	35
4.7 Focus Customers	35
4.8 Operational activities	36
4.8.1 Product development strategy	36
4.8.2 Distribution and marketing	37
4.9 Triathlon Model	39
4.10 Platform and Partner Ecosystem	41
4.11 Lei Jun	45
4.11.1 Personal characteristics	45
4.11.2 Early career	45
4.11.3 Leading Xiaomi	46
5 Analysis and discussion	48
5.1 Business model	48
5.1.1 Business model canvas	48
5.1.2 Evolution of Xiaomi's Triathlon business model	53
5.1.3 Pattern of Xiaomi's business model	55
5.1.4 Xiaomi multi-sided platform-based ecosystem	56
5.2 Business model innovation by Xiaomi	58
5.2.1 Types of Xiaomi BMI	61
5.3 Business Model approach by Xiaomi	62
5.3.1 Asset-Light approach	62
5.3.2 Customer-centric approach	62
5.3.3 Efficiency centric approach	63
5.4 Lei Jun leadership	64
5.4.1 Leadership quality of Lei Jun	64
5.4.2 Charismatic leadership style of Lei Jun	65
5.4.3 Entrepreneurial leadership style of Lei Jun	66
6 Conclusion	67
7 Learning outcomes	69

8	References.....	70
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List of Tables

Table 2. 1	Five research strategies	6
Table 3. 1	Definitions of business Model.....	11
Table 3. 2:	Business model classification	16
Table 3. 3:	Innovation of business model building blocks.....	23
Table 3. 4 :	Compression of manufacture-centric & user-centric Business model.....	26
Table 5. 1	Business model canvas of Xiaomi	52
Table 5. 2:	Business model innovation by Xiaomi	60

List of Figures

Figure 3. 1	Business model framework	13
Figure 3. 2	value creation model Source: Amit & Zott (2001)	13
Figure 3. 3 :	component of business model source: Shafer et al., (2005).	14
Figure 3. 4	Business Model Canvas. Source: Osterwalder & Pigneur (2010).	15
Figure 3. 5:	types of ecosystem strategy source: (Iansiti, & Levien, 2004 mentioned in Lindgren 2016).....	21
Figure 3. 6:	A three-dimensional (business model) Innovativeness scale. Source: Taran et al. (2015).....	22
Figure 3. 7:	Theoretical model of service outcomes. Source: Moore, et. al. (2005).....	26
Figure 3. 8:	Joint co-creation and innovation model. Source: Reay and Seddighi (2012).....	27
Figure 3. 9:	Framework of wealth creation by entrepreneur leadership source: Ireland et al. (2003)	30
Figure 4. 1:	Xiaomi revenue earnings by business segments source: craft.co	33
Figure 4. 2:	Xiaomi product offering strategy Source: (Lam & Leung. 2018).	37
Figure 4. 3:	SG&A Costs per device shipped (source: Giacheti, 2017).....	38
Figure 4. 4:	Xiaomi Triathlon Business Model Source: (blog.mi.com, 2018).....	40
Figure 4. 5:	Xiomi Ecosystem products Source: (Lam & Leung. 2018).	43
Figure 4. 6:	Xiomi supportet to ecosystem Source: (Lam & Leung. 2018).	44
Figure 5. 1:	Xiaomi's business model expansion Source: author	49
Figure 5. 2:	three-dimensional presentation of Innovativeness of Xiaomi Business model using Taran et al. (2015) Innovativeness measurement scale.	61

1 Introduction

1.1 Background

Growing a start-up rapidly in any competitive industry is a very challenging task for an entrepreneur. Generally, it is regarded that because of liabilities of smallness and newness of start-ups, their failure rate is much higher than their older and larger competitors (Freeman and Engel, 2007). According to Forbes magazine (2015), almost ninety percent of start-ups fail. Besides this their life expectancy is very short; almost fifty-four percent of start-ups companies survive one and half years. Only one-fourth of them survive six years. (Van de Ven et al. 1984). There are many challenges that start-ups face. Normally they have very limited financial power, to operate in an industry the capital requirements appear as a critical entry barrier for a start-up company. Therefore, it requires disruptive innovations and substantial effort to convince investors besides this start-up usually having a fewer number of engineers, managers and other employees which makes it problematic for them to perform a diverse range of activity adequately.

Furthermore, absence of brand or less acceptability poses a greater challenge for a start-up to attract customers. As a result initially start-up faces a sluggish growth. Besides these start-ups has fewer strategic alliances, large suppliers are often not interested in working with a start-up even exploit which limits competitive power of a start-up company (Freeman and Hannan, 1989; mentioned in Freeman and Engel, 2007).

Moreover, start-ups have unequal opportunities to access established distribution channels which make it harder to reach customers quickly. On the other hand, because of expensive promotional activities, they run out of cash rapidly (Porter, 2008). Incomplete or even absent business processes and evolving administrative structures are also challenges to grow Start-up Company (Freeman and Hannan, 1989; mentioned in Freeman and Engel, 2007).

Apart from the mentioned challenges today's dynamic business environment is also greatly impacting start-ups growth. There is hardly any day that passes by without any significant discovery in the science and technology fields or any boundary-pushing innovation. Furthermore, businesses are finding very tough to keep pace with the frequency of change and innovation (Cameron & Green, 2015). Technology is evolving very fast, and product lifecycle has become shorter and shorter making the innovation pressure higher. On the other hand, traditional balance between consumers and supplier have changed because of the advances of the global economy. The creation of sensibly open international trading regimes and new information and communication technology have given customers more choices (Teece, D. J. 2010). Moreover, the rise of social media has greatly influenced the speed and cost of marketing and customer relationship of companies which in turn also influence customer perceptions

about companies and their purchasing behaviour. Consumers are becoming more aware of value for money and not concerning about brand much.

1.2 Problem statement

Smartphone & consumer electronics industry is one of the highly challenging industry. Some giant and established companies who were pioneering in the industry in terms of innovation and market share like Nokia, Motorola, BlackBerry are no longer in their pioneering position some are finding difficult to compete, and even some are out of the market. There were several large companies back in 2011, for example, Samsung, Apple, Huawei and Lenovo. Besides this, there were around four hundred smartphone manufacturers in China at that time. So, this industry was enormously competitive as well as challenging. In this scenario, it is very unlikely to expect new entrant in the market, but if something opposite happened, it is worthwhile to explore and more importantly when it is from a start-up company. A successful advancement in the industry has appeared from a new company named Xiaomi. Xiaomi is a start-up company established just in 2011 in China has grown exponentially in smartphone and consumer electronics industry. Within only two and a half years Xiomi became the number one smartphone producer in China in terms of the number of smartphones sold (TMTPOST, 2017). It has continued to expand beyond China. Meanwhile it is now selling products in seventy countries. It became one of the most valuable Unicorn with a valuation of USD 46 billion at the end of 2014 (Olson, 2014). Usually, this type of hyper-growth seen in case of software products, app or services but selling physical products in a highly competitive market with such a growth rate is rare. Therefore, it is very interesting to investigate how the company solved the problems to grow its business rapidly.

1.3 Purpose of the study

The study aim is to understand Xiaomi success from its business model and leadership perspective. The purpose of this thesis is to get an insight into Xiaomi success. How it has overcome the challenges that can provide important suggestion and valuable lessons for start-ups who may face similar challenges in any other industry.

1.4 Research question

“How a start-up could manage to grow so rapidly in a competitive industry Investigated through the case study of Xiaomi?”

1.5 Contribution

There have been few scholarly works on Xiaomi's success and they are mostly related to its marketing strategy, supply chain and innovation strategy. I found those are not well adequate to explain and understand the success of Xiaomi broadly. So, in this research Company's Business model will be analysed which is critically important to understand a company besides this the leadership which enable the business model also essential to analyse. Researchers can apply this analysis procedure to understand the success or failure of other companies.

2 Methodology

This chapter discusses the methods and techniques for conducting this research. The methodological process is guided by philosophical beliefs about the nature of reality, knowledge, and values and by the theoretical framework that informs comprehension, interpretation, choice of literature and research practice on a given topic of study (Chilisa & Kawulich, 2012). The chapter begins with research paradigms in section 2.1, research purpose in section 2.2, research approach in section 2.3, research method in section 2.4, and collection of data in section 2.5.

2.1 Research Paradigms

The word ‘paradigm’ is first used by Thomas Kuhn (1962) as a philosophical way of thinking. It is Greek word means pattern. In educational research, this term is used to explain a researcher’s ‘worldview’ (Mackenzie & Knipe, 2006). According to Kivunja & Kuyini (2017), *“this worldview is the perspective, or thinking, or school of thought, or set of shared beliefs, that informs the meaning or interpretation of research data”*. Every researcher has own idea about the constitutions of truth and knowledge. These ideas lead human being’s thinking, belief and assumption about society and themselves, researcher frame how they view the world around them, according to social scientists this is called a paradigm (Schwandt, 2001, Kawulich, 2012). Arbnor and Bjerke (1997), define paradigm as *“any set of general and ultimate ideas about the constitution of reality the structure of science, scientific ideas, and the like”*.

An explanation of the ontology helps to better Understanding of paradigm. Ontology describes the nature of realism which means how things actually are and how things work (Denzin and Lincoln 1998). In the literature, these two aspects are well-defined by objectivism and subjectivism. Where objectivism, indicates that social being exists, and its activities does not depend on social actors; subjectivism, indicates social phenomena are continuously changing because of the activities of social actors (Saunders et al., 2015). Researchers have continued the debate on these two opposite dimensions which has resulted in different paradigms based on complementary and exclusive approaches. For this research, a complementary approach is favoured. Hence, pragmatic research paradigm is followed in this research because pragmatic research paradigm neither admit nor refuse the view of subjectivism and objectivism (Kuada 2012).

2.2 Research Purpose

The research purpose is divided into three main categories Descriptive, Exploratory, and Explanatory. Based on the research question a research will be exploratory or both descriptive and explanatory

decides the purpose of research (Saunders et al., 2009). For realising to recognise what is happening to catch new insight, answer new question, and evaluate a phenomenon, explanatory research is suitable method (Robson, 2002; Saunders et al., 2009). When the researcher needs to make clear about the recognising of a problem, then exploratory research is best method. Three directed ways of exploratory research are: leading a meeting with the specialists in the subject, writing seek, and focus group interviews and literature search. However, exploratory research has the advantage of elasticity. Research direction can be changed according to the requirement of new ideas and new information during the research. Moreover, according to Adams and Schvaneveldt (1991), intrinsic of flexibility mean as the research forwards broad focus frequently becomes narrower (Adams and Schvaneveldt 1991). Descriptive research can be said a harbinger to or an amplification of a part of exploratory research, however repeatedly it is a part of the explanatory research. According to Ethridge (2004), “descriptive studies may be characterised as simply the attempt to determine, describe or identify what is, while analytical research attempts to establish why it is way or how it came to be”. In any case, usually before collecting the information on the research topic it needs a clear sketch of the phenomena for exploratory research (Saunders et al., 2009). A situation or an event can be sketching by applying descriptive research (Robson, 2002; Saunders et al., 2009). On the other side, explanatory research gives priority on reviewing an issue or a circumstance, thus, to simplify causal connections between factors (Saunders et al., 2009). Furthermore, explanatory research tries to identify the genuine reason and reason about the phenomenon of wonder by going past and more remote with an exact end goal, unlike exploratory and descriptive research. Descriptive research is mostly used in observational studies, but it also used in case studies and surveys. Present study is single case study; thus in this study, descriptive research has been used to answer the research question.

2.3 Research Approach

The process of conducting any research is called research approach. The sequence of every research to perform in a proper way is determined by research approach. Basically, it is divided into two types; inductive and deductive. Induction approach provides priority on generating or building theories on the other hand deductive approach provides priority more on theories testing (Bryman& Bell, 2015). Arguments depend on experience or observations are best revealed inductively, although arguments depend on laws, rules, or other generally accepted principles are best revealed deductively (Trochim, 2006). Deductive approach uses to assume a phenomenon, to predict its occurrence and consequently permit it to be controlled (Collis and Hussey 2003). On the other hand, Inductive approach helps the researches which are highly concerned with the background of happening something interesting (Saunders et al., 2009). According to Creswell and Plano Clark (2007), the deductive researcher works from the ‘top-down’, from theory to propositions to data to enhance to or challenge the theory. On the

other hand, the inductive researcher starts from the bottom-up, with the participants' opinions to build wider themes and produce a theory interrelating the themes. Thus, a research approach must be selected for answering the research question by applying right strategy. A research approach is a combination of various methods and tools these are related to each other. Yin (2009) said there are five research strategies shown in Table 2. 1

Table 2. 2 Five research strategies

<i>Strategy</i>	<i>Form of research Question</i>	<i>Requires Control Of Behavioral Events</i>	<i>Focuses on Contemporary Events</i>
<i>Experiment</i>	<i>how,why?</i>	<i>yes</i>	<i>yes</i>
<i>Survey</i>	<i>who,what,where how many, how much?</i>	<i>no</i>	<i>yes</i>
<i>Archival analysis</i>	<i>who,what,where, how many, how much?</i>	<i>no</i>	<i>yes/no</i>
<i>History</i>	<i>how,why?</i>	<i>no</i>	<i>no</i>
<i>Case study</i>	<i>how,why?</i>	<i>no</i>	<i>yes</i>

Source: Yin, 2009

According to Saunders et al., 2009, “why” and “how” questions are used for research enquiries and “what” questions are used for case study, although “what” and “how” questions are used for survey strategy. In case study two research methods are mostly used; explanatory research & exploratory research (Saunders et al., 2009). According to Robson & Saunders (2002) a case study is “*a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence*” (Saunders et al., 2009). The objective of the research is to show, how a start-up company could grow so rapidly in a very competitive technology world. The researcher decided to use a single case study strategy and deductive approach. For a single case, study researcher has chosen the Chinese smartphone company Xiaomi. Because, currently, Xiaomi is the world's fourth-largest Smartphone Company and it has created many smart hardware products, among which many are in top position in their respective categories (blog.mi.com, 2018).

2.4 Research Methods

To provide answer of a particular research question or issue clearly, researchers use a systematic method to accumulate data for gaining information this process is called as research methods. There are two main types of method generally used in research: are quantitative and qualitative (Soiferman, 2010). These two research methods are not mutually exclusive and usually address the same question using

different methods (Soiferman, 2010). Quantitative research is a research method “that emphasises quantification in the collection and analysis of data” (Bryman & Bell, 2015). In quantitative method, researcher collects and analyse data to understand the relationships among variables using either descriptive or inferential statistics (Soiferman, 2010). Researcher uses descriptive statistics to draw a conclusion about populations and to measure the parameters of those populations and based on the descriptive statistics and the assumptions inferential statistics generalise the population from a chosen sample (Trochim, 2006). In quantitative method, by using graphs, plots, charts, and tables visual representation is possible, and the conclusion is peaked from logic, evidence, and argument (Trochim, 2006). On the other hand, Qualitative research is a research method which is well-defined as “*that usually emphasizes words rather than quantification in the collection and analysis of data*” (Bryman & Bell, 2015). Here, researcher gathers word of the participants and to evaluate them by looking for common themes, by concentrating on the meaning of the participants and expressing a procedure applying both expressive and persuasive language (Creswell, 2005). According to Creswell (2005), “*qualitative method is a type of educational research in which the researcher relies on the view of participants, asks broad, general questions, collects data consisting largely of words from participants, describes and analyzes these words for themes, and conducts the inquiry in a subjective, biased manner*”. In this thesis, the researcher took qualitative research method, it is more suitable to find out how Xiaomi become a tech-giant that involve more about leadership, business model innovation because these cannot get from quantitative research method.

2.5. Collection of Data

Data collection plays a vital role in every research. There are different method used in collecting information, although all of which fall into two categories. These are primary data and secondary data. When data is gathered for the first time by the investigator directly for a specific purpose, then this type of data is called primary data. This type of data is real-time data. Primary data collection process is quite expensive because it requires resources like investment and workforce (Surbhi, 2016). Researchers follow many methods in primary data collection like surveys, case study, personal interviews, telephonic interviews, focus groups, observations, mail questionnaires, questionnaire filled and sent by enumerators, etc. (Surbhi, 2016). When data is collected and recorded by someone else earlier other than the user for a purpose, then this type of data is called secondary data. Moreover, secondary data are readymade data, and there are many methods to collect the data. Usually secondary data is gathered by other researchers, international association and institutions for their own purpose and there are many sources available for this data like censuses, books, journal articles, internal records of the organization, government publications, websites, daily newspaper and so on (Krishnaswami & Satyaprasad, 2010; Saunders et al., 2009). The researcher may apply the secondary data in three ways: used for reference purpose; used like a benchmark; and used like sole source of information

(Krishnaswami & Satyaprasad, 2010). This type of data is easily available, save time and cost of researcher (Ghauri & Grønhaug, 2005). Although, there are some weaknes in using secondary data, as might be gathered for a particular reason other than the problem in mind. Thus, the usefulness of data may be constrained in a number of ways as relevance and accuracy. Although, there are some weaknes in secondary data, the large part of this data is of high quality and reliable which is collected by international organisations, governments and specialists using precise methods. (Ghauri & Grønhaug, 2005). To conduct this research, secondary data has been used. The data has been collected From Mi.com website of Xiaomi, Blog of Xiaomi blog mi.com, online books, different research paper, international & regional newspaper and some other organisation's web page.

2.6 Validity and Reliability

While conducting any research, reliability and validity are the two concepts researchers required to take into account seriously to reduce prospect of getting the erroneous answer in addition to measure the level of dependability and trustworthiness of research. (Saunders et al. 2009).

Saunders et al., (2009). Describes that “*Validity is concerned with whether the findings are really about what they appear to be about*” (Saunders et al., 2009). To ensure validity Yin (2009) suggested three critical measures: Construct validity, it deals with how the studied phenomenon reflects the specified concepts. Internal validity, it illustrates if the assumed association between the variables are the actual reason of a prevailing phenomenon. External validity, it shows how generalized the conclusion could be beyond a particular research setting (Baumgarten, 2013). In this research, multiple sources of information for instance, articles from some authors, published online reports and interviews of the managers are used to reach construct validity. Concerning internal validity, attention is given to assess other possibilities can cause the growth of start-up when making inferences. The application of existing theories associated with the business model and leadership in empirical findings provides a way of external validity.

Reliability described by Saunders et al. (2009) as “*the extent to which your data collection techniques or analysis procedures will yield consistent findings.*” In this research to enhance the reliability, the methodology is described clearly to facilitate it for other researchers.

2.7 Limitations

This has been conducted by using secondary data only. Due to lack of acccecibility, it was not possible to conduct an interview of the company executives. Besides data sources mostly presented the company as a positive one. So critical analysis about the company was not possible.

3 Theory

3.1 Business Model

The term Business model is most vaguely used in the domain of business literature (Magretta, 2002). In 1957, when first time the term business model mentioned by Bellman in an academic article it did not get much attention (Nenonen & Storbacka 2010). But the recognition and popularity of business model concept has increased at the beginning of 90s (Demil & Lecocq 2010; Amit & Zott 2001). it has became popular with the onset of the internet “dot com” era (Taran, Nielsen, et al. 2015b; Zott et al. 2011). Because the beginning of the e-commerce in the 1990s Facilitated Nobel forms of transactions. From the time, business model term has been used by various group of people including academicians, managers, and consultants, for most things related to business. (Baden-Fuller & Mangematin 2015; Goyal et al. 2017). Researchers and practitioners both have given their attention to the concept and identified it as a means of innovation coupling with the popular idea of process, product and service innovation (Teece, 2010; Johnson et al., 2008).

There are several definitions came to existence from articles relating to business models, and few of them are commonly accepted (Zott et al., 2011). For instance, it is difficult to make clear demarcations between business model and other similar concepts like business strategy. Perkmann et al. (2010), outlined three important difficulties associated with the business model concept of are:

- Polysemy and Ambiguity of the term;
- Ambiguity about its existence;
- the concept is over flexible in terms of its purpose.

Amit and Zott (2001) they define, that “*a business model depicts the content, transactions, and governance of transactions designed so as to create value through the exploitation of business opportunities*”. Whereas Osterwalder and Pigneur (2010) state that, “*a business model describes the rationale of how an organization creates, delivers and captures value*”. Perkmann et al. (2010) concluded that a firm’s artificial illustrations are done by business models rather than actual firm characteristics. From a Pragmatic Point of View Doganova et al. (2009) say that, a business model had better be seen as a ‘market device’ that is narrative and calculative. It can help entrepreneurs in the market exploration and development of innovation network. In contrast, Hacklin et al. (2012) say that since earlier research was not done from a micro-level and there are many unanswered questions and too many variables, validity of pragmatic approach is disputed. Business model also defined by the relation among its components (Hedman & Kalling 2003; Casadesus-Masanell & Ricart 2010).

A list of 22 different definitions regarding business model have prepared by Al-Debei and Avison (2010) from academic literature. By using their conceptual framework, they come to the point that business models have an ontological structure of different components that form the business model structure which is applied by firm. Definitions that are often cited (Chesbrough & Rosenbloom, 2002; Hedman & Kalling, 2003; Shafer, Smith & Linder, 2005 Osterwalder & Pigneur, 2010; Al-Debei & Avison, 2010) also analyse business model as structured entities with establishing components or elements. Zott, et al. (2011) conclude that a business model is a systemic approach utilised for defining how to do business. Therefore, a business model can be taken as a system and as a unit of analysis by using systems research methods.

Morris et al. (2005) highlighted a business model should answer following questions,

- How the firm will create value?
- For whom the firm will create value?
- How will the firm make money?
- What is the firm's internal source of advantage?
- How will the firm position itself in the marketplace?
- What the entrepreneur's scope, time and size ambitions?

Besides this recently Chesbrough (2010) have proposed that a business model fulfils the subsequent functions:

1. Articulation of the value proposition.
2. Identification of corresponding market segment and specification of the revenue model.
3. Construction of value chain building.
4. Articulation of profit potential and cost structure
5. Positioning of the firm inside the value network by connecting customers and suppliers.
6. Formulation of the competitive strategy which will give advantage over rivals.

Goyal et al. (2017) have collected few business model definitions from different authors which is represented in the following table.

<i>Article</i>	<i>Definition</i>
Timmers (1998)	An architecture for the product, service and information flows including a description of the various business actors and their roles; and a description of the potential profits of the various business actors; and a description of the sources of revenues.
Ami and Zott (2001)	Depicts the design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities.
Weill and Vitale (2001)	Description of the roles and relationships among a firm's consumers, customers, allies and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants.
Chesbrough and Rosenbloom (2002)	Blueprint of how a network of organisations cooperates in creating and capturing value from technological innovation.
Magretta (2002)	Stories that explain how enterprises work.
Afuah and Tucci (2003)	Method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money while doing so. It details how a firm makes money now and how it plans to do so in the long term.
Mitchell and Coles (2004a)	Combination of who', what', where', 'when', 'why', 'how and how much' an organisation uses to provide its goods and service and develop resources to continue its efforts.
Morris et al. (2005)	Concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.
Shafer et al. (2005)	Representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network.
Morris (2009)	Description of a whole system, a combination of products and services delivered to the market in a particular way, or ways, supported by an organisation, positioned according to a particular branding that, most importantly, provides experiences to customers that yield a particular set of strong relationships with them.

Table 3. 1 definitions of business Model.

Source: Goyal et al. 2017

The absence of a common understanding indicates the definition of business model concept still lack clarity (Goyal et al. 2017; Zott et al. 2011). The lack of clarity indicates a potential source for confusion among scholars hence creating dispersion, but one thing all most all academics in these field of study confirm that business model simply represents the way a company does its business (Taran, Boer, et al. 2015; Osterwalder et al. 2005).

3.2 Importance of Business Models

A positive relationship has found between the business model design and the operation of the firm (Zott & Amit, 2007). Business model is focused as a source of competitive advantage by corporate executives (Goyal et al., 2017). “Effective business model is the core enabler of any company’s performance” is identified by Taran & Nielsen, et al. (2015a). To address and help solve problems models are used in Economics and biology, similarly to achieve more deep knowledge about the real worlds business model can be used (Baden-Fuller & Morgan, 2010). According to Magretta (2002) a good business model answers the following questions: “Who is the customer? And what does the customer value? Furthermore, it also answers the fundamental questions of: How do we make money? And explains how we can deliver value to customers at an appropriate cost?”.

To make descriptive and to lucid the role of business model the notion of business model used by Baden-Fuller & Morgan (2010) like a model “organism” and like a “recipe”. Like an “organism” a firm’s business model is not only studied for its own sake but also like an ideology “*against which other firms following the same generic business model can be measured*”. Like a recipe, already tried and tested a quintessential business model can be imitated by other firm which they can make some differentiation with constant the basic recipe.

3.3 Business model component

Linder & Cantrell (2002) said that it is difficult to approach business models as simple theories since they are implicit understanding of how value is created from the interaction of different parts in a company. So, they did not focus on visualizing the business model components of a company. However, Scholars have endeavoured to identify the different components of business model that help to make up the MB framework. Goyal et al, 2017 argued that “*the clarity of the components and their configurations helps to build the core logic of the business of the firm thus understanding components and interrelations is necessary to understand the business model*” (Goyal et al, 2017). At the beginning when business models need to be developed, the first step required is to recognise the components of the firm that is in the domain of business modelling. Academics have strong disagreements on the number of components of BM and their outline. For example, according to Johnson et al. (2008) a business model has four interlocking components that together, create and deliver value. Customers value proposition, Key resources, Profit formula and Key processes. On the other-hand six components outline proposed by Morris et al. (2005) for portraying a business model and they recognised 3 different stages of decision. In contrast, a proposal made by Casadesus-Masanell & Ricart (2010) says that “business models are composed of two different groups of elements “choice” and “consequences” However Chesbrough & Rosenbloom (2002) imagine a business model as an abstract tool that “*mediates technology development and economic value creation*”, they sketch a business model. With 6 components as follows in figure 3.1

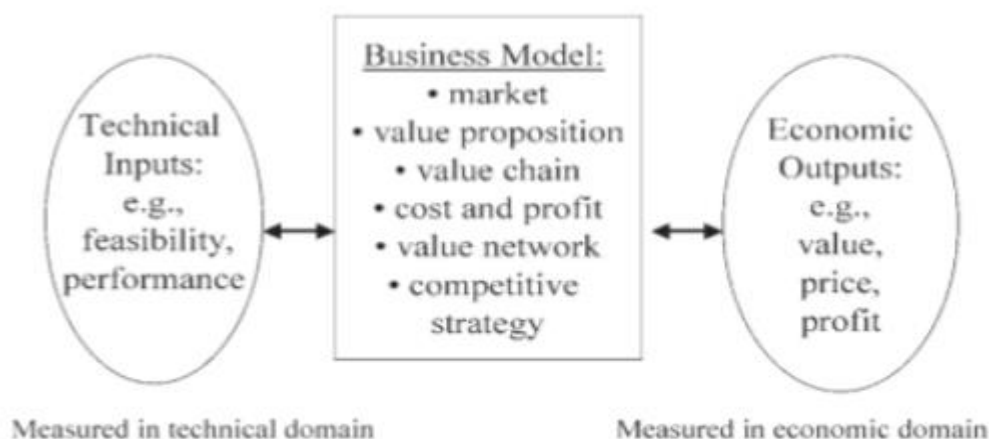


Figure 3. 1 Business model framework

Source: Chesbrough and Rosenbloom (2002)

A “Value Creation model” On the other hand, developed by Amit & Zott (2001) have gained much acceptance in literature. The model depicts (in the figure) how transactions are configuring the network of firms, suppliers, complementors. In the model Amit & Zott (2001) did not proposed overall business model components rather they argue that the business model is a configuration of the transactions and the exploitation. Their business model framework gives importance to the four elements of value creation/driver process novelty, efficiency, complementarities and lock-in.

“Novelty” denotes new service and product innovation along with the application of new way of doing and organising business. This source of value has several linkages with the other three sources, as described by Amit and Zott (2001, p. 508). “Efficiency” proposes that when cost per transaction broadly decreases transaction efficiency increases. Reducing search costs for consumers and decreasing information asymmetry are two examples of the cost reduction mechanisms brings efficiency. “Complementarity” advantages occur when offering a combination of multiple goods offers more value than providing the same number of goods separately. “Lock-in” effect occurs when customers are interested to engage with the firm by repeat transactions and are enthusiastic to continue their relationship with the firm. Lock-in effect reduce opportunity costs to firms and increase the willingness of users to spend more money. (Amit and Zott 2001).

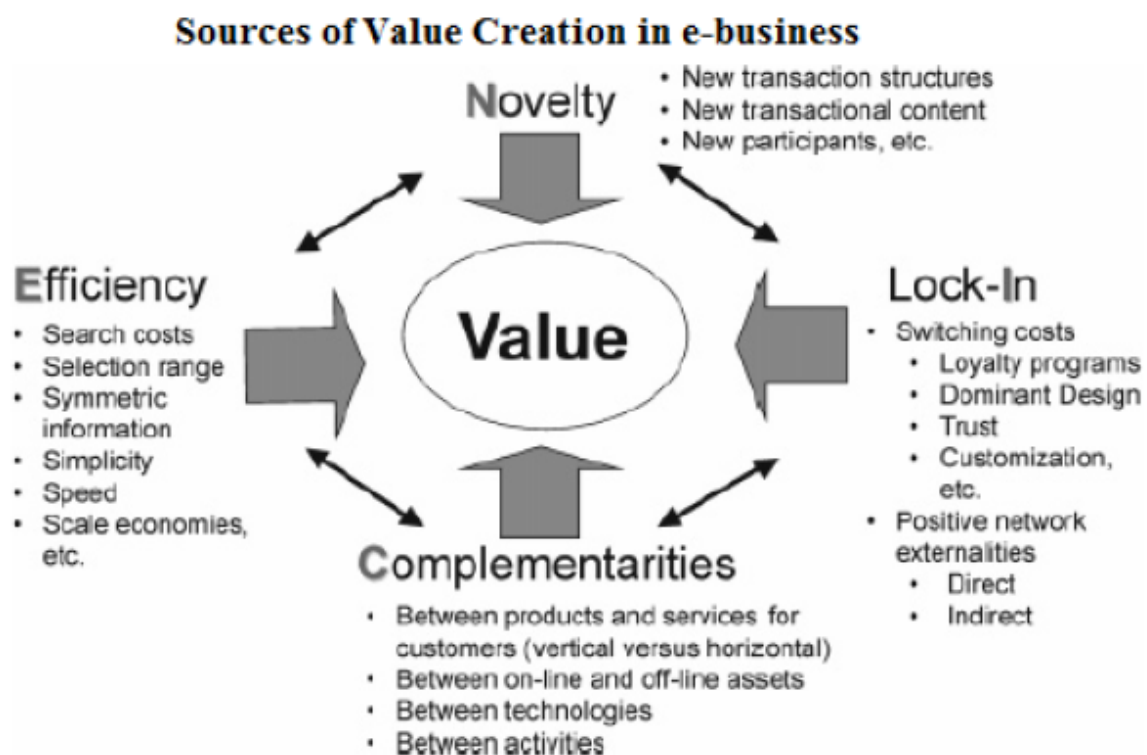


Figure 3. 2 value creation model

Source: Amit & Zott (2001)

Over 20 “building blocks” of business models identified by Shafer et al. (2005) from many academic sources. They abstract those into super classes, from which they split the components into four key categories, 1). Strategic selections, 2). value network 3). creating value and 4). capturing value which is illustrated in figure 3.3.

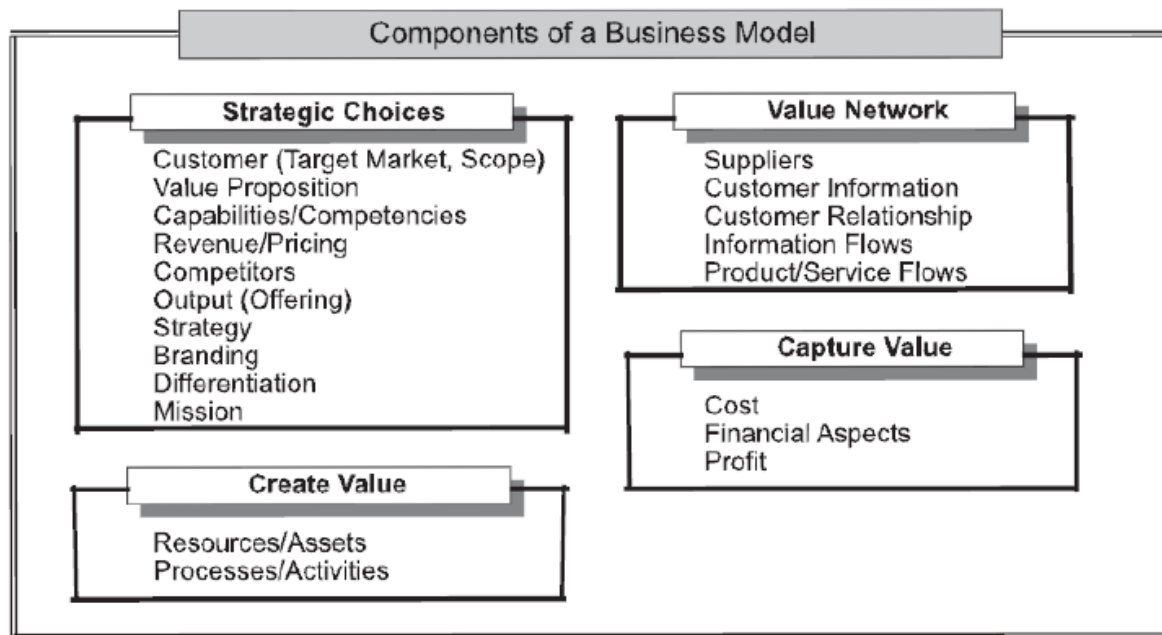


Figure 3. 3 : component of business model

source: Shafer et al., (2005).

Different framework of business model exist might be because they are suitable for different perspective (e.g. Amit & Zott E-business), situations, companies etc. So, there is no business model specially fits all business even though there are overlaps of the characteristics in different models.

However, a most popular (Cited 7870 times till 14/10) propositions came from Osterwalder and Pigneur (2010). Their business model framework is the most commonly used among scholars since it is a synthesis outcome based on the relative studies of the frequently mentioned frameworks. Consequently, it makes sense not to go through previous frameworks in details as the notions provided by Osterwalder and Pigneur (2010) reflect a combination of ideas which are similar and proposed by previous scholars in a comprehensive way. Besides this very difficult in this research to discuss different frameworks provided by all different researchers. Therefore, it is considered to elaborate the component of business model of Osterwalder & Pigneur (2010).

Frameworks they proposed that a business model is comprised of nine components which is generated from the previous research of Osterwalder (2004). The proposed business model canvas framework Figure 3. 4 apply these components as a connecting tool particularly in the process of business model development, when distinct combinations of components are drafted and reviewed by the firm's management.

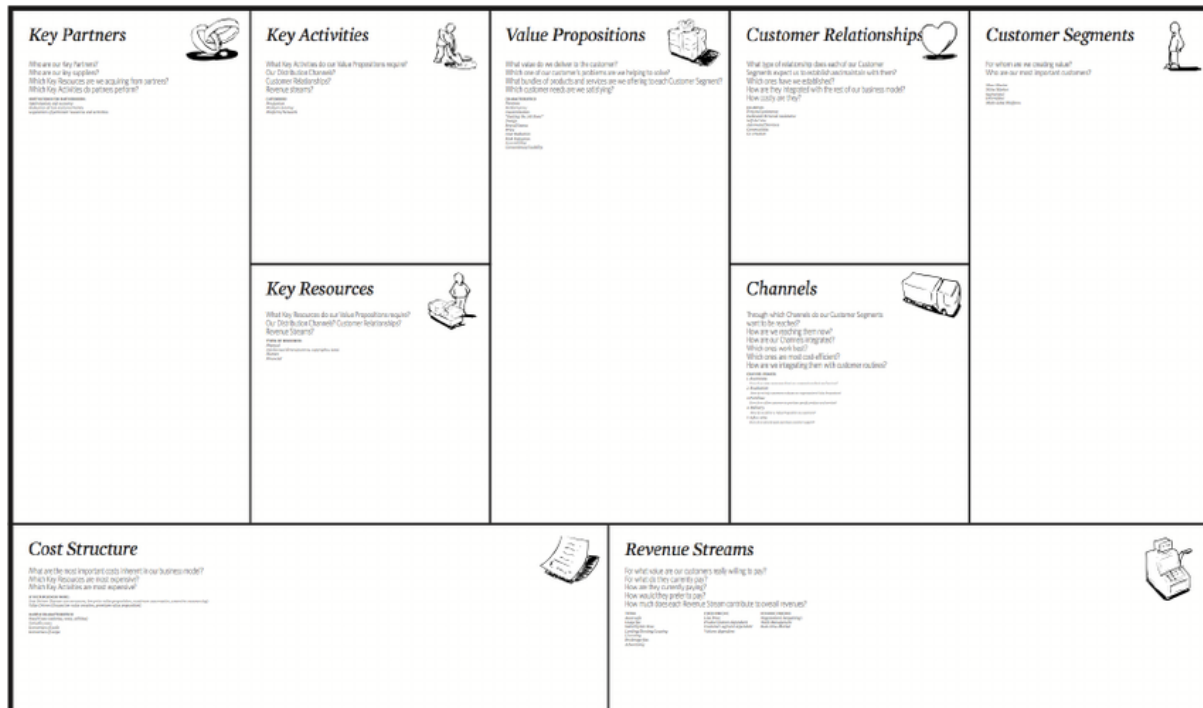


Figure 3. 5 Business Model Canvas.

Source: Osterwalder & Pigneur (2010).

The nine building blocks covering the four areas of attention, Infrastructure, offering (products/services), customer offers, financial viability,

Osterwalder and Pigneur (2010) define:

Value proposition building block; the benefit a specific Customer Segment is expecting to receive when purchasing firm's products and services. It is in the core of business model.

Customer segments building block; set of customer or organizations to whom a company wants to reach and propose its value offering it also in the heart of a business model.

Channels building block; how a company reach to its customer and distribute Value Proposition

Customer relationships building block; types of relationships established between specific customer segments and the firm. It is deeply important for maximization of customer experience.

Revenue streams building block; money obtained from each customer segments, which is calculated before cost deduction.

Key resources building block; main tangible and intangible assets that a company needs to create a value offering and send it to the customers.

Key activities; building block; most important activities a company perform for the creation and deliver the of value proposition and obtain revenues in returns.

Key partnerships building block; the important network with different partners and suppliers who are critical in order to run the business

Cost structure building block; the costs that are required to operate a business model

3.4 Business model Types

It is essential to rethink their business model for a company to adjust changing value chain come from global dynamical changes to new technology, new markets, new customer and new competitor segments etc. Thus, to create and capture value in lucrative way company follows the generic and distinct behaviours from others (Baden-Fuller & Morgan 2010). One can categorize these companies into different group by analysing these behaviours which forms various kinds of business models that scholars study (Baden-Fuller & Morgan 2010). Similarly, one can develop the ideal type of business model and expand understanding of business behaviour from the knowledge achieved by classifying and labelling business model (Baden-Fuller & Morgan 2010). However, categorizing business models' taxonomies and typologies also provide this knowledge (Baden-Fuller & Morgan 2010).

Goyal et al., (2017) examining different typologies based on emerging typologies of different authors who have tried to classify the business model idea.

Research paper	Typologies
<u>Timmers</u> (1998)	E-shops, e-procurement, e-mails, e-auctions, virtual communities, collaboration platforms, third-party marketplaces, value chain integrators, value-chain service providers, information brokerage and trust and other third-party services. The basis includes degree of innovation and functional integration.
Linder and Cantrell (2000)	Price models, convenience models, commodity-plus models, experience models, channel models, intermediary models, trust models, and innovation models. The basis includes identifying core profit making activity and its relative position on the price/value continuum.
Weill and Vitale (2001)	Content provider, direct to customer, full-service provider, intermediary, share infrastructure, value net integrator, virtual community, whole-of-enterprise government. The basis includes the role in e-business chain.
McGrath (2010)	Advertising, cross-subsidization, promotion, freemium, barter, gratis. The basis includes mode of charging (who pays, who get free, unit of business).
Wirtz et al (2010)	Content, commerce, context, connection. On the basis of definition, value proposition, revenue logic.

Table 3. 2: Business model classification

Source: Goyal et al, (2017)

Business model taxonomy is described with all alike characteristics, all alike arrangement of building blocks and/or all alike behaviour as patterns (Osterwalder & Pigneur, 2010). To make business model patterns understandable and to compare easily they turn into their business model canvas. Unbundling,

the long tail, multi sided platforms, premium, open business models are included in these patterns (Osterwalder & Pigneur, 2010).

Unbundling:

To avoid undesirable trade-offs and conflicts corporations often have different kinds of businesses within a single corporation by unbundling into separate entities (Osterwalder and Pigneur 2010). For example, to start focusing on customers, branding and giving content telecommunications companies devoid their network activities either by outsourcing or spins-off (Osterwalder and Pigneur 2010).

The Long Tail:

To focus on the bestsellers, companies use the long tail principle entails selling a tiny amount of any niche goods but offer huge amounts of niche goods in the inventory (Osterwalder and Pigneur 2010). This can make a wide range of niche product available to customers (Osterwalder and Pigneur 2010). This leads to low inventory costs and platforms (Osterwalder and Pigneur 2010).

Freemium:

This model create value by making a pattern where one group of customers benefited from charge free offer, but another group of customers charge for up-scaled or premium version of exactly same offering (Osterwalder and Pigneur 2010). Spotify (2011) provided an example, from online streaming music service consumers can listen to music without charge but now and then they interrupted by advertising. Consumer can turn to a premium version, which needs a regular paid subscription. The free segment works not only as a marketing channel for the premium goods but also as a revenue stream from advertising (Osterwalder and Pigneur 2010).

Open:

Henry Chesbrough (2003) coined a term open innovation in his book .Open Innovation, can be used in a business model by methodical cooperating with firm outside partners. This cooperation can either take the form of using unused ideas or assets from inside the firm or by taking ideas from the outside (Osterwalder and Pigneur 2010). Proctor & Gamble applied this pattern to increase the R&D works by opening up research and inviting in different sources of innovation; researchers, online problem-solvers and retirees (Osterwalder and Pigneur 2010).

Multi-sided Platforms:

This model generates value by bringing several customer groups together and making easy interactions between them (Osterwalder and Pigneur 2010). One perfect illustration of this is Google, which gives consumer with a charge free online search engine and at the same time provide opportunity to advertiser's advertising space connected to specific search terms. If the number of consumers is relatively high, then this model works best (Osterwalder and Pigneur 2010).

Among the five patterns of business model as multisided platform appear to be most relevant pattern with the case company. It is therefore elaborated in the following sections describing how platform works and leads to ecosystem creation around the platform.

3.4.1 Business model Platform

Robertson and Ulrich (1998) provided the definition of platform as *“the collection of assets that are shared by a set of products”*, where assets include all things like knowledge, components, processes and people. According to Dedrick and West (2003) platforms is architecture of related standards that given the “modular replacement of complementary assets” like hardware and software. Moreover, Iansiti and Levien (2004) defined platform as a “package” by which essences share value with ecosystems. To explain platforms in relation with the business environment, some scholars emphasized on the economic concept of two-sided market. Similarly, Eisenmann et al. (2006) stated that platforms are products and services that bring together groups of consumers in two-sided market. On the other hand, Gawer and Henderson (2007) defined platform is “a component or subsystem” of an expanding technological system. However, a platform composed with a set of rules and elements and is comprised of consumers whose performances are dependent on network effects (Eisenmann et al., 2006).

3.4.2 Importance Business model Platform

For innovation and business executions, the platform has developed as a new, dynamic organizational strategy in several industries. Thus, to accomplish a sustainable revenue source, specifically in the mobile and ICT industries, platform business models have turn into the important strategy (Bresnahan and Greenstein, 1999; Ballon and Walravens, 2008; Smedlund, 2012). The platform gives an important or crucial function to a circumferential system of use. It is the set of elements and guidelines used in most user operations (Boudreau and Hagiu, 2009).

3.5 Business Model Ecosystem

Originally, Moore (1993) used and introduced the term ‘business ecosystem’ in his article “Predators and Prey: A New Ecology of Competition” (Lindgren, 2016). According to Moore (1993) business ecosystem is *“An economic community supported by a foundation of interacting organizations and individuals – the organisms of the business world. The economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The member organisms also include suppliers, lead producers, competitors, and other stakeholders. Over time, they coevolve their capabilities and roles, and tend to align themselves with the directions set by one or more central companies. Those companies holding leadership roles may change over time, but the function of ecosystem leader is valued by the community because it enables members to move toward shared visions to align their investments, and to find mutually supportive roles.”*

An economic community which is helped by cooperating organizations and individuals is called business ecosystem (Kuusniemi, 2016). The operators like to join it on their own choice, and couple

with partners also tries to choose which are most convenient for their interests in an ecosystem (Kuusniemi, 2016). The economic community is also a part of business ecosystem who serves customers by giving them with commodities and services (Nachira et al., 2007; Kuusniemi, 2016). Ecosystem is a biological metaphor needed to highlight the interconnection of all actors of the business environment. (Nachira et al., 2007). Moore (2006) says the business ecosystem as “*ecosystem is at its core a plan for how the contributions in the proposed system will be modularized and what sorts of firms will provide which element*”. The actors who contribute to value creation in form of products or services are called ecosystem participants.

3.5.1 Importance of Business Ecosystem

Companies can greatly enhance its capability to implement a growth formula by Embracing ecosystem approach. Specially for small technology entrepreneur's ecosystem approach is very effective to grow revenue when demand is uncertain product or service life in the market is short, low barrier to entry, the cost of mass production is low, and competition is international. The ecosystem is more focused on revenue generation than cost reduction. (Bailetti, 2010).

There are number of arguments in favour of Business ecosystem approach. Five important arguments made by Bailetti (2010) in favour of it, first minimum viable products are enough to introduce which later can be improved. Second, the entrepreneur can get help for product development and marketing from different groups including end customer. Third one company can create value for itself and the wider ecosystem community, Fourth, ecosystem members have interest in the wellbeing of their own firms as well as the wellbeing of the ecosystem as they get advantage from its shared capabilities and platform, fifth, rather than the expansion of the final product the ecosystem approach emphasizes more on adoption of products.

3.5.2 Development of Business ecosystem

Business ecosystem develops in phases; birth, extension, leadership and self-renewal. A Business ecosystem is born with the introduction of innovative product or services and the discovery of the convincing value proposition that act as the main component of an effective business model. The extension stage of the ecosystem entices more participants to the value creation and capture process. The leadership of the ecosystem oversees the investment plan and technical standards, it also possesses and upholds the ecosystem platform and becomes the keystone of the ecosystem, so it nurtures and supports the growth of ecosystem to confirm members generate values. The self-renewal phase of the ecosystem is continuous where survivability and competitiveness is ensured. Maintaining self-renewal process is the important task of the leadership (Moore, 1993; Iansiti and Levien, 2004).

There are nine key principles argued by Isenberg, (2010) To develop an entrepreneurial ecosystem they are as follows stop imitating other ecosystems, outline the ecosystem based on the local entrepreneurial state, involve the private sector at the beginning, nurture the high potential, get a big success on the board to encourage and stimulate success, manage cultural change, emphasise the roots to support entrepreneurs in building skills and muscles rather than providing easy money, help clusters to grow spontaneously, and improve legal and administrative framework (Isenberg, 2010).

3.5.3 Ecosystem structure and strategy

The main parts of an ecosystem are the platform, the keystone organization which provide governance structure and the developer community (Muegge, 2011). Business ecosystem is structured in such a way where firms at the same time cooperate and compete around a shared platform to create value and enhance their capabilities by maintaining and extending the platform amongst different open source ecosystems (Muegge, 2011).

According to Iansiti and Levien, (2004) in an ecosystem four general types of strategies are prevailing depending on “*the complexity of relationships of the firm and turbulence of innovation*” as shown in the figure 3. 6. where keystone perform as a hub in the ecosystem because health of ecosystem is maintained by keystone. Even though keystone occupy only a small portion of the ecosystem it makes available the tools and support for the survival of ecosystem under a high level of turmoil and innovation. Thus, keystone defends the ecosystem against fragmentation to ensure its existence. Large part of the ecosystem occupied by physical dominator compared to niche and keystone. The value is normally generated by the physical dominator. Niches players resemble what the ecosystem they constitute a significant part of an ecosystem. their activity mostly shaped by the keystone organization. A niche player tries to distinguish and specialize itself from the other companies in the ecosystem. Commodity is the last role which typically compete by means of price and volume (Iansiti and Levien, 2004; Lindgren 2016).

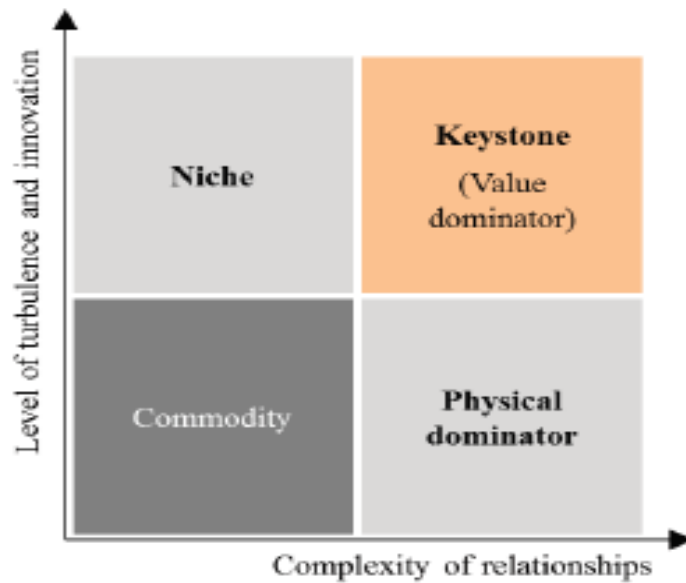


Figure 3. 7: types of ecosystem strategy source: (Iansiti, & Levien, 2004 mentioned in Lindgren 2016).

3.6 Business Model Innovation

Markides, (2006) define business model innovation as, “Business-model innovation is the discovery of a fundamentally different business model in an existing business”. That means business models can be innovated. A fundamental change to a company’s running business model is business model, where systems and revenue streams are different from present paradigms (Mayer, 2007). Teece (2010) argue that business model innovation is a way to competitive advantage if it is able to differentiate extremely. It is needed for company’s growth and for generating share value and competitive differentiation. On the other hand, Park (2011) assumes business model innovation as a new business which is hard to replicate for incumbents and new entrants.

3.6.1 Degree and measure of innovativeness of business model

A business model innovation can be radical or incremental or can combine both. Taran et al., (2015) have developed a table (3. 3) of degree of business model innovation distinguishing seven business model building blocks. Where they define the building blocks and gives example of radical and incremental innovation of each building blocks. A three-dimensional model (fig: 3. 8) also developed by them combining three type of approach namely Radicality, Reach, Complexity. Radicality refers to the newness (incremental vs. radical) of each building block. Reach concerns the question of whether the innovation is new to the company or, at the other end of the scale, the world. Complexity is counted

as the number of building blocks (see Table) changed. Their model helps in qualifying the innovativeness of a new business model.

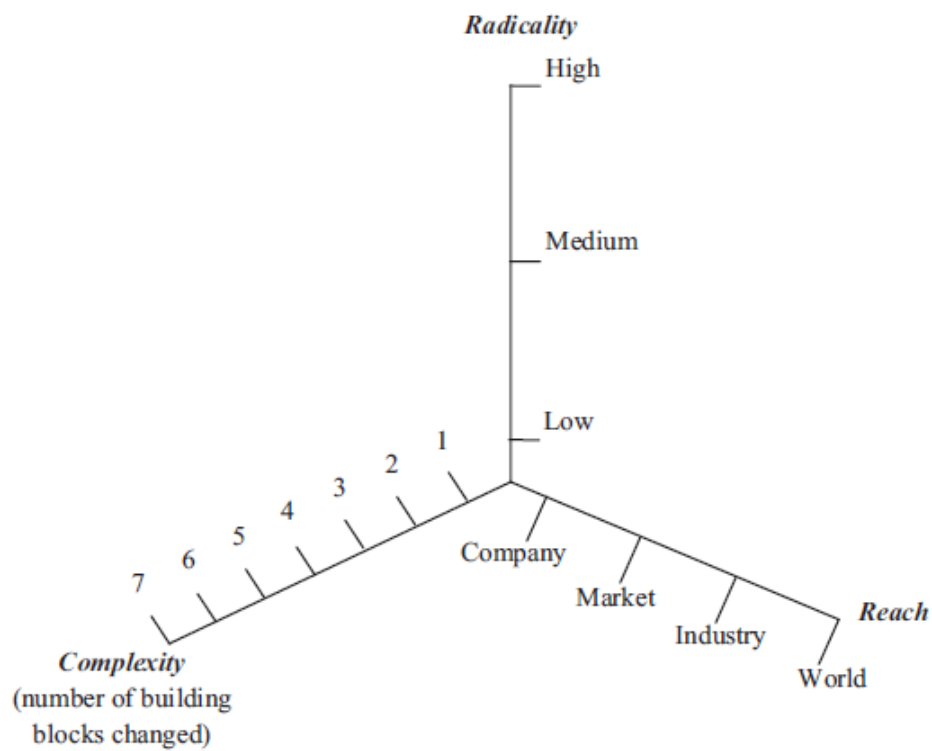


Figure 3. 9: A three-dimensional (business model) Innovativeness scale. Source: Taran et al. (2015)

Building block	Description	Incremental Innovation	Radical Innovation
What do we provide?			
Value proposition	A company's offering of products and services.	Offering "more of the same."	Offering something different (at least to the company).
Who do we serve?			
Target customers	Customer segments a company aims to serve.	Existing market.	New market.
How do we provide it?			
Customer relations	Actual interactions established with these customer segments.	Continuous improvements of existing channels.	New relationship channels (e.g., physical/virtual, personal/peers/mass awareness).
Value chain architecture	Involving both the primary and support activities needed for a company to develop, produce and deliver its offerings (e.g., Porter, 1985).	Exploitation (e.g., internal, lean, continuous improvement).	Exploration (e.g., open, flexible, diversified).
Core competences	Those capabilities that are difficult to imitate by competitors, and are critical to a company for achieving competitive advantage, e.g., unique technology, IPR, know-how, culture, market exclusivity.	Familiar competences (e.g., improvement of existing technology).	Disruptive new, unfamiliar, competences (e.g., new emerging technology).
Partner network	Partners who engage in different kinds of cooperation with a company, with the goal of achieving economies of scale, reduction of risks (e.g., joint venture) or tapping into new knowledge or resources (Osterwalder & Pigneur, 2010).	Familiar (fixed) network.	New (dynamic) networks (e.g., alliance, joint-venture).
How do we make money?			
Profit formula	Including revenue model, cost structure, margin model, and resource velocity (e.g., Johnson et al., 2008).	Incremental cost cutting in existing processes.	New processes to generate revenues, or disruptive cost cutting in existing processes.

Table 3. 4: Innovation of business model building blocks. Source: Taran et al. (2015).

3.6.2 Type of business model innovation

Based on Meyer's (2007) taxonomy business model innovation can be divided into four types. These are following

Premiumization:

Based on the price-performance spectrum repositioning products or services is called business model innovation premiumization. This type of business model innovation motivated to the company to ignore the profit margin threshold of commoditization.

Plug-in modules.

This model readily facilitate other module and accessories in the main business model. This model is adopted when taking the strategy of creating product line architecture. The company itself can produce plugin modules or out sourced to partners. This business model innovation brings on base product or service.

New channel choice:

The amount of revenue is affected by this new channel choice business model. A crucial form of business model innovation is selecting or developing a new channel exterior to the company's traditional area of proficiency.

Manufacturing and supply:

By affecting gross margins, asset intensity, and operating expenses innovation in a firm's common manufacturing and supply procedure can have a radical effect on financial outcomes. Some companies realise that, in terms of proprietary know-how vertical integration provided noticeable advantages. On the other hand, some nonmanufacturing firms, specifically those in financial services took a distinct position; to reduce operating expense, they were aggressive in outsourcing main functions. An important type of business model innovation is each of the strategies, that can be focused on a new product line or service improvement.

3.7 Business model approaches

There are different approaches or strategy to design a business model. In this chapter four business model approach are discussed. They are namely, Asset-Light approach, Customer centric approach, Efficiency centric approach and Novelty centric approach these approaches are not mutually exclusive.

3.7.1 Asset-Light approach

An asset-light business model is an approach whereby the organizations has relatively few assets compared to its operations (Gartner, 2018). Where mostly assets are managed instead of owned (Walters, 2004). It also familiar as "virtual business model", companies outsource its non-core activities, relying on supply chain facility providers to conduct swift expansion of sales channels, where company focus on the marketing activities and design to expand within shorter time with less capital and earn more lucrative profit (Surdu, 2011). The core idea of this tactic is to leverage full use of exterior resources to reduce companies own investment and directs their assets on the most profitable part of the industrial chain. Traditional competition theory is focused on differentiation or low-cost to expand market share, while the asset-light model is focused on customers and profits. (Surdu, 2011).

Asset-Light approach benefit emerging companies to achieve quickly the efficiency and scale to compete with more mature and larger organizations. Moreover, it helps companies go faster which in the long run, may become sustainable. For instance, instead of building data centre and buying servers a firm using the cloud more quickly can access the computing facility. This model not only limited to costs saving but also can be used to search new revenue prospects or innovation (Gartner, 2018). However, to utilize this model company must have market awareness, negotiation skills, capital and possess know-how (Surdu, 2011).

3.7.2 Customer centric approach

Customer centric approach is a way of running business by engaging customer in a way that delivers a positive customer experience both before and after the sale to be able to drive repeat business, profits and customer loyalty (MacDonald, 2018). Recent studies outline that traditional business models built on firm's inside-out strategy no more is sufficient when developing business models which is innovative and competitive. Inside-out approach requires substantial marketing campaigns to push products to the markets. (Moormann & Palvölgyi, 2013). On the other hand, Roldsgaard and Bajrovic (2011) consider that the next meta-trend will be the outside-in customer-centric approach in business development. The firms, who adopt customer-centric approach in their business model are more likely to generate value and in long-run develop loyalty among the customer. It is claimed that firm's productivity can be improved by outside-in method. (Moormann & Palvölgyi, 2013).

To build a strong relationship between consumer and producer, company brand should no longer belong to the company only, as consumers feel designated as well to cultural resource (Cova and Dalli, 2009). However, consumer perceived satisfaction can be affected by personal and affective interaction with them. Similarly, a positive relationship between customers to customer can also increase satisfaction, thus a rise in their devotion and readiness to consum (Moore, et. al. 2005). Likewise, relationship among customers can progress the their experience enhance firm environment. Moore, et. al. (2005)

have provided a theoretical model of service, which focused on customer-customer, customer provider communication and customer-environment.

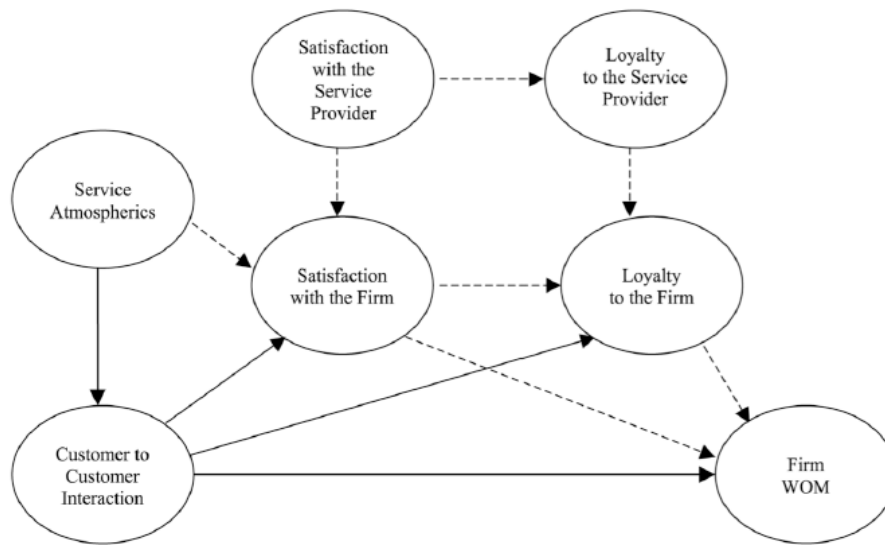


Figure 3. 10: Theoretical model of service outcomes. Source: Moore, et. al. (2005).

Exploitation of niches, cost reductions, quick and more flawless product, symmetry between customers and firms are some of identified benefits of customer centric business model approach (Henkel & Von Hippel 2004). Furthermore, Customer can facilitate diffusion process of products by generating a market pull effect inside their peer communities that spills over frequently into the mass market (Hienerth and Lettl, 2011). In the following table a comparative difference between manufacture-centric & user-centric business model approach is shown.

	Manufacturer-centric business model	User-centric business model
Value proposition	Customers derive value by using a product/service.	Users derive value by using a product/service and by being involved in the core business processes of new product development, production and marketing.
Value creation	Value is created solely by the company and delivered to customers: Business-to-Business (B-B) Business-to-Consumer (B-C)	Value is co-created by the users and the company through interaction: Combination of Business-to-Business and/or Business-to-Consumer with Consumer-to-Consumer (C-C)
Locus of interaction between company and user(s)	Interaction usually only at the end of the value chain, in some cases also earlier in the process (prototype and concept testing)	Repeatedly, anywhere, and at any time in the system
Pattern of interaction between company and user(s)	Passive, firm-initiated, one-on-one	Active, initiated by either firm or user, one-on-one or one-to-many
Goal of interaction	Extraction of economic value	Co-creation of value through compelling co-creation experiences, as well as extraction of economic value
Key processes	Internal R&D, production and marketing	Empowerment of users to participate in the core business processes of new product development, production and marketing
Focus of quality	Quality of internal processes and what the company has to offer	Quality of user-company interaction and co-creation experiences
Key resources	In-house know-how, efficient production systems, controllable sales channels	Intelligence of the crowd and social software to make use of it (toolkits for user innovation and design, user communities, online forums, etc.)

Table 3. 5 : Compression of manufacture-centric & user-centric Business model
Source: Hienerth et, al. (2011)

Because of increasing significance of ICT Business Model Innovation via user is possible, which supports the creation of business procedures that reconstruct the role of the customer. (Reay and Seddighi, 2012). Reay and Seddighi (2012) have generated a model for user as innovator.

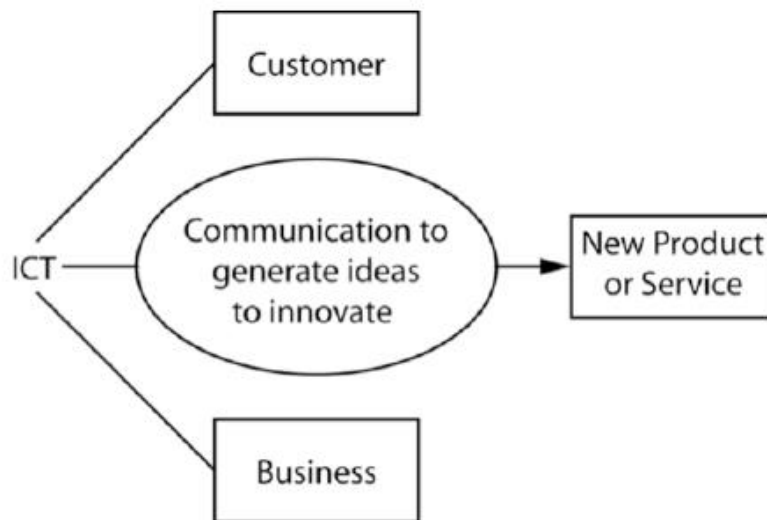


Figure 3. 11: Joint co-creation and innovation model.
Seddighi (2012)

Source: Reay and

3.7.3 Efficiency centric approach

Efficiency centric approach refers to the measures that help firms to achieve transaction efficiency using its business models. Increasing the simplicity and reliability of transactions are the focus of Efficiency-centered design approach. Besides this it speeds up transactions, decrease asymmetry of information, reduce inventory, enable demand aggregation, and enable transaction scalability. Direct transaction costs reduction increases the number of potential customers, along with suppliers and partners which increase the bargaining power of the firm (Zott and Amit 2007).

3.7.4 Novelty centric approach

Novelty centric business model emphasise in designing new transaction mechanisms by connecting previously isolated parties or designing new ways to link existing transaction participants. A novel business model approach either innovates businesses in existing markets (e.g. Price-line.com) or creates a whole new market (e.g. eBay) The entrepreneur as an innovator can create opportunities, for instance, can bridge factor market and product markets by utilizing information and communication technologies in new ways. (Zott and Amit 2007).

3.8 Leadership

Bennis (2009) argues that, leaders are innovators. Many things have done by them that several people have not done or vacillate to do. Moreover, leadership is “an interaction between two or more members of a group that influences the attitudes and behavior of individuals for the purpose of achieving goals” (Bass and Stogdill, 1990; Kesting et al., 2015). According to Peter Drucker the difference between managers and leaders is, “*Management is doing the right thing, leadership is doing things right*” (Covey, 1989). A defined position within an organization is called manager and to manage their business successfully leaders need to hire people with the appropriate proficiency (Linfield, 2013). According to Bennis (2009), there are five general components of leadership: Curiosity and daring, guiding vision, passion and integrity.

Curiosity and Daring:

Leaders are interested about everything and want to receive as much as they can. They try innovative things; take risks and trial without concerning about the failure because perceiving they will learn from mistakes (Bennis, 2009).

Like Bennis (2009), Kotter (2012) state that leaders’ vision “*defines what the future should look like aligns people and inspires them to make it happen despite obstacle*”. Similarly, Bolden (2004) said that, leadership not only provides the answer to the progress of people and institutions but also to sectors, regions and nations in the contemporary changing global context.

A guiding vision:

Professionally and personally Leader has a clear vision or idea of what they need to do and the endurance to persist despite hindrances or even failures (Bennis, 2009).

Passion:

Leader has an indispensable passion for a career, a vocation and a series of action, and likes what they do and likes doing it. Furthermore, a leader who hints passion inspires and provides hope to other people (Bennis, 2009).

Integrity:

Integrity is a crucial part of leadership constituents. Leader has a clear idea about their weakness and strength. Moreover, know what they are able do and the reasons they want to do it (Bennis, 2009).

Leadership Styles

Although, leadership has become a most attractive among scholars for the past two decades, but they are unable to reach a common point on ‘what leadership is?’ and ‘what good or effective leadership should be?’ (Smith et al., 2002).

In this case study only, charismatic leadership and entrepreneurial leadership are considered to understand the leadership of the case company among a number of leadership concepts and theories.

3.8.1 Charismatic Leadership

Max Weber introduced the concept of charismatic leadership (Bolden, 2004). He states that “some leaders have a gift of exceptional qualities – a charisma – that enables them to motivate followers to achieve outstanding performance” (Ivancevich et al., 2008). Charisma is one of the components that detach the true leader from the common manager from the institutional setting (Bass, 1985). Moreover, the important characteristic of charisma is the capability to inspire, arouse empathy, animate, renew or even exalt (Bass, 1985). Ivancevich et al. (2008) defined charismatic leader as “*who creates an atmosphere of motivation based on an emotional commitment and identity to his or her vision, philosophy, and style on the part of followers*”. ‘Charismatic’ is a unique quality that promotes the leader to circulate and maintain activity within an institution through merged personal activities with personal characteristics (Nadler & Tushman, 1990). However, a combination of magnetism and personal charm that gives leader capability to influence other individuals to advocate leader’s vision and develop it passionately is called charismatic leadership (Ivancevich et al., 2008). Ivancevich et al. (2008), characterized Charismatic leaders into two kinds: visionary and crisis-based. The capability to foresee both the whole perspective and the convenience represented by it is called visionary charismatic leaders (Ivancevich et al., 2008). On the other hand, crisis-based charismatic leaders have effect in a critical position where resources, strategies and existing knowledge are insufficient (Ivancevich et al., 2008).

Dominant, self-confident, having a solid desire to affect others and strong ethical values are some personal characteristics of charismatic leader (Northouse, 2010). Moreover, Nadler and Tushman (1990), suggest three major types of characteristics of charismatic leadership: envisioning, enabling and energizing. Generating a vision of the future or fascinated future state is involved with envisioning. To achieve a common goal leader’s vision can procreate excitement and develop assurance among the people. The behavior enabling involves giving emotional assistance to the folks in accomplishing their task. Enabling can be attained by expressing empathy toward the individuals in the organization by paying attention to their needs, understanding and sharing their emotions and expressing confidence in the person's ability to perform efficiently in order to encounter the challenges. On the other hand, energizing is the act of producing energy and motivating among members of the organization. By expressing own personal enthusiasm and energy leaders engage in energizing through direct personal interaction with participants of the organization (Nadler & Tushman, 1990).

3.8.1 Entrepreneurial leadership

Entrepreneurial leadership has become as an important concept in both leadership and fields of entrepreneurship, providing a novel perspective on effect leadership in both corporate managers and entrepreneurs (Becherer, et al., 2008). There is difference between entrepreneurship and leadership, but often two ideas go hand in hand. Furthermore, often entrepreneurs are managing or leading a business like a manger although the entrepreneur is most commonly defined as the individual who starts and bearing the risk for an organisation (Merriam-Webster, 2013).

Entrepreneurial leadership is recognized by six imperatives: 1). Protect innovations intimidating the current business model. 2). Question the dominant logic 3). Make sense of opportunities 4). Retreat to the illusorily simple questions. 5). Link strategic management and entrepreneurship. 6). Decomposition of future situation. These imperatives are needed in order to implement Entrepreneurial leadership successfully (Covin & Slevin 2002). Furthermore, Covin & Slevin (2002) believe that entrepreneurial leaders can generate the maximum value to become strategically entrepreneurial. This means that if leaders have mindset like entrepreneur it can help them to create a culture where resources are managed strategically, yet entrepreneurially which reflects opportunity-seeking and advantage-seeking behavior of entrepreneurs.

Ireland et al. (2003), have outlined a framework by showing how entrepreneurial mindset and leadership leads to wealth creation. Which can be noticed in the following figure 3. 12

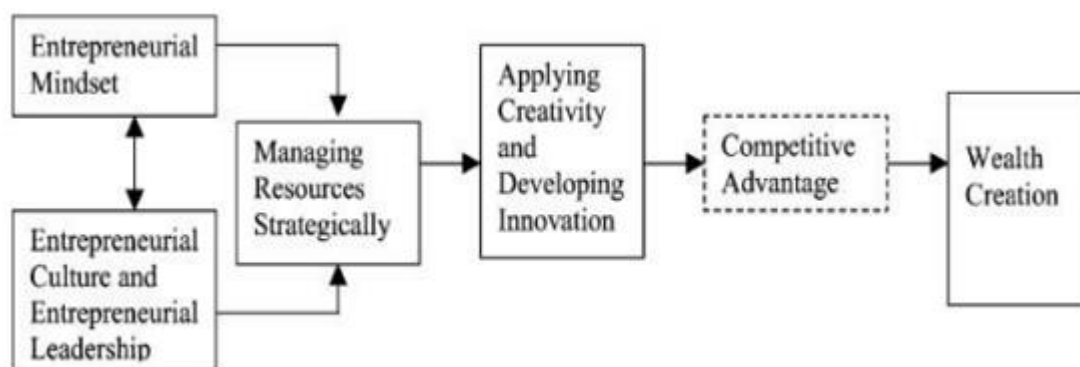


Figure 3. 13: Framework of wealth creation by entrepreneur leadership source: Ireland et al. (2003)

Opportunity seeking behavior coupled with advantage seeking behavior could potentially affect the ability to bring new products quickly into the marketplace which can give first mover advantage in new product and market domains (Kuratko and Hodgetts, 1989).

4 Empirical data

4.1 Company background

Xiaomi Corporation is a mobile internet company which designs, develop and sells smartphones and smart hardware coupled with an Internet of Things platform at its core (mi blog, 2018). It was Founded on 6th June 2010 by the Chinese successive entrepreneur Lei Jun along with his seven partners. The company is headquartering in Beijing, China and It's current Chairman and CEO Mr. Lei Jun (Chen,

Park, and Nakaoka, 2018. mi blog, 2018). The First smartphone released by Xiaomi in 2011 which rapidly captured market share in China. In 2014 the company become the largest smartphone company of the country (IDC.com, 2015). But in 2016 Sales plunged dramatically which pushed the company to fifth place. However, at the beginning of 2018, Xiaomi become the world's fourth-largest smartphone producer (IDC.com 2018, Rox, 2018). Besides this Xiaomi has established the world's biggest consumer `IoT` platform, with around 132 million smart devices connected to its platform. At present, Xiaomi products are available in 70 countries around the world and have a leading position in some countries like India (mi blog, 2018). Currently It employs a large work force of 15,222 (craft.co, 2017). It has earned a revenue of \$6.82 b in Q2, 2018 (expandedramblings.com 2018).

4.2 Mission and Vision

As found on the Mi Blog, Xioami's founder Lei Jun said Xioami's mission and vishion are the following: *"Our mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology"* (blog.mi.com, 2018).

"Every day for the past eight years, our vision to be friends with our users and to be the "coolest company" in the hearts of our users has motivated us to pursue innovation and maintain an unwavering focus on quality and efficiency" (blog.mi.com, 2018).

4.3 Products & services

Lei Jun once said that it's tough to define what is Xiaomi without understanding what the Xiaomi does. (Liao, 2018). Because from the beginning to now Xiaomi has expanded its foothold into wide range of products and services. It produces smartphones which operats on their own customized Android version MIUI firmware. Along with smartphones, Xiaomi sales smartphone accessories, wearables and appliances for instance television and speakers. It started to sell smart-home devices and laptops in 2018 (Liu, 2016). Although it is known mostly by its smartphone. However, Xiaomi products and services can be breakdown into three major categories Smartphones, Internet Services and lifestyle products. Flowing figure shows 70.3% of its revenue comes from Smartphones, where IoT and lifestyle products contributes 20.5% and 8.6% comes from Internet Services (craft.co, 2017).

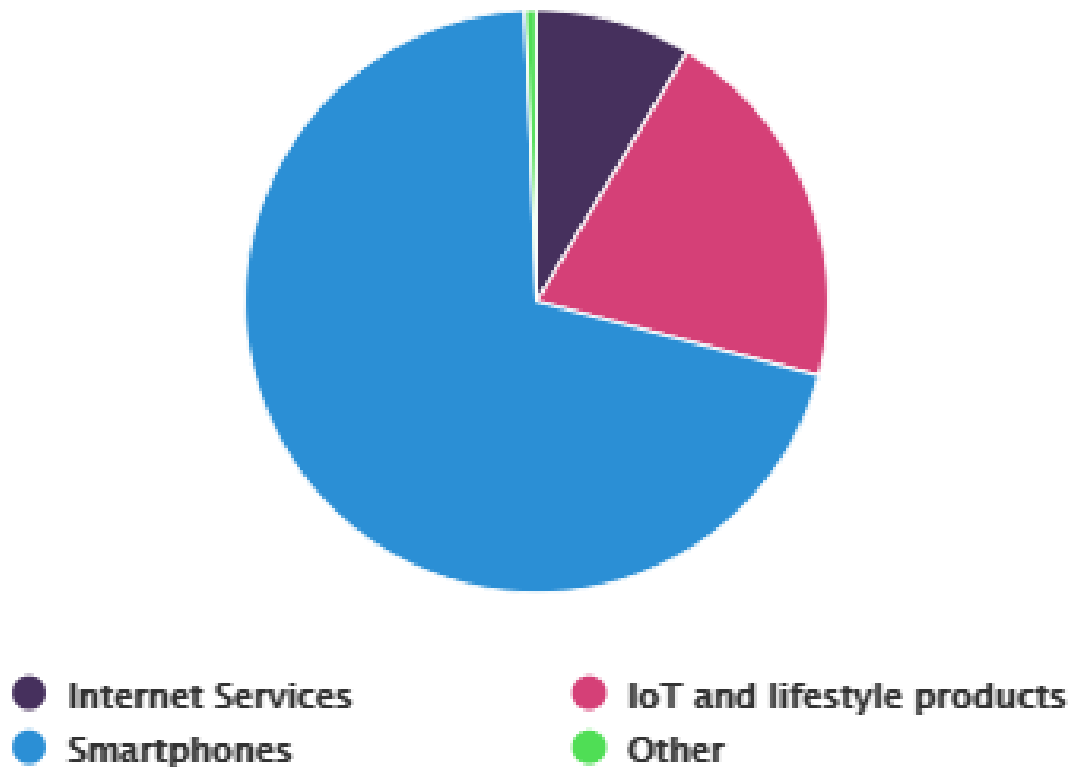


Figure 4. 1: Xiaomi revenue earnings by business segments

source: craft.co

4.4 MIUI platform

The company started with the development of an operating system (OS) based on Android known as MIUI. The OS allowed customization of the user interface. It was very alike to iPhone's iOS, but unlike iOS, it allowed the user to make customizations of app icons and themes also offered backup features, an advanced cloud messaging service, a very smart music player, and Xiaomi's own app store. (Giachetti, 2018). Xiaomi developed "MiChat," Based on MIUI an SNS kit for smartphones. Which enabled developers always to open their ideas and requested users to evaluate whether the function was convenient or not. Every week, the company released a new version of MIUI (Shirky 2015). Users responded with a different suggestions and comments by understanding the developers' purposes. In this way, before the lunch of its smartphone Xiaomi already had 500,000 Mi fans (Xu, 2015). In August 2010 MIUI platform was launched on Xiaomi's website and users could download it. After few months the launch, half a million times MIUI was downloaded. One million registered MIUI user base had reached By the end of 2010 (Giachetti, 2018).

Furthermore, Lei Jun started a blog and required each employee to communicate outside the company over social media. In that way Xiaomi acquired 10 million "MiFans," members. These "MiFans," later turn into the first Xiaomi Smartphone users (Xu, 2015). In a conference Lei Jun mentioned that, at

December 2017 around the world the total number of MIUI active users topped 300 million (Onawole, 2018). App developers and Xiaomi co-innovated Xiaomi's app store for Chinese users and offered something that Google and Apple did not offer in China. It published a software development kit which allowed third-party developers to design different apps thus it provided a kind of functionality that Android did not offer (Giachetti, 2018).

There are three key sides of Xiaomi platform that enabled Xiaomi to capture value. 1). Smartphone users who consumed different internet services also generated huge data. 2). Internet service and App developers and 3). Advertisers. First, Xiaomi earned revenue from its users that paid money for smartphones. Second, charging app developers who are retailing their software on Xiaomi's platform and generating revenue. Third, firms who are advertising their products or services on Xiaomi also pays a fee (Giachetti, 2018).

4.5 Mi Fans Community

When traditional firms just want to sell product Xiaomi interact and want to gain user's feedback because the company believe When a company will have a user community it can effortlessly build word of mouth. (Rowan 2016). So Xiaomi has developed very close interactions and straight relationships with its users. Xiaomi's good product design and smart functionality with relatively low-cost have continued to win heart of its users and thus accumulated large number of global community of users whom Xiaomi call as "Mi Fans" they the passionate users of Xiaomi product and very loyal to Xiaomi brand. They constantly give feed back and share their idea about product, advice new features of the MIUI operating systems and smartphones. Mi fans interact with Xiaomi through Xiaomi's online forum, MIUI forum and Xiaomi BBS. Xiaomi also actively listen to their mi fans. Its engineers have regularly improve the MIUI OS by incorporating direct feedback from Mi Fans. Besides this there are "Mi Fans Clubs" operating in different countries of the world which initiate active relations within Xiaomi's platform so fans can share ideas and provide feedback on product development and testing marketing and advertising. Furthermore, to boost sales Xiaomi engage with its Mi fan by launching different promotional events like Mi Pop events. Mi fan Festival, gaming contests. As a result Xiaomi has acquired a large userbase globally who are highly engaged. By March 2018 xiaomi monthly active MIUI users have reached to 190 million over 1.4 million fans use almost five Xiaomi connected products (apart from laptops and smartphone). In the active MIUI forum Almost 250 million post have been generated by Mi fans since it was launched in 2010. (Kline, 2017, Lam and Leung, 2018).

The Mi community is enormously important and inseparable from Xiaomi's platform approach. They put great amounts of time volunteering and produce some of great content. Xiaomi thinks importance

of Mi community can not be replaced with any marketing strategy where members of Mi community find a sense of belonging in Mi home community that results in loyalty. Pd

Xiaomi CEO Lei Jun said *“Four years ago, when I was creating Xiaomi, my idea was that no matter how big this company becomes in the future, we must run it like a small restaurant, a company where users can take part And take part, they do! Our Mi Fans show up in full force for events around the world”* (blog.mi.com, 2018).

Alex a Mi fan describes that listening to Mi fans and letting them to be a part of Xiaomi family is the best part of the company he also adds that many of the fans like him do not have enough knowledge to interact with a technology company but this does not become a problem for Xiaomi it understand each Mi fans have something to contribute and they enthusiastically want to contribute (blog.mi.com, 2018)

A new program branded as Xiaomi kiosks started in March 2017 which have contributed to widespread reach of Xiaomi. Under the program “Mi fan” have been encouraged to start their own Xiaomi kiosk where there is no e-commerce access and no Mi home stores. which enabled Mi fan to become a business partner with Xiaomi using their knowledge of price and quality of xiaomi products. It is Unlike a full-scale store Mi fan don’t need to give any opening fee or deposit., to avoid the risk of extra inventory they can place order of small numbers of products from Xiaomi headquarters.Shop owners also provided delivery support and post-service and also can also use warehouse of the company. Xiaomi also give them training and allow Mi kiosk owners to share experiences and learnings from their district (blog.mi.com, 2018).

4.6 Key Partners

Xiaomi partners with Hon Hai and Inventec for assembly, for screen technology it partners with TPK and Wintek and Unicorn for PCB. Main processor supplier of Xiaomi is Taiwan Semiconductor Manufacturing Corporation (TSMC). Xiaomi’s financial partners are Temasek Holdings, IDG Capital, Qiming Venture Partners. Moreover, Sharp, Foxcon, Qualcomm are also Xiaomi’s key suppliers where Qualcomm also invested in Xiaomi. Besides this number of start-ups. Some E-commerce companies like Flipkart in India, Xaiomi hardcore users “Mi Fans” are also regarded as vital partner (Nigam, 2016 Dudovskiy 2018).).

4.7 Focus Customers

Good companies earns profits; great companies win over people’s hearts. Xiaomi being a technology corporation with a rare “fan culture”. It has a large global community of “Mi Fans,” passionate users who are intensely loyal to this brand, highly engaged on its platform and actively contribute feedback and feature ideas to product development. Xioami’s customer segmentation is specific. The company knows its customer. The company understands that it cannot be all things to all people. The company

is focused on its specific customer demographic: the in-touch, hip, young consumer who are connected 24/4 (Mi Blog, 2018). *“The trust that Xiaomi able to build with their customers are so strong that even bad news headlines will not affect the customers continue to support Xiaomi’s products”* (Lun and Yazdanifard, 2014).

4.8 Operational activities

Xiaomi has established its operations in 70 countries and among the top 5 smartphone vendor in 16 markets. It manufactures 75% of smartphones locally in china and India. (Sushma 2017). Chines and Indian manufacturing units operations are the main sources of value generation because of low cost of human resources in these countries. Proximity of manufacturing to the market, sources of raw materials and cost-effective labour play an active role in sustaining cost advantage of Xiaomi. (Dudovskiy 2018).

Wide range of support schemes and functions such as planning, quality control, finance and general management makes are Xioami’s organizational infrastructure. Despite its presence in 70 countries and employing around 18000 persons. Xiaomi maintain its comparatively flat organizational structure (Dudovskiy, 2018).

In 2018, Xiaomi is projected to recruit 1000 technical professionals and some of them likely to be deployed soon in the Shenzhen R&D centre which is one of its strongest R&D centres (John, 2018). Until now Xiaomi has applied for 24,000 patents internationally and 5920 of them granted where half of them are global patents.” (Lei, 2018).

4.8.1 Product development strategy

Xiaomi’s pain point resolving products have shaped a passionate user base at home and abroad because Xiaomi give focus to develop products that are well-designed, high quality and high performance, besides this it ensures products are priced honestly. (Kline 2017).

Xiaomi focused to position it’s smartphones as a premium brand sold at a inexpensive price Since the introduction of it’s Mi 1 in 2011. Xiaomi smartphones are made with premium components which making them equivalent to other high-end smartphones made by Samsung and Apple. The USD 300 priced Mi 1 was almost half of premium phones sold by Samsung and Apple., Xiaomi Mi 2 released a year later also positioned in the premium segment and with a low price tag. (Barboza 2013; Giachetti, 2018).

In the developöment of product company also follow a strategy of satisfying 80 percent demand of 80 percent of the market. That means it aims at the mass market (the market cover 80 percent of consumers) and deliver products that can fulfill 80 percent of their needs. Xiaomi targets to offer mass market

products which are high quality with the purpose to meet the demand of the young generations who demand a better quality of products. On the other hand it provides high-end, trendy, high-tech and well-designed products to mass market at an accessible price points. (Mi Blog, 2018; Lam & Leung, 2018). Maintaining a long-life cycle of product was another strategy followed by Xiaomi to keep cost down. Xiaomi keep it's smartphone around 18–24 months on the market. It reduces the price of its phone slowly while components cost dropped quicker than the phone price as a result of rapid developments in new technology. Thus, Xiaomi make profits initially thin margins while later margins are large (Shirky 2015).

Moreover, longer life cycle gives Xiaomi to secure better component deals with its suppliers. A very limited smartphone portfolio kept by Xiaomi in contrast with other smartphone makers also benefited Xiaomi as it ordered accessories and components for a few high-selling smartphones it gained from economies scale (Giachetti, 2018).

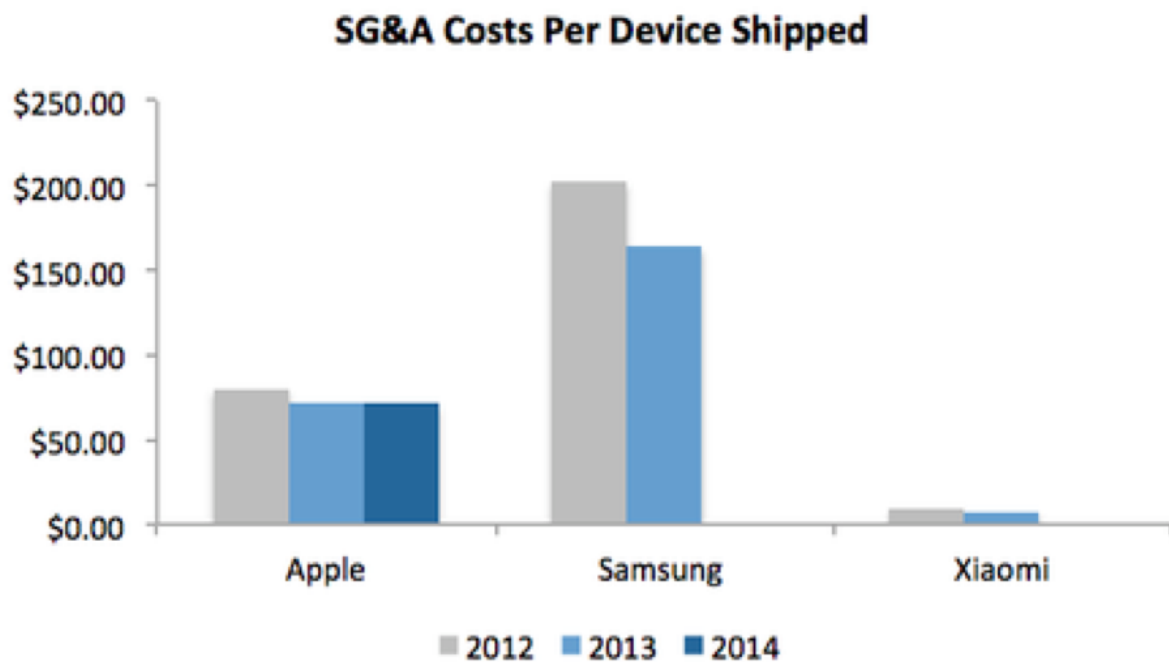


Figure 4. 2: Xiaomi product offering strategy

Source: (Lam & Leung, 2018).

4.8.2 Distribution and marketing

Xiaomi spends little on traditional distribution and marketing. The SG&A costs for each instrument shipped is USD 7 compared to Samsung's USD 160 and Apple's USD 70 (Giacheti, 2017). (see figure 4. 3).



Tech-Thoughts ©

Figure 4. 4: SG&A Costs per device shipped (source: Giacheti, 2017).

To manage costs associated with phones, Xiaomi did not have any kind of physical stores but exclusively sold from its online store during the initial four years in China also in other countries in association with other E-commerce firms like Flipkart in India (Nigam, 2016; Giacheti, 2017). In 2014 as a result of slowing down of online selling growth in China Xiaomi started to build up its physical Stores quickly following its principal distribution strategy “direct to consumer” model (Cyou, 2018). A move which was followed by other giant internet companies like JD and Alibaba. Besides this as internet services are projected to be the key revenue driver in long run, Xiaomi's ability to accumulate users for those services relies on how many devices Xiaomy can sell through its retail stores. But to operat a physical store cost a lot more so Xiaomy took a different approach unlike other smartphone comapany store only seling smartphones it started to sell other non-phone products such as suitcase, power bank, protector screen etc. so when customer come for Xiaomy smartphone they may also buy its non phone products as a result overall salse volume becomes high. This tactic not only reduces high costs of operating stores, but also more rapidly delivers latest technology products to its customers (Cyou, 2018; Liao, 2018). By the end of 2017 it had more than 155 stores. (Jun, 2017). Offline channels,

along with aggressive international expansion have played a massive role in Xiaomi's comeback, After several quarters of depressing sales of smartphone in 2017 (Liao, 2018).

In terms of marketing company took a different approach than other company. Shih, Lin, and Luarn (2014) explained that the company depends extensively on the social networks such as Weibo and company forums to facilitate communication with users. On one hand, the company's limited accessibility flash sales which create buzz by limiting the obtainability of the items sold to avoid huge production costs similar to other old-style EOMs. Most of the mobile phone go on flash sale and about 70 percent of all phones are sold in batches online (Singh, 2013). On the other hand, this allows the company to put low-priced consignment orders as influenced by consumer demands assists promoting the products to be of high demand. (Lun and Yazdanifard, 2014. Nigam, 2016).

Besides this, Word-of-Mouth has become the primary marketing tactic for Xiaomi as it is very effective to make public to talk about Xiaomi products across countries (Lun and Yazdanifard, 2014). Attractive price also became discussion topic from teenagers to old people. Word-of-Mouth through the support of Xiaomi's users will continue to remind others that how good and how cheap are the products without themselves realizing that they are advertising or promoting the brand thus increasing brand awareness without extra cost for the company. (Lun and Yazdanifard, 2014. Nigam, 2016; Dudovskiy, 2018).

Hunger marketing tactic is one of the important components of Xiaomi's marketing. It appeals to emotional desires of its target customer section by selling limited amount for a limited period of time. In other words, it creates the scarcity of supply to create a buzz in the market which creates desire in customers to buy a MI smartphone. (Dudovskiy 2018).

However, since more competitors like Vivo and Oppo emerge and propose similar value and following Xiaomi tactics therefore, it is becoming much tougher for the company to differentiate itself and sustain brand loyalty of users and its marketing tactic is not working as before. (Shih, Lin, and Luarn 2014).

4.9 Triathlon Model

Xiaomi has built a powerful and unique business model known as "triathlon" business model. It comprises three synergistic columns of growth firstly, well-designed and high quality innovative hardware product line which is focused on excellent user experience, Secondly, new retail channels which is highly efficient that lets its products to be priced inexpensively. As Xiaomi has prided for offering "value for money". Thirdly it offers value added and engaging internet services (Team, X. 2018).

It is a complex business model combination as the CEO Lei Jun says Xiaomi have done very daring attempts to develop the business model since only this combination can accomplish its vision of making products that is touching and the price is accessible as well as company is able to make money

(TMTPOST, 2017). In a simple way to describe Xiaomi Business model is that it designs and invests in manufacturing hardware and devices, through its offline and online stores it sells the products and offers internet services for product users (Liao,2018).



Figure 4. 5: Xiaomi Triathlon Business Model Source: (blog.mi.com, 2018).

From the scratch Xiaomi determined the “triathlon” Business model by few modules together. The large module is the hardware manufacturing where mobile phone the core and then TV, routers, AI speakers, and eco-chain products. The manufacturing and R&D of this product completed by Xiaomi. Another module Xiaomi boldly perform all commercial activities of the as well as new retail model. In this modeule it enhance the overall efficiency by choosing shortest channel and minimizing the cost. Both the module works simultaniously when the sale of Xiaomi smartphone is good it drives the retail and good retail on the other hand drive the sale of additional products. In this way entire Xiaomi product line turn out to be more and more available (TMTPOST, 2017. Liao, 2018).

However, Even though Xiaomi has long been recognised for its affordable smartphones but it’s not certainly banking on them as well as on its connected devices to make money (Liao, 2018). Xiaomi insists as an internet company rather than smartphone company. The company sees phones as simply delivery instruments for internet and software services that Xiaomi develops and also makes revenues from designing its MIUI operating system accessible to download on other smart android phones, the company increases the availability of its content and apps to reach more consumers (Tolety, 2017).

Company's executives argue that the true value of an internet business lies basically in having a mass amount of users even if a company does not get significant revenue initially. Xiaomi smartphones are the distribution vehicle for the Xiaomi platform so it doesn't care about profit from selling phones; it cares about acquiring as many users as it can. Which will enable it to build a content business in music and movies, and news, a games business as well as a finance business that lets its users to take out loans thus the Xiaomi Smartphone becomes a virtual carrier (Rowan 2016).

According to the giant's playbook the internet services will drive large share of its revenue earning down the road. Besides this it considers that if it does not offer internet services its business model will be same as other hardware company and which will not be sustainable. (Liao, 2018). That's why it has explored a great number of Internet services (TMTPOST, 2017). And once users get on Xiaomi's devices then it presents a more payment schedule. For instance, it lures users to buy software from its app store, make purchases inside its games, or pay for customized themes to jazz up their Xiaomi OS. On the business side, brands can purchase pushed ads to Xiaomi software. In addition developers can give money to have their apps pre-loaded in Xiaomi devices. (Liao, 2018). All the various value-added facilities help Xiaomi to obtain the profits roughly with a gross margin of 60 percent, the internet services sector was already the main driver of Xiaomi's operating profit last year, which has tripled to US\$1.92 billion (TMTPOST, 2017; Liao, 2018).

4.10 Platform and Partner Ecosystem

Back In 2013 when Xiaomi was facing a tough time because of the slowdown of its smartphone sales its management wanted to escape from the situation taking an innovative move they decided to augment company's business model by adding a third leg to create new stream of revenue. The smartphone company started to play on the aggressive with investments in number of startups, to complement the initiative of building physical retail channel. The goal was to develop an ecosystem bringing partner startups who are offering a varied range of home and tech products mostly connected with internet and trying to drive their foot to access at physical store locations (Delventhal, 2018; Coyu, 2018).

On the other hand, Xiaomi to be best at what it does by keeping focus on making limited number of products. But when Xiaomi motto "Less is more" it means it needs other start-up companies to engage with Xiaomi to do more things. Thus, the interest of the other start-ups corresponds with Xiaomi. Consequently, Xiaomi started to invest in other start-up companies to create more products and form an ecosystem. Xiaomi decided to make only smartphones, TVs, tablets, router and set-top boxes. When everything else is made by independent start-ups. All what Xiaomi did is it reviewed 600 startups in two years and finally decided to invest USD 100,000 to USD 500,000 in 54 start-ups among them. As a result currently Xiaomi sell 600 items. Liu a Xiaomi manager says. It would require Xiaomi 20,000 employees to produce 600 items when Xiaomi have only 8,000 employees. Besides this it applied ecosystem approach instead of acquiring the talent to make the products itself because Small

companies move faster and adapt to change more rapidly. What is very tough for companies having different divisions to produce various products (Rowan 2016).

In 2016, the company tactically upgraded its ecosystem and launched MIJIA a new brand having a name of Mi. Xiaomi has connected 210 start-ups within its ecosystem By March 2018. Including most successfiull Huami, NINEBOT, Smart Mi and ZMI and a number of start-ups have flourished within Xiaomi ecosystem. Some of these start-ups with billion-dollar valuations have touched unicorn status in 2015. (Lam & Leung. 2018). Xiaomi has a devoted IoT platform for its products that has involved over 400 hardware partners (Coyu, 2018). According to iResearch With all this start-up companis in its ecosystem Xiaomi has built the biggest consumer IoT platform internationally as of December 2017 in terms of the quantity of internet connected devices (Rowan 2016). Thus, in last years, Xiaomi ecosystem has extended so rapidly and increasingly become complex that other competators find it difficult to replicate. (Rowan 2016. Lam & Leung. 2018)



Figure 4. 6: Xiaomi Ecosystem products

Source: (Lam & Leung, 2018).

when most hardware Companies make gadgets itself Xiaomi ecosyste employs an incubation plus investment strategy. Where it invests in gadget producers like Segway-Ninebot and Lumi United which then perform Xiaomi's product requests. Xiaomi make sure that the start-ups companies stick to Xiaomi's core values of affordability and quality. It sends engineers to support the start-ups particularly in their early stages of the companies when enters the market. Besides this Xiaomi provides supply chain, channels and platform support and mange investment and financing. The start-up companies use Xiaomi's online retail store and its increasing network of Mi physical store across China, and in other countries such as India. Small Start-ups benifet from Xiaomi brand images and can scale up fast by having invesmet and get cost advantage using Xiaomi Chanel they reach market rapidly on the other hand Xiaomi also enjoy price advantage over its competitors as well get additional srteams of revenue. (Lam & Leung, 2018; Liao, 2018).

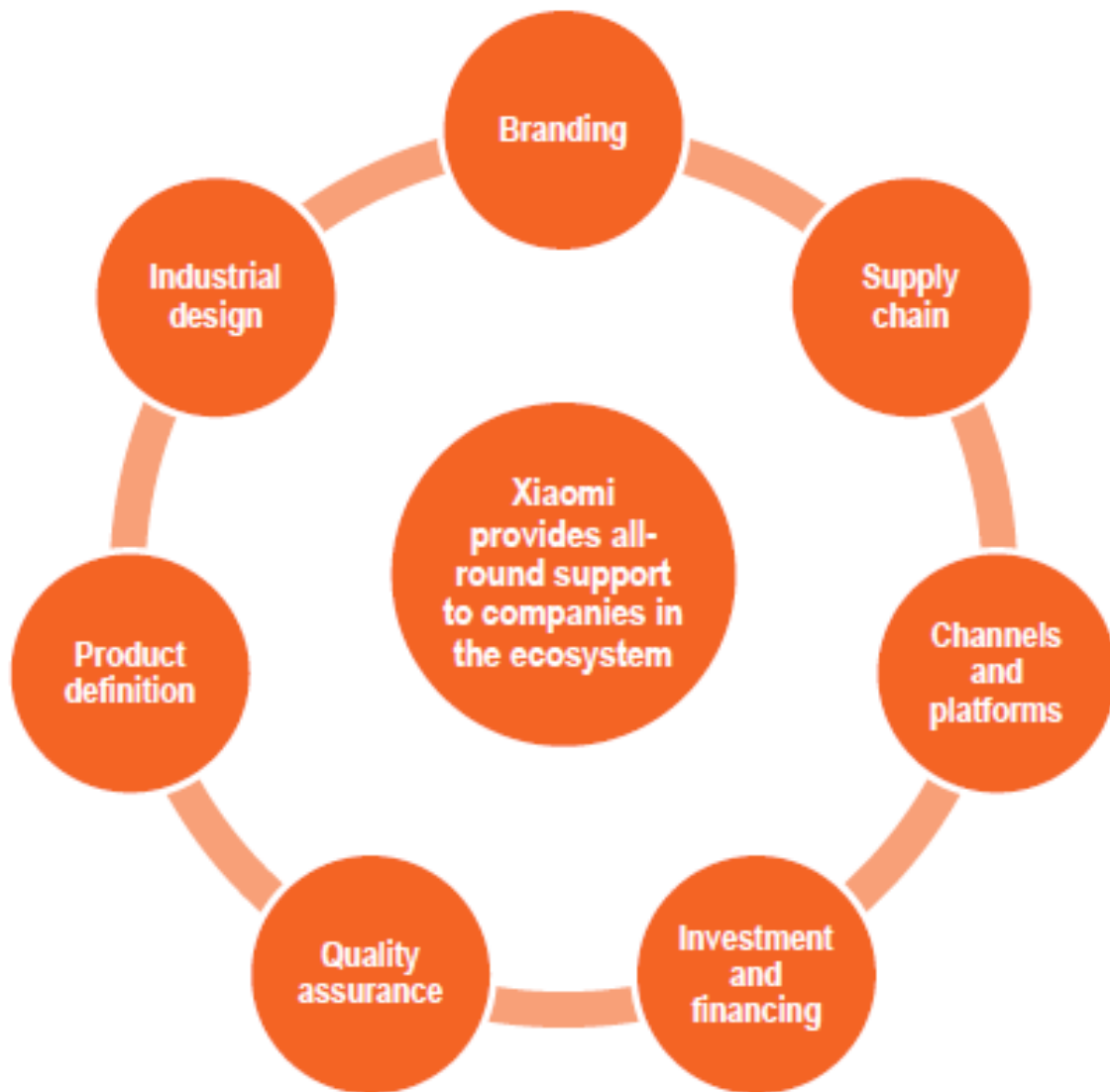


Figure 4. 7: Xiaomi support to ecosystem

Source: (Lam & Leung, 2018).

Xiaomi's smartphone based ecosystem brings a wide range of new and exciting products even some unusual products like smart rice cooker that customers never knew existed. This helps appeal customers to visit Mi physical store and keep customers coming back. Thus, this smart devices ecosystem has become an important part of Xiaomi customer acquisition and retention strategy. It is seen as a virtuous circle by Xiaomi as once a customer buys one of its smart devices it persuades customers to want the next products. (Rowan 2016; Delventhal, 2018; Lam & Leung, 2018).

However, still 90 percent of Xiaomi's revenues are generated from smartphone sales. The shift toward an e-commerce company appeared a smart move when smartphone market in China was expanding

rapidly in 2010. But as rate of demand growth in China as well as in some other countries has slowed down its investments in start-ups is not paying off as expected. Besides this partner start-ups need to obtain licenses held by other companies to sell in other countries which increase retail prices relatively high as a result they lose their price advantage (Giachetti, 2018). Moreover, Many critics say Xiaomi is not a focused company, it is like a department store or a supermarket they argue that it sells numerous things consequently focused on nothing (Rowan 2016).

4.11 Lei Jun

4.11.1 Personal characteristics

Lei Jun Xiaomi's CEO is an entrepreneur and successful angel investor. Although he is regarded as Steve Jobs of China, but he is also likened to Masayoshi Son of big vision, Jeff Bezos of Day 1 culture and Bill Gurley the tech dealmaker, (Torrance, 2018). However, Lei Jun did not accept the comparison with 'Steve Jobs, he has said on different events that he would have been feel honoured if he had been named the 'Steve Jobs of China' if he is 20 year old but As a 40 year old he doesn't like to be painted as second to anyone (Griffiths, 2014).

Unlike other internet companies' founders who have strong personalities, Lei Jun has been recognised for his soft character (Ko Tin-yau, 2017). It is supposed that Lei never yelled at his employees and when he comes across a problem, he smiles and sits down, and concentrates to find out a solution besides this in social gatherings he is a good listener (Ko Tin-yau, 2017).

A professor at Fudan University describes Lei Jun as an incredible self promoter. A supreme marketer. The professor also argues that Lei and his company receive far more attention compared to other CEOs and companies with similar products because of Lei's personal characteristics (Griffiths, 2014).

4.11.2 Early career

Lei Jun at Kingsoft

Just after having completed his Bachelor of Science in Engineering at Wuhan University, at the age of 22 joined Kingsoft (Stone 2014). At the age 29 Lei Jun became the CEO of Kingsoft. Under his leadership company developed and sold WPS97 for the Windows at US\$4.50 was a noteworthy event in China's computer industry. In 1999, "Kingsoft Chinese Dictionary 2000" was released, which was the first domestic software achieving 1 million units in sales within just one month. Kingsoft established Zhuoyue an e-commerce company cooperating with Legend Investment where Lei Jun was appointed chairman. Within one-year Zhuoyue.com had become one of the top two online bookstores in China. In 2004 the company was sold to Amazon at US\$75 million where Kingsoft earned US\$52.5 million in

return on its investment of US\$4.5 million. In 2007, Kingsoft was listed on Hong Kong Stock Exchange with a market value of HK\$602 million. Lei Jun quit the CEO after that (Xu, 2015. Giachetti, 2018).

Lei Jun Angel Investor

Lei Jun invested US\$2 million in 2005 in a third-party payment platform named “Lakala” venture which has become a pioneer e-commerce company and Chinese internet finance. Lei Jun also invested in Duowan.com in the same year that amounts US\$1 million. YY a division of Duowan.com after seven years was listed on NASDAQ with a market value of USD 600 million. In 2006, UCWeb got 4 million yuan in invested from Lei Jun which has become a top provider of mobile internet services and software technology in China. Till 2010 Lei invested in approximately 20 companies in ecommerce, the mobile network and SNS areas. Later these companies supported the progress of Xiaomi directly or indirectly (Xu, 2015). Lei Jun became much successful in investments than expert venture capitalists that sometimes reporters asked him about his investment know-how. Lei also helps entrepreneurs he says that *“I started in business earlier and experienced many mistakes and failures. Therefore, I can tell entrepreneurs which roads lead nowhere and help them make fewer mistakes”* (Run, 2014, Xu, 2015).

4.11.3 Leading Xiaomi

Although, Lei Jun had been successful as a CEO and an angel investor but still he was not contented because his dream was to establish a firm which would become the industry leader. Therefore, with the rapidly growing Android-based smartphones demand in China and Google’s exit from Chinese market since 2010 when Chinese government imposed censorship law. Jun started to think about how to turn these changes into opportunities by establishing a Chinese smartphone start-up. (Giachetti, 2018)

Thus his motivation and the opportunity coupled together lead Lei to start Xiaomi. He decided again to become an entrepreneur in December 2009. So immediately he began searching for partners with his passion to gather a group of people who can pursue excellence in developing products and who are interested to feel the joy of entrepreneurship (Mi Blog, 2018). He found six partners, who were formerly had been working in big well-known tech company. He spent almost 12 hours to motivate and persuade them. Some of them were Lei Jun’s juniors colleague who responded instantly after just one call, while others kept him wait several days to inform their final decision (Xu, 2015. Giachetti, 2018).

Establishing Xiaomi Lei wanted to produce a premium smartphone, but no one in the industry was optimistic, given that Samsung and Apple occupied the market due to their irresistible superiority and would not accept any challenge. However, Lei insisted, he said *“Xiaomi is a dreamer. Whether you think it is sick or not, I want just to do it”* (Run, 2014, Xu, 2015). Immediately no manufacturer and supplier were interested in taking orders from Xiaomi, because they had never heard of Xiaomi and was unable to offer a large order like Apple (Xu, 2015). When an earthquake On March 11, 2011 devastated Japan and caused nuclear plants melt down in Fukushima as a result most of the foreign visitors escaping

Japan. Lei Jun with his team flew to Japan for a meeting with Sharp Corporation. This act impressed and touched Sharp Corporation, who agreed to work with Xiaomi. This was strategy of Lei to convince Sharp. Thus, the Lei's strategy letter convinced some other big supplier and manufacturer like Qualcomm, Foxconn. Qualcomm were so overwhelmed with Lei's vision that they invested in Xiaomi which gave further credibility to Xiaomi supply chain and ensured a continuous supply of superior components. (Stone 2014, Giachetti, 2018).

Lei Jun open letter

Lei Jun in an open letter to his employees mentioned that 2017 was a "leapfrog year" because Xiaomi exceeded RMB 100 billion revenue in seven years where other big companies like Google, Apple, Alibaba took almost twice. This was possible because of the effort that our workforces have put in, the relentless support of Mi Fans, and eventually Xiaomi's business model and ideals (blog.mi.com, 2018).

He explains, Xiaomi look at innovation using a telescope and examine product quality using a microscope. Quality is the heart of our company's development. We believe that rather than hunting short-term gains in relations of hardware profit, making certain that our products have a upright user experience will empower us to flourish in the long term. winning the lasting trust of users is the most significant object to us (blog.mi.com, 2018). Lei Jun mentioned to his colleagues that it is not advertisement, nor channel, nor store for user pay us but for product so product is the most critical thing for a brand company (TMTPOST, 2017).

Setting a new goal of regaining the number one position within 10 quarters in China Lei Jun said that we have to charge forward there is no way back for us in this fight, we should move determinedly forward and put command center at the front line. We cannot afford to miss any province, city. We should remain bold and alert, and fight till end (blog.mi.com, 2018).

Lei also outlined his plan about human resource development described that from now on, Xiaomi will nurture and develop young and capable managers by creating a dynamic and progressive team. it will ensure that ambitious, capable and daring talent get the knowledge of how grow rapidly and to fight against challenges.

Lei express his gratitude in the open letters for the hard work of Xiaomi Employees and encouraged them to grip the chances and challenges, and to have the determination to build a great business. And remind them the mission of bringing innovation to everyone, and break the myth of copying from the west (Rowan 2016, blog.mi.com 2018).

5 Analysis and discussion

5.1 Business model

A firm's artificial illustrations can be done by business model (Perkmann et al. 2010). As a business model describes how a firm creates and capture value as well as deliver value to its customers (Osterwalder and Pigneur 2010). It is narrative and calculative so Doganova et al. (2009) suggest seeing it as a market device which also can help entrepreneurs in the market exploration and development of innovation network. Moreover, according to Zott, et al. (2011) conclusion business model is a systemic approach utilized to answer how to do business. Therefore, in this research business model is taken as a system and as a unit of analysis to understand and explain rapid growth and valuation of the entrepreneurial firm Xiaomi established by the entrepreneur Lei Jun.

However, the concept of the business model is not workable unless a structural framework is applied. So, definitions that are often cited (Chesbrough & Rosenbloom, 2002; Hedman & Kalling, 2003; Shafer, Smith & Linder, 2005 Osterwalder & Pigneur, 2010; Al-Debei & Avison, 2010) also analyse business model as structured entities with establishing components or elements. Al-Debei and Avison (2010) using their conceptual framework, from 22 different definitions regarding business model come to the point that business models have an ontological structure of different components that form the business model structure which is applied by the firms. Besides this formation and the clarity of the business model components helps to figure out the core logic of a firm's business (Goyal et al, 2017). Therefore, understanding components and relationships among the components are necessary to understand the business model of the case company Xiaomi. A structural framework is necessary to apply to illustrate Xiaomi's business model. But there is no commonly accepted business model components or structural framework existing which reflect the fact that the definition of business model concept still lacks clarity (Goyal et al. 2017; Zott et al. 2011). However, there are some popular and widely used business model framework. Business Model Canvas by Osterwalder & Pigneur (2010), and value creation model by Amit & Zott (2001) are two of them.

In this research Osterwalder & Pigneur (2010) Business Model Canvas is mainly used to describe and analyse Xiaomi's Business model.

5.1.1 Business model canvas

Xiaomi's Business model has expanded over time which is shown in the following figure. So, it important to show its business model according to the times. However, remarkable expansions in its business model have occurred from 2014. So, to apply the business model canvas and analyse conveniently, it's Business model is divided in two-stage before and after 2014.

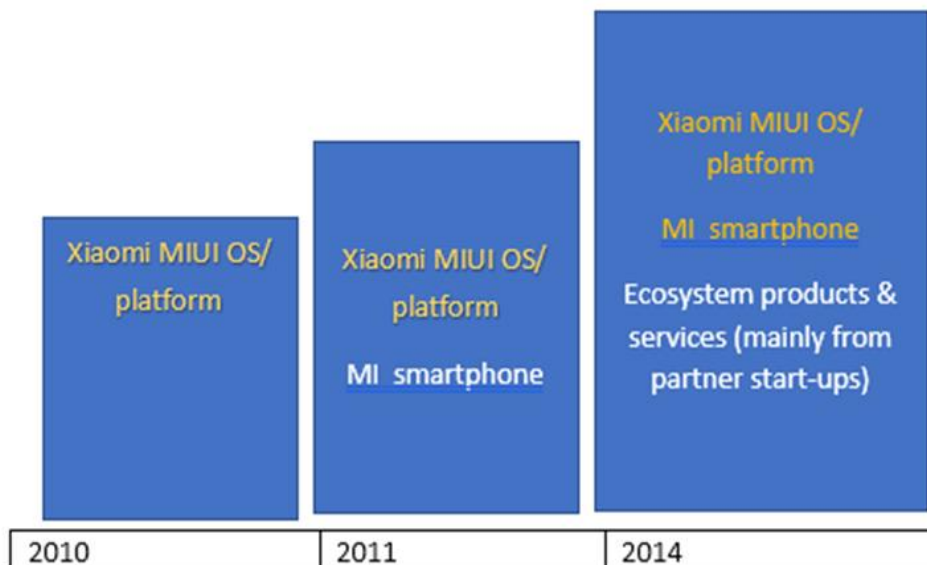


Figure 5. 1: Xiaomi's business model expansion

Source: author

From the above figure it can be noticed that before entering in smartphone business Xiaomi started its activity by developing a smartphone operating system. From 2014 it has extended its business by selling ecosystem products and services.

In the following table illustrates Xiaomi business model business model canvas by applying Osterwalder & Pigneur (2010) of nine building blocks. It is needed to mention that the business model presented in two separate periods to show Xiaomi business model expansion it does not exclude anything from the initial business model.

Business model before 2014	Business model from 2014
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Key Activities	<ul style="list-style-type: none"> ➤ Operating and upgrading of MIUI operating system ➤ Designing and marketing Xiaomi Smartphone ➤ Negotiation with component suppliers ➤ Running online Mi fan community ➤ Organizing Mi events ➤ Operating online sales channel Mi.com 	<ul style="list-style-type: none"> ➤ Operating physical Mi home stores ➤ Providing technical and supply chain support to ecosystem products manufacturers ➤ Incubating hundreds of start-ups ➤ Giving training to Xiaomi kiosks owners ➤ Operating IoT platform for Mi connected products.
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Key resources	<p>Physical:</p> <ul style="list-style-type: none"> ➤ MIUI digital platform ➤ Online distribution channels Mi store <p>Intellectual:</p> <ul style="list-style-type: none"> ➤ “Xiaomi” brand <p>Human:</p> <ul style="list-style-type: none"> ➤ Team members expert in electronics and design technology ➤ Employees <p>Financial:</p> <ul style="list-style-type: none"> ➤ Significant amount Capital raised by venture capitalists 	<p>Physical:</p> <ul style="list-style-type: none"> ➤ Physical Mi home stores in different countries <p>Intellectual:</p> <ul style="list-style-type: none"> ➤ Acquired a significant number of patents (5920) ➤ New brands of Mi ecosystem products ➤ Mi IoT platform <p>Human:</p> <ul style="list-style-type: none"> ➤ Around 18000 employees <p>Financial:</p> <ul style="list-style-type: none"> ➤ New capital raised from corporate investors and stock market ➤ Share in partner ecosystem companies
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Key partners	<ul style="list-style-type: none"> ➤ Taiwan Semiconductor Manufacturing Corporation (TSMC). ➤ Temasek Holdings, IDG Capital, Qiming Venture Partners ➤ Sharp, Foxconn, Qualcomm ➤ Xaioni hardcore users “Mi Fans” 	<ul style="list-style-type: none"> ➤ Numbers of start-ups and ecosystem products manufacturers ➤ Xiaomi kiosks by Mi fans ➤ Online sales partners Flipkart and Amazon
Value proposition	<p>For handset users:</p> <ul style="list-style-type: none"> ➤ High-end smartphone ➤ Low cost ➤ A wide range of app and internet services specially designed for for Chinese users <p>For app developers:</p> <ul style="list-style-type: none"> ➤ Well performing and expanding (MIUI) platform 	<p>For Mi ecosystem products manufacturers:</p> <ul style="list-style-type: none"> ➤ Xiaomi’s brand awareness ➤ Most products interacting with the same (MIUI) IoT platform ➤ An ecosystem of app developers <p>For mass consumers:</p> <ul style="list-style-type: none"> ➤ Access to the high-quality product line for the low cost.
Customer relationships	<ul style="list-style-type: none"> ➤ Mainly direct relationships using a blog, social media and by organizing different events ➤ Interacting with the user to developing hardware design and software <p>With app developers:</p> <ul style="list-style-type: none"> ➤ direct relationship ➤ Xiaomi shares software development tools 	<ul style="list-style-type: none"> ➤ Smartphone with MIUI platform offering compatibility and synchronization with other Xiaomi devices such as tablets, TV and other Mi ecosystem products ➤ Direct relationships using Mi Physical home stores and Mi kiosk ➤ Direct cooperative relation with ecosystem product developers

Customer segments	<ul style="list-style-type: none"> ➤ The in-touch, fashionable, young consumers who are connected 24/4 ➤ App developers 	<ul style="list-style-type: none"> ➤ Mass-market users ➤ Manufacturers of Mi ecosystem products ➤ Mi fans who own Xiaomi kiosks
Channels	<ul style="list-style-type: none"> ➤ Direct online Sales on Mi.com ➤ Social media advertising through online channels (Xiaomi website, Weibo, Wechat) ➤ handset users: word of mouth 	<ul style="list-style-type: none"> ➤ Amazon and Flipkart ➤ Physical Mi home stores ➤ Xiaomi kiosks
Cost structure	<ul style="list-style-type: none"> ➤ Smartphone design cost ➤ Smartphone component manufacturing and assembly cost to outsourced manufacturer. ➤ Product development cost is low because of Co-creation with users ➤ Only online selling so distribution cost is low ➤ Social media advertising and use word of mouth so low advertising cost 	<ul style="list-style-type: none"> ➤ Cost to provide technical and financial support to Xiaomi partner ecosystem product developers ➤ High operating cost of Physical stores ➤ Smartphone, Tv, laptop and other Xiaomi product components in house manufacturing cost
Revenue stream	<ul style="list-style-type: none"> ➤ Sales of smartphone ➤ Revenue from sales of applications 	<ul style="list-style-type: none"> ➤ Revenue from sales of Mi ecosystem products ➤ Fee on ad displayed on Xiaomi apps ➤ Revenue generate from IoT platform

Table 5. 1 Business model canvas of Xiaomi

5.1.2 Evolution of Xiaomi's Triathlon business model

Xiaomi calls its business model as “triathlon” as it comprises three synergistic columns of growth hardware, new retail channels and internet services. But this Triathlon business model has grown over time. At different stage and different situation company responded with different strategy. However, to understand evolution of Xiaomi's triathlon Business model its Business model canvas is discussed in following sections.

Key activity

Xiaomi first started its operations in 2010 with the launch of MIUI operating system for Chinese its consumer by involving MiFans, which gained significant numbers of user. Success of Xiaomi operating system had lead the company to launch its first Smartphone Mi1 in 2011 based on its MIUI operating system. Xiaomi also began to offer internet services along with its smartphones. After enjoying successful growth in 2013 company made a loss then it began to set up Mi home store besides this it started to review and invest in different technology start-up with an aim to bring their products in Xiaomi Mi stores. Besides this it further started to incubate high potential start-ups to bring a range of products in its product ecosystem. In 2017 it has established an IoT platform for its connected devices and expand its business in the internet services sector.

Key resources

At the beginning when Xiaomi launched its key resources were its expert team members, its seed capital, MIUI platform and its online store. Latter, it received funding from different investors. Xiaomi's smartphone success created a brand value for Xiaomi which acted as a key resource to attract further investment. After 2013 physical stores become a key resource for Xiaomi. Following an international expansion Xiaomi acquired a significant number of patents (5920) in 2016-18, As well as has bought shares in the partner start-up companies. Besides this in 2018 Xiaomi employed around 18000 people. Furthermore, Xiaomi raised capital from the stock market in October 2018.

Key partners

When first Xiaomi decided to produce Smartphone, no manufacturer and supplier were interested in working with Xiaomi as it lacked credibility. However, Xiaomi managed to convince some important partners. Sharp and Qualcomm are two remarkable partners agreed to supply components later Foxconn, agreed to assemble its smartphone. Temasek Holdings, IDG Capital, Qiming Venture Partners

are Xiaomi's financial partners. And it is also important to mention Mi fans work as Partner by providing suggestion and feedback in the product development process. start-up companies producing ecosystem products became important partner from 2015-16. Xiaomi kiosk also an import partner to reach areas where e-commerce facility is limited.

Value proposition

Initially Xiaomi provided high functionality and well-designed operating system and High-end smartphone with Low price that were great value for money for customers besides this it generated value for app developers by bringing a large number of users in its platform. Chinese customer also benefited from a Wide range of apps and internet services specially designed for them. Xiaomi established ecosystem product customers received value by having access to Xiaomi low-cost product line. Similarly, start-ups received value from Xiaomi supporting activities for product development and to reach the market.

Customer relationships

From the very beginning Xiaomi established direct relationships with customers using social media, blog and by organizing different events. Xiaomi gives answer to the questions of the customers in social media and blogs. They also create pages to facilitate customer to customer interaction to solve problems. Moreover, after opening physical Mi stores Xiaomi have established a more intense relationship with its customers. In the case of app developers and start-up Xiaomi also maintain direct cooperative relations.

Customer segments

When Xiaomi first launched its smartphone, it targeted mainly young generations who are in-touch, fashion conscious and 24/4 connected who demand high tech products for less price. It started to target the mass market by offering a diverse range of mass-market products like Tv, router, set-top boxes, luggage etc. besides this app developers and advertiser pay a usage fee to Xiaomi. Moreover, start-up partners who use Xiaomi supply chain and retail channel offer shares in their company.

Channels

Form the beginning Xiaomi followed a principal distribution strategy "direct to consumer" (DTC) model. it sold its smartphone exclusively via its online store and other online channelss. From 2014 it added physical distribution channel which also followed directly to customer strategy. Without selling its product in third-party stores it established its own Mi home stores. Besides this it introduced a new kind of channel known as Xiaomi kiosk by its loyal customers Mi fans.

Cost structure

Xiaomi always focused on minimizing its cost. Initially the main cost was related to Smartphone design, Smartphone component purchasing and assembly cost. It outsourced manufacturing activities to minimize cost. Use of and Social media advertising and only online selling kept Xiaomi marketing and distribution cost low. Later Ecosystem product strategy reduced the cost of the expansion of Xiaomi product line and operations of Mi home stores. Besides this Cocreation with users also reduces much cost related to customer research and product design.

Revenue streams

Initially, main revenue sources of Xiaomi were sales of Smartphone and some internet services. Later with the introduction of partner start-ups products, IoT and lifestyle products became a significant source of revenue. From 2017 Xiaomi revenue from internet services remarkably increased because Xiaomi has built a dedicated IoT platform for all Xiaomi connected products and third-party products.

From the above discussion, it can be noticed that Xiaomi has expanded its business in three interconnected areas smartphone and lifestyle product, Internet services and retail activities which have resulted in increased revenue streams. Moreover, it has achieved more efficiency.

5.1.3 Pattern of Xiaomi's business model

There are no commonly accepted fixed numbers of business model types existing because companies adjust and rethink their value chain with changing value chain. New technology, new markets, new customer and new competitor segments etc. always affect existing business model and open opportunities for a new business model to create and capture value in lucrative way company follows the generic and distinct behaviours from others (Baden-Fuller & Morgan 2010). Consequently, number of business model types is existing. However, Osterwalder & Pigneur, (2010) have identified five patterns in business models by grouping, similar characteristics in one pattern. In this research these patterns have been used to compare with Xiaomi to identify its business model forms.

It can be seen that, Xiaomi business model shows a pattern of an open and multi-sided platform. Xiaomi business model brings outsider ideas and assets like open business models. It integrates different start-up with potential ideas into its business besides this it also involves its users in the value creation process. Besides this Xiaomi business model show pattern of the multi-sided platform as It generates value by bringing several customer groups together. (Osterwalder and Pigneur 2010). On the one side Xiaomi partner start-ups use Xiaomi online and Mi physical retail channel as well as Xiaomi brand to reach its customer and software companies use Xiaomi platform to sell their software as Xiaomi have a large user base in China. On the other side Xiaomi customers benefit from getting access to large numbers of quality products and software what they can buy with confidence because Xiaomi ensures quality and accessible price (Rowan 2016; blog.mi.com, 2018). However, Xiaomi business model can

not be specified exactly with one pattern although it mostly relates with the multisided platform because Xiaomi has implemented some unique strategy and defined its business model as “Triathlon Business Model” (TMTPOST, 2017).

5.1.4 Xiaomi multi-sided platform-based ecosystem

Platform has become as a new, dynamic organizational strategy to accomplish a sustainable revenue source (Ballon and Walravens, 2008; Smedlund, 2012). So, Xiaomi has followed platform strategy to build its business model. It started with the development of MIUI operating system. As Eisenmann et al. (2006) stated that platforms bring together groups of consumers in two-sided market similarly Xiaomi platform also brought together software developers and Chinese users through its MIUI enabled Smartphone (Giachetti, 2018). Besides this Xiaomi has established its brand as a platform using its high-quality and affordable smartphone as vehicle to diffuse its platform. Now customers trust Xiaomi so other start-up companies are interested in using Xiaomi platform to reach customer and sell their product which is helping Xiaomi to expand its Business and grow an ecosystem around its platform.

Moore (1993) explained business ecosystem as an economic community where different organizations and individuals are interacting with each other to deliver goods and services for customers where the members of the business ecosystem include producer, supplier, customer, competitor, regulator and other stakeholders. Following the explanation it can be seen that an ecosystem also has grown around Xiaomi where ecosystem members including suppliers like Qualcomm, Sharp, Foxconn and different software firms. Partner startups and Xiaomi are producers, Mi fans are Xiaomi customers. Oppo, Vivo are Xiaomi's main competitors trying to emulate Xiaomi business model.

Bailetti, (2010) mentioned the importance of the ecosystem, he stated that Companies could greatly enhance its capability to implement a growth formula by Embracing ecosystem approach. Especially for small technology entrepreneur's ecosystem approach is very effective to grow revenue when demand is uncertain product or service life in the market is short, low barrier to entry, the cost of mass production is low, and competition is international. The ecosystem is more focused on revenue generation than cost reduction. Xiaomi being a small technology start-up were facing the problems mentioned. By realizing the importance of developing an ecosystem to grow revenue when it was facing demand uncertainty and product life in the market became short. New competitors were entering in the market because of the cost of mass production was low which started to challenge Xiaomi's market position both in home and abroad. Xiaomi was already focused on cost reduction and minimized significant cost related in its operations. So, Xiaomi had to find new sources of revenue that's why Xiaomi began to develop an ecosystem by bringing the different interested group together especially number of start-ups.

There many arguments in favour of Business ecosystem approach. Here, specially Five crucial arguments made by Bailetti (2010) can be discussed in relation with Xiaomi case. First, minimum viable products are enough to introduce which later can be improved which was followed by Xiaomi it Introduce its smartphone as a minimum viable product which later worked as a basis for its product expansions. Second, the entrepreneur can get help for product development and marketing from different groups including and customer Xiaomi extensively took help from its users. Third, one company can create value for itself and the broader ecosystem community, this also can be seen in Xiaomi ecosystem Xiaomi shares its brand value with other start-ups and value created by those start-ups in turn shared with Xiaomi. Fourth, ecosystem members have interest in the wellbeing of their own firms as well as the wellbeing of the ecosystem as they get advantage from its shared capabilities and platform which is seen in Xiaomi ecosystem, the software developers take advantage of Xiaomi large user base and different start-up companies take advantage of Xiaomi's supply chain and distribution channel being in the Xiaomi ecosystem besides this Xiaomi also benefits as more customer are being attracted because of wide product and service range. Fifth, rather than the expansion of the final product the ecosystem approach emphases more on adoption of products, Xiaomi also emphasized on adoption of new products form partner start-ups rather than expanding its own product line.

However, business ecosystem does not come to existence at a time it develops in phases. Iansiti and Levien, (2004) mentioned four phases; birth, extension, leadership and self-renewal. Where ecosystem born with the introduction of innovative product or services, extends when more participants involve in the value creation process and then a leader emerges who dominate the platform and oversee the investment plan and technical standards to ensure self-renewal stages. Similarly, Xiaomi ecosystem has gone through these stages. It was born with its innovative smartphone Business then different participant attrerated to its value creation process. Now playing leadership role in the ecosystem.

There are different players in an ecosystem and they follow different strategy according to their positions. Keystone is one of the four general types of strategies mentioned by Iansiti and Levien, (2004). Where it performs as a hub in the ecosystem and maintain health of the ecosystem. Survival and growth of ecosystem is the main concern of keystone. Because it is Keystone who initiate and develop ecosystem by providing tools and support it also set rules and governance structure. In case of Xiaomi ecosystem, it can be seen that Xiaomi has become a keystone player. It governs and set rules of the ecosystem, other companies participating in the ecosystem need to follow its rules for example any partner company producing any products need to follow Xiaomi standard quality and price requirements (Rowan 2016).

Besides this Xiaomi employes an incubation plus investment strategy. Where it invests in start-ups like Segway-Ninebot and Lumi United which then perform Xiaomi's product requests. Xiaomi make sure that the start-up companies stick to Xiaomi's core values of affordability and quality. it sends engineers

to support the start-ups particularly in their early stages of the companies when it enters the market. Besides this Xiaomi provides supply chain, channels and platform support and manage investment and financing. The start-up companies use Xiaomi's online retail store and its growing network of Mi physical store across China, and in other countries. Small Start-ups benefit from Xiaomi brand images and can scale up fast by having investment and get cost advantage using Xiaomi Channels they reach the market. (Lam & Leung, 2018; Liao, 2018). Being a keystone player Xiaomi receives greater benefit. All the participant contributes in Xiaomi's profit-making especially partner start-ups open additional streams of revenue for Xiaomi. Besides this, it enjoys a price advantage over its competitors. Xiaomi strategically positioned by creating an ecosystem that other companies find it difficult to copy. Besides this, recently Xiaomi has built the consumer IoT platform internationally as of December 2017 in terms of the quantity of connected device is biggest which will further strengthen Xiaomi's multi-sided platform-based business model.

5.2 Business model innovation by Xiaomi

Discovery of a fundamentally different business model in existing business is business model innovation (Markides, 2006). Business model innovation is a way to competitive advantage, Teece (2010). Therefore, when Lei Jun decided to establish Xiaomi, he and his team started to work on building an innovative business model by scrutinizing existing business model in the smartphone industry. They have been able to develop an innovative business model by making radical and incremental innovation in business model building blocks. Which can be seen in the following table: 5. 2. The table has been developed with the help of Taran et al., (2015) business model innovation framework.

Building block	Description	Incremental innovation	Radical innovation
Value proposition	Xiaomi was able to provide High-end smartphone with low price when it was high price for high-end smartphone in the market. As a result, customer received more value for the less price.	✓	
Target customer	Xiaomi discovered a customer segment who are young and passionate about technology and demand high quality product but have limited purchasing capacity when the	✓	

	Dominant smartphone companies only served the wealthy customer		
Customer relations	Xiaomi heavily used Online and social media marketing and directly engaged with its customer and listened to customer feedback and engaged them in developing its MIUI platform and smartphone design. Besides this Xiaomi organized different events to engage with customers and do promotional activities. While no other market player in smartphone industry did this. Xiaomi was able to create a sense of belonging in its customers mind		✓
Value chain architecture	Xiaomi sold exclusively online during first four years while selling via “Brick and mortar” was norm. again, it established its physical stores in a very different way with diverse range of products. Most of the companies were just selling smartphones in its physical stores. Besides this Xiaomi established an ecosystem cooperating with partners that bring diverse range of products under Xiaomi brand	✓	✓
Core competence	Xiaomi has become able to establish an ecosystem of product by bringing and supporting number of startups, to compliment the initiative of building physical retail chanel. Which other company finds difficult to immitate. Unlike other companies Xiaom actively has cultivated a large customer base that other companies can not catch up.	✓	✓

Partner network	Start-up partners who joined with Xiaomi are benefiting from Xiaomi in multiple ways they are gaining market access very quickly also gaining technical and financial support which was not possible without partnering with Xiaomi. On the other hand, for Xiaomi it was not possible to bring hundreds of products in Xiaomi ecosystem without partnering with start-ups.	✓	
Profit formula	Use of online selling of smartphones and relying only on social media advertising helped Xiaomi to cut cost significantly what has not been done other smartphone vendors before Xiaomi. Besides this, Introduction of ecosystem products partnering with Start-ups opened up new streams of revenue for Xiaomi. this strategy has not been employed by other company in technology industry before Xiaomi	✓	✓

Table 5. 2: Business model innovation by Xiaomi

It is essential to measure the Innovativeness of a company's business model to understand its business model success. Therefore, Combining three of measurement approach of the business model; Radicality, Reach, Complexity Taran et al. (2015). Measurement of Business model innovation by Xiaomi is shown in the following figure:

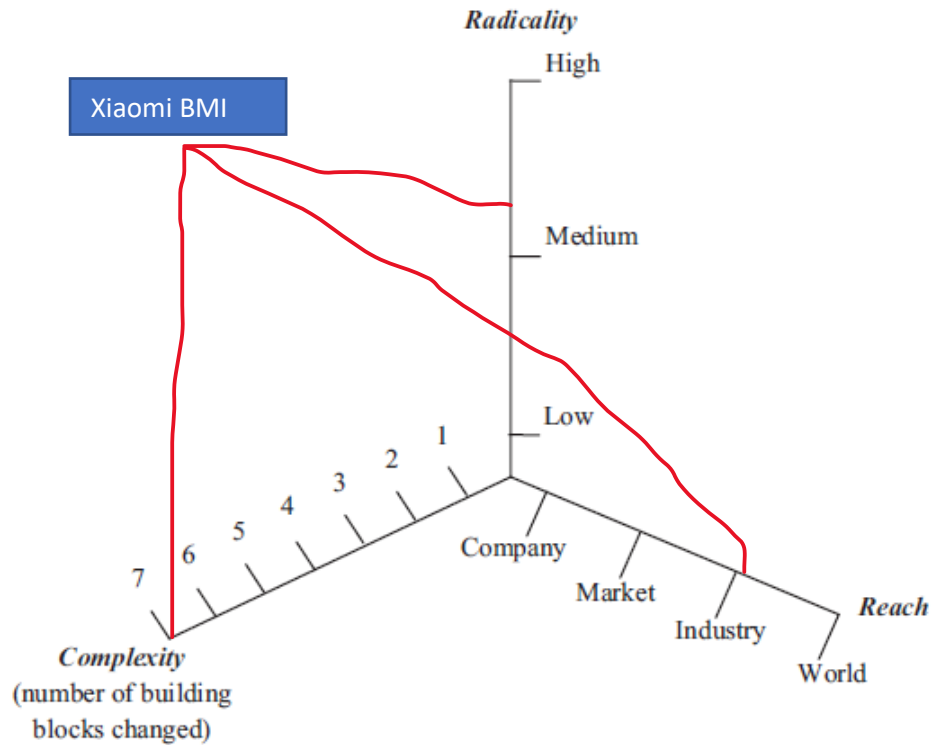


Figure 5. 2: three-dimensional presentation of Innovativeness of Xiaomi Business model using Taran et al. (2015) Innovativeness measurement scale.

From the above figure, it can be seen that regarding complexity Xiaomi did high innovation (7 building block changed). Medium to high in terms of radicality and industry level innovation concerning reach. So, overall Xiaomi reached on a strong point of business model innovation.

5.2.1 Types of Xiaomi BMI

There are different types of business model innovation and way of categorising types of business model innovation also different. However, Xiaomi has done some distinct Business model innovation and to categorise those business model innovations in this study Meyer's (2007) taxonomy of business model innovation has been applied.

Proposed four types of business model innovation (Premiumization, Plug-in modules, New channel choice and Manufacturing and supply) by Meyer's (2007) is discussed in relation with Xiaomi to categorise its business model innovations.

Premiumization a type of business model innovation has done by Xiaomi which is repositioning of service or product based on price-performance spectrum. Xiaomi repositioned high-end smartphone by offering low price and maintaining high quality when high-end smartphone was of high price (Kline 2017).

Xiaomi brought new stream of revenue by Plug-in module. This model readily facilitate other module and accessories in the main business model. in case of Xiaomi, it was able to add on other peripheral and ecosystem products around its core smartphone product. (Delventhal, 2018; Coyu, 2018).

Xiaomi was able to keep its cost low because of new channel choice, which is a crucial type of business model innovation regarded by Meyer (2007). Xiaomi sold its smartphone only online for the first four years to reach its customer with low cost (Nigam, 2016; Giacheti, 2017).

Xiaomi did Manufacturing and supply innovation by integrating its partner start-ups horizontally. It has achieved efficiency in manufacturing and supply by cooperating and investing in a number of start-ups. Besides this rapid expansion of Xiaomi product line became possible because of this innovation (Rowan 2016).

5.3 Business Model approach by Xiaomi

5.3.1 Asset-Light approach

Surdu, (2011), described that following asset-light approach companies outsource its non-core activities, relying on supply chain facility providers to conduct swift expansion of sales channels, where company focus on the marketing activities and design to expand within shorter time with less capital and earn a more lucrative profit. He further explained, the central idea of this approach is to leverage full use of exterior resources to reduce companies own investment and directs their assets on the most profitable part of the industrial chain. This approach benefits emerging companies to achieve the efficiency and scale quickly to compete with more mature and larger organisations. In case of Xiaomi, it is seen that being small start-up it took asset lite approach where it outsourced all the manufacturing activities of smartphone and focused in design involving its users. Besides this in case of distribution, it did not invest heavily in brick and mortar channel, it relied on the cost-effective online channel. It spends a tiny amount in advertising what most of the companies do. It mostly relies on social media advertising which is very cost effective. Besides this Xiaomi facilitate customer to customer interaction which also creates a network effect. Furthermore, Xiaomi took a very cost-effective approach to expand its product line, unlike most companies Xiaomi did not develop all of its products it employed an ecosystem strategy where it invested in its partner start-ups and provided some support; as a result, Xiaomi become successful to grow to faster with less capital. Thus, asset lite approach contributed to grow rapidly being with less risk.

5.3.2 Customer-centric approach

Moormann & Palvölgyi (2013), pointed to some contemporary studies those reflect that traditional business models built on firm's inside-out strategy which does not involve its customers in its business

process are no more sufficient when developing business models which is innovative and competitive. It requires costly marketing campaigns. They explained that firms, which adopt customer-centric approach in their business model are more likely to generate value and in long-run develop loyalty among the customer. Henkel & Von Hippel (2004), explained that firms could be able to exploit small niches and reduce potential cost as well as can achieve quick and more flawless product development besides this approach maintains symmetry between customers and companies.

Furthermore, Hiennerth and Lettl (2011), suggest customer can facilitate the diffusion process of products by generating a market pull effect inside their peer communities that spill over frequently into the mass market. In the case of Xiaomi business model, it is seen that it has taken customer-centric approach from the very beginning. The company involved its user in developing its MIUI operating system where users could customize it. Xiaomi established a direct relationship with the customers via social media. Xiaomi “MiChat,” enabled developers always to open their ideas and requested users to evaluate whether the function was convenient or not. Every week, the company released a new version of MIUI and users responded with different suggestions and comments by understanding the developers’ purposes. In this way, before the launch of its smartphone, Xiaomi already had 500,000 Mi fans (Xu, 2015). It interacts and wants to gain user’s feedback because the company believe when a company will have a user community it can effortlessly build word of mouth. So the company engage with its Mi fan by launching different promotional events like Mi Pop events. Mi fan Festival, gaming contests. it has acquired a large userbase globally who are highly engaged and loyal to the company as a result its business became more sustainable. Furthermore, Its customer greatly contributes its product marketing by word of mouth and help to widespread reach of Xiaomi. Xiaomi became able to reach in small cities by Xiaomi kiosk program where it encouraged its loyal customer and give training and other support to run their own shop. Most importantly, Xiaomi business model innovation positively affected by its customer-centric approach.

5.3.3 Efficiency centric approach

Zott and Amit (2007), mentioned that efficiency centric business model approach increases simplicity and reliability of transactions, besides this, it speeds up transactions, decrease asymmetry of information, reduce inventory, enable demand aggregation, and enable transaction scalability. Furthermore, direct transaction costs reduction increases the number of potential customers, along with suppliers and partners which increase the bargaining power of the firm. Xiaomi business model adopted efficiency centric approach it skipped inefficient distribution channels by online selling and establishing cost-effective Mi home stores. In case of marketing and establishing customer relationship its social media to establish direct relationship with customers which is effective and more cost-efficient. Furthermore, it engaged start-ups in hundreds of product development with a view to acquire and retain customer. Consequently, Xiaomi achieved faster market expansion and reduced inefficient operational

complexity. Moreover, Xiaomi partner start-ups using same supply chain and marketing and distribution channel which further increases efficiency as it directly reduces cost of marketing and distribution channel and give more bargaining power over suppliers. Xiaomi apply Hunger marketing where limiting number of smartphone it create more demand that exceeds supply which helps Xiomi to get idea of demand and plan efficiently. Furthermore, flash sale tactic greatly reduce its inventory, therefore, it makes the company more efficient as it does not need to handle much inventory which is a costly task.

5.4 Lei Jun leadership

The leadership of CEO Lei Jun is important to understand Success of Xiaomi. Because generally, In a company CEO, is in the charge for business model. He typically delegates responsibility to different managers to run the business model (Chesbrough, 2007). So, success of a business model innovation depends on his leadership skills (Doz and Kosonen, 2010). According to Foss and Stieglitz (2014), top management play a crucial role in the accomplishment of business model innovation. Therefore, In this research leadership of Lei Jun is analysed in the following sections.

5.4.1 Leadership quality of Lei Jun

Bennis (2009), highlighted five common qualities a leader possesses, which are Curiosity and daring, guiding vision, passion and integrity. Lei Jun's leadership is discussed with respect to this quality to understand his leadership that contributed to the success of Xiaomi.

Curiosity and Daring:

Bennis (2009), explained that leaders are curious they are interested about different things and want to know as much as they can. They try innovative things; take risks and trial without concerning about the failure because perceiving they will learn from mistakes (Bennis, 2009). Furthermore, Kotter (2012) state that leaders' vision defines the future and aligns people by inspiring them to overcome obstacles and make it happen. Similarly, Lei Jun as a leader was always curious about the technology industry. From his curiosity, he tried to understand different phenomenon that were shaping technology field, for example, he was curious about how Silicon Valley changed the computer industry. He is also a daring leader, he does not care about the people who talk about fears. When he wanted to produce a premium smartphone, no one in the industry was optimistic. Many feared that Samsung and Apple occupied the market they have irresistible superiority and would not accept any challenge. But Lei insisted and dared to pursue his dream. He dismissed the critics stating that he wants to make it even they think it is sick.

A guiding vision:

Bennis, (2009), mentioned that Leader has a clear vision or idea of what they need to do and the endurance to persist despite hindrances or even failures. Lei Jun similarly have a clear vision, to establish Xiaomi as a world-class company and become the industry leader. Moreover, he wants to bring innovation to everyone by making it accessible which is a revolutionary and really daunting task.

Passion:

Bennis, (2009), explained that Leader has an indispensable passion for a career, they take series of actions and develop skills to do things what they like to do. Similarly, Lei Jun had a passion to be a great entrepreneur. Before establishing Xiaomi, he involved with several start-ups and lead some of the start-ups like Zhuoyue.com which became very successful. Having a passion for entrepreneurship, he invested in approximately 20 companies in e-commerce, the mobile network and SNS areas. As an angel investor, Lei Jun became much successful in investments than expert venture capitalists.

Integrity:

Bennis, (2009), state that Leader has a clear idea about their weakness and strength. Moreover, know what they are able to do and the reasons they want to do it. Similarly, Lei Jun being a leader knew that Xiaomi was not making much profit from hardware, but still he made sure to deliver good quality because he believed good user experience would empower Xiaomi to flourish in the long term.

5.4.2 Charismatic leadership style of Lei Jun

Nadler & Tushman, (1990), mentioned that charisma is a unique quality that promotes the leader to circulate and maintain activity within an institution through personal activities. Moreover, Bass, (1985), explained that a charismatic leader has the capability to inspire, arouse empathy, animate, renew or even exalt. Furthermore, Tushman (1990), highlighted, three major characteristics of charismatic leaders envisioning, enabling and energising. Envisioning can procreate excitement and develop assurance among the people by providing emotional assistance in accomplishing their task. Where enabling refers paying attention to members' needs, understanding and expressing confidence in their ability to perform a challenging task.

Moreover, energising is the act of producing energy among members of the organisation by expressing enthusiasm and direct personal interaction. These characteristics of charismatic leadership are reflected on Lei Jun leadership. He has been recognised for his soft character. He never yelled at his employees and whenever they come across a problem, he smiles and sit down with them, and concentrates to find out a solution that crats excitement and develop assurance among his employees. Moreover, besides being is a good listener he pays attention to employees needs expressing confidence in their ability to perform challenging task, for example, Lei Jun in an open letter to his employees mentioned that because of the effort of the employees within seven years Xiaomi exceeded RMB 100 billion revenue

in where other big companies took almost twice. Moreover, he often set a goal and inspires his employees to achieve it. For example, setting a new goal of regaining the number one position within ten quarters in China, Lei Jun said that we have to charge forward there is no way back for us in this fight, we should remain bold and alert, and fight till end. Furthermore, he pays attention to develop his employee's skill for example, by human resource development plan he took the initiative to nurture and develop young and capable managers by creating a dynamic and progressive team where ambitious, capable and daring talent get the knowledge of how to grow rapidly and fight against challenges. Moreover, Lei Jun does not forget to express his gratitude, for the hard work of Xiaomi Employees besides this he encourages them to embrace the opportunities and challenges and remind them about his vision.

5.4.3 Entrepreneurial leadership style of Lei Jun

Merriam-Webster, (2013), described that entrepreneur is most commonly known as the individual who starts and bearing the risk for an organisation even though often entrepreneurs are managing or leading a business like a manager. Furthermore, Covin & Slevin (2002) believe that entrepreneurial leaders can generate the maximum value by managing resources strategically, yet entrepreneurially as they have opportunity-seeking and advantage-seeking behaviour. Moreover, Kuratko and Hodgetts, (1989), argued that Opportunity seeking behaviour coupled with advantage seeking behaviour of entrepreneurial leaders could potentially affect the ability to bring new products quickly into the marketplace. In case of Lei Jun Entrepreneurial leadership style is noteworthy. He started his early career as an engineer in Kingsoft, and within seven years he became CEO which reflects his managerial and leadership capability.

Moreover, within this time cooperating with Legend Investment he established Zhuoyue.com an e-commerce company which became one of the top two online bookstores in China. Apart from working in Kingsoft, he was very successful as Angel Investor in invested in many start-ups, for example; he invested USD 1 million in Duowan.com which was listed on NASDAQ with a market value of USD 600 million within few years. Till 2010 Lei invested in approximately 20 companies. However, Lei was not satisfied being a CEO and an angel investor because he had a true entrepreneurial mind, he dreamt of establishing a great company. Therefore, In 2010 when Google was leaving from the Chinese market and demand for Android-based smartphones were rapidly growing. He found an opportunity to fulfil his dream by establishing a smartphone company. All of this shows his opportunity-seeking behaviour as an entrepreneur.

Besides opportunity-seeking behaviour, he was good at seeking advantages, for example, to grow Xiaomi faster with least cost he took advantage of online sales and social media marketing. Moreover, his policy of incorporating start-ups under Xiaomi brand by incubating and investing has resulted in a tremendous competitive advantage. In addition to his opportunity and advantage-seeking behaviour he

can motivate others easily with his strong convincing power and patience which made him as a true entrepreneurial leader, for instance, he spent almost 12 hours to motivate and persuade six partners to engage them in establishing Xiaomi. His strategy convinced some big suppliers like Sharp and Qualcomm to work with Xiaomi when it was challenging for a small start-up to persuade them even Qualcomm invested in Xiaomi because of his vision.

6 Conclusion

Xiaomi started its business by offering smartphone which was not something completely new product. Moreover, the smartphone industry was very competitive. There were already many companies selling smartphones and some of the company dominated smartphone industry in terms of market share and brand. Therefore it was not the discovery of new product or radical product innovation rather it was business model of the company that enabled it to achieve rapid growth. It has established an innovative business model by radical and incremental innovation of its business model building block.

Analysis of Business model canvas of Xiaomi shows that the company has expanded its business model over time and it followed a pattern of a multisided platform which eventually helped the company to establish an ecosystem around it. In recent years it has been seen that the companies that followed the multisided platform and was able to create an ecosystem have also seen to grow rapidly and become very successful, e.g. Google, Apple.

Initially, when Xiaomi decided to produce smartphone, it faced the problem of low brand recognition as there were existing some strong brand. Moreover, the customer would not be attracted to Xiaomi if it were offering same value proposition like other companies. So, Xiaomi innovated value proposition by repositioning smartphone in the market. It offered the high quality smartphone for less money consequently it was able to attract a specific customer segment swiftly. Furthermore, being a start-up company, with limited resources it was not possible to reach its target customer quickly because of high distribution cost. So, Xiaomi choose a new channel by taking an asset-lite and more digitalised approach where it started to sell only online. Besides this, it cut its cost significantly in marketing by using social media that was an innovative move which also made it possible to reach customer faster.

In case of customer relationship, Xiaomi innovated substantially. It took a customer-centric approach where it directly engaged with customers, unlike other companies. Consequently, customer felt engaged, they did marketing by word of mouth which has created a network effect. Moreover, customer provided value able feedback like partners that helped Xiaomi to cut its market research spending. Furthermore, over time they become loyal to Xiaomi brand therefore when Xiaomi launched new products it did not require much effort to sell the product. Thus, innovative customer relationship contributed to the faster growth of Xiaomi.

On the other hand, Establishing and operating Mi home stores by bringing partner start-up's products were another innovative and efficacy enteric business model move by Xiaomi which largely minimised operating cost of physical stores. Besides this Mi home stores accelerated growth not only by making Xiaomi more accessible to customers but also offering more products, which opened new revenue streams.

Furthermore, Xiaomi did not focus only on smartphone sales. It has played a different game by establishing a triathlon business model based on smartphone. Its investment and incubation of partner start-up have given a competitive advantage and long-term growth formula. Therefore, many investors

perceived the potential of Xiaomi business model and invested in it. As a result, the it was able to finance its growth adequately.

In addition to Xiaomi's innovative business model, the leadership of CEO Lei Jun significantly contributed to the rapid growth of Xiaomi. As a true leader he had a guiding vision to establish Xiaomi as a world-class company and become the industry leader. Moreover, his passion to be a great entrepreneur along with his quality of curiosity and daring helped him to take the risk to compete in the challenging industry. Like a good he had the quality of Integrity. He clearly knew weakness and strength of Xiaomi. So, Being CEO, he did not just followed Business model of other companies rather he overcome weakness of Xiaomi by innovating business model.

Furthermore, his entrepreneurial mindset and charismatic leadership were able to convince renowned suppliers and attract investors, which initially gave the company good competitive power. Moreover, with his previous experience as a leader and an angel investor he knew how to overcome the problems to grow a start-up company by utilising opportunities and seeking advantage. Furthermore, having energising and motivating power like a charismatic as well as an entrepreneurial leader he was able to inspire and move his team and employees with his vision which resulted in greater efficiency and thus faster growth of Xiaomi.

Therefore, to grow a start-up company rapidly in a competitive industry it needs to develop an innovative business model under a charismatic leader who have the experience and entrepreneurial mindset.

7 Learning outcomes

This research has greatly enhanced my knowledge and skills in doing a research. In the research process I have learned how to apply theories to investigate a research problem. Besides this I have learned how to search, select and analysis data to conduct an empirical research.

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