

# Research on Business Model and Innovation Model -Taking MI Company as an Example

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**Abstract**—With the development of the Internet, e-commerce is widely used in modern commerce, which promotes the development of economy and society and changes people's shopping patterns and lifestyles. As business model and innovation model are the foundation of a company, MI's "Hardware + Internet + New Retail" model becomes a breakthrough for the development of Internet companies. By continuously summarizing and learning the successful experience of MI Company, MI Company itself and other companies can acquire new competitiveness and management experience in the context of advanced big data era. Therefore, studying the dual-channel sales model and innovative research pioneered by MI Company is conducive to promoting the sustainable development of the industry and economic prosperity, and has certain reference value for other enterprises.

**Keywords**—Dual Channel Sales; Business Model; Innovation Model; MI Company

## I. INTRODUCTION

### A. Introduction of MI Company

MI Company's full name Beijing MI Technology Co., Ltd. Founded on March 3, 2010, focusing on intelligent hardware and electronic product development, it is an emerging mobile Internet technology company. While focusing on the mobile phone business, MI also focuses on the development of intelligent hardware and electronic products. Also involved in mobile phone CPU development. The product concept of MI mobile phone is "Born for Fever", "Exploring Futuristic Technology, MI is Born for Fever". MI Company has created a mobile phone operating system using Internet mode, and loyal users participate in the development and improvement of mobile phone operating system. MI Company is the fourth company with independent research and development capabilities of mobile phone CPUs after Apple, Samsung and Huawei. Although its CPU market share is small and no new development has been done recently. The vision of Xiaomi's operation is "To make everyone enjoy the fun of futuristic technology" and "Always believe that good things are about to happen". MI Company is committed to developing new products through a unique Internet development model: Internet Plus, which eliminates unnecessary intermediate links and allows global users to enjoy high-quality high-tech products from China.

On July 12, 2011, the founding team of MI Company officially announced its entry into the mobile phone market and launched core products such as MI mobile phone and MIUI.

After that, MI developed the MI "Digital" flagship mobile phone series and Red MI mobile phone with MIUI as a unique label and the idea of selling top-configured mobile phones at the lowest price. Although there were serious problems such as "hunger marketing", insufficient supply, low supply chain control capability, and poor after-sales service experience, however, they gained a certain market share in the low-end market, and they also worked hard to improve the above major problems. It provided a market foundation for the launch of the MI MIX series into the high-end market.

### B. Overview of dual channel sales

With the rapid development of Internet technology, e-commerce has been widely used in modern business. E-commerce has promoted the rapid development of the economy and society, changed people's shopping methods, and thus changed people's lifestyles. In addition, many companies are simultaneously developing network direct sales channels while maintaining their traditional retail channels, increasing the market penetration rate of their products, which simultaneously increases the profits of enterprises, and also increases the complexity of enterprise decision-making. A dual-channel supply chain refers to when a company sells its products simultaneously through two types of supply chains. (Such as offline retail channels and online retail channels.) According to the degree of integration of enterprises in the vertical and horizontal direction of the supply chain, the research on the dual-channel supply chain is divided into four modes.

In the first model, manufacturers, offline retailers, and online retailers belong to different companies. This is a completely independent dual-channel supply chain, similar to the traditional retailer competition model. In the second model, manufacturers and retailers are independent companies that open up online sales channels while offering traditional retail channels to offer their customers more choices. At present, most large retail groups have opened up online sales channels while retaining their traditional retail channels, such as Wangfujing Department Store, Carrefour Supermarket, and RT-Mart. The third mode is that manufacturers sell through their own network direct sales channels, while traditional retailers sell according to the original sales model. In this model, the manufacturer's decision-making problem becomes complicated, not only to ensure a certain profit and market share, but also to ensure that conflicts between channels will not intensify, decision variables are more than other models, and the decision-making process is more complicated. The

fourth model is the dual-channel supply chain model we studied in this paper. It is a fully integrated model. The enterprise can control the production operation function, and can also coordinate the relationship with customers through online channels and offline channels. In this model, the entire supply chain is integrated into one enterprise, and enterprise decision making is the easiest to achieve system goal optimization.

## II. ANALYSIS OF MI COMPANY SALES STRATEGY

### A. Analysis on MI mobile phone's price

Since the establishment of MI Company, most of its products have been positioned in the low-end and mid-end markets. In line with its high cost performance, more people can experience the benefits of technological advancement at a lower cost. MI mobile phone adopts an infiltration pricing strategy. By approaching the cost pricing, it can provide a certain deterrent to other competitors in the field and help to

expand its market share. Red MI mobile phone brand is positioned in the low-end market, and MI mobile phone is positioned in the mid-range and mid-to-high-end market. Xiaomi Mall (MI Company's online official sales channel) and MI House (MI Company's offline official

sales channel) have the lowest price of the product line starts from 549 RMB for Red MI 6A (minimum configuration) to 1,449 RMB for Red MI Note5 (highest configuration). In the range of 600 RMB to 1,300 RMB, the same type of products with different models or different parameters are sold in almost every 100 RMB interval. MI mobile phone is from 1349 RMB in MI 6X (minimum configuration) to 3,999 RMB in MI MIX 2S (highest configuration). In the range of 1,300 RMB to 4,000 RMB, there are almost the same model products with different models or different parameters in every 200 RMB interval. The specific pricing is shown in the following table (Data from MI Mall and MI House) :

TABLE I RED MI MOBILE PHONE, MI MOBILE PHONE PRICING TABLE (YUAN/RMB)

Phone	Configuration 1	Configuration 2	Configuration 3	Configuration 4
Red MI 6A	549	649	-	-
Red MI 6	749	849	-	-
Red MI 6pro	869	1199	1249	-
Red MI Note5	899	1129	1399	1449
Red MI S2	999	1299	-	-
MI 6X	1199	1349	1599	1699
MI 8 Youth	1399	1699	1999	-
MI 8SE	1649	1899	2149	-
MI Max3	1699	1999	-	-
MI 8	2599	2999	3199	3699
MI MIX2	2699	-	-	-
MI MIX2S	2699	3199	3599	3999
Black Shark Game Phone	2799	3099	3599	-
MI 8 Screen Fingerprint	3199	3599	-	-

At present, the global smartphone market is near saturation, and the overall growth rate of the industry is not as fast as in previous years. However, since MI Company's mobile phone sales strategy changed in 2016, it has risen against the trend, and its market share has increased year by year. It has also developed India market, Russia market and other foreign markets. The market share in the Indian market ranks first of all smartphone companies. The MI mobile phone business has adopted an infiltration pricing strategy in the low-end and mid-end markets, and it has a large advantage. However, its low market share in the high-end mobile phone market is one of the problems that need to be solved in the future development.

### B. Pricing strategy

MI Company's mobile phone pricing strategy is an obvious penetration pricing strategy. Infiltration pricing strategy refers to the fact that enterprises sell new products to the market at relatively low prices to attract a large number of customers to purchase the products, rapidly expand the influence of the products and market size, and form a strong market

competition through lower pricing. The pricing strategy of MI mobile phone and Red MI mobile phone at the beginning of MI Company's development can make the understanding of mobile phone hardware configuration more attractive to customers and price-sensitive customers. Rapidly expand the market to obtain a stable source of profit. In the later development, MI Company began to focus on the production of a single model of mobile phones, expanded its product line, and provided consumers with different configurations and different positioning products, maintaining its penetration pricing strategy. Almost all mobile phones on its product line are low-priced and high-profile, which is highly attractive to both original customers and price-sensitive customers. MI Company began to pay attention to the offline market recent years, and use the "MI House" store to develop offline sales channels while maintaining the original penetration pricing strategy. The offline and online products are all integrated, the pricing is the same and the after-sales service is the same. The two channels are priced the same and the after-sales service is the same, which can alleviate the impact of the dual marginal effects inherent in the dual-channel supply chain.

The advantage of the infiltration pricing strategy is that the label is obvious. In the low-end market, MI Company can maintain its "cost-effective" brand, which is popular among a large number of price-sensitive users. But we also need to realize that this strategy has also brought some hidden dangers while bringing benefits to MI Company. As time goes by, the low-end brand of MI Company becomes more and more profound, and it is more difficult to eliminate in the minds of consumers. The low end wins the brilliant moment, but sticking to the low end brings too much uncertainty to the future. The future development of the company is limited by the original low-end positioning, so to some extent, how reasonable improving the experience and product image of its high-end mobile phones is the focus of MI Company's current missions.

### III. ANALYSIS OF BUSINESS MODEL AND INNOVATION MODEL

#### A. Hardware + Internet + New Retail

MI Company's current business model is the business model of "Hardware + Internet + New Retail" combination. The hardware includes sales of hardware products such as mobile phones, TVs, routers, etc. The Internet includes software services such as MIUI and cloud services. The new retail includes online and offline retail channels such as MI Mall and MI House. The income of smart phones is the most important piece of MI Company, and other hardware products in its ecological chain can be used as a supplement to MI mobile phones. The low profit margin of mobile hardware indicates that MI Company does not intend to use hardware revenue as its main source of income. Rather, it is to attract consumers through the hardware and services in the "MI Eco-chain" to gain market share and profits in more types of markets under the mode of small profits but quick turnover.

#### B. Smart ecosystem innovation

With the maturity and progress of Xiaomi's own technology, as well as the needs and development needs of today's era, MI Company strives to expand and extend related peripheral businesses in addition to the development of mobile phone business. For the hardware section of the entire millet, it can be roughly divided into three parts. First, adhere to the mobile phone business as the core, the mobile phone periphery is the core business of extension; the second is to expand the pipeline business mainly based on MI TV and MI AI speaker; the third is to develop retail business mainly based on other life hardware and life consumables. The three together constitute MI Company's intelligent life ecosystem, interdependent and mutually reinforcing.

#### C. New retail

The new retail is based on the Internet, through the artificial intelligence and other means to combine the online and offline and logistics depth of the new retail model. The emergence of new retail has a deep realistic background: online retail saturation. After several years of development, online resources have been largely divided by major companies, such

as Taobao, Jingdong, Tmall, Dangdang and other Internet giants, the growth rate is slow. The popularity of offline mobile payments has made offline shopping less constrained by time and space. China's per capita disposable income has grown rapidly, and the enjoyment of the shopping experience through offline methods has resulted in greater satisfaction and a more intuitive response to product information. The online dividend made MI Company ignore this market change, which led to MI Company's initial impact in the initial stage of new retail model. Afterwards, MI Company quickly adjusted its strategy, and the MI Mall on the line. The MI House was the main force to develop new retail business, providing more customers for the entire MI Ecosystem and making the MI Ecosystem more concern. Retail provides more users for Xiaomi, and the Xiaomi ecosystem of cost-effective hardware keeps users firmly, and Internet services realize the flow generated by the ecosystem and make the company profitable.

### IV. CONCLUSION

MI Company is mainly engaged in the mobile phone business, supplemented by the ecological chain business. In the continuous exploration and practice, it has summed up the business model and innovation mode suitable for the development of MI Company. Although this business model and innovation model cannot be directly used by other companies, it can be used as a reference for its development. By continuously summarizing the experience of MI Company, MI Company itself and other companies can gain new competitiveness and management experience in the context of advanced big data era. The dual-channel sales model is the trend of today's large retailers or companies, and further research is the focus of the next step.

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