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Research on the differentiation competitive strategies of Xiaomi Group from an ecological perspective

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Abstract. In the context of the digital wave sweeping across all industries and the increasingly homogenized competition in the information product market, how enterprises can build differentiated competitive advantages has become a key issue. This article takes Xiaomi Group as the research object and systematically explores its differentiated competitive strategy based on an ecological perspective. The aim of the research is to reveal how technology enterprises in the digital era can create core competitiveness through ecological construction and differentiated layout in the era of digitalization, providing theoretical references and practical inspirations for information industry-related enterprises. This study adopts the methods of literature analysis and case study, and comprehensively utilizes secondary data such as public financial reports, academic papers, and industry data to systematically sort out and analyze the competitive strategy evolution and differentiated practices of Xiaomi Group. The research finds that Xiaomi's differentiated competitive strategy has undergone a dynamic evolution process from the early stage of "cost-effectiveness—online channels" to the construction of the Artificial Intelligence of Things (AIoT) ecosystem, and then to the implementation of the "human-car-home full ecosystem" strategy, and has formed a three-dimensional differentiated system covering business model, ecosystem, product technology, channel marketing, and brand users. In the digital era, enterprise competition has shifted from single-product competition to comprehensive game at the ecosystem level. Building a "product, user, data" virtuous cycle is the key path to achieving sustainable differentiated advantages.

Keywords: Xiaomi Group, differentiated competition, ecological perspective, AIoT

1. Introduction

With the continuous advancement of technology and the economy, digitalization has gradually permeated various sectors of society. Digital transformation drives enterprises to innovate constantly, enabling them to maintain competitiveness in the market. Companies across industries need to differentiate themselves to meet customers' ever-growing demands, which simultaneously helps establish unique brand identities. Differentiation enhances the market competitiveness of traditional media, expands potential audience bases, and thus sustains and amplifies their influence in the information-saturated digital era. At the same time, through ongoing innovation, closely tracking and precisely understanding user needs, and delivering personalized services and recommendations, companies can effectively improve user satisfaction and

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engagement [1]. Currently, both global and domestic markets for information products are experiencing rapid growth, with intense competition among leading firms. Homogenized competition has become a widespread challenge within the industry: large-scale manufacturing enterprises have broadly shifted from "mass production" to "mass customization", while service providers continuously enhance quality and offer tailored, personalized services. Xiaomi Group began as a smartphone manufacturer and has since expanded significantly by integrating multiple elements into its business model, venturing into automotive manufacturing (SU7), Mi Home smart devices, and other areas. It has built a vast ecosystem centered on smartphones, incorporating IoT, smart home solutions, and internet services. Its core strategy has evolved from early-stage cost-performance focus to a four-dimensional combination of premium positioning, an integrated ecosystem spanning people, vehicles, and homes, self-developed foundational technologies, and AI empowerment—creating a globally unique comprehensive barrier encompassing hardware, software, AI, and application scenarios. Against this backdrop, this paper takes Xiaomi Group as a case study to systematically analyze the dynamic evolution of its competitive strategy. From five dimensions—business model, ecosystem development, products and technology, distribution and marketing, and branding and users—the paper explores in depth how Xiaomi's differentiation strategies are manifested. Furthermore, by examining Xiaomi's internationalization strategy after 2020, it clarifies the core logic behind its global and localized expansion. The aim is to reveal how technology companies can build core competitiveness through ecosystem construction and differentiated positioning amid digital disruption, offering theoretical insights and practical guidance for high-quality development in the information industry.

2. Dynamic evolution of the competitive strategy of Xiaomi Group

Xiaomi's competitive strategy is not static. Instead, it has been continuously adjusted and upgraded along with changes in the market environment and the growth of the company's own capabilities. On the whole, Xiaomi's strategic evolution can be divided into four phases.

2.1. Cost-performance ratio and online channel construction (2010-2013)

At the initial stage of its establishment, the smartphone market was dominated by international brands including Apple and Samsung, and domestic manufacturers such as Zhongxing Telecom Equipment (ZTE), Huawei, Coolpad and Lenovo, with generally high product prices. Xiaomi chose a differentiated entry point: high cost-performance ratio. In 2011, Xiaomi launched its first smartphone with the slogan "*Born for Enthusiasts*", and adopted an online flash sale sales model. While its specifications were comparable to those of international brands, its price was far lower than that of its competitors. The core of its strategy in this phase was "extreme cost-performance ratio plus Internet marketing". By selling products through online channels, Xiaomi eliminated the intermediate dealer link and reduced channel costs. Meanwhile, Xiaomi interacted with users through social media and forums, forming a unique "fan economy" model. As scholars including Zhai Ziyu pointed out, "the marketing strategy of Xiaomi in its initial founding stage mainly focused on Internet marketing and fan economy—interacting with users through online channels such as social media and forums, and promoting products through word-of-mouth marketing and community engagement" [2]. This strategy not only reduced marketing costs, but also rapidly built brand loyalty.

2.2. AIoT and formation of differentiated advantages (2014-2018)

As the smartphone market gradually became saturated, Xiaomi began to explore new growth points. Starting from 2013, Xiaomi launched its ecological chain plan, investing in and incubating a number of intelligent

hardware enterprises, and gradually built an Artificial Intelligence of Things (AIoT) ecosystem. AIoT, the abbreviation of Artificial Intelligence of Things, refers to the in-depth integration of artificial intelligence and Internet of Things technologies, which endows intelligent devices with the capabilities of "thinking" and "decision-making". In this phase, Xiaomi transformed from a single smartphone manufacturer into an intelligent hardware platform. Its product line expanded from smartphones to hundreds of categories including smart bands, smart TVs, air purifiers and sweeping robots. Xiaomi's differentiated advantage began to shift from "single-point breakthrough" to "systematic collaboration"—users no longer purchased individual independent hardware devices, but a set of interconnected and interactive smart living solutions. According to relevant data, Xiaomi boasted a rich product portfolio in its early development stage, forming a layered structure: the innermost layer consists of mobile phone peripheral products, the middle layer consists of intelligent hardware, and the outermost layer consists of daily consumer consumables [3].

2.3. Brand upgrade and global expansion (2019-2020)

In 2019, Xiaomi launched the "Mobile Phone + IoT" dual engine strategy and began to vigorously promote brand high-end orientation and globalization. In terms of the brand, Xiaomi separated Redmi as a sub-brand, focusing on extreme cost-effectiveness, while the Xiaomi brand aimed to enter the high-end market and launched flagship models such as Xiaomi 10 and Xiaomi 11. In terms of globalization, Xiaomi accelerated the expansion pace in overseas markets. According to Rao Yi's research, the international development of Xiaomi Company has gone through three stages: the start-up stage (entering neighboring countries such as India around 2014), the exploration stage (attempting to enter Brazil in 2015 but encountering setbacks), and the comprehensive development stage (entering Western Europe and other markets after 2017). By the end of 2020, Xiaomi's business had spread to nearly 100 countries and regions around the world, and the proportion of overseas revenue was close to 50% [4].

2.4. "Human-car-house full ecological" strategy implementation (since 2021)

In March 2021, Lei Jun, the founder of Xiaomi, announced that Xiaomi would officially enter the intelligent electric vehicle sector, planning to invest 10 billion US dollars over the next 10 years, and described this as "the last major entrepreneurial project in my life". In 2024, Xiaomi's first vehicle model SU7 was officially delivered, marking the implementation of Xiaomi's "Full Ecosystem of People, Car and Home" strategy. The core of this strategy lies in: taking the smartphone as the core access point, connecting smart home devices and intelligent vehicles, and building a seamless intelligent experience covering three scenarios: individual use, family living and mobility travel. In the second quarter of 2024, the delivery volume of Xiaomi SU7 exceeded 27,000 units, and the gross margin of the automotive business reached 15.4% [2]. Although the business is still in the loss-making stage at present, it has far-reaching strategic significance: the ecosystem effect formed by the efficient collaboration among multiple businesses is exactly the critical foundation for the smooth advancement of Xiaomi's "Full Ecosystem of People, Car and Home" strategy. It systematically transfers the user scale, data capability and collaboration experience accumulated in the consumer electronics sector to the brand-new track of intelligent vehicles, and realizes the leap from "product ecosystem" to "scenario ecosystem". Hongjin Zhu pointed out in his research that by expanding digitalization to emerging businesses represented by intelligent electric vehicles and large AI models, Xiaomi has "broken through the single-product thinking, reshaped the production relations of data intelligence, and built a sustainably evolving business ecological network" [5].

3. The manifestation of a differentiated competition strategy

3.1. Business model differentiation

The core business model of Xiaomi is called the "Ironman Triathlon", which combines hardware, new retail, and internet services in one. The characteristic of this model is: the hardware is sold at a price close to the cost, serving as the entry point to acquire users; the new retail (online store + offline Xiaomi stores) serves as an efficient distribution channel; the internet services (app store, cloud services, advertising, etc.) serve as the true source of profit. This model contrasts sharply with traditional hardware manufacturers. Traditional manufacturers mainly earn profits by selling hardware, while Xiaomi's hardware profit is extremely low—Lei Jun once promised that the comprehensive net profit rate of Xiaomi hardware will never exceed 5%. Xiaomi dared to do this because it can obtain continuous income from users through internet services. This "the burden falls on the pig" model constitutes the fundamental difference in Xiaomi's business model.

3.2. Ecological differentiation

The ecological differentiation of Xiaomi is also reflected in the closed-loop system it has established, which consists of "products + users + data". On one hand, Xiaomi integrates hundreds of start-up companies into its ecosystem through investment in the ecosystem chain. The products produced by these companies can be connected to Xiaomi's IoT platform, enabling interconnection. On the other hand, Xiaomi connects the data from different devices through the MIUI system and the Mi Home App, forming a user behavior profile, thereby providing more intelligent services. The barrier of this ecosystem lies in the "lock-in effect". When a user has multiple Xiaomi smart devices in their home, for the convenience of interconnection, it is difficult for them to switch to other brands easily. Li Chunji and Chen Xingfeng pointed out that Xiaomi Company builds an intelligent ecosystem through the "1 + 4 + X" strategy. Smartphones serve as the entry point to connect multiple types of IoT devices, strengthening the product synergy effect, and enhancing user loyalty and brand value [3].

3.3. Product and technology differentiation

At the product level, Xiaomi's differentiation mainly lies in two aspects: "high cost-effectiveness" and "rapid iteration". Under the same configuration, the prices of Xiaomi products are often significantly lower than those of competitors. This price advantage does not come from cutting corners but from efficient supply chain management and a low-margin business model. At the technical level, although Xiaomi does not have as many core chip patents as Huawei, it has unique accumulations in software experience and IoT connection technology. The MIUI system iterates rapidly based on user feedback, updating weekly. This "participation" style of development model is the soft power of Xiaomi's product differentiation. In addition, Xiaomi continuously breaks through in imaging technology, fast charging technology, and other areas. These technical advantages also help Xiaomi gradually narrow the gap with industry leaders.

3.4. Channel and marketing differentiation

The channel strategy of Xiaomi can be summarized as "online and offline integration". In the early stage, Xiaomi relied solely on online sales, conducting "hunger marketing" through the official website and third-party e-commerce platforms. This model not only reduced channel costs but also created a sense of publicity. Later, Xiaomi began to establish offline channels and opened "Mi Stores". Unlike traditional mobile phone stores, Mi Stores are not only sales venues but also experience venues—users can personally experience a

complete range of smart products from mobile phones to televisions to vacuum cleaners. In terms of marketing, Xiaomi is good at using social media and fan communities for low-cost word-of-mouth promotion. Lei Jun himself is also an important asset for Xiaomi's marketing, and he frequently interacts with fans on Weibo, shaping an approachable and responsible entrepreneur image. According to Rao Yi's data, in 2020, Xiaomi's marketing expenses accounted for only 2.2% of its total revenue, much lower than Huawei's 12.7% [4], demonstrating the high efficiency of Xiaomi's marketing.

3.5. Brand and user differentiation

3.5.1. Brand positioning

The brand positioning of Xiaomi has evolved from "Designed for Enthusiasts" to "Let Everyone Enjoy the Joy of Technology". The former emphasized the high performance and geek culture of the products, attracting early tech enthusiasts; the latter was more inclusive, targeting a broader range of ordinary consumers. After 2020, Xiaomi initially achieved brand stratification by splitting the Redmi brand and launching the Xiaomi 10 series—Redmi was responsible for the ultimate cost-effectiveness, Xiaomi for the mid-to-high-end market, and the MIX series took on the mission of exploring the high-end market.

3.5.2. User group

The core asset of Xiaomi is its large "Mi Fans" group. Since its establishment, the company has maintained close interaction with its core users through forums and communities. Mi Fans not only purchase Xiaomi products but also participate in product testing, provide feedback and suggestions, and even spontaneously engage in word-of-mouth promotion. This deep user engagement has built the moat of the Xiaomi brand. Zhai Ziyu et al. pointed out that "the core asset of Xiaomi Company is not value or scale, but its values and popular base" [2].

3.5.3. Globalization and localization

During the process of globalization, Xiaomi adopted a "localization" strategy. For instance, in the Indian market, Xiaomi appointed local executive Manu Kumar Jain to be in charge of business operations and established factories locally for production, in order to comply with the "Make in India" policy of the Indian government. In the European market, Xiaomi adjusted product designs and pricing according to the preferences of local consumers. However, Xiaomi's globalization also faces challenges. Scholar Rao Yi's research indicates that Xiaomi has problems such as insufficient market share in the high-end segment, inability to respond promptly to local demands, and insufficient overseas talent deployment in overseas markets [4, 5]. Additionally, Xiaomi's revenue from internet services abroad is much lower than that in the domestic market, which is related to the fact that its overseas users mainly use Google services.

4. Conclusion

To sum up, the differentiated competitive strategy of Xiaomi Group is a dynamic evolution process from "single-point breakthrough" to "system construction". Under the impact of the digitalization wave, Xiaomi did not stick to the initial cost-performance advantage, but through continuous self-iteration, it gradually formed a three-dimensional differentiated system covering five dimensions: business model, ecosystem, product technology, channel marketing, and brand users. From the innovative business model of "triathlon", to the construction of the AIoT ecosystem, and to the strategic implementation of "the full ecosystem of home, car, and family", Xiaomi has always centered on the core logic of "user orientation", obtaining users through high-quality hardware, reaching users efficiently through new retail, and operating users deeply through internet services, ultimately forming a virtuous closed loop of "product—user—data". Of course, the path of Xiaomi's

differentiation is not without concerns. Core technology shortcomings, high-end oriented bottlenecks, internationalization risks, and the continuous investment pressure of emerging businesses (such as intelligent vehicles) are all challenges that Xiaomi needs to face in the future. However, it is undeniable that Xiaomi's differentiated path provides a reference development path for Chinese technology enterprises: in the digital era, the competitiveness of enterprises no longer depends on the superiority of a single product, but on whether they can build an ecosystem that users "cannot do without". This is both the core enlightenment of Xiaomi's differentiated competitive strategy and the direction for information industry-related enterprises to achieve high-quality development. Indeed, as a case study, this paper mainly relies on public information and secondary data, lacking first-hand interview materials of Xiaomi's internal management personnel; in addition, due to the fact that Xiaomi's automotive business is just starting, relevant data is limited, and the analysis of its future development is somewhat speculative. Future research can further verify the conclusions of this paper through more in-depth field research and quantitative analysis.

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