

CHAPTER III

THE RISE OF XIAOMI IN INDONESIA

A. Introduction

One of China's strategies in dominating the Indonesian market is through expanding its big companies and Multinational Cooperations. Apart from foreign direct investment, lending funds made by China to Indonesia in the field of infrastructure, and their other large project projects make Indonesia and China interdependent. There was a lot of Chinese businesspeople who open their companies in the Indonesian market, one of the big Multinational corporations owned by China is the Xiaomi smartphone brand. Xiaomi is one of the popular smartphones owned by China which is under the auspices of their technology company, Mi. Mi companies are quite successful companies because the company has proliferated in a relatively short period in Indonesia. The success of the Mi Company is proven not only within Indonesia but has spread widely throughout the world.

In this chapter, will discuss the history of Xiaomi's formation. This chapter consists of two sub-chapter. The first sub-chapter will discuss the history of the entry of Xiaomi in Indonesia. The next sub-chapter will explain the success of Xiaomi in the Indonesian market afterward will continue to the conclusion of this chapter.

B. The History of Xiaomi

Xiaomi was first pioneered by Lei Jun with Lin Bin, former Vice President of Google China, in 2010. Did not take long, now Xiaomi exists in the global realm because of the high specification of the cellphone with ratings equivalent to Samsung and Apple. The following will explain the history and profile of the Xiaomi company.

1. The Career and Achievement of Lei Jun

Many people might rarely hear lei Jun's name. However, he is a remarkable person behind the success of Xiaomi Inc. Lein Jun is a co-founder and currently the CEO of Xiaomi Inc., one of the world's largest smartphone manufacturers. According to Forbes.com data, currently, as of February 2019, the total wealth of Lei Jun reaches US \$ 9.5 billion (FORBES, Profile Lei Jun, 2019). This ten-year-old company has developed over time and has become the most trusted brand globally because of its smartphone products, and also because of Lei Jun's leadership along with co-founder Lin Bin (Ahmad, 2014)

Lei Jun was born on December 16, 1969, in Hubei, China. Same as with other successful people, his life began with many struggles in childhood. Before entering school age, Lei spent his days near an industrial area in the center of Wuhan, China. After leaving elementary school, Lei continued to Mianyang Middle School, where he graduated in 1987. Shortly after that, Jun entered Wuhan University as a Computer Science Student. He graduated in 1991 with a Bachelor's degree in Computer Science (Hollar, 2018). While still at university, he read a book about Apple founder Steve Jobs. He was very fascinated by the book and was inspired to build his own business. Now Xiaomi Inc. has a wealth of US \$ 45 billion (equivalent to Rp 611.2 trillion), with an estimated net worth of Xiaomi Inc. of the US \$ 13.3 billion (equivalent to Rp 180 trillion) (Hollar, 2018).

After completing his studies, Lei Jun began working at Kingsoft, a Chinese software start-up company, as an engineer in 1992. Similar to Microsoft, Kingsoft is a company that does word processors, antivirus software, game distribution, even e-commerce. With his skills and talents, in a matter of time, Lei Jun quickly climbed the ladder of success

and became the CEO of the company in 1998. While Lei Jun was still working at Kingsoft, he also founded Joyo.com, an online book store in 2000. Because of his extraordinary talent, he developed the online bookstore to be so large that Amazon.com bought it for the US \$ 75 million in 2004. Besides, in the early 2000s, Lei Jun often invested in many successful start-up companies such as YY, Vancl.com, and UCWeb. In 2007, Lei Jun resigned from the position of President and CEO of Kingsoft for health reasons. Then in 2010, Lei Jun founded Xiaomi Inc., and this company also proliferated (SuccessStory, 2018)

Lei Jun is one of the best business people in the world today. Not only Xiaomi Inc., but it also helps many other companies to grow. Even though no one used to know how hard he worked, he still struggled and did his best. In 1999, 2000 and 2002, Lei Jun entered the Top 10 IT Figures, while in 2005, he was awarded the Top 10 Figures of Gaming (SuccessStory, 2018). In 2012, China Central Television also chose it as one of the 10 Best Businessmen of 2012. Fortune magazine named it the most powerful businessman in Asia in 2013. Not to forget, in 2014, he was named the Businessman of the Year by Forbes (FORBES, Xiaomi's Lei Jun Is Forbes Asia's 2014 Businessman Of The Year, 2014).

2. The Beginning of Xiaomi

In 2010, Lei Jun hoped to start a cellphone business that was able to penetrate the world of cellular phones quickly. In order to realize his dream, Lei Jun needed a team. He chose to partner with the best people in his field. Therefore, he partnered with former Google China Vice President Lin Bin. Together with Lin Bin, Lei Jun moved forward to build Xiaomi. For funding problems, Lei Jun received a capital injection from a Hong Kong billionaire

named Chan, holder of Hang Lung Properties. Chan has been Lei Jun's regular investor for years. Besides Chan, Lei Jun also received capital from the Qiming Venture company, Ceyuan, IDG Capital Partners, and other large companies (Sun, 2016). Xiaomi Inc. along with eight co-founders including Liu De, Hong Feng, Zhou Guangping, Chuan Wang, Li Wanqiang, and Kong-Kat Wong was finally officially established on April 6, 2010. Within three months, after a relatively aggressive hard work, Xiaomi Inc. launched its first Android-based firmware called 'MIUI.' This firmware is similar to the 'TouchWiz' feature on Samsung phones, which can be used to control electronic devices such as lights, televisions, and so on (Ortega, 2018).

The origin of the name Xiaomi in Chinese means millet, which means seko plants. Xiaomi CEO Lei Jun explained that there was a deeper purpose than just a millet or rice. He attributed "Xiao" part of the Buddhist concept which means "a large amount of Buddhist rice like a mountain" which symbolizes that Xiaomi starts from small things rather than endeavors — while "mi" is a synonym for internet phones and can also be called a mission impossible to solve, which leads to the obstacles faced when starting to establish a company (src). He stated that the name was interesting. In 2012 Lei Jun said that the name was a revolution and could bring innovation in a new era. Xiaomi's latest "rifle" processors have been given to the last few devices and link the last meaningful words of the "secoi and shotgun" Chinese communist party which was a radical expression during Japan's second Sino war (Abbruzzese, 2015).

In August 2011, Xiaomi Inc. announced their first smartphone, the "Xiaomi Mi 1". The following year, they announced the latest smartphone version, the Xiaomi Mi 2. So far, Lei Jun has only worked with

companies worth around the US \$ 1 billion (Rp 158 trillion). Given the achievements that he has made before, Lei Jun estimates that Xiaomi Inc. can have a maximum value of US \$ 10 billion (Rp1,580 trillion). Lei Jun was wrong in calculating Xiaomi Inc.'s profits. A Russian investor named Yuri Milner from DST stated that Xiaomi Inc. has the potential to become a company worth the US \$ 100 billion (Rp 15,800 trillion) (Feng, 2019). Hearing of that news by the Russian investor, Lei Jun was shocked, and he began to realize that he was working on a work of great value. This is what made Lei Jun decide to move forward. Sales of the high Mi1 smartphone were nothing compared to the latest version of the Mi2 smartphone, which sold even further. With the help of the Mobility wireless telephone vendor, the company continues to capture Western markets including the United States, Europe, Britain, Australia, and New Zealand. In 2013, the company made another big step by hiring Vice President of Android Product Management Platform for Google named Hugo Barra (Ahmad, 2014). They hired Hugo Barra as the new vice president to expand the company outside of China. Hugo Barra is responsible for Xiaomi's Global Division to manage all of the company's products and operations in markets outside of China. The development of Xiaomi is even more significant after the launch of Smart TV and also their latest version 3 smartphone, Xiaomi Mi3, which has been modified in such a way. This large company also announced that it was in preparation to establish the first Service Center in Beijing.

Because of the excellent introduction and development, at the end of 2013, Xiaomi has become the fifth most widely used smartphone brand in China and 2014 as the World's fifth largest smartphone maker (Olson, 2014). Although their age is still

relatively young, Xiaomi Inc. has reached the point where they have more than 30 million MIUI users worldwide. Besides, they sold more than 18.7 million smartphones that year. The reach and market demand for Xiaomi products is such that the company has sold more than 26 million smartphones in the first half of 2014 (Horwitz, 2014). In just four years, Xiaomi Inc. with its innovation has taken over Samsung to become China's leading smartphone vendor. With a net worth of US \$ 9.9 billion (Rp 134 trillion), Lei Jun has now become the 8th richest person in China. Around the middle of 2014, Xiaomi also entered the Indian market that had not been previously explored (Wang, 2017). Xiaomi entered the market by binding exclusively through the largest e-commerce site in India, Flipkart. Xiaomi smartphone sales in India reach 40,000 smartphones. The popularity of Xiaomi in India made this phone sold out in 24 seconds of its first sale. At that time, the company decided to proliferate in India and finally also partnered with other e-commerce leaders such as Amazon.com (Mardikar, 2015).

3. The success of Xiaomi Inc.

Since its first launch, in just five years, Xiaomi Inc. has grown to become the 4th largest smartphone manufacturer in the world. Xiaomi Inc. also designs, develops and sells smartphones, mobile applications, not to mention related consumer electronics devices. Some of their products include the Mi series, Redmi series, MIUI (operating system), MiWiFi (network router), MiTV (Smart TV line), MiBox (set-top box), MiCloud (data storage service), MiTalk (messaging service), MiPower Bank (external battery), Mi Band (fitness monitor & sleep tracker) and many other Smart Home Products (Sector, 2018). With more than 8,000 employees and revenues of US \$ 12 billion (equivalent to Rp 163 trillion) in 2014, Xiaomi held

control of the smartphone market in Mainland China, Malaysia, and Singapore. Besides, Xiaomi has also seen aggressive expansion to other countries such as India, Indonesia, the Philippines, and Brazil. Xiaomi managed to break the world record for "Most cellphone sales on an online platform for 24 hours" (Flannery, 2015).

C. Xiaomi's entry into Indonesia

After success in international sales, Xiaomi continued its expansion in Asia. After gaining high interest in India, on August 27, 2014, Xiaomi officially announced its launch in Indonesia. The launch event was held at the club Moovina and was immediately attended by two Xiaomi officials, Co-Founder of Lin Bin and Vice President of Xiaomi Global, Hugo Barra at Plaza Indonesia on 27 August 2014 (Galih, 2014). Redmi 1s is the first smartphone product from Xiaomi, Xiaomi sold 5,000 pieces for this first smartphone sold first on Lazada's online website on August 27, 2014, at 6 pm. Buyers must register to get the opportunity to buy on September 4, 2014. The opportunity itself is only given one hour at 11-12 noon. Until Tuesday, September 2, 2014 morning, the number of applicants who wanted to buy Redmi 1S had exceeded 50,000 (Tribun, 2014). The launch of Xiaomi in Indonesia can be said as a big thing and managed to attract the interest of the people of Indonesia. With some advantages over Xiaomi, compared to other smartphones which had opened its market in Indonesia before one of the things that made Indonesians interested in buying Xiaomi was because Xiaomi was a cellphone with good quality but had an affordable price, afterward almost all people could buy Xiaomi.

Xiaomi's entry into the Indonesian market also achieved great success, the competitive market which was initially only controlled by Samsung, Asus, Apple, Advan, Polytron, Vivo, and Oppo also finally arrived guests from

China, namely Xiaomi. Although initially doubted by the Indonesian people, slowly but surely Xiaomi managed to attract the hearts of the Indonesian people. Xiaomi's success can be seen from their achievements in winning the Top 5 smartphone companies in Indonesia. Report from Markey Analyst Associate IDC Indonesia said that Xiaomi was included as the Top 5 smartphone company in Indonesia in the fourth quarter of 2017 (IDC, IDC Indonesia: 4Q17 Smartphone Shipments Fall 9% Year Over Year and Closes the Year Flat, 2018).

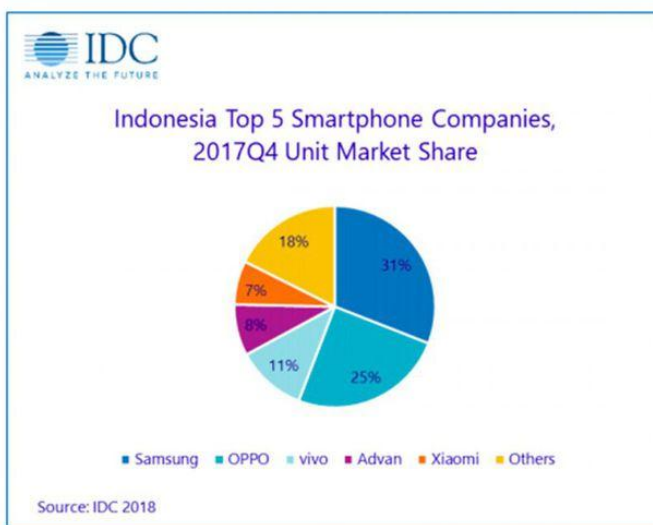


Figure 3.1 Indonesia Top 5 Smartphone Companies. (Source: (IDC, IDC Indonesia: 4Q17 Smartphone Shipments Fall 9% Year Over Year and Closes the Year Flat, 2018))

From the pie chart above, it can be seen clearly that Xiaomi ranked fifth in the fourth quarter of 2017 following other well-known smartphones that already existed in Indonesia. It did not stop there; Xiaomi also became the vendor that recorded the highest growth. In quarter II-2018, Xiaomi managed to gain 25 percent

market share, up significantly from the previous year which was only 3 percent. Xiaomi shifted Oppo, which in the second quarter of 2018 decreased its market share to 18 percent, compared to 24 percent last year. Based on reports on estimated shipments of Canalsys smartphone which are updated monthly, Xiaomi's market share in Indonesia in the first quarter was 18.3 percent. This figure is up 145.5 percent compared to the first quarter of 2017. The Canalsys report also mentions that Xiaomi's market share increased by 105.8 percent since the last quarter of 2017 to the first quarter of 2018 (Yusuf, 2018). Coinciding in May 2018 Xiaomi ranked second as the largest vendor in Indonesia. Can be seen in the table below Xiaomi became the second largest vendor in Indonesia in 2018 following Samsung.

*Table 3.1: Indonesia smartphone market – Top 5 vendors.
(Source: (Yusuf, 2018))*

Rank	Vendor	Q1 2017	Q1 2018	Growth	Share
#1	SAMSUNG	2.0 million	2.3 million	17.2%	25.5%
#2	MI Xiaomi	107,000	1.7 million	1455%	18.3%
#3	OPPO	1.5 million	1.5 million	5.2%	16.8%
#4	VIVO	510,000	600,000	16.7%	6.5%
#5	smartfren <small>live smart</small>	780,000	520,000	-34.0%	5.6%

Source: Canalsys estimates, Smartphone Analysis, May 2018



Xiaomi Indonesia's head of South Pacific Region and Country Manager Steven Shi said Xiaomi was happy to get support from Xiaomi fans in Indonesia. "Our operational growth has been achieved through increased local production capacity, online and offline sales channels, best talent recruitment, expansion of after-sales services, and support from the Mi Fans, of course, have contributed to the progress and growth of Xiaomi in Indonesia," said Steven Shi (Jeko, 2017). Xiaomi is also committed to releasing more products at honest prices in Indonesia. Xiaomi also launched the "Made in Indonesia" initiative, where Xiaomi devices began to be assembled in Indonesia, working with PT Sat Nusapersada, Batam (Kartini, 2017).

In 2018 Xiaomi was ranked second as the Top 5 smartphone companies, up three ranks in just one year. "Unlike Oppo and Vivo whose strategy is to boost marketing campaigns, Xiaomi precisely focuses on providing competitive smartphones in terms of specifications and prices, so that people can set aside more money", as IDC analyst Risky Febrian said (IDC, Shipments Post New Record High with Xiaomi Disrupting the Market into a New Phase, 2018).



Figure 1.2 Indonesia Top 5 Smartphone Companies by Year over Year (YoY). (Source: (IDC, IDC Indonesia: 2Q18 Smartphone Shipments Post New Record High with Xiaomi Disrupting the Market into a New Phase, 2018))

The reliability of Samsung as the king of Indonesian smartphones can be said to be starting to be unsafe. Because the market share of Samsung and Xiaomi is currently only 2 percent adrift.

D. Xiaomi's strategy for investment in Indonesia

In smartphone sales, Xiaomi uses a unique strategy that is not like market trends. Xiaomi Inc. has set the price of their cellphones almost the same as the cost of making the cellphone itself, without sacrificing quality and performance. To benefit from this narrow margin, unlike competitors who sell models for no more than six months, the company sells its models for up to 18 months. Besides, they also created various peripheral products related to their main products, such as watches, mice, and others. To reduce costs, at the beginning of its sales Xiaomi only used online media exclusively to sell its products. This is

also done to control the inventory. The product stock is limited, to ensure that supply is never over demand, and keeps the market busy all the time. Besides, Xiaomi Inc. also relies on traditional marketing strategies to advertise its products, namely word of mouth. To build and maintain its strong and loyal customer base, Xiaomi makes sure to listen to their customers' feedback carefully (Millward, 2014). In practice, the company's product manager looked at the Xiaomi user forum to see the suggestions given for Xiaomi products. After that, the advice is immediately informed to the technician. Xiaomi makes the technical delivery of its products within a week called "Design as you Build!" If we look in detail, Xiaomi combines and uses Apple's tactics with Amazon's strategy. When Apple released its iPhone exclusively with AT & T, Apple required all operators to comply with and comply with the regulations set by Apple. With a similar strategy, Xiaomi also uses fast sales to manage their stock, increase the popularity of their products and companies, to increase their market demand. The company also mimics Amazon's strategy in utilizing most of its profits to grow their business (Millward, 2014). Xiaomi Inc. acquires and invests most of the money from their business in software companies with the aim of broader expansion. Amazon itself continually invests its money into its market which increases its growth. Xiaomi did the same thing. The unique strategies to expand their market by Xiaomi in Indonesia, are the same as what they did abroad. One of their strategies to strengthen their markets in Indonesia according to the interview with Lei Jun with The Harbinger (Harbinger, 2018), there are:

1. Smart in determining prices

Xiaomi products always have a much lower price than their competitors. However, Xiaomi always offers the best hardware quality and premium software support. Xiaomi has a sales strategy where its products target the middle class. The middle class is the most

potential because the number of middle-class people is enormous.

For example in Indonesia, where there are a lot of middle-class consumers, most of them are tempted to have the latest iPhone or Samsung Galaxy, but most of the Indonesian people cannot afford it. Then Xiaomi presents a cheap smartphone with quality that is no less tempting with the iPhone and Galaxy. Therefore many Indonesians who are interested in buying Xiaomi because of the affordable price for them and the performance of the smartphone are not inferior to other smartphones such as Samsung with Apple.

2. Xiaomi Does not Take Advantages Too Big

Xiaomi products are usually on the market for a longer time than Apple and Samsung products. The average smartphone manufacturer launches the latest version of the previous smartphone after one year. However, Xiaomi just released a new smartphone until two years later after the smartphone was previously released. The strategy is, the price of smartphone electronic components will decrease in price in 2 years. This cycle always happens, and the price decrease reaches 90%. This makes Xiaomi able to produce new smartphones with improved specifications but still has a price that is not much different from the previous smartphone.

3. Xiaomi Known Through Mouth To Mouth

Word of mouth promotion is the most effective and potential promotional media ever. Xiaomi has yet to advertise like other smartphone manufacturers. Xiaomi directly sells quality products at low prices; thus buyers will feel disbelief, and it turns out that buyers are satisfied and review them to their friends and family (Harbinger, 2018).

4. Recruiting the Right People

Xiaomi was initially only known in China, recruited Hugo Barra as Vice President. Hugo Barra himself was initially a VP of product management and product spokesperson for Android products from Google. Other people might think Xiaomi is too grandiose by recruiting Hugo Barra, but even though Xiaomi is still based in China, the company is worth \$ 10,000,000,000 and has an extraordinary ambition, which is selling 20 million smartphone units per year. From here we can see, Xiaomi wants to continue to expand and increase its existence internationally, by recruiting Hugo Barra who is experienced in marketing Android smartphone products from Google, hopes that Xiaomi may be more easily achieved.

In 2014 Xiaomi also recruited Manu Jain to become the general manager and head of operations in India. You know that India is a country that is densely populated and its people will like Xiaomi products, India is also famous for online media that exists throughout the world.

5. Flash sale and Crowdfunding

Xiaomi relies on Flash Sale to promote their smartphone. For example, is what happened in India. Xiaomi once flashed Hongmi products in India with only a price of Rp. 200 silver only, this flash sale only lasts 90 seconds, so many Indian citizens are competing to buy this smartphone. It also happened in Indonesia, Xiaomi held frequent flash sales; one example is the 2018 National Flash Shopping Day conducted at Indonesia's online store. In order to enliven the National Shopping Day 2018 on November 11, 2018, Xiaomi provides attractive offers for its users, namely a discount for its users (Rakasiwi, 2018).

6. Xiaomi Does Not Have Customers, Xiaomi Has Fans

Google may have a client, Microsoft has customers while Xiaomi has Fans. Xiaomi has a forum in China that contains 30 million members with 400 thousand new posts every day.

Xiaomi is increasingly convinced that it can master the smartphone market in the country. It is not impossible; Xiaomi will be a fierce competitor for Samsung and the iPhone. At present, Xiaomi is still in fifth place with Indonesia's market share of 5.2 percent. Another story in India, Xiaomi has successfully competed with Samsung with a market share of around 20 percent. "I hope, in the next two to three years, we can become number one in the Indonesian (smartphone) market," Xiaomi CEO Lei Jun said in an interview session after the launch of the Redmi 5A smartphone in Jakarta, last December. Although still ranked 5th, Xiaomi successfully sold around 97 units in 2017. In the same year, Apple could only sell 78 million units of the iPhone.

Xiaomi has a massive profit of up to Rp 216 trillion in 2017. Through blog.mi.com, Lei Jun congratulated his employees for achieving the target in 2017. In the official blog, Lei Jun revealed that Xiaomi had made a profit of up to 100 billion Chinese yuan, equivalent to Rp. 216 trillion. To its employees, Lei Jun stated that Apple could achieve this milestone in 20 years, Facebook 12 years, Google 9 years, Alibaba 17 years, Tencent 17 years, and Huawei 21 years. "We (Xiaomi) only need seven years," he wrote. Seeing this, Lei Jun believes Xiaomi can be included in this year's Fortune Global 500 list. Especially for him, Xiaomi has maintained its production quality and has established a Quality Control Committee.

Indonesia is one of its main markets. The three countries that have contributed most to Xiaomi's success are India, Indonesia, and Vietnam. Besides, Xiaomi products have also been successful in 70 other countries.

In order to realize this dream, Xiaomi plans to expand the Mi Store store network in Indonesia. Currently, there are around 30 shops. The plan will be 100 outlets throughout Indonesia until the end of 2018. "We hope that our products can not only be purchased online but also physical stores. Thus, consumers will also be easier to make purchases," said Lei Jun. In addition to sales outlets, Xiaomi also intends to increase the number of authorized service centers for its products to more than 100 points this year. For them, making Indonesia the biggest market this year is no longer a dream.

E. Conclusion

This chapter has explained the success of one of the Chinese MNCs, Xiaomi in the Indonesian market. The many interests of Indonesians with Xiaomi smartphones are because they are sophisticated but are very easy to get because they have very affordable prices. The strategy possessed by Xiaomi companies in expanding their market in Indonesia is also quite brave because they open many branches throughout Indonesia so that it is easily accessible to residents. The success of Chinese foreign companies in the Indonesian market allows them to dominate the country's economy. So from that, the next chapter will explain the impact of China's expansion.