

Research on Business Model of Internet Companies

A case study of xiaomi company

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Abstract: Since its birth in the 1990s, Internet enterprises have continuously innovated business models that are different from traditional ones, and these business models have brought huge economic benefits to enterprises. However, with the progress of Internet technology and the continuous development of the Internet industry, some problems have gradually emerged in the past Internet business model, which has greatly hindered the development of Internet enterprises. As an outstanding representative of Internet enterprises in recent years, the innovation of its own business model has certain enlightenment to other Internet enterprises. This paper explores the current situation and problems of Internet business model by analyzing the relevant theoretical knowledge of Internet enterprises and Internet business model, and makes a case study of Xiaomi Company to find out the intrinsic nature of Internet business model.

Keywords: Internet enterprise; Business model; Xiaomi company

1. Introduction

1.1. Research background

Internet is a huge network system composed of various networks. It is the most powerful communicator in the information age and an important force to promote productivity. The economy, culture and politics of most parts of the world are deeply influenced by the Internet. At the same time, it accelerates the process of economic globalization, promotes the transformation of information dissemination and promotes the blending of world cultures. People collect and analyze massive data through the Internet, which effectively improves the efficiency of life, work and business activities. As a result, the Internet enterprises have brought their advantages into full play and created new business models which are different from those in traditional industries. These business models have brought amazing economic benefits to Internet enterprises. However, with the progress of Internet technology and the continuous development of the Internet industry, some problems have gradually emerged in the past Internet business model, which has greatly weakened the competitive advantage of Internet enterprises and hindered the development of the Internet industry.

1.2. Research meaning

This paper explores the current situation and problems of Internet business model by analyzing the relevant theoretical knowledge of Internet enterprises and Internet business model, and carries out case analysis of Xiaomi Company in view of these problems, hoping to promote

other Internet enterprises to better adjust the segmentation of customer market, grasp the real needs of user groups, diversify their own income sources and optimize their internal enterprises. Cost structure, at the same time, relevant government departments can improve the industry supervision system, so that Internet enterprises can obtain more favorable competitive conditions, and ultimately promote the progress of the entire Internet industry.

2. Related Concepts

2.1. Business model

As early as 1939, famous management master Schumpeter (1962) pointed out that the source of competitive advantage of enterprises is no longer the competition of price and output, but more from the competition of new business, new technology, new supply source and new business model [1]. This should be the first time in the research literature that the term "business model" appears in the form of habitual terms.

For the definition of business model, experts and scholars at home and abroad have different explanations. In the related research of foreign scholars, Afuah (2000) and other scholars define business model as a way for enterprises to make profits by utilizing resources to create more value for users than competitors [2]. In the related research of domestic scholars, scholars such as Xiang Guopeng (2008) believe that the essence of business model is the profit realization mechanism and value creation mechanism of enterprises. The foundation of the existence of enterprises is value creation, and only those

enterprises that constantly create value can remain invincible [3].

2.2. Internet business model

Internet business model refers to a brand new business operation and organizational structure model that integrates traditional business types and links various business channels with the Internet as the medium. It has the characteristics of high innovation, high value, high profit and high risk. Compared with the traditional business model, the Internet business model redefines the market, products, customers, value chain and so on. It shows strong vitality with a more equal, open and sharing mechanism.

3. Current Situation and Existing Problems

3.1. The current situation of business model of internet enterprises

With the rapid development of Internet technology, Internet enterprises are emerging all over the world. The current characteristics of the business model of Internet enterprises can be roughly divided into the following points.

Highly flexible. At present, most of the Internet enterprises adopt the light assets mode to achieve higher profits by reducing fixed assets, inventory and intermediate channels [4], such as Xiaomi, Tencent, Google and other Internet companies. The advantage of this approach is to avoid the risks brought by fixed assets, inventory and optimize the cost structure. At the same time, in the Internet business model, enterprises make full use of Internet technology, e-commerce platform, making customer markets, business scope, enterprise boundaries, personnel activities and organizational structure more flexible.

Flow is king. At present, most of the profit models of Internet enterprises are in advertising and value-added services, such as short video industry, video website industry, online game industry, etc. Although they can compete for traffic through the power of capital, occupy market share, and realize the rapid growth of enterprises, or even go public. However, if the share of market flow is lost, the income sources of enterprises will be seriously threatened.

Costs are rising. With the continuous development of the Internet industry, the cost of entry and exit, the cost of virtual product maintenance and the cost of Internet technology development are constantly increasing. Take e-commerce mode as an example, the cost of opening stores on Taobao platform in the early stage has absolute advantages compared with offline physical stores, but now, the cost advantage of opening stores on e-commerce platform is significantly reduced, and the cost of some industries is even higher than that of offline physical stores.

3.2. Problems in business model of internet enterprises

According to the above analysis of the current situation of Internet business model, we can clearly realize that although Internet business model has significant advantages and brings huge economic benefits to enterprises, with the continuous development of social environment, scientific and technological level and consumption concept, some problems have gradually emerged in today's Internet business model. These problems have already been solved. After affecting the sustainable development of Internet enterprises, even endangering the survival of enterprises.

3.2.1. Lack of enterprise core value proposition

Throughout today's Internet industry, most Internet companies play only a role as service providers of technology, tools, data analysis and convenient products. Take the search engine industry as an example, although customers can search all kinds of information from the search engine provided by enterprises, the industry cannot form a unique cultural value. If only the operation of industry business model is locked in providing a platform for product trading in other industries, then the intrinsic value of the industry of Internet enterprises cannot be formed [5].

3.2.2. Monolization of income sources

Advertising and value-added services are the most important sources of income for Internet enterprises under the free mode. For advertising revenue, user traffic is crucial; for value-added services, user loyalty is the key. This has led to the increasingly fierce competition for user traffic among Internet enterprises, while paying more attention to the cultivation of user loyalty. In recent years, the rapid development of short video industry, such as tremble, fast hand, volcano video, etc., through continuous financing to support the large-scale marketing of products, in order to obtain a large number of user traffic, thereby achieving the revenue of advertising and value-added services. However, the emergence of advertising and value-added services will also lead to a reduction in the disgust and loyalty of the user groups. Now most Internet enterprises have started the user cooperation mode, sharing interests with users. Although it stimulates the creativity and use of users, it makes the problem of enterprise's income sources more and more serious, and even some Internet enterprises have a virtual high market value and circle. The phenomenon of money running.

3.2.3. Unreasonable cost structure

Most enterprises in the Internet industry belong to light assets, and the main cost investment is in human resources, technology, marketing, office hardware and

venues. However, at present, the trend of cost structure in the Internet industry is to attach importance to market promotion, which leads to the insufficiency of other cost inputs. Take the Internet travel industry as an example, drip travel in the early stage of market development, large-scale financing and subsidies, although it can quickly occupy the market share, access to user traffic, but this has led to other parts of the cost input has been reduced, such as human costs, technical costs and so on, making drip travel in examining driver qualifications, passenger safety and technical assurance and so on. Cost input is seriously imbalanced, passenger safety problems cannot be effectively improved, and ultimately will only lose customer support and trust.

3.2.4. Can not accurately grasp customer needs

Nowadays, with the vigorous development of the Internet, enterprises can effectively grasp the needs of user groups, so that people's pain points in life and work can be solved. To a certain extent, an accurate understanding of "demand" is the key to determine the development of an Internet enterprise. However, nowadays more and more Internet enterprises fail to grasp the real psychological demands of the customer groups behind the product experience, and operate too much around the "false demand" guided by the Internet business model, resulting in unclear customer positioning and unable to firmly grasp the market context.

4. Case Analysis

4.1. Case introduction

Beijing Xiaomi Technology Co., Ltd. was established in Beijing in April 2010. Now it has developed into an Internet company integrating Internet, hardware and new retail. Since the release of the first generation of Xiaomi mobile phones in August 2011, the sales of Xiaomi mobile phones have been growing at an alarming rate. In December 2013, the Xiaomi Internet of Things industry began to emerge, announcing the construction of Xiaomi intelligent hardware ecological chain.

4.2. Customer segmentation

Customer group is a prerequisite for the establishment of a business model. If an enterprise loses the customer group that can obtain benefits, then the enterprise will go to extinction. By dividing the customer groups with the same attributes, behaviors and needs into subdivisions, enterprises can obtain the maximum effect of marketing and grasp the real needs of customers more accurately.

4.2.1. Age level

Xiaomi Company has positioned its products as providing high-quality technology products to young people since its inception. The so-called young people, that is,

active thinking, full of curiosity about new things, while more pursuing the appearance and functionality of products. It is precisely the clear positioning of customer groups that enables Xiaomi company to accurately grasp the real needs of customers.

In the early stage of MIUI system release, Xiaomi let more young people participate in the process of developing and improving MIUI system through Internet mode, which injected strong vitality and motivation into MIUI system, making it more humanized and more in line with the needs of young people for mobile operating system.

4.2.2. Consumption level

Xiaomi's products are famous for their high cost performance. In the initial stage, Xiaomi company always aims at the middle and low end of the consumer market. Taking the smartphone market in China from 2012 to 2013 as an example, this paper analyses the data released by ZDC in January 2013. 1000-2000 yuan model has the highest user attention, followed by 2001-3000 yuan model, both of which belong to the low-end consumption level. For Xiaomi which was in the initial stage at that time, 1000-3000 yuan model was the best market entry point, especially the consumption level of 1000-2000 yuan model.

From 2009 to 2012, the smartphone market share continued to grow, while the sales of functional phones continued to decline. In 2012, the smartphone market finally surpassed the functional phone market and became the mainstream communication device. In the initial stage, Xiaomi company was in the tide of popularization of smartphones, and the middle and low-end mobile phones were the main battlefield of popularization of smartphones. So in July 2013, Xiaomi officially released the entry-level mobile phone, the red rice mobile phone. Red rice mobile phone aims to make more people enjoy the pleasure of technology through more people-friendly prices, and through cooperation with China Mobile, it has successfully established its foothold in the thousand yuan smart phone market. Xiaomi, entering the stage of development, has tried many times to enter the high-end smart machine market on the basis of stabilizing the low-end smart machine market. In January 2015, Xiaomi officially launched the Xiaomi NOTE phone. The NOTE series is the first attempt by Xiaomi to high-end smartphones. Although the sales of the products are not good, it marks the implementation of Xiaomi's diversified market strategy. In October 2016, Xiaomi officially released the Xiaomi MIX mobile phone. Both the NOTE series and the MIX series have a positive effect on enhancing the premium ability of Xiaomi's own brand.

4.2.3. Regional level

Xiaomi's segmentation of the regional market is dominated by the domestic market. In the later stage of devel-

opment, with the gradual saturation of the Chinese smartphone market, Xiaomi began to focus on overseas markets and laid out in Southeast Asia and Europe. Due to the lack of economic development in Southeast Asia and India, Xiaomi is more likely to open the market with low-end and mid-end smartphones. According to Xiaomi's latest prospectus submitted to the Hong Kong Stock Exchange, in 2017, the total income of Xiaomi increased from 68.4 billion yuan in 2016 to 114.6 billion yuan, a year-on-year increase of 67.5%. This is mainly due to the outbreak of Xiaomi's mobile phone business overseas. Especially in the Indian market, since the fourth quarter of last year, Samsung's mobile phone shipments have been overtaken by Xiaomi, and thus Xiaomi has become the No. 1 market share in India. The strategic layout of Xiaomi's globalization has made the sales market of products more extensive, and the influence of enterprises has become more profound.

4.3. Value proposition

The value proposition is the value that the company can provide to consumers through its products and services, and the value proposition confirms the company's practical significance to consumers [6]. The company has a clear, consistent and unique value proposition that not only condenses a large group of customers, enhances customer loyalty, but also enables the company to renew its vitality and motivation.

Xiaomi Company develops products based on the Internet development model, mixes with the spirit of geeks, deducts the cost of intermediate links through the Internet model, optimizes the cost structure, and strives to enable everyone in the world to enjoy high-quality technology products from China. Cost-effective products include nothing but high product value and low customer cost. In the context of the Internet era, consumers are not only passively accepting and purchasing products and services, but also have the motivation and ability to participate in product development and development. This is an effective resource that Internet companies can use. The development of MIUI system is The most typical example. In addition, Xiaomi Online also launched the "Mi Fans festival" and other activities, reflecting Xiaomi's emphasis on customer participation, maintaining good customer relationships and enhancing user loyalty.

4.4. Cost structure

Taking the smart phone of Xiaomi Company as an example, this paper divides the cost structure of Xiaomi Company into large-scale cost and differentiated cost from the perspective of value chain, and elaborates and analyzes these two aspects respectively.

4.4.1. Scale cost

Xiaomi's resource investment measures for the brand are mainly reflected in e-commerce channels and marketing activities, including marketing activities such as word-of-mouth marketing, hunger marketing and event marketing. Xiaomi pays more attention to the accumulation of user's word of mouth, through the Internet to re-engineer the traditional production and sales links, save a lot of manpower and capital resources, and invest in the maintenance of user relations, thus establishing a unique cost structure model with user maintenance costs as the core. The resulting word-of-mouth effect has greatly increased the influence of the Xiaomi brand. In other words, Xiaomi puts the cost of brand building to lower the price of the product, and uses the low-priced and high-quality products as a marketing method, and cooperates with the thoughtful customer maintenance mechanism, which makes the brand image of Xiaomi mobile phone greatly praised.

Xiaomi has two main requirements for peripheral parts suppliers: first, the quality is better; second, the price is lower. Since the premise of economies of scale is that the order quantity is large enough, if Xiaomi wants to have bargaining power with suppliers, it must make full use of economies of scale and expand sales. For assembly, Xiaomi's mobile phone is mainly opened by Foxconn. Inventec completes the assembly and does not build a factory. This saves a lot of manpower and resources, which is conducive to reducing product costs.

4.4.2. Differentiation cost

Xiaomi mobile phone industrial design in the low-end field does not have much eye-catching performance, but in the high-end field, Xiaomi MIX series can be described as a unique show, the contemporary famous design master Philip Stark served as the Xiaomi MIX full-screen concept mobile phone The designer extended the design concept of "the less material, the more humanity" to every detail of the mobile phone, and the Xiaomi MIX mobile phone was also collected by the Finnish Design Museum, the Centre Pompidou in France and the International Design Museum in Munich, Germany. For the differentiation of product design, Xiaomi has invested a considerable amount of money, on the one hand to open the high-end mobile phone market, and on the other hand to better enhance the brand's uniqueness and premium ability.

The differentiated cost of Xiaomi's software is mainly reflected in the research and development of MIUI system. As the first product of Xiaomi, MIUI system has more than 300 million user groups from the early beta version of MIUI system, which has experienced nearly 400 optimization upgrades, and is now fixed every week. To meet the needs of users. MIUI is the soul of Xiaomi's mobile phone and the core of the entire cost structure. Strong performance and perfect appearance are very easy

to be imitated and outdated for the smartphone industry. Only by having an operating system that is user-satisfied and relied on by users can we firmly grasp the customer base.

5. Conclusion

Due to the continuous development of Internet technology, the business model of Internet companies must also continue to innovate to adapt to changes in the business environment. This paper systematically summarizes the relevant theories of business model, Internet enterprise and Internet business model, analyzes the status quo and problems of Internet business model, and combines Xiaomi Company's case analysis from three aspects: customer segmentation, value proposition and cost structure. Trying to explore the path of innovation in today's Internet business model. Of course, theoretical knowledge needs to be tested in real situations, and the reality can promote the completeness of theoretical knowledge. Therefore, the development and innovation of the Internet business model needs to be continuously explored

and researched according to the changes in the business environment.

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