

Xiaomi: A Chinese startup out to challenge Google, Amazon

June 21 2018, by Youkyung Lee



In this Wednesday, June 20, 2018, photo, People try out the Xiaomi latest smartphones on display at the Xiaomi store in Beijing, Wednesday, June 20, 2018. Xiaomi, a Chinese startup that helped to pioneer the trend toward ultra-low-priced smartphones, is preparing for what would be the biggest initial public offering since e-commerce giant Alibaba's in 2014. The 8-year-old is a star among the Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region. (AP Photo/Andy Wong)

Xiaomi, a Chinese cellphone maker that helped pioneer the trend toward ultra-low-priced smartphones, is preparing for what would possibly be the biggest tech initial public offering since e-commerce giant Alibaba's in 2014.

The 8-year-old is a star among Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region.

Can a Chinese company be cool outside Asia? Can Xiaomi achieve its goal of expanding beyond hardware to be an internet service company?

A guide to Xiaomi and its upcoming IPO in Hong Kong:

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WHERE DID XIAOMI COME FROM?

Xiaomi—pronounced "SHEE-YOW'-mee"—was founded in 2010 by CEO Jun Lei and seven colleagues who included veterans of Alphabet Inc.'s Google, Microsoft Corp. and Motorola Inc.

Their first smartphone, the Mi 1 released in 2011, was an instant hit with little marketing. Consumers buzzed about its low price of 1,999 yuan (\$305) and competitive quality.

It helped to ignite an unusual fan culture on which Xiaomi has built its product development. Customers take part in design decisions by sending suggestions over social media.

In 2013, Xiaomi sold more handsets in China than Apple. The next year, it became China's top-selling smartphone.



In this Wednesday, June 20, 2018, photo, a shop assistant, right, shows a smartphone to a customer at a Xiaomi store in Hong Kong. Xiaomi, a Chinese startup that helped to pioneer the trend toward ultra-low-priced smartphones, is preparing for what would be the biggest initial public offering since e-commerce giant Alibaba's in 2014. The 8-year-old is a star among the Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region. (AP Photo/Kin Cheung)

The company later was passed in sales volume by local rivals Huawei, Oppo and Vivo. But after a slump in 2016, Xiaomi's growth rate outpaced other smartphone makers in the following year. While Samsung, Apple and Huawei saw flat or 10 percent growth or less in 2017, Xiaomi sales jumped 58 percent, according to IHS.

Last year, the company had a 6 percent share of the global smartphone

market, despite minimal presence in Europe and the United States.

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HOW MUCH MONEY DOES XIAOMI MAKE?

Xiaomi lost money last year. A lot.

The company reported a loss of 43.9 billion yuan (\$6.8 billion) on revenue of 114.6 billion yuan.



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Photo/Kin Cheung)

Even if the company turns that around, CEO Lei has promised to keep prices low for consumers by holding profit margins on hardware sales to 5 percent, a stance that might rattle investors.

"Xiaomi is more than a hardware company," said Lei in an open letter to investors. "Although our hardware business is essential to building our user base, we do not expect it to be the main source of our profits."

Xiaomi makes 90 percent of its revenue from hardware sales but calls itself an internet content company. It wants to make money by delivering services to the more than 100 million users of its connected devices and 190 million people who use its software MIUI.

HOW MUCH IS THE IPO EXPECTED TO RAISE?

The IPO is expected to raise billions of dollars—possibly the biggest haul in the tech sector since Alibaba raised \$22 billion in 2014—though forecasts of how much have declined. It aims to raise as much as \$6.1 billion in the IPO, Bloomberg and the South China Morning Post said, citing anonymous sources familiar with the matter.



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Investors are likely to value Xiaomi at \$63-\$68 billion, down from earlier expectations of as much as \$100 billion due to its "low profitability," Choi Won-seok of Shinhan Investment Corp. said in a report.

"Compared to other Chinese tech companies, it will be an attractive price point for investors," wrote Choi.

WHY ARE INVESTORS OPTIMISTIC?

Xiaomi is the rare Chinese brand that has succeeded abroad.

"Xiaomi is probably one of the few Chinese companies that have gotten enough international attention not in a negative way," said Melissa Chau, associate research director at research firm IDC.



In this Wednesday, June 20, 2018, photo, a man with purchased goods walks out from the Xiaomi store in Beijing. Xiaomi, a Chinese startup that helped to pioneer the trend toward ultra-low-priced smartphones, is preparing for what would be the biggest initial public offering since e-commerce giant Alibaba's in 2014. The 8-year-old is a star among the Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region. (AP Photo/Andy Wong)

In India, it unseated Samsung as No. 1 in smartphone sales. This is a bright spot because India is one of the few remaining handset markets with big growth, said Chau.

South Korean trendsetters love Xiaomi. Other Asian fans rave on YouTube and social media about Xiaomi air purifiers, suitcases and vacuum cleaners.

Admirers compare Xiaomi's minimalist design to Apple or Japan's Balmuda, known for its sleek beauty.

It is also one of the few hardware manufacturers that have been able to use their hardware products as an entry point to selling services and software.

"If you think of other hardware makers who do that, you can only think of Apple," Chau said.

In the letter to investors, Lei said the eight co-founders wanted to make "the coolest company in the hearts of our users."



In this Wednesday, June 20, 2018, photo, a shop assistant works at a counter in a Xiaomi store in Hong Kong. Xiaomi, a Chinese startup that helped to pioneer the trend toward ultra-low-priced smartphones, is preparing for what would be the biggest initial public offering since e-commerce giant Alibaba's in 2014. The 8-year-old is a star among the Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region. (AP Photo/Kin Cheung)

"Good companies make profits, great companies also win over people's hearts," Lei wrote. "We pride ourselves even more in being a technology company with a rare 'fan culture.'"

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WHAT COMES NEXT?

But can it stir similar enthusiasm among investors and Western audiences?

A key challenge will be winning over U.S. and European consumers who might be more wary of Chinese brands.

Another challenge is to show investors that, like Google or Amazon.com Inc., it can make a profit from services, reducing reliance on handset sales.



In this Wednesday, June 20, 2018, photo, people use their smartphone outside a Xiaomi store in Hong Kong. Xiaomi, a Chinese startup that helped to pioneer the trend toward ultra-low-priced smartphones, is preparing for what would be the biggest initial public offering since e-commerce giant Alibaba's in 2014. The 8-year-old is a star among the Chinese unicorns, a term that refers to startup companies that are valued at more than \$1 billion. It has a dedicated Chinese fan base and its media-savvy leader is an Asian celebrity. But it is untested outside the region. (AP Photo/Kin Cheung)

Selling Chinese internet services to global consumers could be tougher than selling Chinese phones.

Xiaomi founder's vision, however, echoes that of many Silicon Valley internet companies.

"Fundamentally, the internet is all about transparency, efficiency and equality," Lei said in his letter to investors. "We want to allow everyone, regardless of gender, ethnicity, religion, nationality, or education level, to enjoy the benefits of technology."



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