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### Challenges and Opportunities Facing Chinese Smartphone Manufacturers

“Do you still have enough kidneys for your new iPhone X?” This is the question trending on Facebook and twitter when Tim Cook unveiled the price tag on Apple’s latest and most dazzling product. In fact, the alias “kidney” was attached to iPhone in 2011, when a 17-year-old Chinese boy sold one of his kidneys in order to buy a new iPhone and iPad. Six years later, fortunately, the majority of China’s 1.4 billion population have been able to acquire a smartphone with their kidneys intact. The credit goes to Chinese smartphone manufacturers, which entered the industry with products tailored for Chinese consumers, before grabbing considerable market share from foreign competitors. Having temporarily secured their domestic positions, however, these companies are yet faced with challenges that could potentially bankrupt them overnight—and solutions are not as obvious as you might think.

It wasn’t long ago when people would equalize Chinese smartphones with “Shanzhai Gi”, which, in an extended sense, is a synonym for counterfeited, imitated, and indigenous-innovated products with an affordable price and relatively sufficient quality (Hu et al. 54), stigmatizing the industry as disrespecting intellectual property. Nonetheless, those “Shanzhai” handsets lost popularity when competitive players like Xiaomi and Huawei made their entrance. Utilizing scale economic effect to lower average cost as well as attaching greater significance to technological innovation, those companies distinguished themselves from “Shanzhai” companies with high performance-cost ratios. Take Xiaomi as an example: dubbed by many as Apple of the East, the company won the hearts of millions of customers with “a combination of low prices, premium design, and aggressive marketing” (Gilbert). Moreover, its

MIUI interface, running more smoothly than ever, provided the best user experience among all Android-based smartphones at the time, constituting an extra attraction for young people desperate for speed and efficiency. With those specialties, Xiaomi made its way to become the world's third largest smartphone maker in 2014 (Gilbert). By 2016, 69 percent of China's smartphone shipments were from four major domestic brands, including Huawei, Oppo, Vivo and Xiaomi (Richter), weakening Apple and Samsung's leading position in the domestic and global market. It seems that the time has come for those companies to claim victory.

However, the future does not guarantee such robust growth, as recent years have witnessed signs of its slowing. In fact, during the process of their rise, domestic companies largely served the role of offering mobile accessibility to the Internet for people who couldn't afford to purchase a premium smartphone from Apple or Samsung, for whom smartphones are nothing but a tool for productivity and a symbol of their social status. Such a market faces imminent saturation as an increasing number of people are becoming satisfied with the mobility endowed by their smartphones. To be more precise, half of the Chinese population used Internet on mobile devices by the end of December of 2016 (Russel). Under the circumstances, it is becoming increasingly difficult to convince customers to upgrade their devices, unless a certain company puts forward a product so revolutionary, that consumers feel compelled to purchase it to follow the social trend. The reality is, nevertheless, that they often see no perceptible necessity in paying for minor upgrades in chips and cameras. Hence, manufacturers need to come up with a strategy in order to survive the fierceness of domestic competition.

Apart from a shrinking market, Chinese smartphone manufacturers also need to deal with problems more intrinsic to their fundamental vision and strategy. To begin with, notwithstanding impressive shipment numbers, these companies are largely viewed as mere technicians who put pieces of technology together. In stark contrast to Apple and Samsung, which design and produce a lot of key components, such as processor and screen, by themselves,

Chinese corporations are highly reliant on component manufacturers. For instance, without Qualcomm's Snapdragon chips, 39.2 percent of so-called Chinese-brand cell phones wouldn't have been made (AnTuTu). Besides the obvious burden of enormous cost, this dependence also means that Chinese companies have to adjust their release schedules and production rates in accordance with the component shipment, losing the initiative in the first place. Moreover, in this way, it will never be possible for them to shake off the stigma of "Shanzhai Gi", since their products reflect little technological originality. In addition, it is also difficult to neglect threats from international competitors, for new stars are rising in other developing countries, in the exact same way these companies rose in China, while Apple and Samsung remain unchallenged in the high-end market. Prospects seem dim should Chinese companies fail to build up technology superiority in the low-end market and narrow the distance between themselves and the pioneers in the high-end market—of course, it is not entirely unachievable.

A common approach to surviving in a shrinking market is by entering new markets, especially ones with a huge potential. Several successful attempts have been made recently. In India, which just overtook the U.S. to become the world's second largest smartphone market, Xiaomi has just achieved an astonishing 290 percent year-on-year growth in the third quarter of 2017, closing in on Samsung's leading position (Russel). On the one hand, India's gigantic population makes it extremely crucial in Xiaomi's globalization strategy (Baxi). Moreover, such expansions raise the overall market standard and customers' expectation, precluding potential competitors from reaching the threshold of entering the industry. In this process, most local people don't even feel obliged to protect domestic brands, as they can now, as Xiaomi's slogan says, "enjoy mobile technology at an affordable price." On the other hand, behind those glorious figures, the reputation of Chinese companies suffers due to unstable supply chains and sloppy after-sales support experience—they need to strike a balance between swiftly occupying new markets and maintaining acceptable quality. The most effective method is to utilize existing

infrastructures through cooperation with local retailers and original equipment manufacturers (OEM), which creates job opportunities and will in turn earn Chinese companies local recognition and governmental support. All in all, if dealt with caution and wisdom, overseas expansion can offer Chinese smartphone manufacturers huge revenue in the foreseeable future.

Despite the significance of marketing strategy, the fundamental competitiveness of a smartphone corporation lies in its products. As a leader of innovation, Apple never lost its popularity even though the price of the iPhone went through the roof over and over again. The alarming gap between Chinese companies and western pioneers in this sense is so great, that there is a growing disdain of “made-in-China” products. To mitigate its adverse consequences, a company needs to implement decisive reforms in its fundamental structure, building up innovation-oriented management mechanisms that allocate more resources into the R&D department, in order to cultivate technological uniqueness of its own. To our delight, a pathfinder has emerged in China—after selling cell phones equipped with its own chips for years, Huawei finally released a mobile chip with cutting-edge technology. Its Kirin-970 boasts a Neural Processing Unit (NPU), enabling efficient artificial intelligence computation (Boxall). Nonetheless, focusing on the big picture, one must bear in mind that Chinese smartphone makers still have a long way to go in terms of innovation and respect for intellectual property.

While developing core technology seems costly and does not provide immediate benefit, some companies turn to the alternative of innovation in design, seeking an instantaneous boost in sales with the help of groundbreaking artistic ideas and concepts. For instance, Xiaomi drastically improved its company image and changed the dynamics in the market with MIX, the world’s first bezel-less phone, id est, a phone with an extremely high screen-body ratio. Never before had anyone imagined that holding a smartphone could have felt like holding a piece of glass—but MIX made it. Designed by the renowned designer Philippe Starck, it amazed the world with a 91.3 percent screen-body ratio and won the IDEA (International Design Excellence

Award) Gold Award in 2017 (IDSA). MIX was a milestone for Xiaomi because its engineering capability was finally recognized, not only by Chinese consumers, but by the international community as well. Affordable price finally didn't have to be the only highlight in its advertisements. On the downside, such an advantage is not unique and lasting, for only one year after the release of MIX, every Chinese company was making its flagship product bezel-less, as if it had been their own idea. Plus, Xiaomi lost ground further when other companies devalued the concept by branding everything with an 18:9 screen ratio as bezel-less. To sum up, it is a viable way for Chinese companies to pursue premium artistic design for instant success, but such an advantage can only be sustained with features exclusive to their own products.

To put in a nutshell, Chinese smartphone manufacturers achieved the miracle of rising out of nowhere and almost squeezing foreign competitors out of the Chinese market in a short period of time, with the help of a blooming market environment. In addition, Chinese people are more than grateful for the convenience they brought about by popularizing mobile Internet technology, which more people in other developing countries will soon enjoy. Per contra, assessing the future ahead, one can't help noticing that domestic competition will be fiercer than ever, and that they still have much catch-up to do before competing against giants like Apple and Samsung in the international arena. To achieve sustainable development, Chinese smartphone manufacturers must be more astute in identifying business opportunities and pay more attention to innovation in technology and engineering. All elements considered, I remain optimistic that, with diligence, insight, and caution, they are bound to discover their own ways of navigating the international smartphone market, and eventually, see the silver lining. Chances are, Xiaomi may sometime be a common choice for people in the western world, just as iPhone in China. It will then be the responsibility of people in the western world to discard whatever stereotypes they have about China, before revising their understanding of China as a growing economy, reassessing their positions, and adjusting their business strategies accordingly.

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