

Kuo, Hsien-Chih; Luarn, Pin; Chen, I-Jen

Article

Value co-creation of Xiaomi in China

International Journal of Business and Economic Sciences Applied Research (IJBESAR)

Provided in Cooperation with:

International Hellenic University (IHU), Kavala

Suggested Citation: Kuo, Hsien-Chih; Luarn, Pin; Chen, I-Jen (2018) : Value co-creation of Xiaomi in China, International Journal of Business and Economic Sciences Applied Research (IJBESAR), ISSN 2408-0101, Eastern Macedonia and Thrace Institute of Technology, Kavala, Vol. 11, Iss. 1, pp. 26-33, <https://doi.org/10.25103/ijbesar.111.03>

This Version is available at:

<https://hdl.handle.net/10419/185678>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by-nc/4.0/>



International Journal of Business and Economic Sciences Applied Research

Value Co-creation of Xiaomi in China

Hsien-Chih Kuo, Pin Luarn, I-Jen Chen

pp. 26-33

VOLUME 11, Issue 1

EASTERN MACEDONIA & THRACE INSTITUTE OF TECHNOLOGY PRESS

Value Co-creation of Xiaomi in China

Hsien-Chih Kuo¹, Pin Luarn², I-Jen Chen³

¹Vice President, Enterprise & carrier BU, Fareastone Telecommunications Co., Ltd.,

²Professor, National Taiwan University of Science and Technology,

³Assistant Manager, Enterprise & carrier BU, Fareastone Telecommunications Co., Ltd.

ARTICLE INFO

Article History

Received 22 September 2017

Accepted 18 October 2017

JEL Classifications

C32, E52, E58

ABSTRACT

Purpose

Since service-dominant logic is a theory with co-creation as its central concept, this study uses service-dominant logic as a basis to analyse the business model and factors of Xiaomi Technology so as to understand the reason that Xiaomi Technology was able to develop diverse products within a short time span.

Design/methodology/approach:

The present study adopted the case study approach. In that direction, the focus group methodology was used. Finally, the proposed conceptual framework was checked with specialists in Taiwan and China to get the Managerial Implication.

Findings:

The results of this study can help subsequent businesses understand how to use value co-creation to strengthen business models.

Research limitations/implications:

A limitation stemming from using case study analysis, this study conducted interviews that enabled Xiaomi-related personnel to answer research questions. Although the respondents came from diverse backgrounds, there are still limitations.

Originality/value:

Very few studies exist on co-creation in the context of case study research. This study utilizes the concept of co-creation to explore Xiaomi's operation in China. Furthermore, this paper also poses management implications of the findings.

Keywords:

Co-creation, Xiaomi, Service Dominant (S-D) Logic, Case Study.

©Eastern Macedonia and Thrace Institute of Technology

1. Introduction

Service Dominant (S-D) Logic has already become the most interesting research direction in current research and practice (Wagner and Benoit, 2015). S-D logic uses service as its fundamental basis to explain how businesses, customers, and partners establish value co-creation through service and interaction. Its core lies in the interaction and exchange between participants, collaborative partners, and customers, of which value co-creation is produced during the process of interaction (Grönroos, 2008; Grönroos and Voima, 2013; Payne et al., 2008; Vargo and Lusch, 2008a,b; Yi and Gong, 2013). That is to say, S-D logic can induce businesses and customers to collaborate with suppliers, constructing collaborative models that form co-creation of value, production, value networks, and communication (Lusch et al., 2007). However, S-D logic has yet to be verified in practice (Lusch and Vargo, 2011).

To understand the application of S-D logic in practice, Xiaomi Technology, since it was founded in 2010, adopted a "Fan-Centric" business model (Shih et al., 2014). By using a model where it uses a network to

sell, interact, and form relationships, Xiaomi's fans were able to actively co-create corporate and brand marketing content. At the same time, Xiaomi's founder Lei Jun constructed an ecological chain for Xiaomi to invest in companies with innovative concepts. Current partners with innovative ideas can also collaborate with Xiaomi. This means that Xiaomi's co-creation of value does not just exist in the relationship with consumers but also from business to business. This is the same concept as the one that scholars have pointed out, where service-dominant logic focuses on the network relationship between business and business, and business and customer, emphasizing value use (Lusch and Vargo, 2009). In other words, the concepts of Xiaomi's operation and S-D logic serve the same purpose.

The paper's structure is as follows. First, there is a discussion of the rationale behind S-D logic and value co-creation highlights some of these concepts' key features. Previous studies then provide the basis for an integrative model of SDL and resource integration. Second, the paper sets out to explain the processes used to apply this model to the accessible Xiaomi service context. The final section discusses the main findings and conclusions, looks for innovative ways to confront

value co-creation, and closes by addressing the research and managerial implications of this study.

2. Conceptual Framework

2.1. Service-Dominant Logic

S-D logic is an alternative to the traditional goods-centered paradigm for understanding economic exchange and value creation (Vargo and Akaka, 2009), which includes the relationship that tangible resources (raw material or physical products), operant resources (skills and knowledge of customers, employees, and people), organizations (cultures), and information (knowledge about the market, competitors, and technology) have with competitors, suppliers, and customers (Navarro et al., 2014). The service-centric perspective emphasizes the interactive process between manufacturers and providers, and recipients and customers, and not just on units of output. Collaboration is needed for value co-creation and the benefit of others (Lusch et al., 2007). That is to say, in service-oriented logic, the process of value creation, which has traditionally focused on suppliers, has now turned to putting its customers at the center (Vargo and Lusch, 2008a). The concepts of S-D logic can be seen in Figure 1.

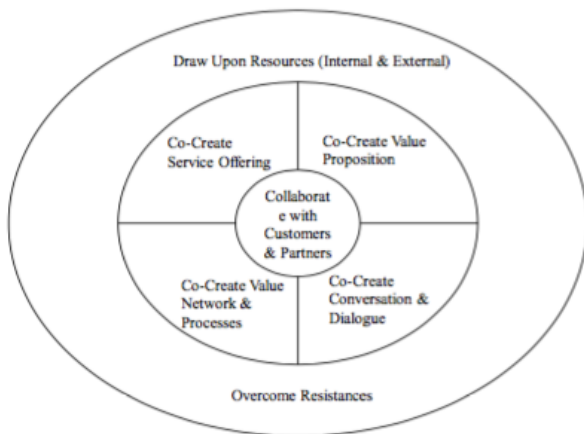


Figure 1. Concepts of S-D Logic

S-D logic differs from product-dominant logic in that product-dominant logic focuses on the product itself, emphasising production lines, supply chain management, pricing strategies, marketing, and the like. Product-dominant logic utilizes an enterprise-centric mode of operation to achieve the purpose of maximizing corporate interest. Meanwhile, service-dominant logic is service-oriented and customer-centric. Enterprises provide value proposition through bilateral dialogue to co-create value (Lusch and Vargo, 2006). Thus, the operations of service-dominant logic lie in the ability of producers to internally establish co-created service and externally integrate consumer experiences to co-create value so as to attract consumers (Lusch et al., 2007, the concepts of service-dominant logic are summarized in Table 1).

2.2. The Application of SDL

Scholars like Mills and Morris (1986) and Bettencourt (1997) have already pointed out that consumers can play

an active role in the process of providing service. This concept has existed for a long time. Taking self-service for example, IKEA lets customers assemble products themselves. Thus, customers can be viewed as part-time employees. The findings of Kinard and Capella (2006) and Kosteroglou et al. (2016) also indicates that higher consumer involvement leads to higher perceived relational benefits. The research of Navarro, Andreu and Cervera (2014) points out that customers are a necessary factor in the process of value creation. Service providers must interact and share knowledge and practical experience with customers during the consuming process.

Table 1. The Concepts of Service-Dominant Logic

Concept	Description
Value drivers	Value is determined by the customer (value-in-use)
Value creators	Businesses, managers, employees, supply chain partners, and consumers
Value creation process	Value proposition is proposed by enterprise and new value is created after consumer usage
Purpose of value	Mutually beneficial to enterprises, related personnel, and consumers
Business perspective	Propose value proposition for product, co-service model
Product	Interactive and co-created subject of business and consumers
Consumer	Co-creates value through integrating enterprises, related personnel, and products

According to Lusch et al., (2007), customers and partners are the core of service-dominant logic. They create products and services that meet the needs and expectations of customers through value co-creation and collaboration. With this, customers will generate higher perceived value of the brand. In addition, SDL can be applied to value creation chains in businesses (Lusch and Vargo, 2006). Cova and Salle (2008) applied SDL to the B2B workflow. Their findings indicate that the network of suppliers and customers needs interaction for value co-creation. Prahalad (2004) suggests that the basis of co-creation needs to be established in the process of interaction between suppliers and customers and the managing of customer experiences. This can be called the experience-centric co-creation view, which is also the main subject of enterprise value (Lacoste, 2015).

Thus, the key of value co-creation lies in the enterprise, customers, and partners constructing a co-created model through network relationships. Like what Giarini (2000) indicates, the SDL value co-creation model exists during business co-production and the use of the product. Lacoste (2015) uses SDL as a basis, and through interviews with five companies, the SDL model is used to develop a B2B value co-creation model. Two stages are proposed: supplier interaction focusing on redesign and the customer end emphasizing product functionality. Research findings suggest that service is the core to maintaining value co-creation. Focus has shifted from the supplier to the customer. Businesses need to integrate the supply cycle to provide the desired products of target customers. This research is also one

of the few whose findings uses SDL as its central concept to explore practices.

The value co-creation basis of S-D logic will be followed by the description of using Xiaomi to explore practice and factors of value co-creation during enterprise management. The respondents were asked three questions: How did Xiaomi guide the process of value co-creation? How does Xiaomi co-create value during the interactive process? What are the reasons that suppliers are willing to co-create value?

3. Method

Scholars point out that qualitative research can be used to discuss new concepts (Gummesson, 2002). Furthermore, case studies facilitate the development of theories (Dubois and Araujo, 2004). This study chose to use Xiaomi as a subject because Xiaomi does not have its own factory. Instead, its products are produced by its partners. Meanwhile, Xiaomi established miliao to interact with consumers, keeping abreast of consumer demand and creating a fan-centric model (Shih et al., 2014). That is, the business model of Xiaomi is centered on co-creation. Thus, this research adopts a case study method using interviews to understand the co-created business model and influencing factors of Xiaomi. Interviews were conducted until the respondents were unable to provide new information.

This paper took the execution method of Lacoste (2015) into consideration. Potential respondents were first asked for their willingness to participate. Those who were willing were then invited to an undisturbed conference room. Sound recording was used to help record and edit interview content. The first phase of the study integrates the researchers' concepts towards the research and obtains relevant second-hand information. The second phase of this study utilizes one-on-one discussions with the respondents in order to learn the method that Xiaomi uses to integrate suppliers and customers.

To gain perspective from collaborative partners, this study conducted interviews with Xiaomi's partners in China. A total of 5 major firms were interviewed. All firms had collaborated with Xiaomi for more than 4 years, and they had generated more than 70% of Xiaomi's production quantity. All respondents were familiar with Xiaomi's business model. Interview times were approximately 1-2 hours. The interviews with Xiaomi users were conducted with those who had over 1 year of experience with miliao. Its interview structure follows the structure of service-dominant logic. Interview times were approximately 1.5-2 hours. The data collection method consists of semi-structured, in-depth interviews with the OEM's managers (see Table 2).

This study used interview recordings and content analysis to examine interview data. All data were labelled and analysed according to research content. Furthermore, the data were combined with reference data for the discussion with senior respondents. This corresponds with the triangulation proposed by Woodside and Wilson (2003). Research conducted through multiple approaches is beneficial towards

testing the hypothesis and explaining the source of existing knowledge (Cavaye, 1996).

Table 2. Basic Profile of Respondents

Number	Position	Description
1	EVP	Xiaomi's OEM partner company Collaboration exceeds 4 years
2	PM Director	Xiaomi's OEM partner company Experience exceeds 20 years
3	PM Manager	Xiaomi's OEM partner company Experience exceeds 10 years
4	Marketing Director	Manager of Xiaomi Experience of 6 years
5	Sales Manager	Manager of Xiaomi Experience of 4 years
6	Consumer	Used miliao for approximately 2 years
7	Consumer	Used miliao for more than 2 years
8	Consumer	Used miliao for approximately 3 years
9	Consumer	Used miliao for more than 3 years
10	Consumer	Used miliao for more than 1 year
11	Consumer	Used miliao for approximately 2 years

4. Findings

In consolidating the 11 respondent interviews, the structure of this study used service-dominant logic as a basis to analyse the business model of Xiaomi in mainland China. This study found that Xiaomi applied a collaboration-centric concept in constructing a value co-creation business model. This study also analysed external and internal factors, including the external factors of technology and culture and the internal factors of sense of identity, ecological chain of community, and fan-centric concept, which are summarized as follows:

4.1. Xiaomi Technology Based on Service-Dominant Logic

This study's literature review notes that business management establishes value co-creation and benefits others through collaboration (Lusch et al., 2007). For Xiaomi, numerous respondents stated that the biggest difference between Xiaomi and other brand manufacturers lies in its collaborative model. Xiaomi is willing to establish partnerships with suppliers and customers, enabling suppliers and customers to co-create new products. This is also the key to Xiaomi's rapid introduction of new products. Respondents noted that:

Xiaomi does not have its own factories. It establishes collaboration with customers and partners. This is the biggest difference between Xiaomi and other companies. Many recent new products were produced due to the recommendation and development of customers and partners. (Respondent 5)

Xiaomi employs an open attitude with a fan-centric concept towards customers. Not only does Xiaomi allow customers to

co-develop software, the founder also personally responds to customer demands. As for its partners, Xiaomi regularly holds supplier conferences to exchange and provide operating conditions. They can jointly solve supply chain problems and find new opportunities for development. The founder calls this the business community ecological chain, which lets customers of Xiaomi and related business co-create products. (Respondent 4)

Likewise, the literature points out that an enterprise's competitive advantage comes from customers and partners participating in co-creation and co-production, of which customers are co-creators of value, and enterprises are the integrators. This includes four concepts of co-creation: co-creating value propositions, co-creating conversations, co-creating service offerings, and co-creating value networks and processes (Lusch, Vargo & O'Brien, 2007). This study found that not only does Xiaomi integrate suppliers and customers, Xiaomi also establishes a model of co-creation. The model of sequence for the four concepts of co-creation is as follows: first, Xiaomi converses with customers through miliao to understand customer needs, and even keeps abreast of the potential quantity demanded through pre-orders; next, Xiaomi uses supplier conferences to establish partnerships and explain its value proposition; and finally, Xiaomi co-produces service offerings with its suppliers and customers. This study utilizes the four co-creation concepts of service-dominant logic to consolidate interview data, as shown in Table 3.

Table 3. The Implementation of the Concepts of Co-creation

Concept	Interview content
1. Co-creating conversations	Xiaomi attaches great importance to miliao. Partners can assist with any item. Xiaomi insists that it runs miliao itself (Respondent 5). I joined miliao before Xiaomi phones hit the market. In addition to chats and discussion, I also assisted the development of various software, and I could even have discussions with the manager. This gave me the feeling of being respected (Respondent 10). Xiaomi's founder, Lei Jun, was willing to take the time to communicate and discuss with suppliers. Thus, Xiaomi got the support of us suppliers (Respondent 2).
2. Co-creating value networks	Lei Jun wants to establish an ecological chain to let suppliers cooperate with one another (Respondent 1).
3. Co-creating value propositions	Xiaomi constructed many concepts of the ecological chain that centers on smartphones. It links the applications of related services through software and the Internet (Respondent 5).
4. Co-creating service offerings	Xiaomi constantly introduces new products, such as adding a chip in air-conditioners so smartphones can be used to increase the remote-control function. In addition, Xiaomi's supply chain is constructed on the basis of

software that expands a variety of new applications (Respondent 4).

For smartphone brands in China, it is best to have the quantity demand first to control cost so the product can be launched onto the market at a lower price. This will seize the customers' attention and effectively increases sales within the shortest time. When Xiaomi develops products, it will first release the code in miliao so customers can pre-order and assist the with development. This way, Xiaomi grasps the quantity demanded. Next, Xiaomi shares customer information and discusses production difficulties with suppliers at supplier conferences. It views its suppliers as partners, jointly developing related products (Respondent 5).

Xiaomi is unique in that it brings related businesses into its ventures on the market. It becomes closer to each vendor by holding events, not by using management or blockade methods. Xiaomi willingly assists vendors in carrying out development and innovation, thereby increasing its bond with the vendors, who in turn are also willing to assist Xiaomi in co-creating new products (Respondent 2).

Xiaomi's founder, Lei Jun, really knows how to create a vision. During meetings, Lei will convey the goals of Xiaomi, unlike some international brands that only put forward the cooperation requirements. Xiaomi's meetings are very open discussions. Proposals that benefit supply chain development can all be put forward. Afterwards, suppliers will fully cooperate with the production and launch. This is also the main reason that Xiaomi was able to rapidly introduce a great variety of products in recent years.

I have been using miliao for 3 years. During this time, I provided many recommendations for software updates, and Xiaomi accepted the majority of them. When a product hits the market, I find the software modified in accordance with fan recommendations, making me willing to continue helping and recommending Xiaomi products (Respondent 8).

Thus, Xiaomi grasps customer needs through a model (miliao) of interacting with customers. At the same time, it uses pre-orders to grasp the quantity demanded. Next, Xiaomi lets suppliers join the ecological chain (value network) through supplier conferences. The suppliers can assist in developing new products and enter the market using the Xiaomi brand. Then, Xiaomi promotes with miliao so fans can provide assistance and recommendations, thereby achieving the goal of conveying value propositions and co-created service offerings, and thereby creating a virtuous circle (co-creating conversations, value networks, value propositions, and service offerings).

4.2. Internal Factors

In using a collaborative model to integrate suppliers and customers, Xiaomi establishes a co-created model. As for the details of the practice, based on the consolidated interviews, this study found that Xiaomi's operation ran from business to customer, utilizing a sense of identity, a business community ecological chain, and a fan-centric concept to strengthen its business model.

First, the concept of identity was mentioned by all respondents. Mainly, Xiaomi's founder, Lei Jun, views each partner as one of his own people. Lei also gives suppliers better conditions when collaborating. As a result, many suppliers are willing to assist Xiaomi in product manufacturing and development. In addition,

Lei also personally replies to fan questions. Respondents noted that:

Collaborating with Lei Jun is easy. There is no need to send gifts. Lei stresses professionalism and manufacturing capacity. Collaboration is based on mutual trust to jointly solve problems encountered in the production process. For example, the raw material of Xiaomi is taken care of by Xiaomi itself. Xiaomi trusts the estimated quantity provided by the assembly plant, directly sending it from the raw material end to the supplier. At the same time, the conditions provided are better than those of American brand vendors. These factors all inspire suppliers to extend considerable heartfelt effort (Respondent 1).

For example, in July of 2014 there was a rumour of liquidity problems for a supplier. It was said that the supplier would go out of business by September. Lei Jun assisted said supplier with cash to help it overcome difficulties, because Lei considered Xiaomi's relationship with various vendors to be a partnership. Lei did not want any issues that would break Xiaomi's supply chain (Respondent 3).

One time, I complained about the shortcomings of Xiaomi's software and to my surprise, it was Lei Jun that responded. I was flattered. This also gave me the impression that Xiaomi was a business that valued customers (Respondent 7).

For the supply chain network, Xiaomi is constructed on the network and proposition of value co-creation. Xiaomi comes closer to suppliers through activities and supplier conferences. Suppliers can collectively enjoy Xiaomi's customer data and propagate the operational goals that Xiaomi sets to achieve in the future. In addition, Xiaomi can also gain an understanding of the supplier's implementation problems and obstacles and jointly seek development opportunities. Respondents state that:

Xiaomi's founder is willing to spend time finding suitable people or partners. When he decides to cooperate with you, he will think from your perspective. For example, he will give higher gross profit, the cost of raw material will be borne by Xiaomi, and inventory will be absorbed by Xiaomi. Thus, most suppliers willingly comply with Xiaomi's time frame, enabling Xiaomi to launch numerous products within a short time (Respondent 4).

Compared with some international brands that have many requirements and make withdrawals, Xiaomi views its original equipment manufacturers (OEM) as its partners, and so its OEMs are also willing to devote more effort. For example, when Xiaomi's ERP system had inaccurate or no data, Xiaomi had to manage data using old methods, and errors in material preparation would often occur. However, Xiaomi trusted its OEMs, and the OEMs were also willing to assist in reducing the chance of error for material preparation (Respondent 2).

Compared to major international brands that predict consumer demand using historical data, Xiaomi instead uses pre-orders to grasp the quantity demand and give us orders to produce. In addition, Xiaomi bears the raw material cost, putting us under less pressure in terms of cost. Risk is also borne by Xiaomi. Relatively speaking, other major internationals put us under higher pressure in terms of cost (Respondent 2).

Xiaomi is unique in that it brings related businesses into its ventures on the market. It becomes closer to each vendor by

holding events, not by using management or blockade methods, and founder Lei Jun is even able to name each vendor. Lei discusses the development and innovation of production, and discloses almost all information. This increases the sense of trust and bond that suppliers have with Xiaomi, and suppliers also become willing to co-create new products with Xiaomi (Respondent 1).

This paper discovered that Xiaomi uses a fan-centric concept to construct a relationship with its customers. For example, before a new product is launched onto the market, Xiaomi conducts promotions and pre-orders through miliao. Not only does this allow customers to join in and assist development, it also enables Xiaomi to grasp the needs of customers. Respondents note that:

In simple terms, the key to Xiaomi's model lies in directly converting its customers to fans so that they are willing to design and modify products with Xiaomi. (Respondent 5).

The MIUI Forum enables customers to download software to try out for free. The forum lets customers submit their trial experience reports each Tuesday, while software is updated every Friday (also called "orange Friday"). The use value is basically completely decided by my demands (Respondent 6).

I like to help Xiaomi improve the software on smartphones. I have obtained the design engineer edition Xiaomi smartphone, and this makes me feel a sense of honor and worth that sets me apart from other customers. Xiaomi's development centers on me. This increases my loyalty to Xiaomi. (Respondent 8)

Xiaomi utilizes a sense of identity, a business community ecological chain, and a fan-centric concept to strengthen its relationship with suppliers and customers. Thus, its partners are more willing to assist in developing new products, increasing the efficiency and competitiveness of launching new products by Xiaomi's overall supply chain.

4.3. External Factors

Business management is impacted by external factors, and Xiaomi is no exception. After consolidating the interview data, this study found that technology and culture impact Xiaomi's business model. The development of technology enables Xiaomi to construct a platform of bilateral communication, and, especially in the present age of state-of-the-art Internet, Xiaomi can use the Internet to connect with suppliers and customers. Xiaomi's bilateral communication with customers, such as miliao, can smoothly grasp consumer preferences and share that information with suppliers. Respondents state that:

The key to why Xiaomi's products can be sold at low prices is Xiaomi's proficiency in controlling costs. In particular, Xiaomi uses the Internet to connect with customers and suppliers. First, Xiaomi grasps the quantity demand through interaction on miliao. Then, with assistance from its partners, Xiaomi calculates the quantity demand of raw materials and tackles reducing the defect rate. For the latter in particular, Xiaomi trusts and respects suppliers, and of course, suppliers are willing to make every effort to help, which effectively reduces costs caused by loss (Respondent 2). With assistance from the current Internet and technology, Xiaomi is easily able to strengthen its relationship with its partners and co-create

and co-develop new products, making collaborative operation possible (Respondent 4).

Afuah and Tucci (2003) note that culture impacts business models and strategic development. The respondents of this study have also mentioned this concept. In particular, Chinese consumers have a preference for their own local brands. Respondents state that:

Price comparison is very prevalent in China's market. Products need to be sold at lower prices to attract consumers, or else they will be easily eliminated by the market. Generally, if a company can grasp the quantity demand and sell at low prices, it can gain a competitive advantage for approximately six months to develop newer products. This is how Xiaomi improves competitiveness (Respondent 5).

The people of Mainland China hold nationalist beliefs. Since Xiaomi is a Chinese brand, and Xiaomi uses miliao to successfully achieve closer relations, Chinese people have a high degree of acceptance of Xiaomi smartphones. However, Xiaomi's development overseas does not include the support of Chinese nationalism, making it crucial for Xiaomi to introduce new products to attract consumers to buy Xiaomi smartphones. For example, the Xiaomi Power Strip set a worldwide record by selling 5 million in a day (Respondent 2).

Xiaomi is popular in China because we have a preference for Chinese brands. We wish to work together to build a world-class brand. In addition, Xiaomi emphasizes a high CP index which compels me to buy Xiaomi products (Respondent 9).

That is to say, technological factors strengthen Xiaomi's relationship with suppliers and customers, increasing the possibility for collaborative development. Furthermore, culture influences the degree of acceptance of local people. Xiaomi uses miliao to grasp Chinese people's demand for smartphones and then provides appropriate products to meet demand.

5. Discussion

This study utilizes the concept of co-creation to explore Xiaomi's operation in China. The research results are shown in Figure 2. The three major findings are as follows:

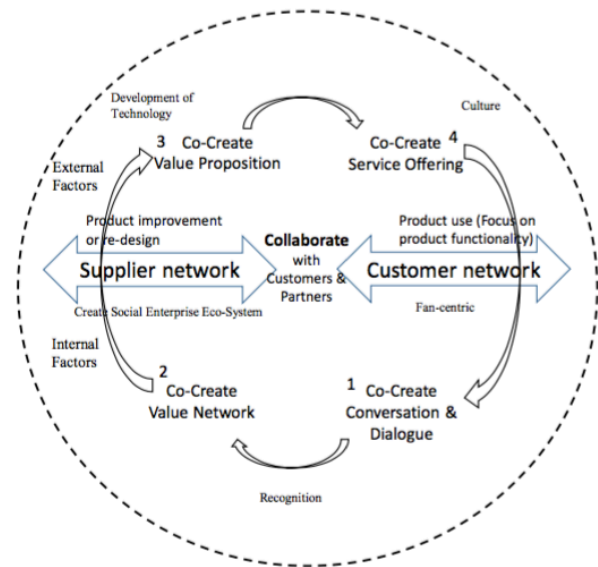


Figure 2. Xiaomi's business model

A Collaborative Business Model

As Shih, et al., (2014) note, Xiaomi uses a fan-centric concept for its main operating activities. The study found that in addition to embodying a fan-centric concept, Xiaomi also shares its customer information through regularly-held supplier conferences. It views its suppliers as its partners and utilizes its business community ecological chain to strengthen its relationships with suppliers and customers. This enables Xiaomi, who does not possess its own factories, to rely on the assistance of suppliers and customers to develop a variety of products at the lowest cost and the fastest speed.

The Formation of a Co-Created Cycle

Service-dominant logic features four concepts of co-creation, including co-creating conversations, co-creating value networks, co-creating value propositions, and co-creating service offerings. After analysing the case study of Xiaomi, this study found that Xiaomi uses miliao to interact with customers (co-creating conversations), then Xiaomi shares the gathered information in supplier conferences (co-creating value networks), thereby creating a business community ecological chain that also gives a sense of identity to suppliers. At the same time, Xiaomi conveys its value proposition of operations at supplier conferences (co-creating value propositions). Finally, Xiaomi provides service offerings (co-creating service offerings). In other words, the four concepts of co-creation have an order that forms a cycle of development.

The Influence of External Factors

Through analysing the interviews, this study found that the reason for Xiaomi's success in China is that with technological advance, Xiaomi can successfully construct a collaborative platform and use the Internet for communication and discussion. In addition, this study also found that business operation is impacted by cultural background. China is highly supportive of local brands, and Xiaomi's products incorporate a low pricing strategy, successfully attracting the attention and support of the Chinese public.

6. Conclusions and Implications

6.1. Theoretical Implications

On the aspect of theoretical contribution, this study uses service-dominant logic as a basis to construct Xiaomi's co-created business model and development sequence. Furthermore, this paper proposes that in Xiaomi's development of collaboration with partners and customers, Xiaomi first grasps the customer's point of view before using the business community ecological chain (value network) to share data and value propositions with (suppliers). Finally, Xiaomi integrates partners and customers to jointly provide related products or develop new products.

That is to say, this study clarifies the importance of a collaborative concept in S-D logic, which allows enterprises to grasp the thoughts of customers and integrate resources from partners to co-create products that best meet customer demand. In addition, this paper also reveals that Xiaomi's operations are impacted by technology and culture.

6.2. Managerial Implications

The results of Xiaomi's case study confirm the core of service-dominant logic: collaboration can be applied to the daily operations of a business. In particular, enterprises that want to operate in China in the future can refer to the methods of Xiaomi. Overall, this study can be summarized in the following three points:

The Supply Chain of Partnerships

Supply chains are no longer based on management (enterprise resource planning), but building partnerships. Xiaomi established a business community ecological chain to integrate suppliers and customers. By sharing with each other, each partner in the supply chain is truly able to understand customer needs. Just as the research findings of Shih et al., (2014) indicate, social media is the center of Xiaomi's operations. The findings of this study also suggest that Xiaomi utilizes supplier conferences and miliao to integrate suppliers and customers, enabling Xiaomi to rapidly produce various innovative products to meet customer demand and strengthen the competitiveness of its supply chain.

Pre-Purchase Communication

After conducting the interviews, this study found that to increase product sales, companies not only need to understand customer behaviour but also the behaviour of customers before they make purchases. Xiaomi uses miliao to interact with customers, thereby obtaining

information on customer preferences. This even allows customers to co-develop products with Xiaomi. The founder also personally responds to customer questions. Customers gain a sense of identity before purchasing, and, afterwards, they are willing to continue to help update software and make recommendations.

The Influence of Technology and Culture

For business management, the development of technology has a great impact on businesses. In the present day of technological advances, Xiaomi uses social media to construct miliao's social network. Xiaomi provides open source codes on miliao so fans can assist in developments and uploads. This is a cloud sharing platform established by using the Internet. At the same time, Xiaomi is also able to obtain customer preferences on miliao, and thereby analyze (big data) the direction of product development. These are all crucial to enhancing Xiaomi's competitiveness.

On the concept of culture, this study indicates that businesses operating in China need to pay attention to cultural influences. Businesses can use technological advances to continue interaction and grasp that Chinese customers like products with low prices and high cost-performance ratios. First, businesses need to attract the attention of customers, and then they need to continue to provide services to customers to maintain the stability of the relationship between products and customers. Hence, customers will also be willing to assist businesses in developing new products. The same is true for suppliers. This will provide a higher gross profit and reduce the risk of error in material preparation, and suppliers will be more willing to make every effort in assisting development. This is the key to why Xiaomi has been able to continue introducing new products in recent years.

6.3. Further Research

Using case study analysis, this study conducted interviews that enabled Xiaomi-related personnel to answer research questions. Although the respondents came from diverse backgrounds, there are still limitations. Future research can refer to the findings of this study, and develop quantified questionnaires for verification to strengthen the integrity of the research results.

This is an Open Access article distributed under the terms of the Creative Commons Attribution Licence



References

- Afuah, A., and Tucci, C.L., 2003, 'A model of the Internet as creative destroyer', *Engineering Management*, 50, 4, pp. 395-402.
- Cavaye, A.L.M. 1996, 'Case study research: a multi-faceted research approach for IS', *Information Systems Journal*, 6, 3, pp. 227-242.
- Cova, B., and Salle R., 2008, 'Marketing solutions in accordance with the SD logic: Co-creating value with customer network actors,' *Industrial Marketing Management*, 37, 3, pp.270-277.
- Dubois, A., and Araujo, L., 2004, 'Research methods in industrial marketing studies', In Debbie Harrison, & Alexandra Waluszewski (Eds.), *Rethinking marketing: Developing a new understanding of markets*, Hakan Hakansson. Chichester: Wiley.
- Giarini, O., 1999/2000, 'The globalisation of services in economic theory and economic practice: some key issues.', *Progres*, 30, pp. 1-13.
- Grönroos, C. , 2008, 'Service logic revisited: Who creates value? And who co- creates?', *European Business Review*, 20, 4, pp. 298-314.

- Grönroos, C., and Voima, P., 2013, 'Critical service logic: Making sense of value creation and co-creation', *Journal of the Academy of Marketing Science*, 41, 2, pp. 133–150.
- Gummesson, E., 2002, 'Total relationship marketing (2nd ed.)', Butterworth, Heinemann, Oxford.
- Halliday, S.V., 2016, 'User-generated content about brands: Understanding its creators and consumers', *Journal of Business Research*, 69, 1, pp. 137–144.
- Kinard, B.R., and Capella, M.L., 2006, 'Relationship marketing: the influence of consumer involvement on perceived service benefits', *Journal of Services Marketing*, 20, 6, pp. 359–368.
- Kosteroglou, E.P., Theriou, G., and Chatzoudes, D., 2016, 'Customer satisfaction from private utility companies: an explanatory study', *International Journal of Business and Economic Sciences Applied Research*, 9, 3, pp. 13–23.
- Lacoste, S., 2015, 'Sustainable value co-creation in business networks. Industrial,' *Marketing Management*. In Press, Corrected Proof.
- Lusch, R.F., and Vargo, S., 2011, 'Service-dominant logic: A necessary step,' *European Journal of Marketing*, 45, 7/8, pp. 1298–1309.
- Lusch, R.F., Vargo, S.L., and O'Brien, M., 2007, 'Competing through service: Insights from service-dominant logic,' *Journal of Retailing*, 83, 1, pp. 5–18.
- Mills, P.K., and Morris, J.H., 1986, 'Clients as 'Partial' Employees of Service Organizations: Role Development in Client Participation,' *Academy of Management Review*, 11, 4, pp. 726–735.
- Navarro, S., Andreu, L., and Cervera, A., 2014, 'Value co-creation among hotels and disabled customers: An exploratory study,' *Journal of Business Research*, 67, 5, pp. 813–818.
- Payne, A.F., Storbacka, K., and Frow, P., 2008, 'Managing the co-creation of value,' *Journal of the Academy of Marketing Science*, 36, 1, pp. 83–96.
- Prahalad, C.K., 2004, 'The co-creation of value—Invited commentary,' *Journal of Marketing*, 68, 1, pp. 23.
- Shih, C. C., Lin, T. M.Y., and Luarn, P., 2014, 'Fan-centric social media: The Xiaomi phenomenon in China,' *Business Horizons*, 57, 3, pp. 349–358.
- Vargo, S.L., and Akaka, M.A., 2009, 'Service-dominant logic as a foundation for service science: Clarifications,' *Service Science*, 1, 1, pp. 32–41.
- Vargo, S.L., and Lusch, R.F., 2004, 'Evolving to a new dominant logic for marketing,' *Journal of Marketing*, 68, 1, pp. 1–17.
- Vargo, S.L., and Lusch, R.F., 2008a, 'From goods to service(s): Divergences and convergences of logics,' *Industrial Marketing Management*, 37, 3, pp. 254–259.
- Vargo, S.L., and Lusch, R.F., 2008b, 'Service-dominant logic: Continuing the evolution,' *Journal of the Academy of Marketing Science*, 36, 1, pp. 1–10.
- Wagner, J., and Benoit, S., 2015, 'Creating value in retail buyer–vendor relationships: A service-centered model,' *Industrial Marketing Management*, 44, pp. 166–179.
- Woodside, A.G. and Wilson, E.J., 2003, 'Case study research methods for theory building,' *Journal of Business & Industrial Marketing*, 18, 6/7, pp. 493–508.
- Yi, Y., and Gong, T., 2013, 'Customer value co-creation behavior: Scale development and validation,' *Journal of Business Research*, 66, pp. 1279–1