

The Effectiveness of Xiaomi's Diversified Operations

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Abstract. This article focuses on Xiaomi's diversified business strategy, systematically analyzing its implementation path, effectiveness, and challenges faced. As the growth of smart phone market slows down, Xiaomi actively promotes the trinity strategy of "mobile phone+AIoT+Internet service" to build an ecosystem with smart hardware as the core. By investing in ecological chain enterprises, increasing R&D investment and expanding overseas markets, Xiaomi has realized the diversification of its business structure. In 2023, smartphone revenue will account for 58.6%, IoT and consumer products will account for 29.1%, Internet services will account for 12.3%, and AIoT connecting devices will exceed 600 million. The diversification strategy effectively enhances the company's risk resistance, strengthens user stickiness, and drives the brand to steadily expand its influence in the Indian and European markets. Despite significant achievements, Xiaomi still faces problems such as uneven profitability between its main and secondary businesses, complex organizational management, and decreased efficiency in resource allocation. To continuously promote strategic upgrading, Xiaomi needs to focus on breakthroughs in core technologies, strengthen ecological chain collaboration, and deepen global market brand building. This study provides useful reference for the diversification strategy of Chinese technology enterprises, pointing out the importance of clarifying business boundaries and emphasizing organizational resilience design. Future research can introduce more enterprise cases, especially the long-term effects of emerging businesses such as new energy vehicles, to further improve the theoretical and practical guidance of diversification strategies.

Keywords: Xiaomi, diversification strategies, corporate performance.

1. Introduction

With the increasingly fierce competition in the global technology market and the continuous diversification of consumer demands, the traditional single business structure is no longer able to support the sustained growth and long-term competitiveness of enterprises. In this context, diversified business strategies have gradually become an important choice for technology enterprises to cope with external environmental changes, reduce business risks, and expand development space. Since its establishment in 2010, Xiaomi has not only risen rapidly in the field of smart phones, but also extended a comprehensive business system covering smart hardware, Internet of Things devices, Internet services and other sectors around its core products.

This article aims to explore in depth the implementation background and development path of Xiaomi's diversified business strategy. The research will revolve around the following core question: Why did Xiaomi choose to implement a diversification strategy? What are the specific strategic paths involved? What achievements have these strategic measures made, and what challenges and constraints are they facing? Through case analysis, this article aims to provide useful references for the strategic transformation and sustainable development of technology enterprises.

This article adopts a case study method, combined with Xiaomi's annual report, market data, industry reports, and relevant literature, to systematically analyze the specific practice and effectiveness of its diversified business strategy. The research content mainly includes four parts. The first part reviews Xiaomi's development history and strategic transformation background. The second part clarifies its diversified path and implementation methods. The third part evaluates the actual

effectiveness and challenges faced by the strategy. The fourth part summarizes the research findings and proposes experiential insights for diversified business operations of enterprises.

This study adopts a technical approach that combines theoretical analysis, case analysis, and empirical induction, aiming to integrate theoretical framework and practical analysis. Firstly, based on literature review, this paper summarizes the basic types and implementation paths of diversification strategy, providing theoretical support for Xiaomi's strategic choices. Secondly, focusing on Xiaomi's development history, this paper conducts an in-depth analysis of its practical models of related diversification, unrelated diversification, and investment-driven diversification, and summarizes the business expansion path and collaborative characteristics in its strategic implementation process. On this basis, combined with financial data and market performance, this study evaluates the comprehensive effectiveness of Xiaomi's diversification strategy in terms of revenue structure, user ecology, brand influence, and other aspects. The study simultaneously identifies existing problems faced by Xiaomi, such as uneven profitability between main and secondary businesses, increased management difficulty, etc., and proposes suggestions for further improvements. Finally, the paper explores insights for strategic transformation and management innovation of Chinese technology enterprises based on the experience of Xiaomi. The overall technical roadmap has a clear structure and distinct hierarchy, emphasizing mutual verification between theory and cases, reflecting the systematic and practical value of the research [1].

2. Overview of Xiaomi Company

2.1. Development History

Xiaomi Company was founded in 2010. It initially entered the market as a "fan phone". With its cost-effective products and the innovative model of Internet direct marketing, it quickly won the favor of a large number of users and successfully broke the barriers of traditional mobile phone sales channels. With the continuous expansion of market share, Xiaomi is gradually transforming from a single smartphone manufacturer to a diversified technology enterprise. In recent years, around the three core sectors of "intelligent hardware+IoT platform+Internet services", Xiaomi has continuously expanded its business boundaries, set foot in many fields such as the Internet of Things, smart home, wearable devices, Internet finance, and built an intelligent ecosystem centered on "people, cars, and homes" [2]. The company has continuously deepened its research and development investment, global layout, and supply chain integration, gradually enhancing its brand value and core competitiveness.

2.2. Background of Strategic Transformation

Since 2015, the smartphone market has gradually become saturated, competition among peers has become increasingly fierce, and profit margins have been continuously compressed. Xiaomi has found that relying solely on one product is no longer enough to support the long-term development of the enterprise. In this situation, the company began to rethink its future direction. Therefore, Xiaomi proposed a dual engine strategy of "mobile phone x AIoT" and began to expand its layout in multiple fields. The core of this new strategy is to connect mobile phones, smart homes, wearable devices, and create a complete smart living circle. Through interconnectivity between products, Xiaomi not only improve users experience, but also their brand loyalty. Meanwhile, business diversification also makes Xiaomi more stable in the face of market changes and less susceptible to fluctuations in a single product.

3. Analysis of Xiaomi's Diversification Strategy

3.1. Types and Characteristics of Diversification Strategies

Xiaomi's diversification is mainly reflected in the fields of smart hardware such as smartphones, smart TVs, and smart wearable devices. The company has gradually launched diversified products covering smart TVs, smartwatches, smart speakers, smart home devices, etc., by utilizing its technological and market advantages in mobile phone manufacturing. These hardware products together form a closely interconnected product matrix, supporting interconnectivity and providing users with a complete intelligent living experience. Users only need one Xiaomi account to easily manage and control all smart devices in their homes, experiencing seamless services [3]. The diversification of related products not only gives Xiaomi competitiveness in a single product field, but also enhances overall user stickiness and brand value through the ecosystem. This multi-product combination not only meets the diverse needs of different users, but also increases their dependence on the Xiaomi ecosystem, promoting cross selling and upgrading of products.

In addition to intelligent hardware, Xiaomi also actively expands non-related businesses such as new energy vehicles, financial technology and Internet content. After entering the field of new energy vehicles, Xiaomi released Xiaomi Auto, aiming to seize the market opportunity of intelligent transportation and promote the integration of the automotive industry and intelligent technology. At the same time, Xiaomi Finance serves as a window for the company's financial services, providing various products such as consumer loans and insurance, enriching users' financial experience. In addition, Xiaomi video, Xiaomi music and other Internet content businesses have also gradually developed, aiming to bring more entertainment options to users. These unrelated businesses, although different from Xiaomi's core hardware, rely on a strong user base and technological accumulation to create new sources of revenue for the company.

By investing in ecological chain enterprises, Xiaomi has achieved an investment driven diversification strategy. The company supports a large number of small and medium-sized enterprises and innovative teams, which focus on niche areas such as smart homes, sensing technology, and health devices, supplementing the shortcomings of Xiaomi's product line. Xiaomi not only provides financial support, but also shares technical resources and market channels to help these enterprises grow rapidly and form close cooperation with their own businesses. Investment-driven diversification enables Xiaomi to extend its industrial chain, form a complete supply and service system, and achieve synergies between its brand and products [4].

3.2. Implementation of Diversification Strategies

Xiaomi adheres to the model of "core business+ecological chain layout". Xiaomi not only focuses on the research and development of smartphones and smart hardware, but also rapidly enriches its product range by investing in and incubating a large number of ecosystem enterprises. By supporting these ecosystem enterprises, Xiaomi can quickly expand its hardware categories, meet users' diverse needs in home, health, travel, and other areas, and enhance overall user experience and brand influence.

Xiaomi focuses on technology research and development and industry chain integration. In 2023, Xiaomi will invest over 20 billion yuan in research and development, with a focus on core technology areas such as chip design, autonomous operating systems, and artificial intelligence. The breakthrough in chip technology has given Xiaomi an advantage in hardware performance and cost control, while the independently developed operating system has improved device stability and user experience. At the same time, Xiaomi has strengthened the integration of its industrial chain, promoted the coordinated operation of its supply chain, improved production efficiency and product quality, and enhanced its control over core links. This not only enhances Xiaomi's market competitiveness, but also reduces external risks, allowing the company to respond more flexibly to industry changes [5].

Xiaomi actively explores overseas markets and promotes international development. The company focuses on expanding into regions such as India, Southeast Asia, and Europe, and quickly gains market share by providing cost-effective products and through localized marketing channels. Taking India as an example, Xiaomi has maintained a leading position in the smartphone market for many years, relying on reasonable pricing and in-depth channel construction to win a large number of loyal users. The Southeast Asian market is also an important battlefield for Xiaomi's growth, and the company is rapidly expanding its influence through partnerships and a combination of online and offline channels. In the European market, Xiaomi focuses on mid to high end products, emphasizing design and performance, gradually gaining consumer recognition. The continuous expansion of overseas markets not only diversifies domestic market risks but also brings new growth points for Xiaomi.

In summary, Xiaomi has formed an organic whole of diversified strategy through the layout of ecological chain enterprises, investment in technology research and development, and expansion of international markets. These measures support each other, promote the steady expansion and continuous innovation of the company's business, and lay a solid foundation for Xiaomi's long-term development.

3.3. Financial Performance of Diversification Strategies

Xiaomi adheres to the model of "core business+ecological chain layout". Xiaomi not only focuses on the research and development of smartphones and smart hardware, but also rapidly enriches its product range by investing in and incubating a large number of ecosystem enterprises. By supporting these ecosystem enterprises, Xiaomi can quickly expand its hardware categories, meet users' diverse needs in home, health, travel, and other areas, and enhance overall user experience and brand influence.

4. Effectiveness and Reflection of Diversification Strategy

4.1. Effectiveness of Diversification Strategies

After promoting its diversification strategy, Xiaomi has achieved remarkable results in terms of business structure, user ecology and brand influence.

The Company's overall risk resistance capability continued to increase. As shown in Fig. 1, Xiaomi's smartphone revenue accounted for 58.6% in 2023. IoT and consumer products accounted for 29.1%, and Internet services accounted for 12.3%. The three business segments complement each other synergistically. When the smartphone market is under pressure, IoT and Internet services maintain steady growth, effectively supporting the overall revenue. Xiaomi TV has ranked first in shipments in China for many consecutive years, with revenue from Internet advertising and value-added services reaching 28 billion yuan, up 9.5% year-on-year, becoming one of the main sources of cash flow [6].

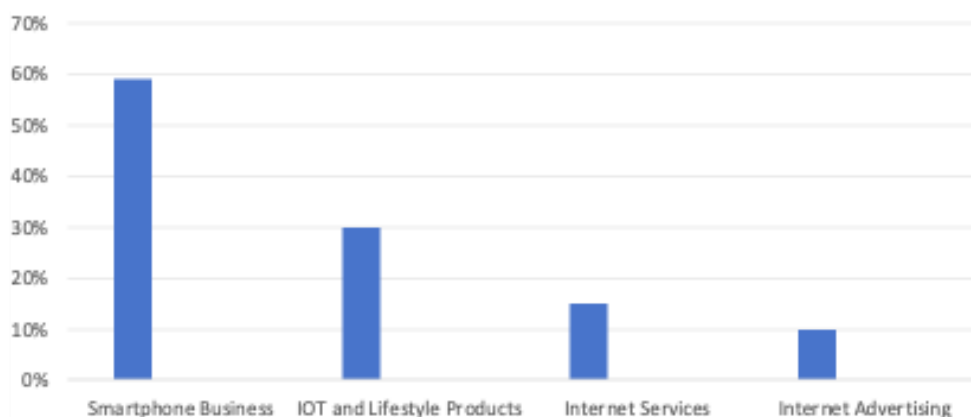


Fig. 1 Revenue breakdown of Xiaomi's main businesses in 2023

Brand influence continues to expand. In 2023, Xiaomi ranked first in India's smartphone market and among the top three in European countries such as Spain and Italy. With cost-effective products and localized operation, Xiaomi has grown from a domestic brand to a technology enterprise widely recognized by global users. As shown in Fig. 2, its international market base has become more stable.

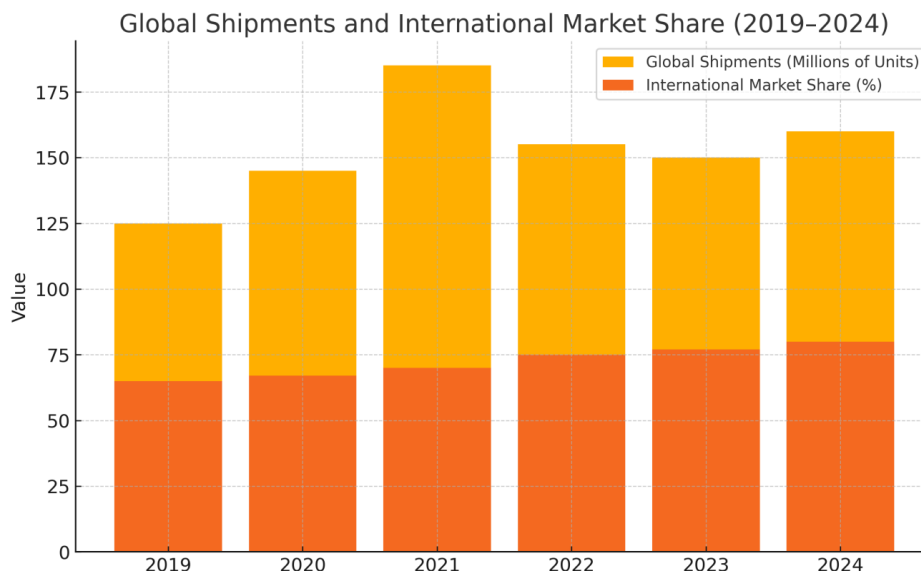


Fig. 2 Xiaomi mobile phone global shipments and export proportion (2020-2024)

The user ecosystem is maturing. As reported in Table 1, Xiaomi accounts have more than 600 million monthly active users, and users can realize data synchronization and function intercommunication among mobile phones, TVs, slightly, bracelets and other devices through unified accounts. In 2023, the AIoT platform will have more than 650 million connected devices and more than 12 million active "5-piece" users. Multi-device collaboration brings more frequent use scenarios and improves user stickiness and product adhesion [7].

Table 1. Key data of Xiaomi Internet service and user ecology (2023)

Data item	Value
Revenue from Internet advertising and value-added services (billion yuan)	280
Xiaomi account monthly active users (100 million)	6
AIoT platform total connected equipment (100 million units)	6.5
Number of active 5-piece users (tens of thousands)	1200

4.2. Challenges and Problems Faced

Although Xiaomi's diversification strategy has achieved certain results, there are also many problems in the expansion process which need to be further optimized.

4.2.1. Profit gap between main and sideline

Smartphones are still the main source of revenue for Xiaomi, contributing more than half of the total revenue. In contrast, the profit model of new businesses such as smart home, financial technology and new energy vehicles is not clear enough, most of which are in the early investment stage and have not yet formed stable cash flow, affecting the overall profit performance [8].

4.2.2. Increasing management difficulty

With the horizontal expansion of the business, the product lines and service types continue to increase, and the involved industrial chains become more complex, posing challenges to internal management. It is more difficult for each business segment to coordinate resource allocation and target implementation, which affects the overall efficiency and puts forward higher requirements for organizational structure and management talents.

4.2.3. Low efficiency of resource allocation

Some new businesses, such as automobiles and chips, have high input costs and long payback cycles, occupying a large amount of resources. As it is difficult to generate significant returns in the short term, it may slow down the development of other efficient businesses and reduce the efficiency of capital use [9].

4.3. Strategic Optimization and Improvement Direction

In order to enhance the long-term effectiveness of the diversification strategy, Xiaomi should continue to optimize in the following areas.

4.3.1. Focus on key technologies

Enhancing independent R&D capability is the key to enhancing core competitiveness. Xiaomi needs to increase investments in chip, autonomous operating system and other underlying technologies, reduce dependence on external supply chain, ensure the continuous advantages of products in performance, stability and innovation, and provide technical support for diversified businesses [10].

4.3.2. Improvement of ecological chain synergy efficiency

In the ecological chain enterprises with extensive layout, resource integration should be further promoted to get through the system linkage among various businesses. Through unified platform, standard interface and operation mechanism, enhance data interoperability and product collaboration, reduce operation cost, improve user experience and form a truly integrated ecosystem [11].

4.3.3. Deepening of global brand layout

In the global market, it is necessary to further clarify brand positioning and strengthen the image of medium and high-end products. By optimizing product design, improving service quality and strengthening localized marketing, Xiaomi should aim to establish brand recognition of "technology+quality". Especially in key markets such as Europe and Southeast Asia, enhancing brand added value will help expand market share and enhance user loyalty [12].

5. Conclusion

Through the overall strategy of "mobile phone+AIoT+Internet service", Xiaomi gradually builds business collaboration and ecological closed loop. As the core, mobile phone business provides support for traffic and user portal, AIoT products broaden usage scenarios, and Internet services bring continuous revenue. However, with the rapid development, there are still problems such as resource dispersion, uneven profit structure and increasing complexity of organization and management. Some new businesses are in the stage of long-term investment, and it is difficult to bring returns in the short term, which tests the efficiency of capital utilization and internal synergy level of enterprises. On the whole, Xiaomi's diversification strategy has achieved phased results, but in order to achieve sustainable development, it is necessary to continue to exert efforts in strategic focus, management optimization and technological breakthrough.

This study takes Xiaomi as a case to analyze its diversification strategy path and effectiveness. It does not involve horizontal comparison with other technology enterprises, and the research scope is relatively limited. Subsequently, Huawei, Glory and other peer companies can be introduced for comparison. The advantages, disadvantages, and applicable conditions under different strategic modes can be discussed in depth, so as to improve the breadth and persuasiveness of the research. In addition, new businesses such as Xiaomi Auto are still in their infancy and have not yet formed a stable profit model, and their market performance and strategic effects still need time to verify.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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