Market Penetration Strategy of Smartphone Companies from China for India Market: A Multiple-case study

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Abstract: This paper reports a study of early and rapid internationalization experience of young Smartphone firms from China, a large emerging market. Following the most popular methodology of building theories with multiple-case study methodology, we distilled research findings about the successful set of marketing strategies from the interviews with the managers of four popular Chinese cell phone makers/brands in their entry into Indian market. This set of qualitative data can support our “Conceptual Framework of Successful Entry of Chinese Smartphone companies into Indian Market” with propositions about relationships between the constructs. The paper then enfolds and compares literature relevant to late movers, new international ventures and marketing and strategies that involve product innovation and adaptation, pricing tactics along with Integrated Market Communications (IMC) to target another emerging market different from one’s home market. The findings of this study will serve as a base for further empirical study.

Keywords: Internationalization, Emerging market, Product & Pricing adaptation, IMC, Consumer acceptance

I. INTRODUCTION

With the diffusion of innovation and technology Smartphone industry has been already commoditized. Highly homogenous products have increased the competition in the market as it got more fragmented and modular structure of the industry has lowered the barriers for the new entrants to target new niches in the market. Lately a drastic rise was noticed in vendors that can offer products with high specifications for affordable price to consumers wanting to switch from feature phones to smart gadgets. Android platform based mobile devices have also paved the way for this scenario. China and India have a big number of start-ups in the industry, as both have a greater replacement demand for a Smartphone from consumers who have used regular or feature phones before. Chinese companies of late began creating products for foreign markets. Trademarks such as Huawei, Haier, ZTE and Lenovo are established outside China and many Chinese firms are on a look out for new business opportunities abroad. This multiple-case study samples four Chinese companies for purpose of investigating early and rapid internationalization of startups from emerging markets and conceptualizes a framework for foreign entry of these companies for a price conscious market and concludes that pricing strategy could still be used to target a new consumer segment(s) and marketing mix could be used for a foreign market entry.

The Industry

The Smartphone Industry is characterized by modularity just like the computer industry has been. The significance of modular designs has been linked to the rapid rate of innovation in the computer industry. Contract manufacturing along with modularity has given rise to the competition in the industry as new players enter the business with the ability to produce at low cost but high efficiency. China and India are fighting the toughest Smartphone wars in the developing world (Woyke, 2014). Huawei and Lenovo’s rapid growth exemplifies growing prominence of China in the industry as neither of them produced Smartphones for international consumers until 2011. The Chinese start-up Xiaomi didn’t start making them until 2011 either but would sell 19 million units in a year in China, Hong Kong, and Taiwan, expand distribution to Singapore and enter Brazil, India and Indonesia. Xiaomi phones were adopted by Chinese consumers as they came with almost similar high-end features as premium Smartphones but were priced less than half as much. The Xiaomi phenomenon made Huawei create Honor, a new brand. Lenovo followed and came up with ZUK and the TV content provider Le TV also launched its Smartphones under the name Le Eco. All of them entered the foreign markets one after another just after their coming into being. A very fragmented market explained the growth trend of the industry. Market intelligence firm International Data Corporation (IDC) saw China as a replacement market-where consumers would upgrade to better gadget, while other emerging markets might still be of first-timers, where consumers would try the basic models of Smartphones. Marketing Research Company
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Counterpoint, reported that the Smartphone shipments in India grew 23% annually in the third quarter of 2016 compared to the 5% of that of global Smartphone market. Reports indicated that the aggressive entry of Chinese brands has prompted many first time Indian Smartphone users to upgrade to these Smartphones- affordable but with better specs. Chinese brands contributed to almost one in three smartphones sold during the last quarter of the year 2016, which according to Counterpoint also saw Chinese brands capturing the 46 percent of the total Smartphone market in India – an increase of 14 per cent from the previous year (Live Mint, Jan, 2017). The Smartphone user base in the country was far above 300 million with the 18 per cent annual growth in 2016 and the domestic mobile device makers lost rankings among the top five ones for the first time.

Table 1: Top Vendors in Smartphone India 2016

<table>
<thead>
<tr>
<th>Vendor Group</th>
<th>Q4 2016 Market Share</th>
<th>QoQ Growth</th>
<th>Vendor Group</th>
<th>CY 2016 Market Share</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung</td>
<td>25.1%</td>
<td>-13.1%</td>
<td>Samsung</td>
<td>24.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Xiaomi</td>
<td>10.7%</td>
<td>15.3%</td>
<td>Lenovo Group*</td>
<td>8.9%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Lenovo Group*</td>
<td>9.9%</td>
<td>-17.4%</td>
<td>Micromax</td>
<td>8.8%</td>
<td>-37.9%</td>
</tr>
<tr>
<td>OPPO</td>
<td>8.6%</td>
<td>29.9%</td>
<td>Reliance Jio</td>
<td>7.1%</td>
<td>2122.7%</td>
</tr>
<tr>
<td>Vivo</td>
<td>7.6%</td>
<td>50.8%</td>
<td>Xiaomi</td>
<td>6.6%</td>
<td>119.4%</td>
</tr>
</tbody>
</table>

Source: IDC Quarterly Mobile Phone Tracker, Q4 2016

*Lenovo Group includes both Lenovo and Motorola

Chinese Smartphone manufacturers have kept expanding India wide. Counterpoint believes that Smartphone has become a necessity and consumption of the devices would further go up in 2017. IDC estimated that “replacement demand” would drive most of the Smartphone shipments in 2017 despite feature phone users would still find them costly and consumers from this category would keep hunting for products with attributes like long battery life and durability.

The Problem statement

This study began with an observation of a phenomenon- the early and rapid foreign market entry of the Chinese cell phone companies. The four cases selected for this study were very special in that they would cross the international border within very short period of time after their founding- some of them targeting a foreign market just within a few months after their inception. As new entrants, late movers and new ventures from an emerging market a reach-out to the end users certainly might have been a challenge for these companies and this challenge formed the main research question of the study as it would investigate how these companies would enter a foreign market early in their lives and also very rapidly diffuse their products in those markets-capturing a sizable market share of the another emerging market and replacing the domestic players to the back seat. What strategy or a set of strategies have actually worked in winning the Indian customers?

II. Research Methodology

To solve the abovementioned problem we have chosen a case-study approach for this research. We pursued the data collection method established by Eisenhardt (1989) and Yin (2009). For propositions in here we used open-ended interviews with the top management officials of all the four companies. Each interview lasted for around 2 hours and during these interviews objectives of the firms, business models, marketing strategies, customer relationships and foreign market entry with reference to India market were discussed. A table was compiled on the basis of collected qualitative data and propositions thought of drawing from the findings distilled from the data collected after the cross-case analysis. Similarities in the business models of the firms were quite evident in the findings that related to their strategy of designing innovative products targeted at the consumer segment(s) that could afford them. The findings also established similarity in their behavior with respect to the customer relationship management to a large extent. We embarked upon the research by pursuing case studies of four Chinese companies and the selection was made on the criteria of their being in the same industry and business, their spurt in the market and propensity to target new ones-especially foreign ones. Instruments tested and established in the field (Eisenhardt, 1989; Yin, 2009) were used and ‘replication logic’ with regard to multiple case studies was followed to address issues of validity and reliability in the design (Yin, 2009). Interesting data were found by cross-case analysis (Eisenhardt, 1989) and were tabulated for analysis (Miles and Huberman, 1984). The outcome of cross-case analysis does help shape propositions (See table 2) for a possible framework as concepts and relationships between variables begin making sense at this stage of the
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Comparing data and theory is helpful for a possible valid empirical notion and as constructs are evidenced propositions could be derived and could be sharpened.

Qualitative data as traits used to promote consumer acceptance and propositions

Table 2: Strategy of Chinese Smartphone companies with Indian Reference

<table>
<thead>
<tr>
<th>Innovative Product</th>
<th>Xiao MI</th>
<th>Honor</th>
<th>ZUK</th>
<th>Le Eco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation is for everyone</td>
<td>Phone with good specifications</td>
<td>A brand with the best specs</td>
<td>Targeted at low-end</td>
<td></td>
</tr>
<tr>
<td>Operating software MiUI and a Custom ROM based on Android OS, Custom ROM prime advantage</td>
<td>For Innovative young people’s</td>
<td>Specs beyond the expectations of the customer</td>
<td>Eco-system of its own based on Internet of things</td>
<td></td>
</tr>
<tr>
<td>MiUI the maiden product before began making Smartphones</td>
<td>Tool for interaction</td>
<td>Designed for the user experience</td>
<td>Le Eco Smartphone is equipped with an App to make things easier for the consumer</td>
<td></td>
</tr>
<tr>
<td>Hardware fans involved in product development process</td>
<td>Best class product-Combination of hardware and software</td>
<td>Android OS based Custom ROM developed in partnership</td>
<td>Providing services such as content consumption on the phone</td>
<td></td>
</tr>
<tr>
<td>OTA update every week</td>
<td>Fans involved in beta testing of the product</td>
<td>For the smart consumers and the geeks</td>
<td>“Service is greater than the hardware”</td>
<td></td>
</tr>
<tr>
<td>Smartphone a part of a smart ecosystem, run by it</td>
<td>Android OS based Custom ROM with support from the parent firm</td>
<td>R&amp;D supported by parent firm</td>
<td>Innovation in hardware</td>
<td></td>
</tr>
<tr>
<td>Manufacturing- contract</td>
<td>Own processor chip</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Affordability Price</th>
<th>Xiao MI</th>
<th>Honor</th>
<th>ZUK</th>
<th>Le Eco</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Very attractive’ price and very low profit margin</td>
<td>Extreme model price strategy</td>
<td>Most reasonable price</td>
<td>“we try to give hardware for free”</td>
<td></td>
</tr>
<tr>
<td>Save expenses on advertising/Marketing by Cutting the middlemen Use of WOMas-WOM Flash sale Online sale Loan inventory Sub-USD 150 category Product Red Mi for India</td>
<td>50 to 60 percent lower compared to some other products</td>
<td>“it’s not machine to machine”</td>
<td>USD 150-300 Category</td>
<td></td>
</tr>
<tr>
<td>For the consumer with no strong economic foundation</td>
<td>Online sale and through retailers</td>
<td>USD 200 category</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product promotion on SMNs – Facebook, Twitter</td>
<td>US $150-250 Category</td>
<td>ZUK products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Formation of fan base/ Fan Clubs/Fan Festivals Rewarding fans Events holding/ sponsoring</td>
<td>Honor 5X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of traditional advertising to quite an extent</td>
<td>Online advertising</td>
<td>SMNs Facebook, Twitter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thinking of ways to curtail costly campaigns W.O.M. through consumers that are friends</td>
<td>SMNs - Twitter, Facebook, Instagram</td>
<td>Traditional marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fan clubs</td>
<td>Sponsoring events</td>
<td>WOM</td>
<td>W.O.M.</td>
<td></td>
</tr>
<tr>
<td>SMNs - Twitter, Facebook, Instagram</td>
<td>Holding events in Honor’s name</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled by authors on the basis of cross-case analysis of qualitative data collected from interviews

A cross-case analysis of data collected through interviews of the top management officials displays the traits the companies used to target the foreign market segment. The following section discusses them one by one and attempts to build a conceptual framework and present related propositions for the consumer acceptance of their products.

Innovative product

Table 2 above lists three traits that have been generated through qualitative data we collected from interviews from the firms under study that clearly indicate their targeting a niche segment and offering a product with consumer preferences in mind. We could well imagine here that the product is developed,” to provide everyone change to enjoy technology innovation, for an attractive price” (Xiaomi), “for young Millennial, with no strong economic foundation,” (Honor), “for ordinary users, with most reasonable price” (ZUK) and “aimed at low end market, with content service” (Le Eco). Following the qualitative data analysis we think of firms under study bringing offerings to the consumers in the market that could have been easily accepted by them and
suggest that firms should have had a product strategy with an innovative product to get access to the market. Hence the proposition:

1. Innovative products of firms have had a positive impact on consumer acceptance of the product

Affordable Price

Our qualitative data analysis indicates that firms under study exercise a very clear cut cost and pricing strategy, whereby they might cut the middlemen, go online, spend very little on advertising, avail of Word of mouth, essentially do not engage in traditional marketing, involve consumers in product development (Xiaomi), consider reducing cost on advertising campaigns, develop communication with the end consumer and even use so-called Internet pricing strategy, while involving customers in product beta testing (Honor), spend not much on traditional marketing and advertising, promote the products on the internet (ZUK) and try to give the hardware to the users at a very competitive price and sell service to them instead (Le Eco). The qualitative data reveal how all of these four companies ventured to target the market with products priced between USD 150 and 300 and tried to replicate what they did back home with the hope of gaining popularity and reaping profits in a foreign market. Hence the proposition:

2. Affordable price of the products has helped enhance the consumer acceptance.

Integrated MarCom

As is evident from the qualitative data analysis the firms under study have used marketing mix to build relationships with consumers and used besides Word of mouth, Social media, product fan base through fan festivals or events holding (Xiaomi), availing of presence on popular SMNs such as Facebook and Instagram and relying on people’s support to develop business (Honor), building fan culture, improving user experience by two way communication with users (ZUK), using online presence and presence on SMNs and also traditional advertising (Le Eco). And we could well surmise that for newly established firms with an objective to target the market luring consumers with innovative product and affordable price integrated marketing communications should have been of paramount significance. Hence the proposition:

3. Consumer oriented IMC has helped accelerate consumer acceptance.

Challenges and Adapting Strategies

Yet our qualitative data analysis with reference to the India market revealed challenges that all four companies faced there, related to the consumer preferences product wise and the distribution channel wise. Our findings demonstrated that to address the local consumer preferences the companies had to tweak their products operating system wise and to some extent hardware wise. They had to customize all their Android based respective operating systems to cater to the needs of the Indian consumers for example embedding them with Apps like Google services and SMNs such as Facebook that are widely used by the local Smartphone users while some promoted their gadgets as a good combination of phone and camera. They heavily customized OS to cater to Indian fans at their China headquarters and then again tweaked it with the help of India team (Xiaomi), banked on the parent company’s R &D team to build products dedicated to local customers (Honor), used extreme balance of specifications, big battery, display, dual SIMs, (ZUK), targeted the fun loving consumers with the in-built Apps to watch films and TV shows, providing content in local language and by releasing product with hardware innovation to provide them with a revolutionary music experience (Le Eco). Taking these challenges in account our conceptual framework introduces moderators in the conceptual framework. The study believes that consumer preferences might have impacted companies reaching out to the target consumers yet through their adapting strategies they would have been able to offset these impacts. Hence the proposition:

4. Firms’ adaptation to local consumer preferences has helped make product acceptable.

Our findings demonstrated channel differences in the China and India markets as the companies realized after getting into business in India that the host country did not have a mature online shopping culture and also faced issues with logistics. The local consumer would prefer to check on a product and buy it in a brick and mortar place. Challenges came in the way of distribution presented by the longer return time of a month for a product bought online.

To mitigate these challenges they had to have strategies to adapt to the new market and our findings suggest that owing to challenges thrown to the firms in the market they used online model in collaboration with local e-commerce portals and yielded to local retail and traditional channels. They besides selling online sold directly via a national distributor to the retailers, in around 8500 stores including Mom and Pop stores (Xiaomi), leveraged their parent company’s traditional distribution channel for offline sales (Honor), used distributors (ZUK) and went selling offline following their flash sales (Le Eco). Evidently there were differences in the availability or suitability of communication of product promotion as they yielded to traditional communication of advertising in mass media as well. As we took these challenges in account we introduced moderators in our conceptual framework. It is believed that channel differences also would have affected companies’ reaching out
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to the target consumers and they would have been able to offset these impacts by availing of some adapting strategies. Hence the proposition:

5. Firms’ adaptation to distribution channel and use of CRM have helped made product acceptable.

The study envisages consumer acceptance as the result of the marketer’ strategy in the conceptual framework and this concept is understood here as adoption of the technology in the market where a consumer segment might be making a decision to buy a Smartphone for the first time or going for a replacement buy. The conceptual framework for the study has been shown in the Fig 1.

III. Enfolding Literature

As is evident in our study the four Chinese Smartphone Companies used a strategic mix of product, price and integrated communications to target a consumer segment in a new market and they echo the findings from literature relevant to late movers that proposed pioneers’ skills are not necessarily superior but could be different from the followers (Abell,1978). Late movers succeed by availing of the strategy of using the buyer and category preferences set by pioneers, (Carpenter and Nakamoto, 1989) as these preferences might help them identify an overlooked product position to outdo in a segment by using their innovativeness- product or strategy

\[\text{Fig 1. The Conceptual Framework of Successful Entry of Chinese Smartphone companies into Indian Market}\]

wise (Shankar et al,1998). Adopting a niche strategy have been of help to late movers (Carpenter and Nakamoto,1996) and innovation within the product category has been behind their success (Golder and Tellis,1993) also in marketing strategy companies that would meet consumer’s needs best did better (Carpenter and Nakamoto,1989).

Literature on international new ventures also posited that these new ventures competed on innovative technology and product design (Rennie,1993),would generate differences by amounts of resources such as knowledge (McDougall et al.,1994),use niche markets and advancement in process technology and communications(Knight and Cavusgil,1996) and their innovativeness would help them internationalize earlier (Knight and Cavusgil,2004). The idea of commonality for the products, homogenization of consumer needs and communications technology advancement (Kudina et al.,2008), new market conditions in world markets, technological developments in production (Rialp, Rialp, and Knight,2005) foreign customer focus and marketing competence (Servais et al., 2007) also contribute to early internationalization. A group of firms could use cost leadership (Knight and Cavusgil,2005) as a business strategy (Porter, 2011) for pricing plays a role in a firm’s success (Sousa and Bradley,2009) and pricing strategy’s significance in the presence of the competition and well informed customers (Nagle, Hogan and Zale, 2014) and in an emerging market with increasing demand where consumers are able to buy high quality products for a low price (Chang and Horng, 2010) has been affirmed. Adoption of price leadership strategy is demonstrated for the homogenized and standard products from emerging markets (Ju et al., 2015) for price sensitive might not be served by costly and augmented products (Jones et al, 2010) and low price is maintained with features of product that are specific to the market. Integrated communications has been found important for an organization in a crowded marketplace (Duncan, 2005) as it could be used for corporate branding, product customizing, or for setting up forums for a dialogue with stakeholders (Cheney and Christensen, 2001). IMC was recognized as added value of the strategic roles of
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communications disciplines (Schultz, 1993) and marketing capabilities and performance of a company are linked (Krasnikov and Jayachandran, 2008) and strong positive impact of a brand’s effective IMC on its market share (Reinold and Tropp, 2012) and a firm’s IMC capability’s direct impact on campaign effectiveness and effect on its financial performance (Luxtton et al., 2014) were demonstrated. As for challenges many a time a company is not able to sell the same product in all markets and need to adapt as the customer tastes and preferences differ (Ayal and Ziff, 1979) in different countries, as may be distribution systems, in the concerned product-markets and product adaptation may strengthen competitive positions (Hill & Still, 1984) of firms and help them respond to unique segments (Simmonds, 1985). Adapting strategy may involve customer relationship. Promotion content is in general culturally driven and its adaptation is often necessary in a foreign market. Methods of communication and infrastructure availability are some of the factors that motivate adaptation in ways of promotion (Buzzell, 1968) and the nature of customers’ consumption, language and market segments could have a role in the need for adaptation (Powers and Loyka, 2010) too.

IV. Discussion, limitations and further research

Unlike many market entry studies of firms from the emerging market into established/developed markets, ours focuses on their entry into another emerging market such as India. From interviews of consistent style based on the outlines, our findings, as explicated by the five propositions about the constructs drawn from them and the conceptual framework developed for the India market entry for the four Chinese Smartphone Companies under study clearly supported the view expressed in previous literature on the late mover firms. These firms following the pioneers could always crack open the ‘strategic window’ (Abell, 1978) open for them, carve niches for themselves (Carpenter and Nakamoto, 1996), develop products targeting consumers’ preferences (Shankar et al, 1998) and with their innovative and adapted product (Golder and Tellis, 1993) and adapted pricing strategy (Knight and Cavusgil, 2005, Chang and Horng, 2010, Nagle, Hogan and Zale, 2014) might not only capture market share for themselves but could even erode shares of the pioneers and even other competitors.

In the four Chinese Smartphone Companies’ internationalization experience this phenomenon has been evidenced to various degrees. Our findings thus reestablished the notion that marketing (strategy) mix is still useful and valid for a foreign market entry especially for resource constrained small firms and start-ups. The study of these four Chinese Smartphone companies has also evidenced the significant role of IMC in their marketing strategy as they used all communications media from traditional to modern and technological available to them in building their image and pushing their offerings in the market and even addressing challenges that came their way in a new market. This finding of ours could be a humble contribution of ours in the marketing literature as we used MarCom as an important construct in our study and investigate its impact in a marketing mix. The results of this study could serve as a base to a further empirical study. Consequently, the findings of both studies will hopefully make a solid contribution to the body of knowledge in the international marketing.

The study provides a new insight into early and rapid internationalization of small and new firms and has practical implications for managers of late movers as it explores how and to what extent rapid internationalization for small firms in an industry might work or is possible. The study has clear managerial implications for firms engaged in manufacturing homogenized products as the study centered on firms active in the same industry, manufacturing homogenized products, catering to somewhat homogenized demands of homogeneous consumers.

The study has limitations as the conceptual framework is built around marketing mix only and antecedents and factors such as economical environment, technological advancements of host and home countries of companies, their respective institutions, culture- organizational and societal were not taken into account. We believe that such factors might have a role in success or failure of a firm’s foreign market entry and hence suggest further investigation into the phenomenon with respect to other aspects of internationalization process.

V. Acknowledgments

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