

LEVEL 7 ASSESSMENT SPECIFICATION

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4) Strategy For Market Development in Indonesia

Although many factors listed in Section 2 and 3 will continue to contribute to the future success of Xiaomi, some are already imitated by competitors. However, Xiaomi has an unique way to grow in Indonesia as an internet services company as described by cofounder Bin Lin. "We are a data-mining company," Lin said. "Our business model is based on the data we collect." and "analytics has proven crucial to managing the company's supply chain, delivering data as a valuable service to apps makers, developing new products, launching in new markets, and protecting a loyal customer base from third parties". (Ransbotham, S., Kiron, D., Prentice, P.K., 2016)^[34] To ensure Xiaomi remains successful in Indonesia, its management must stay alert to incorporate new and enhance existing competitive advantages identified by the PESTEL approach. By assessing the business context from political, economical, social, technological and legal perspectives, a set of strategic recommendations and the corresponding metrics for performance and implementation management are provided below.

4.1) Organizational Strategy

4.1.1) Endorsement of Flat and Functional Organization Structure

As a customer focus subsidiary, Xiaomi Indonesia should adopt a flat and functional organization structure for all teams that interact with end customers. With its main staff of 100 people, major departments like product, marketing, sales and government relations should all report directly to the country head. This flat structure is recommended by leading consultancies as it enables successful digital business to flourish by responding to market changes and headquarter requests quickly . According to studies done by Deloitte "successful organizations must be designed for speed, agility, and adaptability to enable them to compete and win in today's global business environment." (Bersin J., McDowell, T., Rahnema, A., Van Durme, Y., 2017)^[35] A separate BCG analysis also found "A flat management structure with a strong frontline focus" (including customer facing business units) are twice as likely as their peers to become top performers. (Roghé, F., Toma A., Stefan Scholz S., Schudey A., Koike J., 2017)^[36]

4.1.2) Outsourcing of Labour Intensive Functions

As current labour law in Indonesia is more worker friendly, labour intensive and non customer facing functions, such as logistics and production, should continue to be outsourced to minimize Xiaomi's legal risks. For instance, the factory workforce of 2000 plus in Batam should be outsourced to

local manufacturing partners. Similarly, product deliveries to end customers, which is labour intensive, should also be outsourced to local Indonesian couriers to minimize overheads for Xiaomi. The following metrics can be used to evaluate the cost effectiveness of local manufacturing and identify the allocated capacity used for capacity growth planning purposes.

Table 1 - Local Manufacturing Cost Performance

All Local Manufacturing Cost Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Production Cost/Unit		
b) Average Logistic Cost/Unit (Shipment to Warehouses)		
c) Average Management Overhead Cost/Unit		
d) Production Capacity Used		

4.1.3) Production Planning and Diversification of Local Manufacturing Partners

4.1.3.1) Work with Erajaya and other partners on production planning

Work with local partners to reduce spare capacities available for new entrants as a strategy to lock out competitors such as Apple, Huawei, Sony and LG in entering the Indonesia market.

4.1.3.2) Identification of additional local partners capable of manufacturing Xiaomi's electronics products for supplier diversification.

The following metrics can be used for tracking purposes

Table 2 Progress of Engagement with New Suppliers

New Supplier Sourcing Progress - Stage of Engagement	Target (Q4/2020)	Actual (Q4/2020)
a) Number of New Supplier under (Exploration/Evaluation)		
b) Number of New Supplier under (Negotiation/Commercial)		

The lack of alternate contract manufacturers and skilled workers in Indonesia could be one major barrier for further outsourcing and supplier diversification. As International Labour Office pointed out, "A distinguishing feature of Indonesia's electronics industry global supply chains is the absence of contract manufacturers or electronics manufacturing service providers that undertake final assembly or manufacturing of final products for brand firms on a massive scale, such as Foxconn, Flex, Jabil, or Celestica." (ILO, 2019)^[37] and "the absence of a strong domestic supplier base or domestic brand firms and a lack of skilled workers are key obstacles to growth." (ILO, 2019)^[37] Xiaomi should work with Erajaya and other partners to expand local manufacturing capacities based on forecast data, simplify the complexity of assembly tasks and improve worker's capabilities specific for Xiaomi in Indonesia through specific training to meet with rising market demands and complexity.

4.2) Political and Legal Focused Strategy

4.2.1) Leverage Existing Government Relationships and Belt and Road Initiatives (BRI)

4.2.1.1) Central Government Level Engagement to Assist Technology Development in Indonesia

BRI can help Indonesia to become a knowledge economy by providing an “innovation-driven development and intensify co-operation in frontier areas such as digital economy, artificial intelligence, nanotechnology and quantum computing, and advance the development of big data, cloud computing and smart cities so as to turn them into a digital silk road of the 21st century.”(OECD, 2018)^[27] As innovation is an area that Xiaomi can contribute, it should leverage high level government relationships between China and Indonesia through its government affair networks to explore further partnerships with Indonesian organizations to create local jobs and business opportunities. Although it is going to be a long process, the engagement via BRI will enhance Xiaomi's influence in driving the long term technological cooperation between Indonesia and China.

4.2.1.2) Leveraging Xiaomi's Own Government Contacts

Xiaomi's direct engagement with Indonesian officials, such as Ambassador Djauhari Oratmangun, must be maintained and enhanced to achieve the "expansion of business networks and new investment in Indonesia." (Dorimulu, P., 2019)^[38] Xiaomi can take the lead to encourage coordination between the Ministry of Manpower, sector specialists from universities, research institutions, workers' and employers' organizations, and industry groups in driving technological development in Indonesia.

Based on its outsourcing experience in India and China, Xiaomi can offer local ministries advice on how to effectively implement and enforce existing legislation aimed at improving working conditions to boost productivity especially for outsource manufacturing. This will encourage local ministries to propose more business friendly legislation and help to boost the number of local manufacturers.

4.2.1.3) Lobby for Expansion of Local Content Regulation

Xiaomi need to work with existing manufacturing partners like PT Erajaya Swasembada Tbk, PT Sat Nusapersada Tbk, and TSM Technologies to lobby Indonesian government to expand the local content regulations to include other Xiaomi's products such as smart TV, smart home and consumer Internet of Things (IoT) solutions by committing to create more local manufacturing jobs.

However, with the shortage of skilled local labour, Xiaomi needs to help local partners to improve and broaden the skills of their workers through more training programmes. By expanding its range of locally made products, Xiaomi's competitive advantage can be enhanced against companies like Apple once the government approves the expansion of local content regulations.

4.2.2) Legal and Intellectual Property Protection

4.2.2.1) Intellectual Property Protection

Xiaomi Indonesia needs to establish patent protection and anti corruption processes for all products and services it creates and sells in Indonesia. Xiaomi Indonesia also needs to work with Chinese headquarter teams to ensure imported products or services will not infringe local Indonesian legislation to maintain Xiaomi's reputation in Indonesia.

4.2.2.2) Corporate and Personal Data Security

As an internet technology company, data security remains high on Xiaomi's agenda. To avoid data security breaches, a dedicated information security team with dedicated systems to effectively monitor any possible data leakage should be put in place. Implementation must be done in accordance with local regulations to protect the reputation of Xiaomi as an internet services company.

4.3) Economic and Market Driven Strategy

4.3.1) Creating a Marketing Strategy for Growth

A survey from Asosiasi Penyelenggara Jasa Internet Indonesia indicates 94% of smartphone users connect to the internet on a daily basis. (APJII, 2019)^[39] In particular, 94% of Indonesian internet users aged 16 to 64 own mobile devices and on average, spend almost 8 hours per day on the internet. (Hootsuite 2020)^[30] For these internet users, social media is ranked as the 2nd most important reason for internet usage at 19%, just behind using internet for communication (25%) but ahead of using internet for work related information search (12%). Xiaomi's internet-centric marketing strength aligns well with Indonesian internet users' addiction to social media so the approaches below can be adopted.

4.3.1.1) Expansion of Mi Fans, Mi Community Activities through More Local KOL Engagement

Xiaomi needs to continue its expansion in marketing through social media. With Mi Community, Xiaomi should continue to organize interactive activities among Mi fans, covering different themes such as mobile phone evaluation contests, smart home forums, Pop festival and regular flash sales to build and strengthen loyalty among its customers.

Xiaomi should also engage local Indonesians, such as Atta Halilintaras, as key opinion leaders in product and social media promotion. In Indonesia, where searches for “review” videos on YouTube grew by 40% in 2018, consumers use video platforms to find the best products and services. (Google & Temasek / Bain, 2019)^[31] GlobalWebindex supported this study, finding the probability of Indonesian making purchases due to social media is one of the highest globally. (GlobalWebIndex 2019)^[40]

However, return on social media investment must be measured by the following metrics to assess the financial and social engagement effectiveness. Ineffective campaigns must be removed to maintain cost effectiveness as consumer KOL and media preferences may change over time.

Table 3 Social Media Investment Return

Social Media Related	Target (Q4/2020)	Actual (Q4/2020)
a) Total Number of Campaign Completed (e.g. Flash Sales/Pop Festival/Contests)		
b) Average Revenue Generation/Campaign		
c) Average Cost/Campaign		
d) Total Num of Clicks/Mentions From Campaign		

4.3.1.2) Continue with its Multiple Brand Marketing Strategy

While Xiaomi already enjoyed a strong brand image in Indonesia, it needs to expand its brand into internet services to achieve higher margins. Instead of using Xiaomi brand only for smartphones, it can be branded as a premium platform that connects customers to its portfolio of services, ranging from smartphone to payment, internet finance and e-commerce. Redmi can serve its mass market smartphone customers while BlackShark remains as the gaming phone brand.

Management can measure investment performance as below and adjust resources allocation according to individual brand or segment growth requirements as market condition changes.

Table 4 Marketing Expenses Effectiveness By Brand

Marketing Expenses Effectiveness Per Brand	Target (Q4/2020)	Actual (Q4/2020)
a) Xiaomi Marketing Expenses Per Smartphone Sold		
b) Redmi Marketing Expenses Per Smartphone Sold		
c) Pocophone Marketing Expenses Per Smartphone Sold		
d) BlackShark Marketing Expenses Per Smartphone Sold		
e) Xiaomi Marketing Expense per IoT devices Sold		

4.3.1.3) Reward Successful Sales and Loyal Customers

The low margin hardware business model of Xiaomi creates a longer return of investment cycle so customer retention is of high priority. Its goal is to secure the greater part of its revenues from sales of software, services, advertising, and accessories — a strategy, as Lei likes to point out, that has more in common with Amazon than Apple. (Tse E., 2015)^[41] Hence, incentives for customers to stay longer and reward for customer services staff that can reduce customer churns should be introduced.

Reward structure for sales teams should favor those who can acquire customers that stay and impose commission reductions if customers defect before 18 months to improve loyalty performance from acquisition stages. The following metrics can track customer loyalty, revenue and related cost.

Table 5 Customer Loyalty Program Performance

Customer Loyalty Incentives Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/New Contract Customer		
b) Average Selling+Ongoing Cost/New Contract Customer		
c) Average Defection Rate per Customer (e.g. Service or Contract Termination/Total Customer on Contract)		
d) Average Duration of Customer Contract Period		
e) Average Number of Customer with No Ongoing Revenue		
f) Average Number of Customer with No Activities for Entire Year		

According to a study by Bain & Co., a 5% increase in customer retention produces more than a 25% increase in profit in financial services.(Reichheld, F. 2001)^[42] Management must reinforce internal tracking to achieve consistent improvement as many firms waste a large portion of their marketing expenses on disloyal customers who don't stay for long enough to pay back the acquisition investment.

4.3.2) Enhancing Sales and Distribution Strategy

4.3.2.1) Develop Closer Alliance with Erajaya for Physical Presence

Erajaya, an Indonesian retailer with net annual sales of 2 Bln USD in 2018, (Erajaya 2018)^[43] will continue its aggressive expansion into tier 2 and 3 cities, supported by targeted opening of retail stores, revamping of its distribution centers to facilitate e-commerce and O2O fulfillment for online, and expanding on the reach of dealers' stores in the distribution network. With its 212 Erafone stores, 83 distribution points, 1134 retail outlets, more than 61,000 third-party resellers (Erajaya 2020)^[44] and an exclusive distribution partner for Xiaomi, Erajaya has helped to increase the offline sales of Xiaomi's flagships Redmi and Pocophone F1 phones.

Besides smartphones, Erajaya also sells a wide range of Xiaomi's electronics products, including Smart TV, BlueTooth speaker, Air Purifier, Smart Wristband, Smart Kettle and Smart Light Bulb. With a continuously expanding product portfolio and ambition to be a smart lifestyle retailer, Erajaya fits well with Xiaomi's broad range of smart product offerings. Xiaomi's strong ambition to grow its Smart Home and AI-IoT product business makes it a more compelling partner for Erajaya over other smartphone focus suppliers like Huawei, Oppo and Vivo. Hence, Xiaomi and Erajaya should grow their business together with closer alliances. Rates of improvement can be measured as below.

Table 6 Erafone Stores Performance

All Erafone Stores Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/Store		
b) Average Cost/Store		
c) Num of New Erafone Stores Start Selling Mi Product		
d) Num of New Product Added		
e) Num of Existing Product Retired		

As Erajaya also deals with Xiaomi's competitors, they may create distractions by offering Erajaya better commission fees and lower wholesale price for certain models. Xiaomi needs to leverage its value added solutions such as AI and Mi Credit to ensure Erajaya management remains committed.

4.3.2.2) Continue to Expand Flagship Stores and Other Local Sales Shops through Partnerships

Besides establishing more "Mi Stores", Xiaomi is forging collaboration with over 2,000 cellphone sales shops across Indonesia to increase its customer coverage. (Ilmie, I, Azis Kurmala, A., 2019)^[45] In 2019, Xiaomi also added six more distributors to cover areas outside Java island and should continue this partnership expansion strategy by adding more distributors in other major islands of Indonesian archipelago. This will provide complementary exposure to Erajaya's locations while Xiaomi's branding is covered by the Mi flagship stores in high profile shopping malls. Mi Store and distributors' performance can be evaluated as listed below.

Table 7 Mi Store Performance

All Mi Stores Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/Store		
b) Average Cost/Store		
c) Num of New Mi Stores Opened		

Table 8 Distributors Performance

All Distributors Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/Distributor		
b) Average Cost/Distributor		
c) Num of New Distributor Added		
d) Num of New Product Added		

As for Erajaya, distributors may be distracted by competitors due to their attractive offerings. Xiaomi has to ensure they can counter propose solutions that create added value for the distributors such as special user content. Although it takes time for channel expansion efforts to bear fruit, distribution channels will eventually reach more customers and improve Xiaomi's competitive advantage in the long term.

4.3.2.3) Continue to Leverage & Expand Online Sales Channel through e-Commerce Websites

4.3.2.3.1) Expansion with Shopee and Lazada

Xiaomi should continue its expansion of Shopee online sales partnership with more products and create more incentives for increasing volume sales as Shopee is now the top online e-commerce website in Indonesia in Q4 2019. (iPrice 2020)^[6] Cooperation with Lazada needs to be monitored closely as it is only a distant fourth from a web traffic perspective. Management can compare performance due to increased cooperation based on the metrics below.

Table 9 Mi, Shopee and Lazada Online Performance

Mi.com Online Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/User		
b) Average Cost/User		
c) Number of New Product Added		

Shopee Online Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/User		
b) Average Cost/User		
c) Number of New Product Added		
d) Num of Existing Product Retired		

Lazada Online Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/User		
b) Average Cost/User		
c) Number of New Product Added		
d) Num of Existing Product Retired		

4.3.2.3.2) Explore Cooperation with Local Companies

As Shopee and Lazada are Singaporean companies, their business approach may be different from local Indonesian companies. Therefore, it is important for Xiaomi to establish partnership with Indonesian owned Tokopedia and Bukalapak to better access customers outside major urban markets. By diversifying its online partnership with local companies, Xiaomi can hedge itself against future legislation changes against foreign companies. Management needs to ensure business with Shopee and Lazada is not affected. New channel engagement progress is tracked as below.

Table 10 Progress of Engagement with New Online Channels

Channel Expansion Progress - Stage of Engagement	Target (Q4/2020)	Actual (Q4/2020)
a) Tokopedia (Exploration/Evaluation/Negotiation/Commercial)		
b) Bukalapak (Exploration/Evaluation/Negotiation/Commercial)		

4.3.2.4) Enhancement of Customer Support System and Retention Program

4.3.2.4.1) Incentivise Loyal Customers

The relatively short life cycle of consumer electronics (e.g. smartphone lifecycle is 2-3 years) creates challenges for customer retention so Xiaomi needs to incentivize customers to stay through loyalty and reward programmes. Customer support teams also need to be given the authority to cross-selling different products and be rewarded for successful customer retention.

4.3.2.4.2) Enhancement of Sales and Aftersales Systems

In entering e-commerce direct sales via its ShareSave platform, Xiaomi also offers local support in Indonesia, including after-sales service for products not warranted outside China by the original supplier. Hence, sales and after sales tracking systems need to be enhanced and automated to ensure customer support teams have full knowledge of the purchase and operation history especially in the case of free return requests for damaged or faulty products. Smart product tracking fits well with Xiaomi's plan to sell more smart and connected products as they can report relevant information back to the tracking systems. Effectiveness of ShareSave product delivery can be assessed as below.

Table 11 Online Product Delivery Performance

Online Product Delivery Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Days between Actual Delivery Received by Customer from Time of Order		
b) Days between Payment Received from Online Partner and Product Shipment		

4.4) Technology and Product Innovation

Indonesia has always been a follower of new technology. As a predominantly 4G market and with no immediate plan for 5G, lower cost 4G devices from Xiaomi fit nicely into the highly price sensitive Indonesian market. Moreover, Xiaomi can leverage other technological edges within its portfolio to grow its market share, profitability and product leadership in Indonesia.

4.4.1) Broaden Engagement with Local Software Partners to Expand Xiaomi's Ecosystem

4.4.1.1) Develop Indonesian Friendly Products through Local Developers

Xiaomi has been successful with the "use of crowdsourcing to get input on ways of improving its phones and to create a buzz for each new release" (Tse E., 2015)^[41]. One important step to realize customer input into user friendly products is the direct engagement with local developers. The effectiveness of local software partners can be measured as below.

Table 12 Local Ecosystem Partner Performance

Local Software Ecosystem Partner Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Number of Active Software Ecosystem Partner		
b) Number of New Application under Development		
c) Average Support/Maintenance Cost/Active Ecosystem Partner		
d) Average Revenue Generated/Active Ecosystem Partner		
e) Average Revenue Increase/Partner from Previous Year		
f) Number of Ecosystem Partner with No Generated Revenue		

Xiaomi can increase loyalty of software partners by providing support when they experience difficulties. Design advice, financial capital, exclusive sales channels, product advice, brand marketing and user research support are all areas that Xiaomi can contribute. Follow up events must be arranged to maintain the momentum created by Xiaomi Developer Conference in 2019. More incentives driven programmes such as revenue sharing, where developers can pay to pre-load their apps onto Xiaomi devices or get paid when their apps generate a purchase of Xiaomi's product, could be introduced.

4.4.1.2) Ensure the Successful Completion of Seagull Project

The Rp 200 Billion (USD 12mln) "Seagull Project" was launched in the second half of 2019 with the aim of investing resources to enhance the Mi App Store. (Blog Xiaomi, 2019)^[50] Its progress can be monitored by the following metrics to ensure its successful completion.

Table 13 Seagull Project Performance

Seagull Project Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average Revenue/Developer		
b) Average Cost/Developer		
c) Average Revenue Increase/Developer (from Revenue/Developer Before Seagull Project)		
d) Num of New Apps Completed		
d) Num of Apps Still under Development		
e) Total % of Budget Spent/Remaining		

Additional programmes can be introduced to support local developers in specific areas that they cannot excel based on the performance metrics collected from the Seagull project.

4.4.2) Smart Home and IoT Business Development

4.4.2.1) Partner with Erajaya

As Erajaya management plans to sell products such as apps controlled devices like drones, action cameras, wearables, home protection and automation devices, expanding its partnership with Xiaomi is a natural extension of their cooperation. Business interruption due to the recent COVID-19 pandemic also creates good use cases for Smart Home and IoT especially if service packages with Xiaomi laptop and smartphone can be included. The extensive retail network and customer support services of Erajaya can be Xiaomi's perfect partner in expanding their Smart Home and IoT business in Indonesia and co-operation progress can be tracked as below.

Table 14 Erajaya Store Product Sales Expansion Progress

Erajaya in Store Product Sales Expansion Progress	Target (Q4/2020)	Actual (Q4/2020)
a) Number of New Mi Products under (Exploration/Evaluation)		
b) Number of New Mi Products under (Negotiation/Commercial)		

Nonetheless, providing regular training to Erajaya's staff is needed to ensure they know how to promote Xiaomi's latest product before they are launched to the market.

4.4.2.2) Explore Co-operation with Telecom Services Providers

Besides Erajaya, Xiaomi can also explore cooperation opportunities with telecom operators like Telkomsel, IndoSat and XL Axiata as its channels in Indonesia beyond the current smartphone partnerships. (Tempo.Co 2018)^[46]

4.4.3) e-Commerce Business Development

e-Commerce is an important growth opportunity for Xiaomi because the Indonesian Internet economy has more than quadrupled in size since 2015, growing at an average annual rate of 49% and on track to cross the \$130 billion mark by 2025. The number of sessions for e-Commerce apps in Indonesia, for instance, has jumped from 8 billion in the first half of 2016 to almost 30 billion in the same period three years later. (Google & Temasek / Bain 2019)^[31]

4.4.3.1) Establishment of ShareSave in Indonesia

By launching ShareSave, an online marketplace platform, Xiaomi can expand its presence in this fast growing area of e-commerce and deliver its vision where “Xiaomi is not selling a product, but an opportunity to participate,” (Tse E., 2015)^[41]



Fig 2 - Size of Indonesia Internet Economy (Google & Temasek / Bain 2019)^[31]

4.4.3.2) Partner with Suppliers

ShareSave connects Mi Fans in Indonesia with a comprehensive selection of products made by more than 100 IoT and lifestyle companies, including mobile peripherals, smart devices and lifestyle products as well as a variety of Xiaomi ecosystem products. (Pertiwi, W.K. 2019)^[47] As suppliers may want to gain exposure to Xiaomi's customers in China, India and Indonesia simultaneously, better deals to ShareSave customers can be obtained by Xiaomi which create another competitive advantage. Performance of ShareSave can be tracked as below.

Table 15 ShareSave Performance

ShareSave Online Marketplace Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Number of Active Suppliers - External		
b) Average Number of External Products on offer per Suppliers		
c) Number of Xiaomi Branded Products on offer		
d) Average Revenue Generated/Active External Supplier		
e) Average Support/Maintenance Cost/Active External Supplier		
f) Average Number of Order/Active External Supplier		

As Xiaomi is also working with other e-Commerce providers like Shopee, ShareSave should include other value added services with tailored offerings to individual customers after analyzing consumer data to enhance customer loyalty.

4.4.4) Enhance Internet Services Business with Artificial Intelligence and Data Analytics

Investment for customer experience improvement is quantified by a Bain & Company analysis which concludes companies that excel in customer experience attracts stronger loyalty among customers, turning them into promoters who tend to buy more, stay longer and make recommendations to their friends. This can grow revenues at 4%–8% above their market peers because promoters have a lifetime value that can reach 6 to 14 times that of detractors, depending on the industry. (Debruyne, F., Dullweber, A., 2015)^[48] Xiaomi, one of the largest patent owners of deep learning sub-category of machine learning, (WIPO 2019)^[49] can leverage artificial intelligence and big data platforms to maximize profitability in the following manner.

4.4.4.1) Harvesting of Customer Metrics

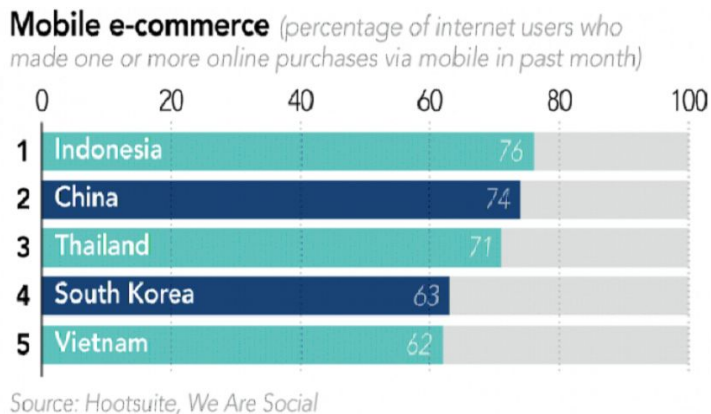
Consumer search metrics like media comments' view or made, actual product orders can identify and diversify product and services opportunities in Indonesia especially in the e-commerce space. Use of data analytics and artificial intelligence will further enhance Xiaomi's internet services offerings, boosting profitability of monetization through better user engagement and user experience on an individual basis and the return on investment can be assessed as below.

Table 16 AI and Data Analytics Performance

AI and Data Analytics Related Performance	Target (Q4/2020)	Actual (Q4/2020)
a) Average AI and Data Analytics Investment Cost/Customer		
b) Average AI and Data Analytics Operating Cost/Customer		
c) Average Revenue Generated/Customer		
d) Average Revenue Increase/Customer from Previous Year		
e) Average Customer Rate with Zero Revenue for Entire Year		
f) Average Number of Services Bought by Customer		
g) Average Number of New Services Identified and Promoted to Customer		

4.4.4.2) Refine Sales Model by Using Data Captured in China

Data captured from Chinese market during sales and promotion stages can be used by data analytic tools to refine product and services models for Indonesian customers since services such as e-Commerce, online gaming, advertising, subscription of music and video, online travel, ride-hailing and food delivery services are popular to both Indonesian and Chinese consumers. According to Hootsuite, the percentage of internet users making purchases online via mobile is 76% for Indonesian while it is 74% for Chinese, giving them the first and second ranking globally.

**Fig 3 - Percentage of Purchases Online via Mobile (Hootsuite 2020)[30]**

4.4.4.3) Resource Allocation Based on Data Analysis

Metrics from different marketing campaigns, such as loyal customers yield, can be analysed to determine the likelihood of future campaign success. Resources can be allocated to programs that are likely to succeed and provide best ROI by attracting and retaining the richest mix of loyal customers

The use of AI and data analytics will provide key differentiations for Xiaomi against its competitors but major risk would be changes in regulations of data privacy imposed by the government. Management needs to address this with appropriate legal strategies mentioned before.

4.5) Financial Opportunity Management

The tracking of cash flow, overhead and currency fluctuation is very important for Xiaomi operation in Indonesia and the following metrics can be used for benchmarking

Table 17 Financial Performance

Financial Control	Target (Q4/2020)	Actual (Q4/2020)
a) % of Sales in Indonesian Rupiah (INR) Hedged with USD		
b) % of Local Purchase (e.g. Manufacturing Payment) Hedged		
c) Total SG&A for Xiaomi Indonesia		
d) SG&A Per Xiaomi Indonesia Employee		
e) Revenue Generated per Employee		

4.5.1) Currency Exchange and Logistics Risk Control

4.5.1.1) Currency Hedging

Xiaomi needs to use financial hedging instruments to mitigate the foreign exchange risks due to suppliers' pricing as well as local sales income collected in Indonesia.

4.5.1.2) Invest in Suppliers

Xiaomi has been investing in its Chinese suppliers to obtain long term supply commitment and can use similar approaches for its Indonesian partners in accordance with local regulations.

4.5.2) Expand Incoming Streams to Deal with Increasing Cost of Selling

As business expands, there will be constant pressure of increasing cost. To offset the rising cost of its business in Indonesia, Xiaomi can sell "advertisement space" to brands or product customers that want to push advertisements locally within Xiaomi's platform. Other types of sponsorship such as media events and Pop festival partners can also be used as revenue opportunities to offset selling cost.

4.5.3) Expanding into Internet Financial Applications

With many of Indonesia's 180 million unbanked now using smartphones, mobile money and financial services is a big opportunity for Xiaomi due to its brand, an established customer base, access to customer credit worthiness and purchase behavior information. Nonetheless, it must expand through local partnership with Indonesian financial institutions and track its progress regularly as below.

Table 18 Financial Partner Engagement Progress

New Financial Services Partner Engagement Progress	Target (Q4/2020)	Actual (Q4/2020)
a) Number of Financial Institutions under (Exploration/Evaluation)		
b) Number of Financial Institutions under (Negotiation/Commercial)		

Xiaomi can expand its internet financial business to increase profitability in the following ways.

4.5.3.1) Offering More Financial Advice and Services by Analysing Data from Mi Credit

Mi Credit is a loan services platform from Xiaomi aimed at giving young professionals borrowing choices when they purchase Xiaomi's product. Although Mi Credit is registered under the Financial Services Authority (OJK) and Bank Indonesia (BI), it is operating only as a platform that provides credit service requirements to partners like Akulaku, GoR Rupiah, Boss Loans, and Go Loans.

However, some of its partners, like Akulaku, is just a pure Fintech digital lender and faces high customer acquisition costs. By analysing the profile of Mi Credit customers, Xiaomi and partners can expand the range of profitable financial services by targeting wealthy customers with good credit history and specific needs. Xiaomi can further monetize this arrangement by offering cross selling opportunities to Mi fans and MIUI users as a service to Mi Credit's partners.

4.5.3.2) Alliance with Indonesian Financial Institutions for Mobile Payment and Mobile Banking

Mobile payment is another opportunity for Xiaomi as e-Commerce payment via credit card and ewallet only accounts for 49% of e-commerce payment methods in Indonesia. Annual digital payment averaging only 220\$ USD per user while its GDP per capita is at 3932\$ in 2018. (Hootsuite 2020)^[30]. The opportunity for mobile payment and banking applications is huge as only 2.4% of Indonesian above the age of 15 has a credit card while only 3.1% from the same age group own a mobile money account. However, one major challenge for any new entrant is customer access and acquisition.

Unlike other players, Xiaomi already has access to a large smartphone user base in Indonesia. Experience in virtual banking since 2017 and mobile payment since 2016 provide Xiaomi and its partners valuable insights into consumer expectation of mobile financial services. Hence, Xiaomi can use its customer base and mobile finance expertise to partner with local financial institutions to launch financial services such as mobile banking and mobile payment with confidence.

4.5.3.3) Establish Payment network with Local Retail Partners

Since Erajaya management is seeking to innovate value added services such as trade-in, carrier packages, financing programs and payment options in addition to selling hardware, its network of stores can be a platform for Xiaomi to trial and launch its internet and financial services business. More alliances can be formed with other companies once the business model is proven to be successful.

For example, Go-Jek, which started as a local ride hailing company, created Go-Pay as its mobile wallet to pay local motorcycle drivers but has since partnered with traditional banks to offer conventional products like mortgages. It is a big competitor but Xiaomi is in a very strong position to expand as it has access to credit worthiness and purchase behavior information of existing customers. By identifying higher end customers with less risk, Xiaomi can expand into the mobile payment and internet financial area safely through partnerships with retailers like Erajaya.

4.6) Summary of Proposed Strategies

Organizational Strategy	Political and Legal Focused Strategy	Financial Opportunity Management
1) Local Organization Management - Endorsement of Flat and Functional Organization Structure - Outsourcing of Labour Intensive Functions - Production Planning and Diversification of Local Manufacturing Partners	1) Leverage Existing Government Relationships and Belt and Road Initiatives (BRI) - Central Government Level Engagement to Assist Technology Development in Indonesia - Leveraging Xiaomi's Own Government Contact - Lobby for Expansion of Local Content Regulation	1) Currency Exchange and Logistics Risk Control - Currency Hedging - Invest in Suppliers
		2) Expand Incoming Streams to Deal with Increasing Cost of Selling
	2) Legal and Intellectual Property Protection - Intellectual Property Protection - Corporate and Personal Data Security	3) Expanding into Internet Financial Applications - Offering More Financial Advice and Services by Analysing Data from Mi Credit - Alliance with Indonesian Financial Institutions for Mobile Payment and Mobile Banking - Establish Payment Network with Local Retail Partners

Economic and Market Driven Strategy	Technology and Product Innovation
1) Enhancing Sales and Distribution Strategy - Develop Closer Alliance with Erajaya - Continue to Expand its Flagship Stores and Other Local Sales Shops through Partnerships - Continue to Leverage Online Sales Channel Provided through e-Commerce Websites to Expand Business - Enhancement of Customer Support System and Retention Program	1) Broaden Engagement with Local Software Partners to Expand Xiaomi's Indonesian Ecosystem - Develop Indonesian Friendly Products through Local Developers - Ensure the Successful Completion of Seagull Project
	2) Smart Home and IoT Business Development - Partner with Erajaya - Explore Co-operation with Telecom Services Providers
	3) e-Commerce Business Development - Establishment of ShareSave in Indonesia - Partnering with Suppliers
2) Creating a Marketing Strategy for Growth - Expansion of Mi Fans, Mi Community Activities in Indonesia with More Engagement with Local KOL - Continue with its Multiple Brand Marketing Strategy - Rewarding Successful Sales and Loyal Customers	4) Enhance Internet Services Business with Artificial Intelligence and Data Analytics - Harvesting of Customer Metrics - Refine Sales Model by Using Data Captured in China - Resource Allocation Based on Data Analysis

5) Conclusion

By utilizing its experience from China, Xiaomi has made a successful entry into Indonesia in the past few years through its value for money strategy. With its significant market size and a history of being a technology follower, Indonesia offers Xiaomi a tremendous opportunity to grow its business by combining the various technological strengths it has developed for China. However, a comprehensive approach covering political, management, economic, technological and financial aspects is needed to achieve sustained business growth in Indonesia as below.

1) Xiaomi Indonesian management needs to leverage political connections at various levels to expand its influence in local manufacturing while sourcing from local suppliers to keep out potential competitors like Apple and Huawei.

2) The lack of fixed line infrastructure in Indonesia has indirectly nurtured a culture of reliance on smartphones and heavy use of social media. By combining its strength in social media marketing, expertise in online finance, e-commerce and smartphone technologies, Xiaomi is ideally positioned to turn its loyal customers in Indonesia into high margin internet financial services customers through alliance with local partners to launch such services as mobile payment and e-banking.

3) Local sales and distribution networks play a positive role for Xiaomi. This can be further enhanced to increase the competitive advantages of Xiaomi in Indonesia through strengthening of partnership with Erajaya and new alliances with more local distributors and e-commerce merchants like Tokopedia and Bukalapak.

4) Besides servicing its own business transactions, Xiaomi needs to partner with local financial institutions for Rupiah based funding before entering into the financial services business in Indonesia. Moreover, all business transactions must be hedged to avoid foreign exchange losses.

5) Management team needs to ensure intellectual property, corporate and customer data are well protected. Local organizations must comply with labour and anti-corruption regulation of Indonesia all time.

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