

Xiaomi Company's Differentiation Strategy and Competitive Advantage in the Intelligent Automobile Business

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Abstract. Against the backdrop of the rapid expansion of the world's new energy vehicle market and fiercer market competition, traditional auto manufacturers and technology enterprises all flooded into the market. Xiaomi officially opened its smart car business in 2021 and continued to advance through activities like team building, technological research and development, and factory building. Its SU7 smartphone has drawn huge attention from the market, and its subsequent release of the YU7 further added to its product range. Backed by the double-carbon policy and the development tendency of the industry, xiaomi relied on its technological R&D strength, intelligent experience, and ecological interconnectedness, become a leading firm in the new energy automobile industr. This article talks about Xiaomi's smart vehicle business' development path, competitive advantage, and innovative design model, in contrast to the industry leader Tesla, talks about its competitive distinctions in the automobile industry, and how the SU7 and YU7 product series contributed to market share gains. The research demonstrates that Xiaomi, with "a complete ecosystem covering people, vehicles and homes" as core positioning, has developed its advantage through ecological interconnection, high cost-performance, and diversified distribution channels, but is challenged in automotive core technology and brand premiumization, which is different from Tesla in product strategy and competitive advantage. This research provides a benchmark for Xiaomi to enhance its business strategy, and also offers a model for other enterprises in the industry to enter the new energy vehicle industry, and thereby driving the industry's innovation and development.

Keywords: Xiaomi intelligent vehicles, differentiated competition strategy, all-round vehicle-person-household ecosystem, comparison with Tesla, ecological interconnection

1. Introduction

With the rapid development of the world's new energy vehicle industry, both traditional car companies and technology firms have entered the field, and competition is growing increasingly fierce[1-3]. In the year 2021, Xiaomi officially launched its smart car business. Lei Jun personally led the way and invested 10 billion US dollars [4]. Through the methods of team building, technology acquisition, and factory construction, they accelerated the layout. In 2024, the launch of Xiaomi's first mass-produced model, SU7, attracted significant attention from the market [5]. On the

first day of sales, orders exceeded 50,000 units, demonstrating a strong market potential. The YU7 model to be launched will further enrich the product line and will be an important contribution to complementing SU7, further driving Xiaomi's configuration in the mid-to-high-end smart electric vehicle segment. With the backdrop of carbon neutrality, under the guidance of national policies, a large number of well-known automobile brands such as Huawei and BYD have shifted from fuel vehicles to new energy vehicles [6]. At the same time, as a representative in the international new energy car industry, Tesla has always set the technology direction and market trend of the industry by capitalizing on its first-mover benefits on pure electric technology and autonomous driving. In this context, Xiaomi has also been actively involved in it with variants such as SU7 and YU7. Because new energy vehicles not only have the potential to curtail the contamination of carbon dioxide to the atmosphere, but also contribute towards economic growth. Meanwhile, models like Xiaomi's SU7 and YU7, with technological R&D strength, smart experience, and ecological interconnection advantages, have further enriched the product range in the new energy vehicle sector and brought new impetus to the industry's development[2]. This article discusses Xiaomi's development strategy, competitive advantages, and innovative business model within Xiaomi's smart car business. The study contrasts and compares Xiaomi's smart cars with industry leader Tesla and how they introduce differentiated competition in the automotive industry. In the meantime, to ensure it is easy to comprehend, SU7 and YU7 product combination is a strategy by which Xiaomi can win market share

2. Development history and important strategies of Xiaomi's intelligent vehicle business

2.1. Business development history

As shown in Figure 1, in 2021 Xiaomi formally announced that it would develop a car and set up a research and development team of over 2,000 people at once [2]. In 2022, we purchased autonomous driving company DeepMotion, laying the groundwork for smart driving technology[7]; in 2023, we revealed our independently researched motor, battery and die-casting technology, which highlighted our expertise in R&D[6]. Since SU7's release in March 2024, it quickly took up market share with its superb value-for-money ratio[4]. Not only did it achieve ultra-high consumer awareness but also kept a stable growth rate in market share. Related topics of it still dominated industry hotspots and made it a phenomenon-level product. After it was listed, YU7 persisted with its technical direction and focused on customizing to specific market segments[5]. It caused an immediate buying spree, further confirming Xiaomi's market dominance in the mid-to-high-end electric automobile market and showcasing its enormous edges in market performance.

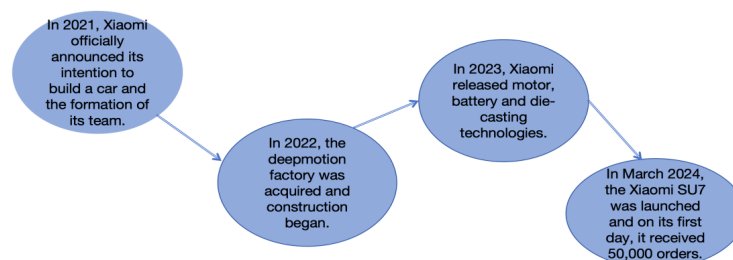


Figure 1: Xiaomi Development Flow Chart

2.2. Central competitive strategy

Xiaomi Auto takes the root positioning of "a technological flagship covering the entire ecosystem of people, vehicles and homes", and has three major competitive strengths [2]. The first is the power of ecological integration. Relying on the robust OS system, Xiaomi Auto reconstructed the underlying architecture and established connections between mobile devices, vehicle infotainment systems and smart home appliances [8]. Users can control smart devices at home through voice commands in the vehicle, or seamlessly transmit music, navigation, and other content from cell phones to the car system, thus creating a convenient and unified intelligent living ecosystem. This integrates Xiaomi's ecological advantages in multiple fields into car travel. The second advantage lies in its high value-for-money factor. Xiaomi Auto continues the company's practice of offering excellent value for money [5]. The SU7, for instance, has a starting price of 21.59 million yuan, but it is equipped with a laser radar and a 508TOPS computing chip, and its configuration outclasses that of competitors in the same price segment. With the upgrade of the YU7 model, its price remains affordable. According to the same competitive models, it normally would cost tens of thousands of yuan less, so customers can still get high-end configurations at relatively lower costs and meet the consumers demanding technology experience, but at the same time being price-oriented. Third is diversified distribution channels. Through the virtue of over 30,000 Xiaomi stores and direct sales channels on the Internet, we achieve efficient user coverage and service reach [7]. Offline, the Xiaomi stores are located in cities' central business districts, and automobile-selling and servicing stores offer professional services. Online ordering is convenient on the official website and the APP. Online and offline integration provides the possibility to undertake effective user interaction as well as provide complete quality services.

3. Xiaomi's differentiation strategy for its automobiles

3.1. User experience

According to data, Based on the data in the chart, the Xiaomi SU7 has performed excellently in terms of user satisfaction. Its overall satisfaction score reaches 9.05, and the satisfaction rate is as high as 95.3%[8]. This result shows that Xiaomi's smart cars have achieved remarkable success with their differentiated strategies in user experience. Users have given high satisfaction scores of over 9 points to the Xiaomi SU7 in aspects such as appearance, power, handling, safety, configuration and quality[8]. In particular, power and exterior design have received extremely high evaluations. Moreover, users are also quite satisfied with the car's streamlined body, paint texture, color variety and smart cockpit. They also express satisfaction with the vehicle's materials, low failure rate and conscientious workmanship. Although space is a shortcoming of the Xiaomi SU7, with a satisfaction rate of only 74.0%, the overall situation is positive. Xiaomi has significantly improved user experience by providing high-quality products and services. This not only helps attract and retain users, but also builds a good reputation for Xiaomi's smart cars in the highly competitive market.

3.2. Technological innovation

Technological innovation in Xiaomi's smart car differentiation strategy is one of its core competitive advantages, and this can be seen in many ways [6]. By developing advanced autonomous driving technology, Xiaomi has not only improved the safety of its cars but also greatly enhanced driving convenience[2]. In the field of electric technology, Xiaomi works hard to boost battery performance

and electric drive efficiency. This directly increases the car's range and reduces energy consumption. The realization of vehicle networking functions allows the car to connect seamlessly with other smart devices. This provides users with a more intelligent and personalized experience. Besides, Xiaomi also enriches entertainment, navigation and information services by developing in-car operating systems and applications. This significantly enhances users' interactive experience. In manufacturing processes, Xiaomi uses new technologies and materials. This not only improves production efficiency but also enhances vehicle performance. The sales trends of cars priced between 200,000 and 300,000 yuan and the growing penetration rate of new energy vehicles show that market demand for new energy vehicles is increasing day by day [1]. This offers huge market opportunities for Xiaomi. It can provide competitive products through technological innovation, meet consumers' demand for high-performance and intelligent cars, and drive sales growth.

3.3. Price strategy

The average selling price (ASP) of Xiaomi cars remained stable from the second quarter of 2024 to the first quarter of 2025, staying around 250,000 yuan [4]. At the same time, the operating loss per vehicle gradually decreased. This shows that the pricing strategy Xiaomi has implemented in the smart car sector is starting to work[7]. By keeping a relatively stable and high ASP, Xiaomi can build a high-end image for its products in the market. It can also attract consumers who are price-sensitive but looking for good value for money. This strategy helps Xiaomi stay competitive in the fiercely competitive smart car market. It also helps reduce losses step by step and improve profitability. As losses go down, Xiaomi can further optimize its cost structure. It might cut costs through economies of scale, better supply chain management or higher production efficiency. This way, it can keep prices competitive while increasing gross profit margins. Such a pricing strategy, focused on stable prices and gradually reducing losses, is key to the long-term and sustainable development of Xiaomi's smart car business.

3.4. Brand effect

From 2020 to 2024, in the sales of pure electric vehicles priced between 200,000 and 300,000 yuan, the Xiaomi SU7 EV stood out with remarkable sales in 2024 [7]. This reflects that the brand effect of Xiaomi smart cars is gradually emerging in the market. As a well-known technology brand, Xiaomi's brand effect also plays an important role in the smart car field [3]. Consumers' recognition and trust in the Xiaomi brand enable Xiaomi smart cars to quickly gain market attention and recognition. Xiaomi extends the brand influence it has accumulated in the smartphone and smart home fields to the smart car market. By providing high-quality products and services, it further consolidates its brand image. This brand effect not only helps Xiaomi smart cars stand out in the highly competitive market but also contributes to building consumers' trust in new products and promoting sales growth. With the continuous technological progress and the continuous optimization of the user experience of Xiaomi smart cars, Xiaomi's brand effect is expected to be further enhanced, driving its long-term development in the smart car market.

4. Comparison between Xiaomi auto's differentiation strategy and tesla's differentiation strategy

4.1. Product strategy differences

Tesla focuses on the cause of pure electric and autonomous driving technologies, and technological innovation is its core [5]. It continually optimizes the FSD algorithm and drives scenario adaptability to the greatest extent possible based on vast data. Such a product design pursues minimalist technological aesthetics, eliminating physical buttons and adopting instead a large-screen interactive style. Through the application of high-level technology, it has created brand value and established a high-end reputation. The sales channels are mostly direct selling. The worldwide uniform pricing strategy preserves the brand equity but has low density of coverage and a relatively standardized service model. Xiaomi, on the other hand, focuses on the "comprehensive ecosystem of people, vehicles and homes," capitalizing on the strong OS to connect mobile phones, car infotainment systems and home intelligent devices, enabling cars to be a part of smart living [2]. The price strategy is based on higher levels of value for money. It offers high-end configurations at lower-end prices, aiming precisely at those customers who like functionality and technology experience. The channels combine the offline Xiaomi stores and the online platform, integrate with the distributor capability to provide thick coverage, and adapt to the Chinese market needs through scenario-based experiences.

4.2. Comparison of competitive advantages

In cost-performance, Xiaomi SU7 not only costs less than Tesla models in the same category but is also equipped with advanced technologies such as laser radar and high-performance chips as standard[3]. Details like seats and audio systems are also on par with the higher-end models, providing a "low price with high specifications" advantage. The same-priced Tesla models have relatively basic configurations and also involve additional cost for feature upgrades, and thus the overall price is more. In the area of intelligent ecosystem interconnection, Xiaomi has achieved cross-scenario experiences such as home appliance control and device connection through its IoT ecosystem and Peppermint OS [2]. Tesla's intelligent system is more focused on the vehicle itself. It is outstanding at the vehicle's smoothness and OTA updates, but lacks good compatibility with third-party smart devices in the home, so it is difficult to create a cross-scenario closed loop. As for user feedback, Xiaomi has constant interaction with users from its executive social network, which are quickly gaining suggestions and turning them into the iterative direction [8]; Tesla relies on its international R&D network, taking Chinese market demand into account for overall planning, but its adaptation cycle of functions is long and it lacks adaptability. In local operation, Xiaomi has nurtured characteristics such as dialect recognition and localized maps for native consumers and implemented holiday-specific services tied to holiday contexts. In contrast to Tesla, although it has launched local features, to a significant degree, it still lags behind in meeting local users' unique demands in terms of depth of adaptation and response speed.

5. The advantages and challenges of Xiaomi's differentiation strategy in the automotive industry

5.1. The advantages of the differentiation strategy

Xiaomi's strategy is built on three key strengths, and these are what make it different from traditional car companies and new players like Tesla. First, it shows strong ability in ecological integration. Xiaomi uses the Pengpai OS to connect cars, people and homes across different devices. For example, users can control smart home devices from inside the car. This helps move the user ecosystem from phones and IoT devices to the car scene, creating a unique smart ecological barrier [2]. Second, there is an advantage in cost performance and the supply chain. Xiaomi's cars are known for good value. The SU7 starts at 215,900 yuan but comes with high-level features, such as 800V fast charging and lidar. It can cut costs by relying on the scale effect of Xiaomi's supply chain [5]. Third, it does well in local operations and connecting with users. Top managers often reply to user needs on social platforms, and can even improve features right away. The company also makes special features for China, like voice control in dialects and charging pile maps. These changes are faster than foreign brands make[3].

5.2. Challenges faced by differentiation strategy

Xiaomi is a new entrant in the automotive industry. When it comes to experience and technical accumulation in this field, it has relatively little in core traditional automotive technologies such as chassis tuning and three-electric systems [2]. This forces it to depend on external collaborations during its development. For instance, it partners with companies like CATL and Sunny Optical. However, over-reliance on outside cooperation may limit its independence in technical upgrades. If the research, development and updating of core technologies are controlled by others, it will be difficult to make rapid adjustments according to its own development strategies and market demands. This, in turn, can impact the overall competitiveness of its products and their long-term development potential.

Another major challenge for Xiaomi is the conflict between brand perception and moving towards high-end positioning. For a long time, Xiaomi has had a strong "cost-effective" image in consumers' minds. This image brought it great success in the consumer electronics sector, but in the automotive field, especially when planning high-end models, it may reduce users' acceptance of its high-end products [7]. On the other hand, brands like Tesla and BBA have built solid high-end brand recognition through years of technical barriers, so consumers are often more willing to accept their high-end models. Therefore, Xiaomi needs to maintain its cost-performance advantage while striving to enhance brand value, and find a balance between the two. This is undoubtedly a complex and challenging task.

The pressure from supply chains and production capacity ramp-up cannot be ignored either. The supply chain in the auto industry is much more complex than the consumer electronics field that Xiaomi is familiar with. It involves a large variety of parts, a great number of suppliers, and requires a high level of coordination between different links. Xiaomi SU7 once faced delivery delays due to insufficient production capacity when it first hit the market [4]. This situation not only affected consumers' purchasing experience but also had some impact on the brand's reputation. For this reason, Xiaomi must keep improving its supply chain management capabilities in the future. It should also optimize the coordination efficiency of the supply chain. This way, it can ensure support for large-scale delivery needs and thus gain a firm foothold in the fierce market competition.

When it comes to technical gaps, Tesla has led for many years in autonomous driving algorithms, like FSD and data accumulation [6]. It has deep technical experience and a huge amount of user data to support its work. This gives it clear advantages in the stability and scene adaptability of autonomous driving. Although Xiaomi has installed lidar in its vehicles and shows certain competitiveness in hardware configuration, it still needs time to catch up in the construction of software ecosystem and the breadth and depth of scene coverage. This gap may affect the competitiveness of Xiaomi's cars in intelligent driving, as intelligent driving has become one of the important selling points in the current automotive market to attract consumers. Technological lag may cause it to be at a disadvantage in the market competition.

6. Conclusion

The research results indicate that Xiaomi's intelligent vehicles adopt a core differentiated strategy of "ecosystem integration of people, vehicles and home", leveraging the powerful OS ecosystem interconnection, high-performance configuration and local operation to quickly open up the market [2][5]. The outstanding performance of the SU7's first launch orders proves the effectiveness of this strategy. However, as a cross-border player, it has a gap in battery-electric technology and autonomous driving algorithms compared to Tesla, and the "cost-effectiveness" label also restricts the breakthrough in high-endization [6]. This study analyzes Xiaomi's differentiated path and provides a reference model of "ecosystem empowerment + local adaptation" for technology enterprises to cross-border produce vehicles [9]. It also offers a new perspective for the industry to understand that the competition dimension of intelligent vehicles has shifted from a single technology competition to ecosystem integration [10]. This helps to promote the technological iteration and market expansion of the new energy vehicle industry in the diversified competition. It is hoped that in the future, Xiaomi can strengthen independent research on core technologies. At the same time, it should balance the relationship between ecosystem advantages and high-end brand building. It also needs to optimize the supply chain to support large-scale deliveries. If it can continue to strengthen the "people, vehicles and homes" ecosystem advantages and make up for technical shortcomings, Xiaomi is expected to form unique competitiveness in the mid-to-high-end market [7]. This will provide a sustainable practical example for technology companies making cars.

Authors contribution

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

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