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# Challenging Apple by Imitation

By SUE-LIN WONG

BEIJING — When Lei Jun, the head of Xiaomi, one of the fastest-growing smartphone companies in China, talks about Steven P. Jobs, he is full of praise — and a hint of envy.

“When Steve was alive, he was the best,” Mr. Lei said during a recent interview. “Nobody could surpass him. Nothing could surpass the iPhone.”

Apple and its late co-founder have no shortage of challengers — not to mention emulators — in China, a country that analysts expect will overtake the United States this year as the world’s largest market for smartphones.

Chief among the rivals is Xiaomi, whose newest smartphone has been expected to go on sale this month for 1,999 renminbi, or \$320 — less than half the starting retail price of an iPhone 4S in China. Pricing for the iPhone 5 in China has not been set.

Less than three years since it was founded, Xiaomi, meaning “little rice,” has become a rising star in the Chinese smartphone market. The company predicts that by the end of 2012, sales will reach nearly seven million phones and revenue will be at 10 billion renminbi — impressive for a company that sold its first smartphone in August 2011.

The scene at a Xiaomi event in August of this year was reminiscent of Apple’s typical product introduction under Mr. Jobs, who died last October. Mr. Lei strode onto a stage in the trendy 798 art district in Beijing to show off the Mi-Two to a roomful of cheering fans. He was dressed in a black polo shirt, jeans and black converse shoes, not much different from Mr. Jobs’s trademark outfit.

Xiaomi’s marketing strategy has been to ride on the back of the “cult of Apple” and of its creator, said Wei Wuhui, a technology industry expert at Shanghai Jiaotong University.

“Many Chinese consumers have come to idolize the Apple brand, and Xiaomi has been there to provide a similar product at a much cheaper price,” he said.

Fans — and critics — have been known to refer to the Xiaomi smartphone as the “little brother of Apple.” In one of Beijing’s many China Unicom stores, a sales representative called it as “the little brother of Apple.” And customers are happy to buy into this imag



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“Xiaomi is the real fake,” Oliver Jin, a university student in Shanghai who hopes to buy a Xiaomi, said approvingly.

Apple opened its first store in China in 2008 and began selling the iPhone in the country in 2009. It originally had plans to open 25 stores by 2012 — but only six Apple Stores are in operation in mainland China. Among the company’s headaches in the country have been the sale of fake iPhones to copycat vendors who set up unlicensed “Apple Stores.”

Despite challenges like that, Apple has still experienced phenomenal growth. China has become Apple’s second largest market, after the United States, and the company now earns about a fifth of its revenue there. Apple’s sales in the Asia-Pacific region excluding Japan — mainly China sales — rose to \$25.7 billion in the nine months before the end of June, up 60 percent from a year earlier.

And there is plenty of room for more growth. According to figures from the technology research company Gartner, the Chinese smartphone market will double this year to at least 150 million units, up from 76 million in 2011.

Analysts say part of what helps Xiaomi stand out from the pack of challengers to Apple is Mr. Lei himself. A billionaire and an engineer by training, Mr. Lei co-founded Kingsoft, one of the best-known Chinese software companies, more than 20 years ago and remains its chairman. He has also been a successful investor in several other Chinese start-ups. One of the firms Mr. Lei founded, [Joyo.com](http://Joyo.com), largest online retailer of books, music and movies in China, was sold to Amazon for \$75 million in 2004.

A self-proclaimed phone addict, Mr. Lei says he has owned more than 60 mobile phones, including the very first Motorola “brick phone.” While he was using a phone from the Finnish company Nokia in 2004, he says, he had a friend who worked there to whom he gave 1,500 suggestions about how to improve the phones. Nokia did nothing. Mr. Lei points to that experience, combined with the realization of “the potential for smartphones to replace computers,” as inspiration for him to set up Xiaomi.

Xiaomi differs from other smartphone companies in that it allows users to help design their operating systems. Every Friday at 5 in the evening local time, Xiaomi releases a new round of software updates for its own Android-based operating system — MIUI — to users in China and in Western countries. Within hours, thousands of fans are on Xiaomi forums to describe bugs and give feedback.

In the past, fans have been asked to weigh in on how much memory they want in their phones, how thick the next generation model should be and whether there should be a flashlight on the

back of the phone. “Apple is very conceited,” Mr. Lei said. Their attitude is, ‘I don’t need any feedback.’”

Mr. Lei’s bet on smartphones has attracted big-money backers. A fund- raising round from major venture capital investors in June valued the company at about \$4 billion, a little less than half the current market value of Nokia (\$9.57 billion) and on par with that of Research In Motion (\$3.49 billion), the maker of BlackBerry phones. The company’s institutional investors include Temasek, a Singaporean government-owned investment vehicle, and the Chinese venture capital funds IDG Capital and Qiming Venture Partners.

“Xiaomi has exceeded our original expectations,” Hugo Shong, a founding partner of IDG, said in an interview. “I think other investors feel the same way — you just have to look at the numbers. Xiaomi went from zero revenue to 8 billion renminbi in just a year.”

Xiaomi’s big test will be how well its phones are accepted beyond mainland China. Executives say the company plans to start rolling out its phones in Hong Kong, Taiwan and Singapore by the end of the year, but its ambitions do not end there.

As for the rest of the world, Mr. Lei said, “We’ll take it one step at a time.”

*Clare Pennington and Wang Xin contributed research.*