

The Future Development Prospects of Xiaomi Corporation: Based on Financial Analysis and Comparison

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Abstract: With the rapid development of technology, the smartphone industry is experiencing unprecedented changes. Xiaomi, a leading company in this field, has attracted widespread attention for its unique business strategies and promising future prospects. This paper aims to conduct an in-depth study of Xiaomi's strategic choices and explore the potential challenges and opportunities it may face in the future. This research is not only significant for understanding the competitive landscape of the smartphone industry, but also provides valuable practical cases for the academic field. This paper adopts financial analysis, environmental analysis, and SWOT analysis to comprehensively analyze Xiaomi's strategies, aiming to provide new perspectives and insights for relevant academic research and business practices. In the SWOT analysis, the salient strengths in its internal environment lie in the integrity of the ecological chain and high cost-effectiveness. However, the prominent weaknesses in the internal environment are the need to enhance technological proficiency. In terms of external environment, the main opportunities it faces are the global technological development and the advancement of 5G and the Internet of Things (IoT). External threats primarily stem from its competitors. In financial analysis, Xiaomi's primary concern is to enhance its profitability and operational efficiency. Through this research, this paper hopes to provide valuable references for Xiaomi's future development and contribute new marginal value to the academic field.

Keywords: SWOT Analysis, Financial Situation, Future Prospect Analysis

1. Introduction

1.1. Research Background and Motivation

In today's fiercely competitive technology landscape, Xiaomi, a global pioneer in consumer electronics, has established itself as a formidable player. Its remarkable growth and innovative products have garnered significant attention worldwide. However, as the market continues to evolve, understanding Xiaomi's future prospects requires a thorough analysis of its competitors and how it stands against them. This paper aims to delve into Xiaomi's future development trajectory, drawing comparisons with its rivals to identify both opportunities and challenges.

By comparing Xiaomi's profitability, debt paying ability, growth ability and operational ability with those of its competitors, this article can gain a deeper insight into the company's strengths, weaknesses, and potential areas for improvement. Such an analysis is crucial for understanding

Xiaomi's chances of maintaining its momentum in the long run and seizing new opportunities for growth. As technology advances at an unprecedented rate, Xiaomi's ability to adapt and innovate will be pivotal in determining its future success.

1.2. Literature Review

Yang Guoli & Xie Danyao elaborated on the corporate risks resulting from the dual-class share structure and provides suggestions to address such risks [1]. Zhou Ziyang explored the influence of equity incentive policies on Xiaomi's profitability, debt repayment ability, and operational capabilities, providing insights for problem-solving [2]. Xu Ling & Chen Xi analyzed the issues in Xiaomi's strategic cost management optimization and offers solutions [3]. Feng Yuyu specifically examined Xiaomi's operational capacity and provides detailed suggestions for enhancing it [4]. Ran Yingbin through data analysis, carefully examines the financial issues existing in Xiaomi and offers suggestions targeting its primary issues, namely, corporate development capacity and operational capacity [5]. He Yu analyzed the internal and external factors affecting Xiaomi's profitability and proposes suggestions to enhance its profitability [6].

Current research has conducted relatively detailed studies on corporate strategic analysis and financial analysis separately, but there is a lack of overall analysis that integrates strategic and financial aspects. This article combines corporate strategy with financial analysis to provide comprehensive suggestions.

1.3. Research Contents

In the following sections, this article will explore these comparisons in detail, aiming to provide a comprehensive overview of Xiaomi's current status and potential avenues for future growth. The first section is the introduction, the second section is the current situation and strategic analysis of Xiaomi Inc., the third section is the environmental and financial analysis of Xiaomi Inc., the fourth section is the analysis of Xiaomi Inc.'s future development prospects, and the last section is the conclusion of this paper.

2. Description of Xiaomi Corporation

2.1. Xiaomi Corporation Overview

Xiaomi Corporation, commonly known as Xiaomi, is a Chinese multinational technology company that designs, develops, and sells smartphones, smart home appliances, and consumer electronics. Founded in 2010 by Lei Jun, Xiaomi quickly gained recognition for its high-quality products at competitive prices. The company's philosophy of "innovation for everyone" has resonated with consumers worldwide, resulting in rapid growth and a significant market share in various regions.

Xiaomi's product portfolio is extensive, ranging from flagship smartphones to budget-friendly devices. Its Mi and Redmi brands cater to different consumer segments, offering a wide range of choices to suit varying needs and budgets. In addition to smartphones, Xiaomi has also expanded into smart home appliances, including TVs, routers, air purifiers, and more. These products are designed to integrate seamlessly with Xiaomi's smartphones, providing users with a comprehensive smart home experience. Xiaomi's success is largely attributed to its emphasis on innovation and user-centric design. The company invests heavily in research and development, continuously striving to improve its products and introduce new features that enhance the user experience. Additionally, Xiaomi's focus on software optimization has enabled its devices to run smoothly and efficiently, further strengthening its reputation for reliability and performance.

With a growing global presence, Xiaomi has established itself as a formidable competitor in the consumer electronics market. Its commitment to providing quality products at affordable prices, along with its focus on innovation and user experience, has positioned Xiaomi as a leader in the industry, with bright prospects for continued growth and success in the future.

2.2. Strategy Analysis

In the current, Xiaomi's strategic positioning is firmly grounded in its mission to provide high-quality yet affordable consumer electronics. The company has adopted a multi-pronged approach that includes extensive research and development, aggressive market expansion, and customer-centric service. Xiaomi's "Internet of Things" strategy, which integrates smartphones with a wide range of smart home devices, has been particularly successful in driving growth. Additionally, the company's focus on software optimization and user experience has set it apart from its competitors. As Xiaomi continues to expand its global footprint, its strategic vision remains centered on innovation, efficiency, and customer satisfaction.

In addition, since its inception, Xiaomi has attached great importance to the coordination of investment strategy and overall business strategy. By the end of 2013, Lei Jun, the founder of Xiaomi, noticed the development trend of the Internet of Things (IoT) and established an ecological chain investment team. Through the investment model of "investment + incubation," Xiaomi established strategic partnerships with companies in the ecological chain. These companies focus on the research and development of products in the ecological chain and sell them through Xiaomi, while Xiaomi empowers these companies in terms of funding, technology, supply chain, branding, sales channels, and other aspects. As of December 31, 2022, Xiaomi has invested in over 420 companies, with a total book value of 65.2 billion yuan.

With the continuous increase in the number of products in the ecological chain, Xiaomi utilizes Internet technology to connect these products with its IoT platform, successfully building the world's largest consumer-grade IoT platform and creating a customer-oriented, all-scenario ecosystem. At the same time, through investment, Xiaomi has horizontally expanded its industrial chain and vertically integrated upstream and downstream enterprises, forming a value network centered on Xiaomi. Members of Xiaomi's value network mainly include Xiaomi, customers, ecological chain companies, strategic partners, suppliers, financial institutions, and so on. Each member maintains a dynamic balance of cooperation and competition within the value network. Under this relationship, stakeholders work together to achieve progress and development, fully utilizing the advantages of the value network to realize value co-creation [7].

3. Environmental and Financial Analysis

3.1. SWOT analysis

When evaluating the future development direction of Xiaomi, a thorough SWOT analysis is crucial. This analysis examines the company's Strengths, Weaknesses, Opportunities, and Threats.

3.1.1. Strengths

Xiaomi boasts a robust ecosystem of products, ranging from smartphones to IoT devices, which provides a significant competitive advantage. Its market positioning as a value-for-money brand has resonated with consumers, resulting in a loyal fan base. In 2018, Lei Jun, the founder of Xiaomi, promised users at the annual new product launch event that the overall after-tax net profit margin of Xiaomi's hardware business would not exceed 5% annually. If it did, the excess profit over 5% would be returned to Xiaomi users in a reasonable way. Xiaomi smartphones leverage their cost-

effectiveness advantage and form a stark contrast with the prices of other manufacturers' products with severe price premiums in the market, giving consumers the impression that "under the same configuration, Xiaomi's smartphones are priced lower [8].

Additionally, Xiaomi's innovative business model, which relies on online sales and social media marketing, has enabled it to achieve rapid growth and expand into international markets. Xiaomi Company utilizes a matrixed marketing policy through its corporate Weibo accounts [8].

3.1.2. Weaknesses

Despite its strengths, Xiaomi faces challenges in brand perception. Some consumers associate the brand with low-cost products, limiting its ability to penetrate high-end markets. Moreover, the company's dependence on a few key suppliers for components could pose supply chain risks. Furthermore, Xiaomi's entry into new markets has sometimes met with regulatory challenges and intense competition from established players. At the same time, Xiaomi also faces issues such as disadvantages in product quality, weak production capacity, and continuous consumer churn [8]. Next, Risks associated with dual-class share structure are as followed, damage to the interests of small and medium shareholders, abuse of power by management, limited internal supervision and incomplete information disclosure [1]. The following issues exist in Xiaomi's strategic cost management: Firstly, insufficient technological research and development; secondly, neglect of the external value chain of the enterprise; thirdly, excessive speed of store expansion [3].

In conclusion, Xiaomi's major internal strengths lie in its complete industrial chain, loyal user base, and sound financial condition. However, its weaknesses are primarily concentrated in the areas of product technology research and development, as well as business expansion [9].

3.1.3. Opportunities

The global demand for smart devices and IoT products presents significant opportunities for Xiaomi. As 5G and AI technologies continue to evolve, Xiaomi can leverage its technological prowess to introduce innovative products and services. Additionally, the company can explore opportunities in emerging markets, which offer vast growth potential. Collaborations with other technology leaders could also accelerate Xiaomi's product development and market expansion.

5G mobile communication technology is characterized by three major features: enhanced mobile broadband, ultra-high reliability and ultra-low latency, and large-scale Internet of Things. The integration of 5G technology with marketing models has gradually shifted people's daily necessities from traditional offline modes to online ones, providing mobile phone manufacturers with diverse and immersive marketing options and possibilities, both online and offline. Furthermore, with the global outbreak of the COVID-19 pandemic, traditional office modes have been significantly restricted and altered, transforming face-to-face communication into real-time communication software on smart devices for work-related communication across various scenarios [8].

3.1.4. Threats

The rapidly changing technology landscape poses a significant threat to Xiaomi. The company must constantly innovate to stay ahead of the competition. Intensifying competition from rival brands, both domestic and international, could erode Xiaomi's market share. Furthermore, changing consumer preferences and regulatory policies in different markets could pose challenges to Xiaomi's business operations. In conclusion, Xiaomi's strengths in product ecosystem, market positioning, and innovative business model provide a solid foundation for future growth. However, the company must address its weaknesses, seize opportunities, and mitigate threats to ensure sustained success.

From the perspective of competitors, Apple Inc. A multinational technology conglomerate, holds a significant position in the global consumer electronics market. With its iconic products such as the iPhone, iPad, and Mac computers, Apple has established a strong brand reputation for innovation, design, and user experience. The company's continued focus on cutting-edge technology and user-centric approach has made it a formidable competitor in the industry, challenging other market leaders like Xiaomi.

Samsung, a South Korean conglomerate, is a leading global player in the electronics industry. Its diverse portfolio includes smartphones, TVs, semiconductors, and more. Samsung Electronics, the flagship subsidiary, is a key player in the smartphone market, maintaining a significant global market share. With a strong focus on innovation and brand value, Samsung continues to challenge market leaders, including Xiaomi.

OPPO, a Chinese consumer electronics company, has established itself as a formidable competitor in the global smartphone market. Its products are known for their stylish design, camera quality, and user-friendly interface. OPPO's market share in China and several other regions has grown significantly in recent years. The company's investment in research and development, along with its robust supply chain management, positions it well to compete with industry leaders like Xiaomi in the future.

3.2. Financial Situation

The following are the financial data of Xiaomi and its comparative companies. This article will analyze the financial condition of Xiaomi in terms of stock index, profitability, solvency and operation ability.

Furthermore, Xiaomi exhibits financial characteristics of asset-light operations. Specifically, Xiaomi's asset-light nature is reflected in the significant proportion of current assets to total assets, while the share of fixed assets is relatively small. Additionally, it has a substantial amount of current liabilities, particularly in the form of non-interest-bearing liabilities within its current liabilities [10].

Table 1: Stock Index

	Xiaomi	Apple	Zhongxing
P/E	22.58	30.87	13.92
P/B	2.25	48.17	1.91
P/S	1.44	7.81	1.02
EV/EBITDA	1.88	8.24	5.77

As depicted in Table 1, Xiaomi's financial indicators are slightly lower than Apple's but higher than ZTE's, indicating that investors are willing to pay a cost for earnings that is at the median level of the industry. In terms of the price-to-book ratio, Xiaomi's ratio is significantly lower than Apple's but slightly higher than ZTE's, suggesting that the company's asset quality needs improvement. Xiaomi's price-to-sales ratio in 2023 stands at 1.44, slightly higher than ZTE but significantly lower than Apple. The last metric, the enterprise value to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio, assesses a company's operating performance and reflects its cash flow generation ability. Xiaomi's value is lower than the other two companies, indicating that its profitability needs to be enhanced.

Table2: The profitability of companies

profitability	Xiaomi	Apple	Zhongxing
Net profit margin on sales (%)	6.45	25.31	7.44

Table 2: (continued).

ROE	11.36	171.95	14.73
ROA	5.85	27.6	4.77
ROIC	7.71	29.77	7.28

Analyzing Xiaomi's future growth potential, this paper examines four aspects: profitability, solvency, growth capacity, and operational efficiency. Regarding profitability, as depicted in Table2, Xiaomi's net profit margin of 6.45% is below the industry average, which aligns with its marketing philosophy of focusing on cost-effectiveness. Its return on net assets and return on total assets are both at intermediate levels.

Table 3: The description of Solvency

Solvency	Xiaomi	Apple	Zhongxing
Current ratio	1.72	0.99	1.91
Quick ratio	1.34	0.94	1.41
Total equity/liabilities attributable to shareholders of parent company	102.51	21.4	33.84
Total operating profit/liabilities	12.51	39.35	\

In terms of solvency, as depicted in Table 3, Xiaomi's current ratio and quick ratio stand at 1.72 and 1.34, respectively, which are higher than Apple but lower than ZTE. These figures indicate that Xiaomi has strong short-term solvency and the ability to convert its assets into cash immediately to repay debts. The ratio of equity attributable to shareholders to liabilities suggests that Xiaomi's primary source of funding is shareholder investment rather than financing loans, indicating healthy cash flow and low debt risk. The ratio of operating profit to total liabilities, standing at 12.51, shows that Xiaomi's operating profit in 2023 exceeded its liabilities for the year. In summary, Xiaomi has strong solvency, with minimal loans taken annually, virtually eliminating debt repayment risks.

Table 4: Growth ability

Growth ability	Xiaomi	Apple	Zhongxing
Year-on-year growth rate of Total assets (%)	18.55	-0.05	11.06
Total liabilities (%)	23.46	-3.86	\
Operating profit (%)	610.41	-4.3	16.64
Total shareholder's equity growth (%)	14.13	22.64	\

In terms of growth capacity, as depicted in Table 4, Xiaomi's total assets have increased by 18.55% year-on-year, representing a significant growth rate that demonstrates the company's development potential. The growth rate of net assets per share and total shareholders' equity is approximately 14.13% higher than in 2022. Operating profit has increased by a significant 610.41% year-on-year.

Table 5: Operational ability

Operational ability	Xiaomi	Apple	Zhongxing
Inventory turnover times	4.5	37.98	1.68
Total asset turnover times	0.91	1.09	0.65

Regarding operational efficiency, as depicted in Table 5, Xiaomi's inventory turnover and total asset turnover ratios are both at the median level of the industry, reflecting its moderate cash conversion capability and utilization of total assets.

4. Future Prospect Analysis

In terms of equity structure, first and foremost, it is necessary to improve the mechanism for protecting the interests of small and medium shareholders. Secondly, the scope of significant events that are not allowed to have multiple voting rights should be expanded. Thirdly, the independence of independent directors should be enhanced, and the governance of the board of directors should be improved. Finally, information disclosure should be strengthened. Xiaomi can improve its profitability and operational efficiency through equity incentives [2]. Secondly, Xiaomi should optimize resource allocation, focusing on core technology research and development such as chipsets while enriching its product lines. Additionally, it should recruit high-quality financial management talents to strengthen strategic cost management. Optimizing strategic positioning choices and consolidating the existing market are also crucial. In addressing the key issue of enhancing operational efficiency, Xiaomi should be market-oriented, while also enhancing brand quality and product sales.

5. Conclusion

This study analyzes the financial conditions of Xiaomi Corporation and its competitors, including Apple Inc. and ZTE Corporation. As depicted in Table 1, Xiaomi's investors are willing to pay a cost for earnings that is at the median level of the industry. In terms of the price-to-book ratio, suggesting that the company's asset quality needs improvement. The enterprise value to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio shows that Xiaomi's value is lower than the other two companies, indicating that its profitability needs to be enhanced. Analyzing Xiaomi's future growth potential, this paper examines four aspects: profitability, solvency, growth capacity, and operational efficiency. Regarding profitability, as depicted in Table 2, Xiaomi's net profit margin aligns with its marketing philosophy of focusing on cost-effectiveness. Its return on net assets and return on total assets are both at intermediate levels. In terms of solvency, as depicted in Table 3, Xiaomi's current ratio and quick ratio indicate that Xiaomi has strong short-term solvency and the ability to convert its assets into cash immediately to repay debts. The ratio of equity attributable to shareholders to liabilities and the ratio of operating profit to total liabilities both show that Xiaomi has strong solvency, with minimal loans taken annually, virtually eliminating debt repayment risks. In terms of growth capacity, as depicted in Table 4, Xiaomi's total assets represents a significant growth rate that demonstrates the company's development potential. The growth rate of net assets per share, total shareholders' equity and operating profit has increased. Regarding operational efficiency, as depicted in Table 5, reflecting its moderate cash conversion capability and utilization of total assets. The contribution of this paper lies in combining Xiaomi's corporate strategy with its financial situation and providing development suggestions.

However, due to limitations in data acquisition, this paper was unable to conduct a comparative analysis with companies such as OPPO, VIVO, and Huawei, which are the most suitable for data comparison with Xiaomi. If possible, further research on this aspect can be conducted in the future.

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