

Strategic Analysis and Financial Analysis of The Corporation--Taking Xiaomi as An Example

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Abstract: Considering the fierce competition and demand diversification in the market, the financial situation and performance need to be anatomized. Additionally, it is conducive for a company to comparing its financial metrics to other competitors and the whole industry. This paper takes Xiaomi, a typical Chinese corporation in the mobile telephones industry as an example, and ZTE as an emblematic competitor from China, respectively. In the first place, PEST and SWOT analysis are used in this paper to analyze the macro and micro environment of the smartphone industry, and Xiaomi is a rapidly growing company among the rivals to some extent. And then, by analyzing the strategies and financial ratios of Xiaomi corporation, this paper concludes that Xiaomi is using an aggressive financial structure. And its profitability is increasing even though it keeps a low profit margin and ensures short-term solvency. However, the company has to improve its asset management and long-term solvency issues. Additionally, this paper mentions future expectations and suggestions related to the industry. Through this paper, it is possible to help improve the performance of Xiaomi or other mobile phone companies and promote healthier industry development.

1. Introduction

1.1 Industry overview of the mobile telephones industry

The mobile phone industry refers to a series of related businesses surrounding the manufacturing and operation of mobile phones, including front-end hardware, operating system, brand operation, value-added services, telecom operation, channel, and other related sub-industries (McMahon, 2021). According to the data from Capital IQ, the Mobile Telephones industry has an estimated 440 listed companies throughout the world. Based on the data collected in the Wind database, by April 21, 2021, there were 97 listed companies related to PC smartphones in the stock markets of Shanghai and Shenzhen. And by April 15, 2021, the total Chinese market value of the enterprise was 302,457,888.8 billion yuan, and the total number of employees in the industry was 1,697,122. And the total of listed companies and market value have been relatively stable in recent years.

From the perspective of smartphone market occupation, the share of the giant enterprises has gradually increased. From 2015 to 2020, there was a rapid increase in global smartphone shipments of TOP 5 brands, and a similar trend also occurred in the domestic market. The TOP 5 in international and domestic smartphone shipments is relatively stable, followed by Samsung, Apple, Huawei, Xiaomi, and VIVO in 2020. More specifically, the market share of TOP 5 brands in the smartphone market reached 59.7% in 2015, and by 2020 this proportion has been raised to 96.5%.

1.2 Company overview of Xiaomi

Xiaomi was founded in 2010 and is headquartered in Beijing, the People's Republic of China. It is a global mobile Internet enterprise focusing on the research and development of intelligent hardware and electronic products, as well as an innovative technology enterprise focusing on the construction of a smart home ecological chain. Xiaomi, an investment holding company, currently provides hardware, software, and Internet services for mainland China, India, Europe, and other countries. Its main business segments are smartphones, the Internet of Things, lifestyle products, and Internet services.

The smartphone segment mainly provides smartphone sales. The IoT and Lifestyle Products division offers intelligent TVs, laptops, ARTIFICIAL intelligence speakers and intelligent routers, various IoT and other intelligent hardware products, and lifestyle products. The Internet Services division provides advertising and Internet value-added services and engages in online games and fintech businesses.

On July 9, 2018, Xiaomi was listed on the Hong Kong Stock Exchange. By October 2021, its market value reached 530,785.7million Hong Kong dollars. In terms of market share, Xiaomi's main competitors include Bytedance, 360, and Asustek.

2. Strategy analysis

2.1 PEST Analysis

PEST analysis is an analytical method that includes political, economic, social, and technological sources (Ho, 2014). The method focuses on the macro-environment, analyzing these factors, and is beneficial for optimal decision-making.

(1) Political

Firstly, in 2007, The State Council abolished the approval and issuance system of "mobile communication system" and "terminal license", enabling more small and medium-sized enterprises to enter the market (Wu, 2007). In addition, Kong (2011) has pointed out that relevant departments have taken steps to simplify the mobile process and delete duplicate test items, shortening the time for smartphones entering the market. Secondly, considering the requirements of economic development and industry transformation, the Chinese government prioritizes supporting the development of new and high technology industries and emerging industries, especially in terms of information technology (Li, 2011). Thirdly, the Chinese government has introduced Tri-networks integration, including telecommunications networks, cable TV networks, and the Internet (Yuan, Zhang & Yao, 2011). During the evolution of the next-generation Internet, technological function and range of business tend to be the same through technological development. Consequently, a high degree of network connectivity and resource sharing could be achieved, providing users with a large variety of services such as voice, data, radio, and television. And all of them are beneficial to prevent market monopoly, enrich content and reduce cost.

(2) Economic

According to Barboza (2010), China has become the second-largest economy globally. In recent years, Gross Domestic Product (GDP) and National Income (NI) have risen stably, illustrating an increase in income. Meanwhile, it is noticeable that Engel's Coefficient of China has fallen since 2011 (National Bureau of Statistics of the People's Republic of China, 2012), implying growth in consumption of durable goods. And when it comes to the factor market, especially the labor one, study conducted by scholars (Li, Loyalka, Rozelle & Wu, 2017) has shown that China has a large and cost-effective labor force, which allows companies to have a cost advantage.

(3) Social

In the first place, the national educational level increases gradually, leading to an ever-increasing population who are able to use mobile phones.,and then, the use of mobile telephones is affected by value and cultural traditions. Since the reform and opening-up, the Chinese have gradually accepted smartphones due to changes in values and cultures. Additionally, it is remarkable that people have shown different preferences and demand diversification of smartphones. Additionally, in the recent decade, there has been a trend of using various applications, such as WeChat and Alipay, which only could be used on smartphones.

(4) Technological

With the rapid development of technology, advanced information system allows companies to get access to consumers' feedback quickly, leading to matching and adjusting product designs based on

consumer preference (Lee, Lee, 2020). Meanwhile, the popularity of internet platforms has a positive effect on product publicity, boosting the promotion and gathering many fans. In addition, the construction of the 5G base station and the completed mobile communication industry and infrastructure promotes the development of mobile phones.

2.2 SWOT analysis

At present, the mobile phone industry is highly developed. There are a variety of mobile phone brands: Apple and Samsung are in the leading position, Chinese mobile phone brands Xiaomi, ZTE, and Huawei also occupy a large share of the market. Considering the current situation of the Xiaomi mobile phone industry, we use the SWOT analysis method to analyze Xiaomi's business model, organizational culture, and marketing objectives.

(1) Strengths

a. Mobile UI strengths

MIUI system independently innovates a complete set of user experience design systems according to Chinese users' habits, which is closer to Chinese users' usage habits and improves user stickiness (Hui, Wang, 2014). At the same time, MIUI pays attention to appearance design, and a variety of themes can be customized to meet the personalized experience of a large number of users.

b. Cost strengths

Xiaomi adopts the strategy of assembling high-quality parts by purchasing high-quality components from major mobile phone parts manufacturers worldwide, which meets the performance requirements of major mobile phone enthusiasts and reduces costs on the premise of ensuring the quality of mobile phones.

(2) Weaknesses

a. Defects of the mobile phone itself and after-sales service

Compared with the "99% good product rate" advertised by Apple, Xiaomi users generally respond that the mobile phone has problems such as curved screen, peeling paint, and severe body heating. In addition, there is a significant gap in after-sales support services (i.e., "Mi Home") in small and medium-sized cities nationwide, and the coverage of after-sales terminals is insufficient.

b. Reputation defects

Compared with international brands such as Apple and Huawei, which have established their brand image and reputations, Xiaomi started late and lacks brand reputation.

(3) Opportunity

a. Weakened competitors

Apple's high price, high-end market positioning, and many software not applicable in China have weakened apple's competitiveness to a certain extent. And among android phones, the system of Xiaomi phones in the middle and low-end market is relatively well established. Equipped with the MIUI system and having a good performance at the same price, Xiaomi phones can attract a large number of phone enthusiasts.

b. Mobile computerization

Mobile phones will replace PC. Therefore, the market demand and smartphone requirements will continue to increase, which makes the whole mobile phone industry have excellent growth potential.

(4) Threat

a. Fierce competition

Smartphone market competition is intense. In the field of mobile terminals, Apple and Samsung occupy the high-end market. Meanwhile, Lenovo, ZTE, Huawei, and other domestic manufacturers and operators with top smartphones, millet technology such as Internet companies joined mobile phone research and development production, expanding the research and development of mobile terminal companies laid a pluralistic competitive landscape (Hui, Wang, 2014).

b. Technical challenges

MIUI is suitable for Chinese people, but at the same time, because it is only made in China and developed under the framework of the Android system, the development of some applications is minimal. At the same time, due to its assembly machine positioning, it will undoubtedly increase costs and lose independent property rights when suppliers control vital parts.

3. Financial analysis

3.1 Profitability Measures: Analysis of Profitability

Table 1. Profitability ratio of Xiaomi

Financial Ratio	2018	2019	2020
Gross Margin (%)	12.7%	13.9%	14.9%
Profit Margin (%)	7.7%	4.9%	8.3%
Retain on Equity (%)	-48.17%	13.2%	19.9%

From the profitability ratio, gross margin reflects the profitability of the central business. An increasing trend of gross margin implies that profitability is rising stably. Additionally, as for-profit margin, the larger the ratio is, the stronger the profitability of the enterprise's sales will be. Based on the financial reports, Xiaomi can maintain a general growth of profit margin on sales, which proves the enterprise's financial condition is promising. In the perspective of retain on equity, which measures the efficiency with which a company uses its capital. Considering the financial data, after the occurrence of negative value caused by a significant decrease in retained earnings in 2018, there was a rapidly growing rate with a positive ratio value. It suggests that shareholders' investment returns are getting higher.

Table 2. Profitability ratio of ZTE

Financial Ratio	2018	2019	2020
Gross Margin (%)	31.9%	35.8%	31.5%
Profit Margin (%)	-7.7%	6.1%	4.2%
Retain on Equity (%)	-17.7%	16.3%	11.2%

Compared to another brand, ZTE, Xiaomi also has a much lower gross margin, corresponding to its brand image. However, Xiaomi tends to narrow this gap when it comes to profit margins. Additionally, retain on equity of Xiaomi is increasing stably, which has exceeded ZTE, showing shareholders get a better return on their investment in Xiaomi than that in ZTE.

Table 3. Profitability ratio of industry average

Financial Ratio	2018	2019	2020
Gross Margin (%)	45.0%	35.6%	38.4%
Profit Margin (%)	17.7%	9.2%	10.9%
Retain on Equity (%)	27.5%	22.4%	25.6%

As shown in the table, Xiaomi's gross margin in the last three accounting years was lower than the industry average, around 13%. The industry average is approximately 40%. This number means that Xiaomi still maintains a large proportion of the cost of its main business, which is mainly reflected in its choice of cost-effective accessories to provide high-performance phones for mobile phone enthusiasts. In the past three accounting years, Xiaomi's profit margin has faced the same problem as gross margin. To a certain extent, the mobile positioning of pursuing the best accessories has resulted in Xiaomi's failure to maintain a high net profit, and the relevant interest rate of Xiaomi is lower than the average level of other companies in the industry. In terms of retain on equity, Xiaomi returned to the normal level in 2019 and 2020 after the shareholding structure restructuring in 2018. However, due to the low proportion of net income, Xiaomi's retain on equity is still lower than the industry average. Comprehensive analysis shows that due to operational strategies and other reasons, Xiaomi's profitability in the market is weak and does not reach the average level.

3.2 Asset Management Measure

Table 4. Asset management ratio of Xiaomi

Financial Ratio	2018	2019	2020
Inventory Turnover	6.7	5.7	5.6
Receivable Turnover	31.6	32.8	28.4
Total Asset Turnover	1.5	1.3	1.1

As a comprehensive index to measure and evaluate the management status of all processes, such as inventory purchase, production, sales and recovery, inventory turnover reflects the turnover rate of inventory. Xiaomi's figure maintains stable between 5 to 6 and declines gradually. It shows that the management layer is trying to strengthen inventory management. However, it is noticeable that receivable turnover is extremely high for Xiaomi, which fluctuates at a level of approximately 30, indicating that the company has more long-term accounts receivable, weak short-term solvency ability, and big potential bad debt losses. Furthermore, in terms of total asset turnover, the ratio shows that Xiaomi does well in managing total assets and has a good sales performance.

Table 5. Asset management ratio of ZTE

Financial Ratio	2018	2019	2020
Inventory Turnover	2.3	2.2	2.3
Receivable Turnover	2.4	2.7	3.4
Total Asset Turnover	0.6	0.7	0.7

As a typical Chinese brand, ZTE's inventory management and utilization of assets are at a disadvantage compared with Xiaomi's, based on the inventory turnover and total asset turnover. According to the historical data, Xiaomi manages inventories effectively among brands in China. Nevertheless, ZTE has better accounts receivable management, receiving in a shorter term.

Table 6. Asset management ratio of industry average

Financial Ratio	2018	2019	2020
Inventory Turnover	8.4	9.3	7.8
Receivable Turnover	8.7	8.0	8.1
Total Asset Turnover	0.8	0.9	0.9

As shown in the table above, the inventory turnover of Xiaomi was consistently lower than the average level of the industry in the last three accounting years, which means that compared with other companies in the industry, its inventory liquidity was weak, and its sales ability was not strong. In terms of receivable turnover, Xiaomi's Turnover is much higher than the industry average, which means its accounts collection ability and asset liquidity are at a high level in the industry, and its short-term debt repayment ability is higher than the rest of the industry. In terms of total asset turnover, Xiaomi maintained a higher level than the industry average, indicating that in the industry, Xiaomi still maintained a high asset use efficiency and sales efficiency, and the asset utilization level was at a high level in the industry. Considering the sales positioning of Xiaomi mobile phone for mobile phone enthusiasts, there are constraints on the inventory turnover of Xiaomi Company; Xiaomi still needs to consider expanding more markets at different levels and strengthening the operational capacity.

3.3 Liquidity and Solvency Ratios

According to Xiaomi's annual report data, in terms of short-term debt-paying ability, current ratio and quick ratio could be calculated for comparison. Furthermore, the total debt ratio and debt-equity ratio can be extracted for analysis in terms of long-term debt-paying ability. Then analysts could conclude that Xiaomi's solvency in the industry is strong or weak.

Table 7. Solvency ratios of Xiaomi

Financial Ratio	2018	2019	2020
Current Ratio	1.7	1.5	1.6
Quick Ratio	1.0	1.0	1.1
Total Debt Ratio	50.9%	55.5%	51.1%
Debt-Equity Ratio	103.8%	124.9%	104.6%

When it comes to the current ratio, which refers to the cash-ability of a company, Xiaomi remains its ratio at a level higher than 1.5. This figure implies that all current liabilities are guaranteed to be repaid, though a third of current assets are not liquidated in a short period. And for the quick ratio, it is greater than 1.0 and remains stable, illustrating that for every yuan of current liabilities of Xiaomi, there are more than 1 yuan of current assets that can be easily transformed to cash for compensation, and the short-term solvency is reliably guaranteed. Additionally, the total debt ratio is another index to evaluate enterprise debt level and risk degree. According to the ratio, it can be seen that Xiaomi controls its debt risk successfully, maintaining this number within the range between 40% and 60%. Finally, to measure the long-term solvency ability of Xiaomi, the debt-equity ratio is calculated. Interestingly, Xiaomi manages to keep the ratio larger than 100%, suggesting that it has a large proportion of borrowing capital, as well as weak long-term solvency. In other words, Xiaomi adopts an aggressive financial structure characterized by high risk and high profit.

Table 8. Solvency ratios of ZTE

Financial Ratio	2018	2019	2020
Current Ratio	1.1	1.2	1.4
Quick Ratio	0.7	0.8	0.9
Total Debt Ratio	74.5%	73.1%	69.4%
Debt-Equity Ratio	421.0%	358.2%	241.4%

Compared to another Chinese brand ZTE, Xiaomi has a higher quick ratio. Consequently, the short-term solvency ability of Xiaomi is stronger than ZTE. Furthermore, thanks to ZTE's much higher debt-equity ratio, Xiaomi has a relatively stronger long-term solvency than ZTE. Meanwhile, this ratio and high Total Debt Ratio also shows that ZTE has higher financial leverage, suggesting a high risk, high earning financial structure.

Table 9. Solvency ratios of industry average

Financial Ratio	2018	2019	2020
Current Ratio	2.5	2.8	2.6
Quick Ratio	1.4	1.5	1.4
Total Debt Ratio	27.3%	25.8%	27.4%
Debt-Equity Ratio	37.6%	34.7%	37.7%

From the perspective of the current ratio, when the international standard is 2, the company's capital turnover efficiency is relatively appropriate, and the company's Current ratio should not be lower than 1 (Zhou, 2012). From the industry's perspective, the industry's average current ratio from 2018 to 2020 is above 2.5, which means that companies in the industry have high liquidity. Combined with the situation of large inventory in the smartphone manufacturing industry, Xiaomi has faced a current ratio of 1.5-1.7 in recent years, similar to the situation faced by ZTE and other traditional mobile phone manufacturing enterprises, and its capital liquidity is lower than the average level of the industry.

In terms of quick ratio, Xiaomi has maintained around 1.0 in the past three years, which means that Xiaomi's debt-paying ability remains at a reasonable level after excluding a large amount of inventory. However, the average quick ratio of the industry exceeds 1.0, which means that a large number of companies in the industry accumulate more cash and receivables, thus losing more investment opportunity costs. As far as Xiaomi is concerned, the good capital turnover ensures the company's stable development potential and space (Husna, Satria, 2019).

This paper mainly analyzes the total debt ratio and debt-equity ratio in terms of long-term solvency. In terms of the total debt ratio, Xiaomi has maintained above 50 percent since 2018, a relatively appropriate level. For creditors, Xiaomi's long-term solvency is more assured (Husna, Satria, 2019). Compared with the industry average (around 25%), it is evident that more companies fail to make full use of financial leverage, which is an opportunity for Xiaomi to expand its market share. According to the debt-equity ratio data, Xiaomi's debt-equity ratio is higher than the industry's average level, which means that although Xiaomi is facing a situation of higher debt than the industry level, it also maintains a high growth potential of earnings.

4. Analysis of future prospects and suggestions of the smartphone industry

4.1 Future prospects

Considering the influence of some objective factors on the future development of the smartphone industry, this part analyzes the future industry from the following perspectives:

(1) Smartphone sales in China are slowing down

Due to the rapid development of the Internet and smartphones in the past ten years, the holding of China's smartphone market has passed its peak. Smartphone shipments in China have been declining for years in recent years. The market is becoming saturated, and consumer demand is slowing. In addition, due to the monopoly of major smartphone companies on the market, small companies are difficult to develop, further reducing the development space of small companies. Due to the continuous growth of China's smartphone market, it is difficult to meet another explosion of market share growth under the condition of a certain population, and the future growth space is limited.

(2) The impact of internet

The domestic offline sales market of smartphones is greatly impacted by the Internet, especially for small companies that fail to make preparations for Internet sales channels in the early stage, it is more difficult for them to gain market share from giant companies with abundant funds, further weakening the possibility of future industry changes.

(3) International relations

International relations have a certain impact on the future of the industry. Due to the cooling down of China and US relations in recent years, it can be predicted that Chinese enterprises in the smartphone and other technology industries will lack international technical and product support to a certain extent in the future, and the smartphone market share will further shrink under the condition that the international trade circulation is restricted.

But at the same time, considering the rise of 5G era, it can be predicted that the mobile phone industry will usher in a new development in the next few years, and companies will enter a new round of market share sharing and competition.

4.2 Suggestions on the future development of Xiaomi

Based on the above analysis of the current situation of Xiaomi's mobile phone industry and the outlook of the mobile phone industry, the following suggestions are made for the future development trend of Xiaomi and corresponding countermeasures for market changes.

(1) Build the company's core competitiveness

Over the years, Xiaomi has excessively focused on positioning high-quality erectors while ignoring the core competitiveness of its technology and products. As Xiaomi continues to occupy the mobile phone market share, it should pay more attention to building its core competitiveness in technology and developing its technology while maintaining the positioning of high-quality mobile phones (Wei, Geng, 2011). Gradually break away from the current over-reliance on suppliers for software and

hardware. Xiaomi should strengthen its independent research and development to cope with the increasingly fierce competition in the mobile phone market.

(2) Improve after-sales service system

In the context of the pandemic, consumer attitudes have changed. More consumers choose to keep their phones for longer than replace them after a year. Therefore, while paying attention to the quality of mobile phones, a perfect customer service system and after-sales system are also essential. Due to the lack of physical stores and excessive reliance on online sales channels, Xiaomi mobile phones are extremely short of after-sales guarantee for product quality. Compared with companies with similar market share, such as Apple inc., Xiaomi needs to improve its after-sales system (Wei, Geng, 2011).

(3) More diversified business models

At present, a series of business models and concepts that have brought the success of Xiaomi mobile phones, such as the hunger marketing model, has been divorced from the needs of mainstream customers to a certain extent (He, Zhang, 2014). Xiaomi should absorb more diversified business models and marketing concepts. Constantly develop a more distinctive operation mechanism to maintain the positive operation of the company. At the same time, in the era of big data, Internet sales are no doubt the mainstream direction, Xiaomi should also pay attention to physical sales. With the advent of 5G era, Xiaomi should establish cooperative relations with operators to seize the emerging market.

5. Conclusion

In summary, Xiaomi has shown good profitability and development trend in recent years. In terms of profit, Xiaomi has a good profit prospect, but at the same time, due to the characteristics of its brand positioning, Xiaomi shows a low-profit margin. In terms of asset management, Xiaomi has advantages in asset management compared with other domestic brands but compared with international brands. There is still an excellent space for development. In terms of solvency, Xiaomi's short-term solvency is higher than the industry level, but its long-term solvency needs to be improved. Considering the radical financial structure of Xiaomi, it can be predicted that it has good operational flexibility in the mobile phone market and has good potential for future development. But at the same time, it also faces industry risks and industry competition pressure.

Combined with the forecast for the future prospects of the mobile phone industry, China's mobile phone industry market will face a certain cooling period. With the success of Xiaomi's early-stage business strategy, it should change its operation mode and asset structure according to the changing market demand. In order to cope with the increasingly intense industry share competition in the future, as well as the opportunity to grasp the future 5G development trend to a greater extent.

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