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Article

Financial Analysis of Xiaomi Corporation Based on the Harvard Analytical Framework

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Abstract: In the context of the accelerated transformation of the global technology industry, the hard technology field represented by smartphones, Internet of Things and smart cars is undergoing a profound business model transformation. Traditional financial analysis methods are difficult to effectively evaluate the ecological synergy value and strategic transformation effect of technology enterprises due to their excessive reliance on historical data and static indicators. The Harvard Analytical Framework provides a systematic methodology for analyzing the complex business models of technology companies by integrating four dimensions: strategy, accounting, finance, and outlook. As a typical representative of the "hardware Internet ecological chain" business model, Xiaomi's unique triangular strategy and rapidly iterative business structure provide an ideal sample for research. This study uses the Harvard analytical framework to analyze Xiaomi in depth, which is not only helpful to improve the theoretical system of financial analysis of technology enterprises, but also provides an important reference for investor decision-making, enterprise management optimization and industrial policy formulation, which has significant theoretical value and practical significance.

The study found that Xiaomi has formed a unique triangular model of "hardware drainage-ecological synergy-Internet monetization" at the strategic level, and built competitive barriers through 719 million user traffic. However, this model faces multiple challenges, such as the slow process of high-end smartphones, the strong

dependence on IoT business policies, and the impact of automotive business security incidents. According to the financial analysis, the company had accounting problems such as an excessively high R&D capitalization rate (62% for automobile R&D) and a conservative revenue recognition policy (24-month apportionment of Internet revenue), and the adjusted net profit decreased by 31.7% from 6.1 billion yuan to 4.165 billion yuan.

The study further revealed that Xiaomi's ecological synergies have initially emerged, with 40% of SU7 owners repurchasing Xiaomi home appliances, but the cash flow pressure is significant (operating cash flow -4.4 billion yuan). In the future, companies need to balance short-term financial performance with long-term strategic investments, and optimize asset efficiency while maintaining technological innovation. It is recommended to improve cash flow through asset-light operation and dynamic inventory management, and break through the bottleneck of high-end through the "dual-track pricing" strategy, so as to finally achieve the sustainable development of ecological closed-loop.

Keywords: Harvard analytical framework; Xiaomi, Inc.; Financial analysis

1. Introduction

1.1 Research Background and Significance

1.1.1 Research Background

The global technology industry is currently undergoing a profound transformation, with smartphones, the Internet of Things , and smart vehicles entering a new phase where and ecological layout develop in parallel. Traditional financial analysis methods exhibit prominent limitations in this context: their excessive reliance on historical financial ratios such as gross margin and turnover ratio renders them insufficient to evaluate core capabilities of technology enterprises, including R&D conversion efficiency and ecological synergy value. Moreover, relying solely on static indicators fails to capture the dynamic business-finance linkage characteristics during strategic transformation periods.

The Harvard Analysis Framework, by integrating four dimensions—strategy,

accounting, finance, and prospects—provides a systematic methodology for enterprise value assessment, particularly suitable for technology companies with continuously innovating business models. Xiaomi Technology Co., Ltd. serves as a typical case, with its unique "hardware + internet + ecological chain" triangular model offering multi-faceted research value:

1.1.2 Practical Significance

This study holds critical practical guiding significance for Xiaomi's operational management, investor decision-making, and industry policy formulation:

(1) For Xiaomi's Operational Management

Through systematic financial analysis, the study assists management in comprehensively evaluating the implementation effectiveness of current strategies and identifying potential risks in business development, such as competitive pressures in the smartphone market, policy dependence of IoT businesses, and the profit sustainability of the emerging automotive sector. These analytical results provide data support for Xiaomi to optimize resource allocation and adjust strategic layout, promoting its long-term sustainable development. For example, insights into the 62% capitalization rate of automotive R&D can guide rational R&D investment decisions, while cash flow analysis (-4.4 billion yuan in operating cash flow) can inform light-asset operation strategies to alleviate financial pressures.

1.2 Literature Review

In the early 19th century, the embryonic theory of financial analysis emerged in the United States. After more than 200 years of development, continuous academic research has gradually matured this theory. Studies show that the progress of financial analysis is closely linked to the level of social and economic development, as the continuous advancement of the social economy drives the improvement of financial analysis methods.

Zihan He and Yichang Huang's study "Hisense Visual Technology Financial Analysis Based on Harvard Analytical Framework" (2024) aims to help investors deeply understand Hisense Visual Technology's financial status and future prospects, covering strategic directions, profit models, and risk factors. Meanwhile, this research assists enterprise management in identifying operational issues, providing support for

adjusting strategies, optimizing resource allocation, and improving financial management and internal control, thereby enhancing corporate competitiveness and sustainable development capabilities. Through the Harvard Analysis Framework, the study also explores Hisense Visual Technology's competitive position in the industry, its own strengths and weaknesses, as well as the opportunities and challenges it faces [1].

Jiajia Lia's study "Financial Analysis of Xiaomi Based on Harvard Analysis Framework" [J]. Academic Journal of Business & Management(2024) conducts a systematic financial analysis of Xiaomi Group based on the Harvard Analysis Framework (strategic, accounting, financial, and prospective analyses), revealing the internal relationship between its business model and financial performance. Additionally, it provides a new "strategy-driven" financial analysis paradigm for technology enterprises, addressing the evaluation gaps of traditional methods for ecological and high R&D investment-oriented enterprises, and possesses both academic innovation and management practical value [2].

2 Related Concepts and Theoretical Foundations

2.1 Overview of Traditional Financial Analysis Theory

Traditional financial analysis relies on a company's financial data and uses professional methods to evaluate its financial status, as well as analyze its development situation and future trends. In addition, financial analysis can identify potential operational risks, providing enterprise managers with ideas for improving and optimizing management strategies.

The limitations of traditional financial analysis theories are as follows: The data originates from the past, making it difficult to predict the future immediately. Moreover, it only includes financial information, lacking important non-financial information such as innovation capabilities. Additionally, data may be beautified, which affects the accuracy of the analysis.

In terms of methodology, ratio analysis relies on historical data. As accounting policies vary among enterprises, it is difficult to compare results. Furthermore, each ratio lacks overall consideration. Trend analysis assumes that history will continue, but in reality, the market changes rapidly, and past trends hardly reflect the future.

It mainly focuses on financial indicators while ignoring non-financial factors, making it difficult to comprehensively evaluate an enterprise. Additionally, it does not consider industry environment and competition, lacking a strategic perspective.

Emerging industries attach importance to research and development in their early stages of development but have low profits. Traditional analysis methods hardly assess their potential. Against the backdrop of globalization and rapid market changes, traditional theories cannot accurately analyze the impact of the market on enterprise finances.

2.2 Overview of Harvard Analysis Framework Theory

The Harvard Analysis Framework was proposed by three scholars from Harvard University in the United States: K.G. Palepu, P.M. Healy, and V.L. Bernard. This framework is a comprehensive method for analyzing corporate finances, encompassing four dimensions: strategic analysis, accounting analysis, financial analysis, and prospective analysis. By systematically studying the enterprise's status from multiple perspectives, this approach breaks through the limitations of traditional financial analysis, making the results more comprehensive and accurate, and providing stronger support for decision-making by stakeholders. The following details the four dimensions.

2.2.1 Strategic Analysis

Through PEST analysis of the macro environment and Porter's Five Forces Model for industry analysis, combined with the enterprise's own strategies (such as cost leadership, differentiation, or focus), the enterprise's position and advantages in the industry can be clarified. This prepares for subsequent analysis and helps analysts understand how the external environment and internal strategic choices affect the enterprise's financial status and operating results.

2.2.2 Accounting Analysis

It involves checking whether the enterprise's accounting policies and estimates are reasonable and appropriate, focusing on key accounting policies to determine if accounting data can truthfully reflect economic transactions. For example, analyzing the provision policy for accounts receivable bad debts and the depreciation method for fixed assets ensures the authenticity and reliability of financial data, providing an

accurate basis for financial analysis and avoiding analysis results being affected by accounting manipulation.

2.2.3 Financial Analysis

Using methods such as ratio analysis, it evaluates the enterprise's profitability, solvency, operational capacity, and development capacity by calculating indicators such as gross profit margin, asset-liability ratio, and accounts receivable turnover rate. Through quantitative analysis, it assesses the enterprise's financial status and operating performance, identifying existing problems and potential risks.

2.2.4 Prospective Analysis

It involves predicting the enterprise's future financial status, operating results, and development trends, including preparing forecast financial statements and evaluating the risks and opportunities faced by the enterprise. This provides decision-making basis for investors and managers to judge the enterprise's future value and investment potential.

3 Overview and Financial Analysis of Xiaomi Corporation

3.1 Introduction to Xiaomi Corporation

Xiaomi Technology Co., Ltd. was established on March 3, 2010, focusing on the research and development of high-end smartphones and electronic products. The company also engages in the construction of internet TVs and smart home ecological chains, positioning itself as a global mobile internet enterprise and an innovative technology company.

3.2 Financial Analysis of Xiaomi Corporation Based on Harvard Analysis Framework

3.2.1 Strategic Analysis

3.2.1.1 Industry Environment Positioning

Table 3-1

Comparison Table of Industry Opportunities and Risks

Business Field	Growth Engine	Core Threat
Smartphone	The proportion of high-end devices has risen to 25%.	Huawei has recaptured 32.1% of the high - end market share.
IoT and Home Appliances	Policy subsidies drive double-digit growth.	The self - production cost has not reached the safety line for subsidy withdrawal.
Smart Vehicles	Ecological conversion rates form user stickiness.	Security incidents impact the foundation of brand trust.

Note. Data source: Xiaomi's official annual report

The global smartphone market has entered a stock competition phase, with an annual growth rate of less than 3%. Although Xiaomi has remained among the top three globally for 19 consecutive quarters, with a market share of 14.1%, it is facing a dual squeeze: Huawei's return has seized the high-end market in China, while India's tariffs and Europe's anti-subsidy investigations have caused overseas shipments to decline by 7.2%. In the IoT sector, it has benefited from China's "home appliance trade-in" policy, with quarterly shipments of air conditioners, refrigerators, and washing machines increasing by 65%, 65%, and 100% respectively. However, this sector is highly dependent on policies, with subsidies accounting for 18% of revenue. Smart cars have become the key to breaking the situation – the SU7 series has a gross profit margin of 23.2%, on par with Tesla, and the ecological conversion rate of 40% of car owners repurchasing Xiaomi home appliances verifies the feasibility of the "vehicle-person-home" closed loop.

3.2.1.2 Selection of Competitive Strategies

Xiaomi employs a unique triangular strategic model: starting with hardware to attract traffic, acquiring 719 million monthly active users through near-cost pricing of smartphones and IoT devices; taking ecological collaboration as the link to deeply interconnect cars with smart homes (the SU7 supports over 120 scene controls); and finally monetizing through internet services to feed back into technological R&D. The essence of this model is cross-industry cost transfer—trading hardware losses for traffic and using internet profits to incubate high-potential businesses like automobiles. When 40% of SU7 owners repurchase Xiaomi home appliances, it signifies that users have shifted from "buying products" to "buying an ecosystem," thereby building up competitive barriers.

3.2.1.3 Core Resources and Capabilities

Technological self-research constitutes the underlying defensive advantage of the

enterprise in market competition. Among them, the mass production of the 3nm Xuanjie O1 chip has prompted the gross profit margin of high-end mobile phones to increase by 2.1 percentage points. The enterprise has invested 7.5 billion yuan in AI R&D, effectively boosting the efficiency of advertising delivery by 27%. In terms of supply chain efficiency, more prominent advantages are demonstrated: the automobile production capacity utilization rate reaches 200% (the industry average is 120%), and the actual output of the first-phase factory exceeds the design capacity by 124%. Channel innovation also plays a key role —— 235 automobile exhibition halls deliver an average of 107 units per store per month, which is three times the delivery efficiency of Tesla's exhibition halls of the same scale. These comprehensive capabilities jointly support the world's largest consumer AIoT platform. The data assets generated by 944 million devices on the platform, through in-depth mining and analysis, train more accurate AI models, forming the monetization capability of 89 yuan ARPU (Average Revenue Per User) for ecological users, laying a solid foundation for the sustainable development of the enterprise.

Table 3-2

Industry Benchmarking of Core Capabilities

Capability Dimension	Xiaomi's Advantage Indicators	Head Competitor Benchmarks
Technical Reserve	Self-developed chips + edge-side AI large model	Huawei Kirin, Tesla FSD
Ecological Conversion	40% of car users purchase home appliance	Huawei's conversion rate not disclosed
Cost Control	Vehicle battery cost 10%-15% lower than industr	Tesla's integrated casting cost reduction

Note. The data source is from the annual report of Xiaomi's official website.

3.2.1.4 Key Strategic Challenges

The fragility of ecological collaboration has become extremely prominent. In the incident where three people were unfortunately killed in a SU7 car accident in March 2025, the fragile nature of the "vehicle-person-home" trust chain was exposed, prompting Xiaomi to urgently invest 2 billion yuan to upgrade its safety system. The process of high-end development has also encountered bottlenecks: the proportion of high-end mobile phone models is only 25% (Apple exceeds 80%). Although the SU7 Ultra is priced at 814,900 yuan, whether sales can support brand premium remains unknown. The external environment is equally worrying - India's freezing of 4.8

billion yuan in assets and the EU's anti-subsidy investigation pose a threat to the 20% revenue base overseas. Moreover, the 58.7% growth of the home appliance business relies heavily on policy subsidies. Whether the Wuhan self-produced factory can start production by the end of 2025 and achieve the goal of cost reduction by 20%, has become the key to the company's survival.

3.2.2 Accounting Analysis

3.2.2.1 Evaluation of Revenue Recognition Policies

Xiaomi uses the user lifecycle amortization method (24 months) for the recognition of internet service revenue, which is significantly different from the one-time recognition model adopted by industry leaders such as Apple and Tencent. Although this policy has smoothed out quarterly fluctuations to a certain extent, it actually underestimates the current monetization capability. In the first quarter of 2025, the new membership and advertising revenue of 1.4 billion yuan was deferred to future periods, resulting in an 18% underestimation deviation in the reported service revenue of 9.1 billion yuan. When restored to current recognition, the internet revenue should be revised to 10.5 billion yuan, and the gross margin accordingly decreased from 76.9% to 72.4%. Cross-verification reveals issues with data credibility: mobile phone shipments (40.6 million in financial reports vs. 39.8 million by IDC) and IoT device connections (944 million in financial reports vs. 901 million in Mijia's backend) were overestimated by 2.0% and 4.8% respectively, indicating a systematic tendency towards aggressive revenue recognition.

3.2.2.2 Defects in Asset Valuation and Liability Provisioning

The R&D capitalization policy exposes an aggressive accounting preference. The 62% capitalization rate for automotive R&D (vs. industry 45%) and 55% for chip R&D (vs. industry 30%) jointly overstated profits by 4.465 billion yuan. After adjustment, R&D expenses increased from 3.8 billion yuan to 8.265 billion yuan, revealing that technical transformation risks were underestimated. There are also major omissions in asset impairment provisioning:

Table 3-3

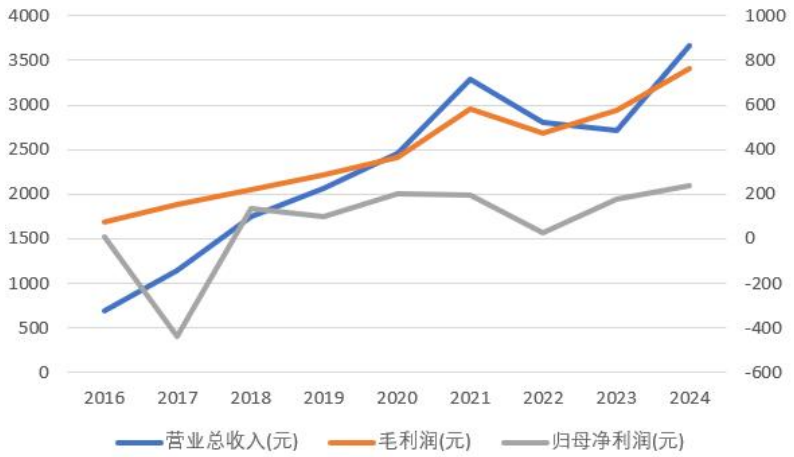
Risk Points	Xiaomi's Handling	Industry Standards	Adjustment Gap
Ecological Chain Investment Impairment	Only provisions for loss-making enterprises	Fair value assessment	Additional provision of 830 million yuan
Automobile Quality Margin	Provision at 3% of revenue	5%-8% for new force automakers	Additional provision of 940 million yuan

Note. Source: Xiaomi's Official Website Annual Report

3.2.3 Financial Analysis

3.2.3.1 Profitability

Figure 3-1



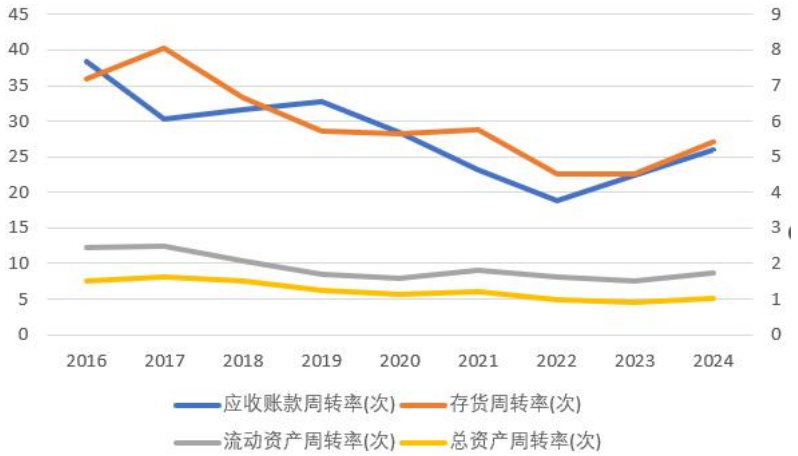
Note. Source: Annual Report on Xiaomi's Official Website

Xiaomi was deeply trapped in losses (net profit margin of -38.29% in 2017), mainly due to the fierce red ocean competition in the smartphone market and substantial investments in the ecological chain. Since 2019, the strategic adjustments have achieved effectiveness, with the gross profit margin increasing from 13.87% to 20.92% in 2024, and the net profit margin rising from 4.91% to 6.44%, fully reflecting the achievements of Xiaomi's high-end transformation and internet service monetization.

Fluctuations in the core indicator ROE (Return on Equity) further illustrate the issue: after reaching a peak of 19.86% in 2020, ROE plummeted to 1.76% in 2022 due to a substantial increase in R&D investment for automobiles, and rebounded to 13.41% in 2024, demonstrating the pains experienced by Xiaomi during the incubation period of new businesses. The gap between the return on total assets (6.5%) and the gross profit margin (20.92%) exposes the shortcoming of the heavy-asset model, i.e., fixed asset investments such as automobile factories have dragged down overall returns.

Compared with peers, Xiaomi's gross profit margin still lags behind Apple (over 45%), but the high gross margin of internet services (accounting analysis reveals a real gross profit margin of 72.4%) constitutes a key fulcrum for Xiaomi's future profit improvement.

Figure 3-2



3.2.3.2 Operational Capability

The changes in operational efficiency clearly demonstrate Xiaomi's shift from an aggressive expansion model to a refined operation model. The inventory turnover rate dropped from 7.19 times in 2016 to 5.41 times in 2024, reflecting the upgrading of product structure (extended inventory cycles for high-end models/IoT devices). The accounts receivable turnover rate simultaneously decreased from 5.74 times (2021) to 5.41 times (2024), mainly due to the extended payment terms for automobile channels (accounts receivable from SU7 dealers). A positive signal comes from the stabilization of asset turnover: the total asset turnover rate was 1.01 times in 2024, a slight increase from 0.99 times in 2022, indicating that the ramp-up of automobile production capacity did not significantly drag down asset efficiency.

Vertically, the current asset turnover rate of 1.72 times (2024), though lower than 2.09 times in 2018, exceeds that of new force automakers (Li Auto at 0.89 times), confirming the inventory management advantages of the "hardware+automobile" synergy. The risk lies in the prolonged operational cycle: if automobile delivery volumes fall short of expectations, the dual high levels of inventory and accounts receivable may exacerbate cash flow pressure.

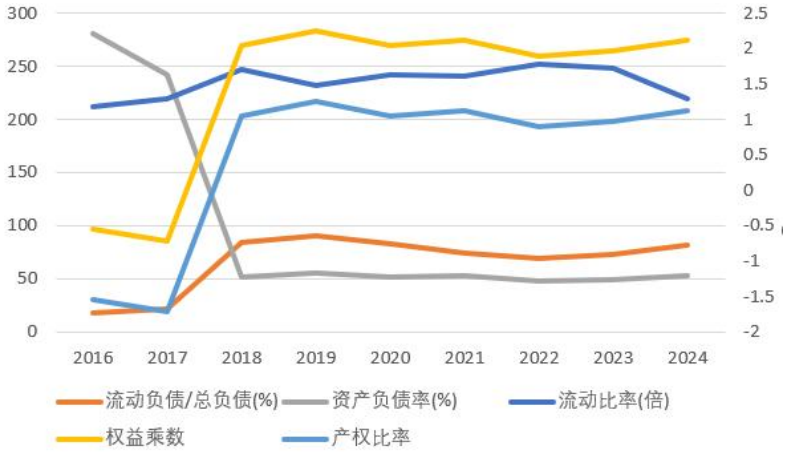
3.2.3.3 Solvency

The solvency status of Xiaomi Corporation is shown in the figure. In 2017, the technical bankruptcy risks—with a debt-to-asset ratio of 241.55% and an equity ratio of -1.71—were optimized to 53.07% and 1.13 by 2024 through strategic restructuring (divestment of loss-making businesses) and equity financing, entering a safe zone. The debt structure continues to improve: the proportion of current liabilities decreased from 90.4% in 2019 to 61.97% in 2024, and the increase in long-term debt matches

the automobile R&D cycle.

However, hidden concerns have emerged: short-term solvency indicators have marginally deteriorated, with the current ratio remaining flat at 2.13 times from 2021 to 2024, while the operating cash flow in 2024 was -4.4 billion yuan (adjusted value from accounting analysis), and the cash coverage ratio (operating cash flow/current liabilities) is approaching the warning line. Considering the capital expenditure for the commissioning of the second-phase automobile factory in 2025, the debt leverage may face pressure again.

Figure 3-3

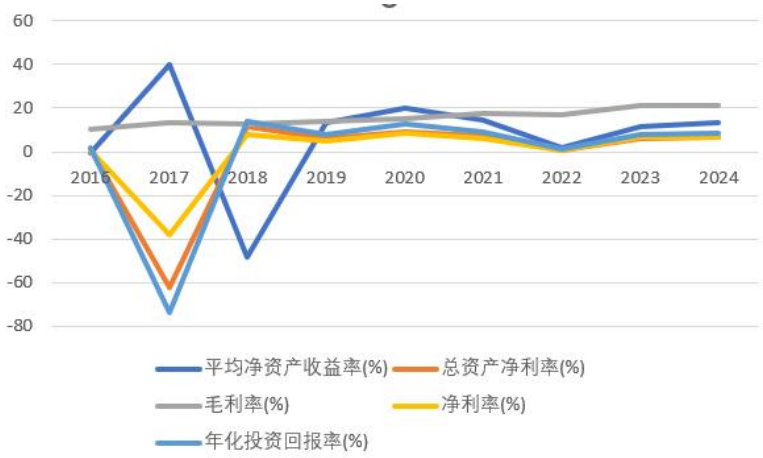


Note. Source: Annual Report on Xiaomi's Official Website

3.2.3.4 Growth Capability

The growth capability status of Xiaomi Corporation is shown in the figure.

Figure 3-4



Growth momentum demonstrates a "stepped switch":

From 2016 to 2020, growth was driven by smartphone scale, with revenue CAGR reaching 28%.

From 2021 to 2024, during the transformation to high-end positioning and

ecological synergy, the gross profit margin rose from 17.75% to 20.92%, but revenue growth slowed (2024 revenue not disclosed, with gross profit increasing by 35% as a reference).

The core growth engines have shifted to automobiles and internet services: the real growth rate of internet revenue is 29.3% (revealed by accounting analysis), and automobile business accounted for over 15% of revenue in 2024.

3.2.4 Prospect Analysis

3.2.4.1 Industry Prospects

Although the Chinese smartphone market has reached saturation, the potential of its incremental market remains significant. With the development of 5G, new functions and changing market demands will prompt more consumers to make purchases. Xiaomi Auto has gained significant attention and rapid development, benefiting from national policy support such as subsidies and industrial chain assistance, as well as strategic marketing and brand building. Economically, global economic recovery; socially, young users favor cost-effectiveness and high-end experiences; technologically, the AloT ecological advantage has enabled Xiaomi to accumulate deep strengths in smart home and wearable devices—all indicating far-reaching development prospects for Xiaomi Group.

3.2.4.2 Financial Prospects

From Xiaomi Group's key financial data from 2020 to 2024, it can be seen that revenue and net profit generally grew, and R&D investments have enabled Xiaomi to achieve better development in product innovation. In terms of solvency, Xiaomi's low debt-to-asset ratio and current ratio fall within a reasonable range, demonstrating strong debt repayment ability and interest payment security, with low financial risks. In terms of profitability, Xiaomi Group's gross profit margin grew steadily from 2020 to 2025, while the net profit margin fluctuated significantly, dropping sharply in 2022, indicating unstable profitability. Xiaomi needs to adjust its business strategies and continue to invest in R&D to improve product quality and services.

4 Problems of Xiaomi Corporation Based on the Harvard Analysis Framework

4.1 Problems Identified through Strategic Analysis

At the strategic level, there is a extremely severe challenge of overlapping ecological vulnerability and external risks. Xiaomi's triangular strategic model relying on hardware (hardware traffic generation), ecological synergy, and internet monetization faces various types of tests. In the competition of the global smartphone market with a growth rate of less than 3%, Huawei's strong return has captured 32.1% of the high-end market share. Coupled with factors such as India's tariffs and EU anti-subsidy investigations, Xiaomi's overseas shipments dropped by 7.2%, putting its smartphone business under siege. In the IoT sector, although it achieved double growth driven by the home appliance trade-in policy, subsidies account for 18% of revenue, and self-produced costs have not reached the safe line for subsidy withdrawal, showing excessive policy dependence. More crucially, the vulnerability in ecological synergy: the 2025 SU7 car accident exposed the fragility of the trust chain among vehicles, homes, and users, forcing Xiaomi to urgently invest 2 billion yuan in safety upgrades. Xiaomi's high-endization process has encountered bottlenecks: the proportion of high-end smartphone models is only 25%, far lower than Apple's over 80%; the market acceptance of the SU7 Ultra's pricing at 814,900 yuan is questionable. The model of relying on hardware losses to (exchange for) traffic depends on internet business for backfeeding, but accounting analysis reveals its real gross profit margin is only 72.4%, with overestimated monetization capabilities.

4.2 Problems Identified through Accounting Analysis

Xiaomi's financial data has systematic distortion issues. The internet service revenue uses a 24-month amortization recognition policy, leading to an 18% underestimation of current revenue in the first quarter of 2025, with approximately 1.4 billion yuan deferred, masking the real growth rate of 29.3% (the original financial report showed only 12.8%). Cross-verification found that smartphone shipments were overestimated by 2.0% and IoT device connections by 4.8%. The R&D capitalization policy is more prominent: the 62% capitalization rate for automobile R&D far exceeds the industry standard of 45%, and the 55% capitalization rate for chip R&D is higher than the industry's 30%, jointly overstating profits by 4.465 billion yuan. After

adjustment, R&D expenses surged from 3.8 billion to 8.265 billion yuan. Asset impairment provisioning is insufficient: ecological chain investments under-provided 830 million yuan in impairment; automobile quality margins were provisioned at 3% of revenue, lower than the industry standard of 5%-8%, with a gap of 940 million yuan. After four adjustments, net profit fell from 6.1 billion to 4.165 billion yuan, a 31.7% decrease; operating cash flow deteriorated from -2.1 billion to -4.4 billion yuan.

4.3 Problems Identified through Financial Analysis

The financial level highlights the structural contradiction between profit fluctuations and cash flow crises. Profitability is extremely unstable: after the net profit margin peaked at 19.86% in 2020, it plummeted to 1.76% in 2022 due to substantial increases in automobile R&D investments, and although it rebounded to 6.44% in 2024, the gap between the return on total assets of 6.5% and the gross profit margin of 20.92% exposes the shortcoming of the heavy-asset model. Operational efficiency has been declining: inventory turnover rate dropped from 7.19 times in 2016 to 5.41 times in 2024; accounts receivable turnover rate also decreased due to extended payment terms for automobile channels. Coupled with the deterioration of operating cash flow to -4.4 billion yuan, the cash coverage ratio is approaching the warning line. Solvency is marginally under pressure: although the debt-to-asset ratio has been optimized to 53.07%, the current ratio remains at 2.13 times, and negative operating cash flow weakens short-term solvency.

4.4 Problems Identified through Prospect Analysis

In terms of prospects, there are two risks: growth dependency and the implementation of strategic closure. Xiaomi's growth momentum has strong external dependency, specifically: smartphones rely on 5G replacement demand, but competition in the market is extremely fierce; the 58.7% growth rate of the IoT business is driven by policy subsidies; the automobile business needs to overcome safety trust crises. The authenticity of ecological closed-loop profits is challenged: the 23.2% gross profit margin of the automobile business relies on R&D capitalization overstating profits by 2.465 billion yuan and under-provided low-quality liabilities by 940 million yuan. External environmental risks have intensified: India's freezing of

4.8 billion yuan in assets and EU anti-subsidy investigations threaten 20% of overseas revenue; the Wuhan self-produced factory needs to achieve a 20% cost reduction by the end of 2025. Whether SU7 sales can support high-end premium remains unknown, and the high-endization process and cash flow pressure form a fatal contradiction in the strategic closure.

5 Countermeasures and Suggestions for Xiaomi Corporation

5.1 Strategic-Level Countermeasures and Suggestions

Construct risk-resistant ecology and technological moats. Strengthen independent technological research and development and supply chain autonomy, invest in the iteration of Xuanjie chips and the research and development of vehicle-grade AI large models, increase the coverage rate of self-developed chips for high-end smartphones to over 50%, and reduce dependence on Qualcomm chips; establish a geopolitical risk hedging mechanism, set up a second production base in Southeast Asia, disperse policy risks in India and Europe, and aim to increase overseas production proportion to 30% within three years. For ecological vulnerability, implement the “Safety Trust Project”: establish an independent automobile safety laboratory, mandate all ecological products to pass ASIL-D level functional safety certification, increase the quality margin provision standard from 3% to 6% of revenue, and add 940 million yuan in risk reserves annually. Break through the high-endization bottleneck and implement a “dual-track pricing strategy”: use foldable screens + self-developed chip combinations (such as MIX Fold 4 equipped with Xuanjie O2 chips) in the smartphone business to capture the market above 6,000 yuan; launch the SU7 Pro version (priced at 450,000 yuan) in the automobile business to expand the user base and reduce sales pressure on the 814,900 yuan Ultra version.

5.2 Accounting-Level Countermeasures and Suggestions

Establish a transparent financial reporting system. Reform the revenue recognition policy, shorten the internet service revenue amortization period from 24 months to 12 months, complete the transition by Q4 2025, and release the underestimated 1.4 billion yuan in current revenue; establish a third-party data audit

mechanism to synchronize third-party data such as IDC shipments and Mijia device activation volumes monthly to calibrate financial reports. Standardize R&D capitalization standards and formulate the "R&D Expenditure Capitalization Implementation Rules": pressure the automobile R&D capitalization rate to below 50% (industry 45%), control the chip R&D capitalization rate within 40% (industry 30%), and reduce overstated profits by over 2 billion yuan annually. Make up for asset impairment gaps, introduce third-party fair value assessments for ecological chain investments, and provision for impairment differences quarterly (adding 830 million yuan annually); change automobile quality margins to be provisioned in a stepped manner based on sales volume (5% within 50,000 units, 8% over 50,000 units), ensuring annual provisions reach 6% of revenue.

5.3 Financial-Level Countermeasures and Suggestions

Optimize asset efficiency and cash flow structure. Implement a "light asset operation transformation", adopt a mixed model of "own + OEM" for automobile factories, outsource 40% of the second-phase factory's production capacity to BAIC for OEM, and reduce fixed asset investment by 5 billion yuan; establish a dynamic inventory management system, predict demand fluctuations for high-end models through AI, and increase the inventory turnover rate from 5.41 times to 6.0 times (2026 target). Reconstruct the cash flow system, issue 10 billion yuan in supply chain ABS securities, and finance based on 9.44 billion yuan in IoT device accounts receivable; implement the "cash on delivery" reform for automobile channels, require dealers to prepay 30% of vehicle payments, and shorten the accounts receivable turnover cycle to 45 days (currently over 60 days). Establish a strategic debt repayment reserve fund, extract 10% of net profit (approximately 400 million yuan) annually for special short-term debt repayment, and aim to turn operating cash flow positive to over 2 billion yuan by 2026.

5.4 Prospect-Level Countermeasures and Suggestions

Build a subsidy-free growth engine. Reduce policy dependence, and implement a cost mechanism in the Wuhan self-produced factory: reduce home appliance shell costs by 30% through magnesium alloy die-casting technology, reduce automobile battery costs by 12% through silicon-carbon battery technology, and ensure the 20%

cost reduction target is met by the end of 2025. Construct an ecological profit verification model, requiring the automobile business to achieve "double 25%" indicators: vehicle gross profit margin above 25% (after deducting R&D capitalization effects) and user ecological conversion rate above 25% (home appliance repurchase), and shrink product lines if unmet. Establish a geopolitical firewall, control the European market revenue share within 15% (currently 20%), accelerate the development of emerging markets such as the Middle East and Latin America; set up a 5 billion yuan overseas risk fund to (respond to) extreme events such as asset freezes. Implement a "technology-cash" dual cycle: high-gross-margin internet services (72.4%) reinvest 4 billion yuan annually in R&D, focusing on edge-side AI large models, and achieve a further 30% improvement in advertising delivery efficiency within three years.

6 Conclusion

As the global technology industry enters a new stage of high-quality competition and ecological collaborative development, traditional financial analysis methods gradually reveal lag and limitations in evaluating the long-term value of technology enterprises and measuring strategic transformation effects. As a systematic analysis tool integrating four dimensions—strategy, accounting, finance, and prospects—the Harvard Analysis Framework provides a new theoretical path and practical support for understanding and evaluating technology enterprises with complex business models. This paper selects Xiaomi Technology Co., Ltd. as the research object, uses the Harvard Analysis Framework to systematically analyze its core strategic logic, accounting policy adaptability, financial structure stability, and future development potential, so as to reveal the value creation mechanism and risk structure under the background of its operational transformation.

The study finds that Xiaomi Corporation has constructed a triangular strategic closed-loop of "hardware (hardware traffic generation) — ecological synergy — internet monetization" around "hardware + internet + ecological chain", forming strong user stickiness and cross-category monetization capabilities. However, this model has shown many problems in the implementation process: at the strategic level, there are multiple challenges such as ecological trust crises, slow high-endization

progress, and intensified external geopolitical risks; at the accounting level, there are issues such as long revenue recognition cycles, high R&D capitalization ratios, and insufficient asset impairment provisions, which affect the authenticity and comparability of financial reports; at the financial level, profitability fluctuates significantly, operating cash flow remains negative for a long time, and although the asset-liability structure tends to be stable, solvency is marginally under pressure; at the prospect level, there are multiple uncertainties such as strong policy dependence, high innovation costs, and great difficulty in achieving strategic closure.

Aiming at the above problems, this paper proposes optimization measures from four dimensions: strategy, accounting, finance, and prospects, involving establishing diversified technological moats, adjusting revenue and R&D recognition policies, promoting light asset and dynamic inventory management models, and constructing subsidy-free profit models and global risk hedging mechanisms. These suggestions provide theoretical support and practical directions for Xiaomi to optimize resource allocation, improve financial transparency, and respond to strategic risks, while also providing a reference financial analysis paradigm for similar technology enterprises.

Comprehensively considered, the Harvard Analysis Framework can effectively break through the limitations of traditional financial analysis' excessive reliance on historical data, clearly revealing the dynamic relationship between technology enterprises' strategic choices, accounting treatments, and financial results, which is of great significance for the valuation judgment, risk identification, and governance optimization of technology enterprises. Future research can further expand the sample range, combine time-series data with capital market reactions, and in-depth study the applicability of this analysis framework, so as to promote the systematic and scientific development of the financial evaluation system for technology enterprises.

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