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**MASTER’S THESIS**

**Title: “Management of financial risks in the organization (on the example of  
Xiaomi Technology Co., LTD)”**

Completed by 2nd year student,  
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**TASK**

**TO MASTER'S THESIS**

Du Xiaolei

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Supervisor: Oleksiy Korepanov, Doctor of Economics, (Economics) Professor

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1. To study on the theoretical foundations of improving the management of financial risks at the enterprise.

2. To analyze the development and financial activities of Xiaomi Technology Co.


3. To develop the recommendations for risk optimization in Xiaomi Technology Co.

#### 4. Work plan

№	Stages of work
1	Approval of the thesis content
2	Preparation of the thesis' first section
3	Completion of the first section according to the supervisor recommendations. Writing the thesis' second section
4	Completing of the second section according to the supervisor recommendations. Preparation of the thesis' third section
5	Completing of the third section according to the supervisor recommendations. Preparation of a report for a scientific conference with a presentation of the main results of the thesis
6	Writing of the introduction, conclusions of the thesis. Making references list
7	Submission of the thesis to the Department of Management and Administration

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## INTRODUCTION

The relevance of the study. Financial risks are integral to the functioning of any organization, regardless of its size or industry. Effectively managing these risks is crucial for maintaining financial stability, achieving strategic objectives, and ensuring long-term sustainability. Therefore, research on this topic addresses a fundamental aspect of organizational management.

Financial risks manifest in various forms, including market risk, credit risk, liquidity risk, and operational risk. By studying how organizations manage these risks, researchers can offer insights that are applicable across different industries and sectors. This cross-industry applicability enhances the significance of the research findings and their potential impact.

In today's dynamic business environment characterized by globalization, technological advancements, and economic uncertainties, organizations face increasingly complex financial risks. Understanding contemporary approaches to managing these risks is essential for staying competitive and resilient. A Master's thesis focusing on current practices and challenges in financial risk management addresses this need for up-to-date knowledge.

Research on the management of financial risks adds to the body of knowledge in management theory and finance. By investigating theoretical concepts, empirical evidence, and emerging trends in risk management, the thesis contributes to advancing academic understanding and stimulates further scholarly inquiry in the field.

So, the topic of master's thesis on the management of financial risks in organizations is relevant within the management specialty due to its strategic importance, cross-industry applicability, current relevance, practical implications, academic contribution, and implications for policy and regulation.

***The purpose of the research*** is to provide theoretical justification, develop methodical approaches and practical recommendations for improving financial risk management in the organization and developing strategies for their optimization to promote sustainable development of the company.

To achieve this purpose, the following ***research objectives*** were solved:

- to determine the essence and functions of financial management;
- to investigate the theoretical aspects of financial risk management of the enterprise;
- to determine the organizational and economic prerequisites for the occurrence of financial risks in Xiaomi Technology Co.;
- to carry out an analysis of the situation with the profit of Xiaomi Technology Co.;
- to analyze the company's marketing strategy analyze the concepts of financial risks in Xiaomi Technology Co.;
- to determine the causes of financial risks of the enterprise;
- to assess the financial risks of Xiaomi Technology Co.;
- to develop recommendations for optimization of enterprise risks.

***The object of the research*** is the processes related to the management of financial risks at the enterprise.

***The subject of the research*** is the theoretical, methodical and organizational aspects of the financial risk management system at the enterprise Xiaomi Technology Co.

***Research methods.*** Comprehensive application of data analysis, in particular entropy weighting, to conduct a comprehensive assessment of Xiaomi Corporation's activities, an in-depth study of the company's financial condition, factors influencing financial risk opportunities. SWOT analysis of Xiaomi Technology Co.'s business marketing strategy - to study its advantages, disadvantages, opportunities and threats, as well as to understand the advantages and problems of Xiaomi Technology Co. and studying their impact on the overall financial condition of the company. DuPont analysis of Xiaomi's profitability situation - for an in-depth study of the sources of income and financial risks faced by the company, the determination of Xiaomi's profitability drivers, including profitability of net income, asset turnover and the effect of credit leverage. This analysis also identifies potential financial risks. Risk assessment methods, such as solvency, cash flow, profitability and financial data analysis - for a comprehensive assessment of the company's financial condition and risks, determining the point of potential financial risk and developing appropriate risk countermeasures.

***The practical significance*** of the obtained results. The findings of the thesis can have practical implications for organizational decision-makers, risk managers, and financial professionals. By identifying best practices, effective strategies, and potential pitfalls in financial risk management, the research can inform managerial decision-making and contribute to the development of practical tools and frameworks for risk mitigation. Through the study of Xiaomi Technology Co., Ltd., it can provide reference and reference for other enterprises, and guide their practical

activities in organizational structure optimization, profitability improvement, marketing strategy formulation and financial risk management.

*The information base.* The information of this paper comes from the official website of Xiaomi, online journals, website data and research results survey.

**The structure and content of the thesis** correspond to the tasks and consist of introduction, three sections, conclusions, references. The total number of pages in qualification work is 80. The work contains 10 tables, 7 figures. The references contain 82 titles.

# SECTION 1

## THEORETICAL FOUNDATIONS OF IMPROVING THE MANAGEMENT OF FINANCIAL RISKS OF AN ENTERPRISE

### 1.1 Essence and functions of financial management

Financial management refers to the control of cash flow in and out of an enterprise. Every business needs to sell products or services, pay expenses, settle accounts, and file taxes. In addition to these basic tasks, financial management also involves many more complex processes, such as issuing employee salaries, purchasing supplies, and submitting reports to government agencies to demonstrate compliance with applicable laws and regulations. Supervising all such business affairs is what we refer to as corporate financial management. Generally, the larger the company, the more complex the financial management becomes. [11]

Personnel responsible for managing all incoming and outgoing funds of a company are collectively referred to as financial management personnel. Small companies will have at least one accountant or bookkeeper working with banks to handle these tasks and track cash flow. Large enterprises are typically led by Chief Financial Officers (CFOs), finance managers, financial directors, or similar positions to oversee the entire financial team. [22]

The primary function of the financial team is to ensure the company's solvency and stable cash flow, but this is not their only responsibility. In addition to this, financial teams are also responsible for handling loans and debts, settling accounts,

supervising investments, raising venture capital, and managing public offerings (i.e., publicly issuing stocks)[26]. Overall, the financial team is tasked with protecting the company's financial resources, monitoring and controlling all transactions, and taking measures to maximize the company's profitability.

## key point



Financial management refers to the activities of monitoring, controlling, protecting and reporting the financial resources of an enterprise.



A business may have accountants or a finance team to manage its financial affairs, including managing all bank transactions, loans, debts, investments and other sources of funds.



The finance team is also responsible for ensuring that the company complies with all regulations, remains solvent and is as profitable as possible.

Figure 1.1 – Key point of Financial Management

**Understanding Financial Management.** Financial management encompasses various business processes, covering every team and department within a company. The responsibilities of the financial team include:

- **Invoicing and accounts receivable:** Handling funds paid or promised by customers. The financial team is responsible for issuing invoices and processing received payments. The accounts receivable team is tasked with following up on overdue payments (sometimes outsourced to third parties).

- Accounts payable: Payments that the company owes to suppliers. The financial team is responsible for paying these bills and recording the payments in the ledger.
- Bank transactions and reconciliation: Collaborating closely with banks to ensure the accurate processing of every bank transaction. Additionally, the financial team must ensure that bank statements match the records in the company's general ledger and sub-ledgers. Any discrepancies between bank statements and ledger entries require follow-up and correction, known as reconciliation.
- Closing the books: Summarizing transactions within a specific period on a particular date for reconciliation and financial reporting purposes. Closing the books typically occurs at the end of the month, quarter, or year.
- Reporting: Regularly reporting the company's financial performance to CEOs, boards of directors, investors, shareholders, or government regulatory agencies. The financial team is responsible for generating clear and accurate financial reports.
- Scenario modeling, planning, and budgeting: Scenario modeling involves making assumptions about a future period, such as "We expect to achieve revenues between \$10 million and \$15 million next quarter." The financial team runs multiple scenario models for different outcomes and estimates the revenues under each scenario. They then evaluate how to respond effectively based on these models and develop appropriate plans, forecasts, and budgets. The financial team often collaborates with other departments (such as sales, human resources, project management, or procurement teams) to build models incorporating sales forecasts, employee expenses, and inventory costs, known as integrated planning.
- Payroll and expenses: While individual employee salaries are typically

managed by the human resources department, overall employee costs need to be aggregated by the financial team and included in budgets and plans. Additionally, the finance department is responsible for reimbursing employee expenses, such as travel and meal expenses.[13]

- Cash management and forecasting: With frequent inflows and outflows of funds, the financial team must adopt a forward-thinking approach. They must ensure that the company has enough cash to maintain solvency in the next quarter, the following year, or even the next three to five years. Most companies typically conduct cash forecasts on a monthly basis.

- Tax strategy: Every company needs to file taxes, and all companies aim to maximize deductions to avoid overpayment of taxes. Typically, companies either have tax specialists within the financial team dedicated to this task or outsource it to accounting firms.

- Risk and compliance: From rising interest rates to global pandemics, every company faces financial risks. Therefore, controlling risks and minimizing the company's risk exposure as much as possible is one of the financial team's responsibilities. Additionally, this functional team must ensure that the company complies with regulations established by governments, regulatory agencies, and other jurisdictions to avoid substantial fines.

Financial management is crucial for maintaining the solvency of a business. Ensuring the continuous operation of the enterprise is the fundamental goal of financial management. Financial management can address many significant issues that businesses may face, including revenue loss (such as a decline in revenue due to events like the COVID-19 pandemic), natural disasters, strikes, wars, and more.

Beyond basic survival, effective financial management, along with financial management software, can also drive further development within a company. The financial team can utilize various tools to drive business growth. In favorable market conditions characterized by steady economic growth and low interest rates, the financial team can obtain funding from banks, raise capital from venture capital, or assist the company in going public (i.e., issuing stocks on the stock market)[37]. Companies can utilize these funds to open new offices, expand business regions, upgrade equipment, and further drive business growth. When market conditions are unfavorable (such as during an economic recession), cost-cutting financial management strategies, such as layoffs or closing unprofitable offices, can be employed to reduce expenses.

Increasing profitability is a significant aspect of financial management. The financial team typically collaborates with sales and marketing teams to determine the pricing of company products or services. In this process, the financial team must strike a balance. If prices are set too high, customers may turn to lower-priced competitors [21]; conversely, if prices are set too low, the company may struggle to cover expenses. Similarly, cost control is also a primary responsibility of the financial team, including managing employee salaries, rent, utilities, raw materials, and transportation costs.

Reporting is a key component of effective financial management. Chief Financial Officers and other business leaders need to understand the operational status of the company to make informed decisions and ensure the smooth operation of the business. They want to know if the business is operating as planned and if it can provide a good return on investment for company investors. Effective financial management can help companies achieve or even surpass their goals.

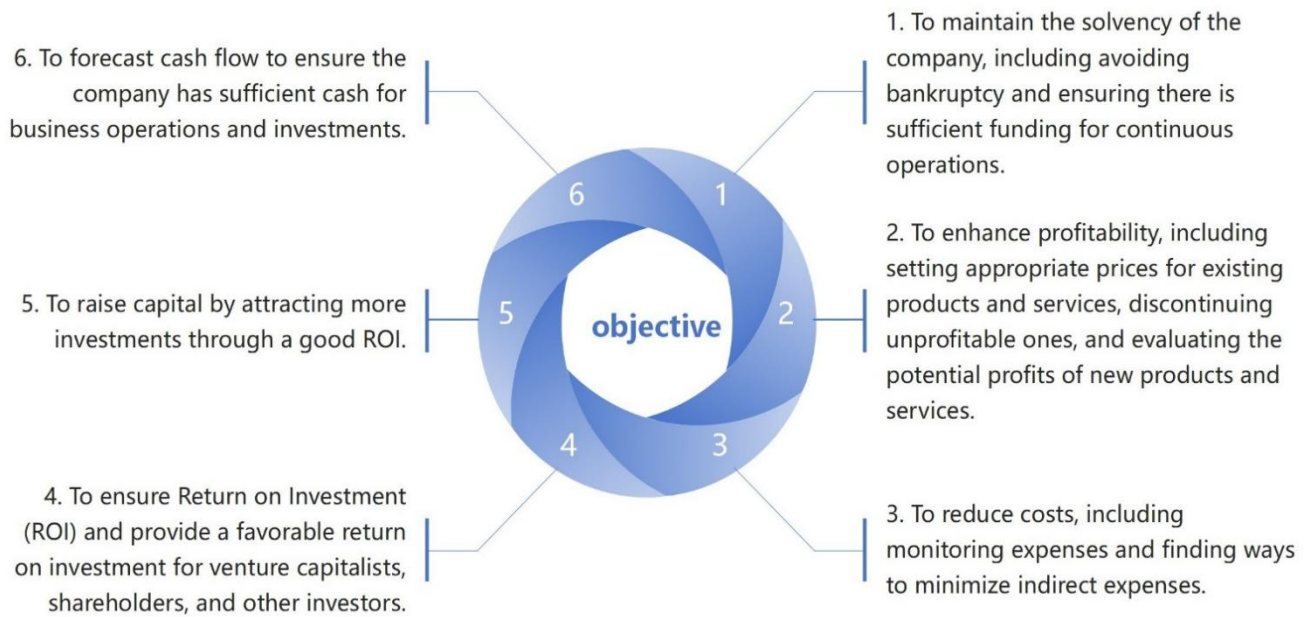


Figure 1.2 – Objective of Financial Management

### Financial Management Functions

Financial management plays a crucial role in businesses, particularly in both small and large enterprises. In these organizations, financial management functions are typically executed by different teams to ensure the healthy operation and sustained growth of the company. Here are the primary functions of financial management:

1. **Accounting:** Tracking, recording, and matching all monetary transactions within the company, including using accounting software to manage financial data and generate reports.

2. **Project Management:** Allocating project budgets, overseeing project revenue and expenses, especially for projects involving engineering, legal, and consulting services.[61]

3. **Procurement:** Procurement is usually divided into two categories:

Direct procurement involves acquiring components and raw materials used for manufacturing company products. It is often managed by the supply chain and/or operations teams, utilizing procurement systems to manage suppliers and track inventory.

Indirect procurement refers to purchasing goods or services not directly related to the production of company products and services, including office furniture, laptops, and stationery. The finance department may authorize and track such purchases using procurement systems.[16]

4. Financial Planning and Analysis (FP&A): In large enterprises, a separate team within the finance department may be established to perform this function. FP&A experts predict financial outcomes under various scenarios and use these predictions to formulate financial plans and budgets for the next quarter or year. They often collaborate closely with other business departments to execute forecasts and budgeting, including sales plans, employee plans, and operational plans, known as integrated planning.

5. Taxation: Every business needs to file taxes, but for large enterprises that need to file taxes in different countries/regions, the process can be particularly complex. These companies often have specialized tax teams and use tax filing software to generate country-specific reports and other filings.

6. Treasury: Treasury is the department within a bank that is responsible for tracking and managing capital assets, debts, loans, and cash. The department advises the Chief Financial Officer on available funds, such as how much capital is available for capital investments (e.g., large equipment purchases) or mergers and acquisitions (M&A). Additionally, Treasury is responsible for the company's capital structure.

7. Risk and Compliance: This function manages financial risk control, from audits

to natural disasters, helping companies minimize risk exposure as much as possible. Moreover, this function ensures that the company complies with regulations set by governments, regulatory agencies, and other jurisdictions, thereby avoiding hefty fines.



Figure 1.3 – Financial Management Functions

### Types of financial management

Financial management can generally be categorized into the following types:

#### 1. Working Capital Management:

Working capital management focuses on day-to-day operations, ensuring there is enough funding to pay employees' salaries or purchase raw materials. Working capital includes cash on hand, existing inventory, or other assets. In case of severe issues, businesses can quickly sell these assets to raise funds.

#### 2. Revenue Cycle Management:

Revenue cycle management applies to the income a company generates over a period through the sale of goods and services. With the prevalence of "X-as-a-Service" sales models, companies need to recognize revenue in the month or quarter

it is earned, rather than all at once when the sale is made. This prolonged, continuous revenue cycle is known as Monthly Recurring Revenue (MRR).

### 3. Capital Budgeting:

In financial management, capital budgeting aims to determine the financial support a company needs to achieve its short-term and long-term goals. Financial managers use capital budgeting to assess the profitability of investments and/or projects, determining whether they can create greater value for the company.

### 4. Capital Structure:

Capital structure refers to the composition of debt and equity that provides financial support for a company's operations, acquisitions, investments, and growth. The capital structure of a company is often represented as the debt-to-equity ratio.

## **1.2. Theoretical foundations of enterprise financial risk management**

### Enterprise financial risk concept

Corporate financial risk refers to the possibility of economic losses incurred by a company due to the influence of various factors in the market environment on its business activities or financial actions in the context of a market economy. According to the operating characteristics of corporate financial activities, financial risk manifests in four aspects: financing risk, investment risk, fund operation risk, and profit distribution risk. [27]

1) Financing Risk: Financing is the primary stage of corporate financial management, involving the procurement of funds through various channels. These

channels primarily include receiving capital from investors (equity financing) or borrowing funds from creditors (debt financing). Financing activities are closely related to the financial market environment and are subject to uncertainties caused by changes in macro and microeconomic conditions. Financing risk refers to the possibility of a company being unable to repay its debts due to excessive borrowing or an unreasonable capital structure, resulting in insolvency. The degree of financing risk faced by a company varies depending on factors such as the type of liabilities and repayment terms.

Based on the cash flow statements of Xiaomi in recent years, the cash flow situation of the company's main business activities has not been very optimistic since 2016, 2017, and 2018. The net cash flow from operating activities was negative. Taking the cash flow statement data disclosed by Xiaomi for the years 2017-2018 as an example, in 2017, Xiaomi's net cash flow from operating activities was -9.96 billion yuan, cash flow from investing activities was -26.78 billion yuan, and net cash flow from financing activities was 62.15 billion yuan. Similarly, in 2018, Xiaomi's net cash flow from operating activities was -14.15 billion yuan, cash flow from investing activities was -75.08 billion yuan, and net cash flow from financing activities was 265.74 billion yuan. It's worth noting that the net cash flow from operating activities alone decreased by -42.07% compared to the previous year.

At first glance, Xiaomi's cash flow seems sufficient, and free cash flow appears healthy. However, it's important to note that Xiaomi's cash flow statements show significant fluctuations in recent years, indicating instability. This situation could potentially lead to significant financial deficits in Xiaomi's operating cash flow, resulting in depleted cash flow funds unable to effectively support the company's operational activities. Therefore, it is evident that Xiaomi's cash flow still faces

considerable pressure at this stage and is susceptible to cash flow risks.

2) Investment Risk: Investment risk refers to the risks borne by corporate managers in investment activities aimed at achieving development goals. Corporate investments can be categorized into external investments and internal investments. External investment risks mainly stem from inadequate awareness of market investment risks by decision-makers, resulting in systemic risks due to incorrect investment directions, projects, or amounts. Internal investment risks mainly arise from excessive investment in fixed assets, leading to insufficient funds for scale production, technological research and development, and daily sales, thereby posing systemic risks. Hence, companies must strike a balance between investment proportions and fund flows. Increasing liquid asset investments to enhance cash flow and realize capital gains may reduce profitability and impose restrictions on fund utilization, while excessive investments in fixed assets and long-term securities may reduce liquidity.

Debt repayment capability refers to a company's ability to repay its debts on time and as scheduled. The higher a company's debt repayment capability, the higher its market valuation and the lower the difficulty in raising operating funds. Conversely, if a company's debt repayment capability is lacking, it can affect investors' confidence and investment enthusiasm, leading to a decline in market reputation, increased difficulty in raising funds, and poor performance in various financial indicators, thus putting pressure on its market valuation.

In analyzing short-term debt repayment capability, metrics such as the current ratio and quick ratio are commonly used. Looking at Xiaomi's financial data from 2018, it's evident that the company's liquidity has been declining, with the current ratio dropping to 1.5 and the quick ratio to 1.2. If Xiaomi's current ratio continues to

decrease, the company may face challenges such as insufficient liquidity for bills and continued pressure on its market valuation. Although Xiaomi's quick ratio has fluctuated slightly in recent years, remaining around 1.0, it indicates an overall weak short-term debt repayment capability for the company at this stage.

As for long-term debt repayment capability, Xiaomi's asset-liability ratio was 241.55% in 2017 and decreased to 54.4% in 2018. While this ratio seems reasonable compared to other comparable companies, it still suggests that Xiaomi's long-term debt repayment capability is not particularly strong at the current stage. Therefore, from an analysis of debt repayment capability, it can be concluded that it adds to Xiaomi's financial risk to a certain extent.

3) Fund Operation Risk: During fund circulation, two primary risks exist: inventory risk and receivables risk. Inventories have poor liquidity, tying up significant amounts of capital and incurring costs for storage and maintenance. Price declines in the market can lead to inventory devaluation and poor storage practices, resulting in dual losses. Receivables are subject to uncertainties in terms of time and amount. Companies must thoroughly understand customer credit ratings to prevent uncontrolled accounts receivable and long-term unrecoverable debts, posing severe threats to the company's fund liquidity and security.

Regardless of the type of enterprise, the ultimate goal of its active business activities is to achieve maximum corporate benefits. The purpose of financial risk management is also to better avoid the financial risks that may arise during the enterprise's operations, thus improving profitability. The so-called capital operation capability mainly refers to the ability of an enterprise to generate profits by using various funds for business activities. Fundamentally, it reflects the operational efficiency of profit generation in an enterprise, usually demonstrated through asset

management standards and turnover rates of various assets.

According to the annual financial report released by Xiaomi in 2019, the company achieved a total revenue of 174.9 billion yuan in 2018, representing a growth of 52.7% compared to 2017. The company's profit reached 8.6 billion yuan, which is a 59.4% increase compared to 2017. From these figures, it is evident that Xiaomi's operating gross profit margin and revenue-generating ability are continuously increasing, and its profitability is also strengthening. However, in January 2019, Xiaomi's stock price hit a historic low, prompting some profound considerations.

On the one hand, factors such as intense competition in the Chinese smartphone market and the slowdown of macroeconomic growth may lead to a decline in Xiaomi's core business, namely smartphone sales. On the other hand, Xiaomi also faced cash turnover issues. Therefore, it's apparent that the risk of capital operation capability remains a significant financial risk that Xiaomi may face in the current stage.

4) Profit Distribution Risk: Profit distribution, the final link in the company's financial system cycle, involves allocating net profits according to legal procedures for adding fixed assets, distributing collective welfare, etc. It mainly includes profit retention and dividend distribution. Profit distribution risk arises from the possibility of imbalances in profit allocation based on different objects, times, and amounts, leading to various issues. Profit retention involves using funds to increase fixed assets, a vital means of expanding investment sources. Inadequate dividend distribution may reduce investor returns and investment enthusiasm, potentially affecting the company's stock price. Excessive dividend distribution may weaken the company's debt repayment and investment capabilities, hindering long-term development.

The causes of enterprise financial risk. During the process of enterprise development, various factors can influence and trigger financial risks. Some of these risks are apparent, while others are latent. This highlights the necessity for internal management personnel to possess sufficient risk awareness to timely identify, swiftly discover, and effectively respond to risks. However, in reality, many financial managers lack adequate risk awareness, tolerate the existence of risks, and fail to mitigate or control them, which negatively impacts the enterprise's development. Furthermore, to enhance market competitiveness, many companies may experience a significant increase in accounts receivable, leading to difficulties in subsequent collections and even a reduction in liquid assets, thereby affecting the company's sustainable development.[44]

#### Current Status of Financial Risks in Financial Management Process.

For rapidly developing enterprises, financial risks in the financial management process mainly refer to unpredictable and uncontrollable factors that lead to poor financial conditions and uncertainty, thereby affecting financial management work. The primary task of financial management personnel is to accurately identify risks, take effective measures to strengthen management and control, reduce losses, and provide necessary support and guarantees for subsequent development:

- Over-indebtedness risk: Overreliance on debt can lead to excessively high debt ratios, putting pressure on operational management and affecting subsequent debt repayment capabilities.
- Fundraising risk: Neglecting the matching of short-term assets and liabilities during fundraising can lead to higher financial costs in subsequent operational management and increase the risk of repayment.

- Liquidity risk: This refers to the inability to smoothly convert assets into cash or fulfill debts and payments, leading to insufficient assets to timely offset debts, resulting in liquidity pressure and burden.
- Monetary fund management risk: This includes shortages, misappropriation, loss of funds, improper investment decisions, and unreasonable fundraising, leading to improper internal fund circulation and storage, affecting asset security and optimal allocation.
- Investment decision risk: Erroneous investment decisions can result in direct economic losses and may impact the overall strategic planning and layout of the enterprise, significantly affecting subsequent development.
- Operational risk: This includes procurement risk, production and manufacturing risk, inventory realization risk, and accounts receivable realization risk, all of which affect the flow of funds and value changes in the enterprise.

The causes of corporate financial risk generally fall into two categories: external factors and internal factors. External include changes in macroeconomic environment, regulatory policies, and intense competition within industries.

1. Macroeconomic Downturn: The performance of a company is typically constrained by factors such as economic cycles, fluctuating interest rates, and changes in prices. A downturn in the macroeconomic environment can lead to reduced profitability and damaged investments, thereby exposing companies to financial risks.

2. Government Economic Policies: Economic policies and regulations imposed by the government can significantly impact businesses. For instance, regulations aimed at controlling energy-intensive industries, tightening environmental scrutiny, or restricting loans to real estate companies can have

profound effects on businesses, potentially disrupting their financial stability.

3. **Intense Industry Competition:** In today's market economy, competition among companies within the same industry often intensifies, leading to price wars, subsidies, and aggressive expansion strategies. Companies engaged in fierce competition may resort to tactics such as heavy subsidies, which can strain their financial resources and jeopardize their financial stability.

Internal factors stem from within the organization and are fundamental issues that need to be addressed.

1. **Unreasonable Financing Structure:** While a sound financing structure can enhance a company's economic efficiency, excessive borrowing or an imbalanced capital structure can lead to significant debt risks. Overreliance on debt financing may burden the company with high interest payments and repayment obligations, thus increasing its financial risk.

2. **Unwise Investment Decisions:** Rational investment decisions are crucial for a company's success. Comprehensive market research, risk assessments, and careful evaluation of investment opportunities are essential to minimize investment risks. Poor investment decisions can result in substantial losses, posing significant financial risks to the company.

3. **Incomplete Financial Management Systems:** Effective financial management systems are vital for guiding various aspects of a company's operations. A robust financial management system can optimize capital utilization, enhance profitability, and mitigate financial risks. Inadequate financial management systems may expose the company to operational vulnerabilities and increase financial risks.

4. **Lack of Risk Awareness:** Financial professionals within the organization must possess strong risk awareness and stay updated on macroeconomic trends and regulatory

policies. Failure to identify and address potential financial risks in a timely manner can leave the company vulnerable to unforeseen challenges and disruptions.

5. Unreasonable Profit Distribution: A well-defined profit distribution policy can foster investor confidence and support the company during both prosperous and challenging times. Conversely, an unfair profit distribution policy may erode shareholder trust and hinder the company's ability to raise funds, exacerbating its financial risks.

Understanding and addressing both external and internal factors contributing to financial risk are essential for companies to maintain financial stability and sustainable growth.

Enterprise financial risk management.

The meaning of enterprise financial risk management is to ensure that the economic interests of the enterprise are not damaged. During the management process, the enterprise emphasizes the identification of risks, accurate measurement, and effective analysis. Based on the analysis results, the enterprise adopts effective and reasonable measures for risk prevention and control, aiming to ensure the survival of the enterprise in a relatively healthy environment and avoid the loss of economic benefits.[18]

1. Enhancing awareness of financial risk prevention: Enterprise decision-makers should have a certain level of financial risk management knowledge to enhance awareness of risk prevention and reduce the probability of errors in areas such as financing, capital operation, and profit distribution. Regular training for decision-makers and financial staff is essential, along with learning from enterprises with effective financial risk management controls.

2. Establishing a financial risk management mechanism: Establishing a financial risk management mechanism tailored to the enterprise is an effective way to reduce financial risks. This includes predicting the financial risks at different stages of enterprise operations, promoting a balanced financial leverage, clarifying the responsibilities, rights, and obligations of enterprise managers, and managing the distribution of interests among internal stakeholders effectively.

3. Improving financial decision-making and management capabilities: Financial decisions made by enterprise management directly affect whether the enterprise can achieve expected returns. Therefore, adopting quantifiable analysis methods and professional decision-making models to assess the production and operation status of the enterprise is crucial. This approach helps in making correct financing and investment plans, adjusting production and operation models, and minimizing the possibility of decision-making errors leading to financial risks.

Through these methods, enterprises can better manage and reduce financial risks, safeguarding their economic interests.

### **Conclusions on Section 1**

In the first chapter, the theoretical basics of improving the financial risk management of the enterprise are laid out, the essence and functions of financial management are considered, and the theoretical aspects of the enterprise's financial risk management are defined. Based on the results of the research, the following conclusions can be drawn.

1. Financial management is a crucial aspect of enterprise management, encompassing aspects such as fund utilization, decision-making, and risk control, directly impacting a company's operational efficiency and sustainable development. The core of financial management lies in rational fund allocation, efficient utilization, and scientific decision-making, with financial risk control being essential to ensuring the smooth operation of financial management. In this summary, we will academically explore the importance of financial management and the necessity of financial risk control.

2. Financial management plays a pivotal role in the efficient operation of a company's funds. Through financial management, enterprises can achieve rational fund allocation and efficient utilization, ensuring liquidity and profitability stability. Additionally, financial management is crucial for decision support and strategic planning. By analyzing and evaluating financial data, management can make informed decisions, seize market opportunities, and address challenges effectively. Moreover, financial management enhances transparency and credibility, bolstering investor and stakeholder confidence, thus facilitating fund attraction and partnerships. Importantly, financial management aids in identifying, evaluating, and addressing various potential risks, mitigating the likelihood and impact of risks, and safeguarding financial security. In conclusion, financial management is indispensable for a company's operational efficiency and sustainable development.

3. Financial risk poses a significant challenge to companies, potentially causing severe impacts if left uncontrolled. Firstly, fund management risk stands out as a prominent issue in financial management. Issues such as fund shortages, loss, and misappropriation may disrupt the company's fund chain, affecting normal operations. Secondly, investment decision risk warrants special attention. Erroneous

investment decisions may lead to financial losses, impacting profitability and market position. Moreover, market risk, legal and regulatory risk, and solvency risk all require the company's attention. In summary, the necessity of financial risk control primarily lies in safeguarding financial security and ensuring stable operations.

4. Financial risk control necessitates companies to adopt various measures to address potential risks effectively. Firstly, companies should establish comprehensive risk identification and assessment mechanisms to promptly identify and analyze potential risks. Secondly, effective risk avoidance and control measures should be implemented to mitigate the likelihood and impact of risks. Additionally, companies can transfer some risks to insurance companies through purchasing insurance, thereby reducing the risks they bear. Lastly, companies should establish sound risk response and contingency plans to address emergencies promptly and ensure normal operations.

## SECTION 2

### ANALYSIS OF THE DEVELOPMENT AND FINANCIAL ACTIVITIES OF XIAOMI TECHNOLOGY CO.

#### 2.1 Organizational and economic prerequisites for the emergence of financial risks at Xiaomi Technology Co.

Xiaomi Technology Co., Ltd. was founded on March 3, 2010, focusing on the development of intelligent hardware, electronic products, chip research and development, smartphones, smart electric vehicles, communications, finance, internet television, and the construction of a smart home ecosystem. Positioned as a globalized mobile internet company and an innovative technology enterprise, Xiaomi innovates its products by developing smartphone operating systems through an internet-based model, with enthusiasts participating in development and improvement. Its product concept, "Born for Enthusiasts," and vision, "Let Everyone Enjoy the Fun of Technology," drive the company's dedication to providing high-quality Chinese technology products to people worldwide.



Figure 2.1 – Xiaomi Company icon

Xiaomi employs an internet development model, imbuing products with a geek spirit, and eliminating intermediary processes through internet-based methods to ensure global accessibility to its quality products. Xiaomi operates one of the world's largest consumer IoT platforms, connecting over 740 million smart devices and spanning across 100+ countries and regions. Its global monthly active users of smartphones and tablets reached 641 million. Additionally, Xiaomi has invested in over 500 companies covering various fields such as smart hardware, consumer goods, education, gaming, social networks, cultural entertainment, healthcare, transportation, and finance.

In 2019, Xiaomi was listed on the Forbes China Innovation List and the Forbes Global Digital Economy Top 100. On December 18 of the same year, it ranked 30th on the "China Brand Development Index" published by the People's Daily.

On March 30, 2021, Xiaomi Group announced its entry into the automotive sector on the Hong Kong Stock Exchange and unveiled a new logo. In August 2022, it ranked 266th among the Fortune Global 500 companies, a significant increase of 72 places, and acquired Deepmotion Technology, a company specializing in autonomous driving technology, to strengthen its core capabilities in this area. Xiaomi is the world's third-largest smartphone manufacturer, the fifth-largest TV manufacturer, and the fifth-largest tablet manufacturer globally. It is also the fastest-growing smartphone brand globally and in China.

Xiaomi's vision of "Making Friends with Users and Being the Coolest Company in Users' Hearts" drives its relentless pursuit of innovation, constantly striving for top-notch products and efficiency, resulting in a continuous series of remarkable achievements. Presently, Xiaomi is the fourth-largest smartphone manufacturer globally, ranking within the top five in the smartphone markets of over

30 countries and regions, especially maintaining the top position in smartphone shipments for five consecutive quarters in India. Through its unique "ecosystem model," Xiaomi invests in and encourages like-minded entrepreneurs, while also establishing an IoT platform connecting over 130 million smart devices.

On July 9, 2018, Xiaomi successfully went public on the main board of the Hong Kong Stock Exchange, becoming the first company with weighted voting rights structure listed on the exchange. This IPO marked the largest-ever technology IPO in Hong Kong's history and the third-largest globally at the time. This milestone event signifies significant progress in Xiaomi's internationalization strategy, laying a solid foundation for its future development.

Introduction of the flat organization.

Xiaomi has undoubtedly become a leader in the domestic mobile internet sector with its rapid development. This has drawn global attention to the company within the internet industry. Xiaomi's successful methods are not only noteworthy but also worthy of attention and learning by other enterprises. Its flat organizational structure management approach and human resource strategies have become focal points of exploration in the industry.

Flat management is a management model that contrasts with the hierarchical management framework. It effectively addresses the shortcomings of hierarchical management, such as 'overlapping levels, excessive staff, and inefficient organizational operation,' by speeding up the flow of information and improving decision-making efficiency. The advantages of flat management are best demonstrated in the early stages of establishing a company. At that time, Lei Jun spent 80% of his time and energy recruiting elite talents and painstakingly built a core team. Each member of the team shared a common belief, making it much

simpler to manage personnel. Disputes over core principles were rare, and employees were focused on researching, planning, innovating, and swiftly exchanging new information within the team, greatly improving work efficiency.

KPIs are highly valued by most domestic enterprises because they directly determine employee compensation. However, employees who work solely for compensation may not devote most of their energy to product development and may make inappropriate decisions to meet performance targets. Xiaomi's use of flat management and the fact that most of its management comes from grassroots levels is closely related to this issue. Understanding that employees may do things for performance assessments but may not prioritize the company's development, Xiaomi deemphasizes the rigid hierarchical structure of the past, where employees were overly constrained by KPIs and overly focused on performance, neglecting company values and culture. One of the drawbacks of this management model is that it can lead to internal disharmony within the company. Flat management diminishes the hierarchical mindset between company employees and leaders, allowing employees to more freely utilize their expertise in their daily work. It also creates opportunities for relatively equal dialogue between leaders and employees, fostering internal unity while achieving high performance. With flat management, power within the company can be effectively centralized. Lei Jun can continuously hold the vast majority of power within the company, ensuring that decisions align more closely with the company's values when they are made.

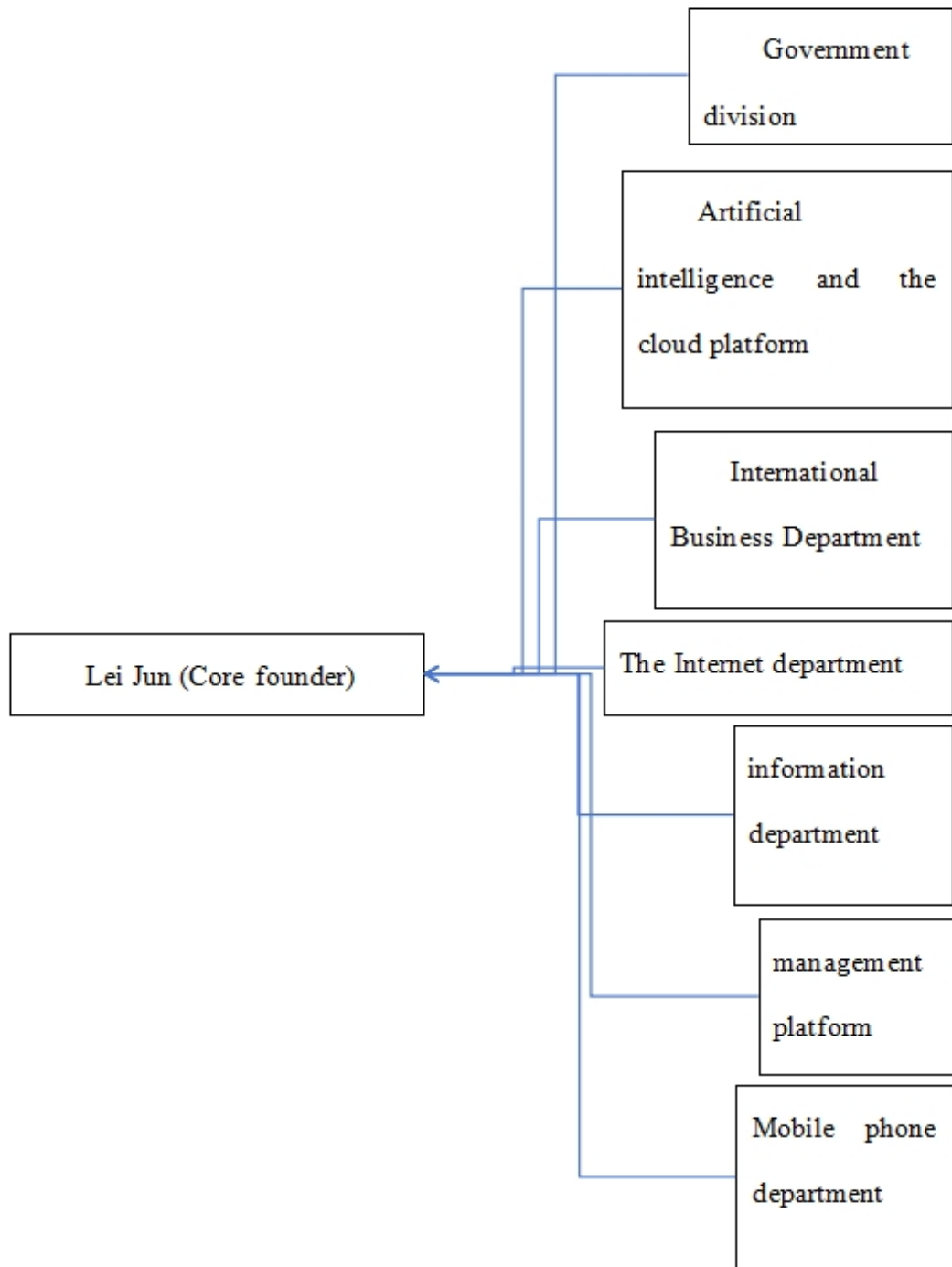


Figure 2.2 – Founder structure

Efficient teamwork and flat organizational management are closely intertwined. The basic organizational structure is extremely simple, consisting of three layers: Founder - Team Leader - Employees. There are a total of 8 founders.

Each small team in Xiaomi generally consists of no more than 10 people, with the team leader being responsible for leading the team in development, managing daily affairs, and coordinating communication with other departments. Compared to other large companies in various industries, Xiaomi's structure is indeed much flatter because many large companies have overly complex internal organizational structures, resulting in inefficient communication of internal information and the need to spend too much time and energy on meaningless reporting, approvals, and meetings. Such a management system greatly reduces the time spent on repetitive confirmation and communication of management information, adopting a simple hierarchy to ensure effective team operation.

However, Xiaomi's growth also has a relatively unique approach, or rather, a unique corporate culture. While most companies tend to increase business-divided departments as they expand into new business areas, Xiaomi firmly grasps a few "self-operated" businesses such as smartphones, and bundles other businesses into the ecosystem chain. Regardless of how many industries the ecosystem chain covers, Xiaomi only has one ecosystem chain department. On one hand, this approach leverages the efficiency advantages of small teams, while on the other hand, it can also maintain and stimulate the role of entrepreneurs, and even better utilize equity incentives to attract top talent.

Achieving such outstanding results with flat management undoubtedly requires a very high level of initiative from all members within the organization. Employees do not need to focus on positions but rely entirely on their dedication. Each person speaks through their abilities. Xiaomi uses a broadband salary structure, supporting the development of a flat organizational structure while allowing employees to focus on independent research and development, thereby emphasizing

personal capabilities and skills growth without considering other external factors. If employees' subjective initiative is not high enough, it will be difficult to experience the "Xiaomi speed."

Lei Jun also made a metaphorical comparison with a small restaurant theory. The success of a small restaurant is evident from whether there are people queuing. Firstly, the head chef of a small restaurant is usually the owner himself, who knows best whether the food is good, and many regulars are friends, so he understands the customers' needs best. Secondly, he needs to have strong determination, focusing on only one thing every day, which is how to cook the food well. Although making money is important, cooking good food is more important. This is why customers line up. This is also one of the reasons for flat management, to ensure that the quality of frontline products does not decline.

Management challenges in flat organizations at the grassroots level.

In the Internet + era, Xiaomi's development speed will undoubtedly trigger many enterprises to follow suit. However, not all enterprises are applicable to the flat management system, and according to the differences in the actual situation of each enterprise, the management mode also needs to be adjusted accordingly. In this context, the grassroots flat management faces relatively large challenges.

First of all, we should make clear the basis and reasons for the establishment of grass-roots flat management. The large-scale application of the network provides an opportunity for the basic flat management. We should realize that network informatization can improve the convenience of the "evaluation" link in the business cycle. If the main content of a grass-roots management work is "evaluation", then the flat management will have a basis for implementation. In addition, information to a certain extent, it can also solve the problems of control and correction, such as

the application of remote monitoring. If the main content of grass-roots management is "control and correction", then flat management also has the basis for implementation. However, it should be noted that flat management may weaken the incentive, correction and incentive in the implementation, making it a weak link. Only by clearly recognizing why the grass-roots management can achieve flattening, and ensuring that every link of the business cycle after flattening, can the flattening of the grass-roots management be promoted.

In the process of grassroots flat management, the weak links may lead to management failure. If in the grass-roots organization, the grass-roots personnel can not be good self-motivation, then the incentive is the weak link of management. After the flattening of the grassroots management, the expansion of the management range may ignore this link, and eventually lead to the failure of the whole organization. After the successful implementation of grassroots flat management, we will face the following problems:

Imagine an organization that successfully implements the grassroots flat management, it may have the following two characteristics: first, the worker undertakes a large number of business links originally implemented by the manager; second, the manager has the super ability. The successful example in reality is basically the first case, that is, in the organization of grassroots flat management, the grass-roots workers can motivate themselves well, without strict control and correction, and have a strong desire to improve. It is worth noting that in such an organization, the upward channel of the members of the organization may narrow, and if the team needs to maintain healthy development, a supporting salary system must be established. The second scenario is usually avoided in practice because it creates great uncertainty for business sustainable development.

## **2.2 Xiaomi Technology Co. profit situation analysis**

Industry overview. With the advent of the era of artificial intelligence, the electronics industry, closely related to it, has become one of the fastest-growing industries. As an indispensable tool in today's world, the market for smartphones is rapidly expanding. However, according to the recent shipment volumes of Xiaomi smartphones, it can be seen that the shipment volume of the Chinese smartphone market is gradually decreasing. The reason behind this trend is that the development of smartphones has reached a bottleneck. Under the fierce competition among major smartphone manufacturers, smartphones are gradually being optimized, and their durability is increasing. A smartphone can now be used for several years, so this phenomenon is not surprising. The decreasing number of potential consumers has made smartphone manufacturers nervous, and it has become necessary for them to increase their profitability.

Furthermore, looking at the market share of smartphones from various global brands, the top two brands are Samsung and Apple, with their competitive advantages being quite apparent. However, thanks to China's innate advantages in the smartphone consumer market and the improvement in the research and development capabilities and brand awareness of some domestic companies, domestic smartphone manufacturers are rapidly developing at a pace that is no less than foreign smartphones. Their market share is rapidly increasing, and Chinese smartphones have now become a significant force in the global market.

Xiaomi Corporation was established on March 3, 2010, in Beijing. Xiaomi's business scope includes smartphones, daily necessities, smart devices, etc. It is one

of the electronic product companies with the widest product coverage in China. Although Xiaomi's smartphones have achieved considerable success, it does not prevent the company from occupying a place in other fields as well. Now, all the electronic smart products and even daily necessities under Xiaomi's brand are enough to help loyal fans achieve full coverage in their homes. It is possible that there may be no products from brands other than Xiaomi in their homes.

The reason why Xiaomi Company has been successful is because it is willing to innovate and dares to innovate. Since its establishment, Xiaomi has invested a large amount of technology in research and development, creating a unique model of its own. Especially by using the internet model to replace traditional intermediate links, Xiaomi is committed to promoting its products and Chinese products to foreign countries and even the world, allowing more people around the globe to enjoy technological products produced by Chinese companies. Now Xiaomi has become a leader among domestic smartphone manufacturers. Xiaomi not only has the well-known flagship Xiaomi series but also the cost-effective Redmi series. In addition, Xiaomi has invested in more than 300 companies, covering many fields such as smart homes, daily necessities, and finance.

Dupont analysis of Xiaomi company.

The DuPont Analysis, named after the DuPont Corporation which pioneered its use, is a method used to comprehensively analyze the financial condition of a company by examining the relationship between several key financial ratios. Specifically, it is a classic method used to evaluate a company's profitability and return on equity from a financial perspective. The basic idea is to decompose the return on equity into a series of financial ratios, allowing for a detailed analysis of the company's operational performance. This analysis method has been widely

adopted in financial analysis due to its effectiveness in providing insights into various aspects of a company's financial health. [45]

The most significant feature of DuPont model is that several ratios used to evaluate the operating efficiency and financial status of enterprises are organically combined according to their internal relations, forming a complete indicator system, and finally reflected comprehensively through the return on equity (fig. 2.3).

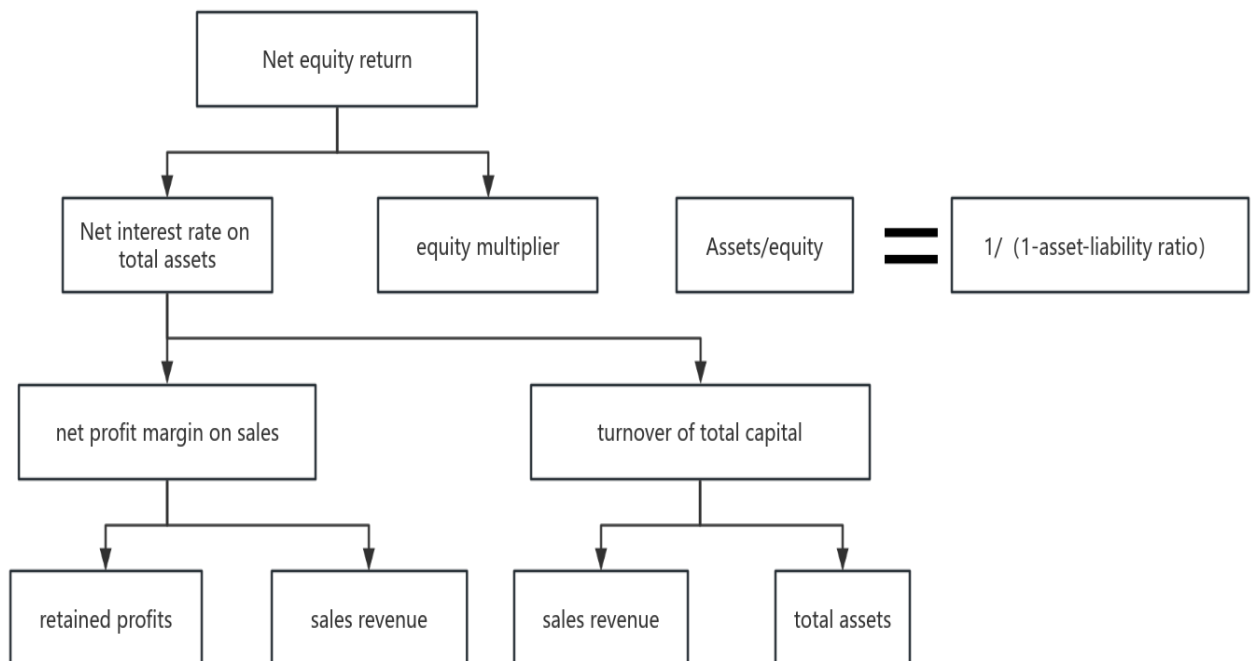


Figure 2.3 – Net equity return analysis

The DuPont Analysis method is a classic approach used to evaluate a company's performance by examining the interrelationships among several representative financial indicators, with return on equity (ROE) as the central focus. Its main purpose is to comprehensively analyze the financial condition of a company. The primary formulas involved are as follows [40]:

$$\text{Net Profit Margin} = \text{Net Income} / \text{Revenue} \quad (2.1)$$

$$\text{Total Asset Turnover} = \text{Revenue} / \text{Average Total Assets} \quad (2.2)$$

$$\text{Equity Multiplier} = \text{Total Assets} / \text{Total Equity} = 1 / (1 - \text{Debt-to-Equity Ratio}) \quad (2.3)$$

$$\text{Return on Equity (ROE)} = \text{Equity Multiplier} * \text{Net Profit Margin} * \text{Total Asset Turnover} \quad (2.4)$$

The following table summarizes the financial data for Xiaomi Corporation from 2016 to 2021, based on publicly available financial statements. We will calculate the company's net profit margin, total asset turnover, equity multiplier, and return on equity (ROE) as key indicators to comprehensively analyze Xiaomi's profitability (table 2.1-2.2):

Table 2.1. 2016-2021 Xiaomi Company balance sheet

	2016	2017	2018	2019	2020	2021
property	507.66	898.70	1452.28	1836.29	253679	292892
liabilities	1428.23	2170.80	739.78	1019.72	129666	155459
stockholders' equity	-920.57	-1272.10	712.50	816.57	124013	137432

Table 2.2. Income statement of Xiaomi Company from 2016 to 2021

	2016	2017	2018	2019	2020	2021
gross revenue	684.34	1146.25	1749.15	2058.39	245865	328309
total operating cost	611.85	994.71	1527.23	1772.85	209113	270048
operating profit	72.49	151.54	221.92	285.54	367.52	582.61
retained profits	4.92	438.89	134.78	101.03	203.12	19283

The net profit margin is a financial metric that represents the ratio of net

income to sales revenue over a certain period. It reflects the net profit generated by sales activities for a company and is typically used to evaluate the company's profitability. A higher net profit margin indicates better profitability for the company.

[45]

Analysis of net profit margin on sales (table 2.3).

Table 2.3. 2016-2021 Xiaomi sales net profit rate

	2016	2017	2018	2019	2020	2021
Net profit on sales	0.72%	-38.29%	7.71%	4.91%	8.26%	5.87%

According to the table, Xiaomi suffered heavy losses in 2017, but the situation gradually improved. The company's financial statement showed a loss of up to 43.9 billion yuan in 2017. In fact, this phenomenon stems from the differences in accounting treatment methods. Xiaomi is listed in Hong Kong and therefore follows international financial reporting standards. If Xiaomi goes public in the United States, it will adopt generally accepted accounting principles. According to these rules, Xiaomi's profit in 2016-2017 is 1.9 billion yuan and a profit of 5.4 billion yuan respectively, which shows that the company has been profitable in the past two years. According to the balance sheet, Xiaomi's sales revenue has maintained steady growth in recent years, with its total operating revenue even exceeding 200 billion yuan after 2019, which has more than doubled in less than two years.

### Total asset turnover analysis.

The total asset turnover ratio represents the ratio of total sales revenue to the average of beginning and ending total assets over a specific period. It serves to illustrate the efficiency of asset utilization within a company. Analyzing this indicator allows for an understanding of the historical and current operational efficiency of a company's assets, facilitating the identification of gaps in asset utilization compared to competitors and promoting better development strategies.

Spanning from 2016 to 2021, Xiaomi's total asset turnover ratio has gradually decreased. However, it consistently remains above 1, indicating that Xiaomi's asset turnover speed, although declining, is not excessively slow. Considering that Xiaomi primarily deals in high-end electronic products with prices ranging from hundreds to thousands of units, such a total asset turnover ratio is within the expected range for the company (table 2.4).

Table 2.4. 2016-2021 Total capital turnover

	2016	2017	2018	2019	2020	2021
Total capital turnover rate	1.52	1.63	1.48	1.25	1.12	1.2

### Analysis of Return on Equity.

The return on equity of the enterprise is the ratio of the net profit of the enterprise to the average of the owner's equity at the beginning and end of the period. Return on equity is an important index used by a company to evaluate the use of shareholders' funds, which can conduct a comprehensive analysis of the current situation of an enterprise (table 2.5).

Table 2.5. 2016-2021 Return on equity

	2016	2017	2018	2019	2020	2021
Return on Equity	-0.55%	-40.03%	48.17%	13.21%	19.75%	14.75%

Analysis of influencing factors of Xiaomi's profitability.

#### 1. External Factors:

Due to the rapid development of China's manufacturing industry, the number of Chinese smartphone manufacturers currently ranks first globally. The smart product market is becoming increasingly saturated, and Xiaomi's market share is being challenged by more and more other smartphone companies.

In recent years, major smartphone companies have been prepared to occupy a larger share of the high-end market. Xiaomi's response has been the fastest among similar companies. Even though Xiaomi's number of stores in various locations is still limited, the company's vice president has pledged to open stores in every county nationwide within the next year. Additionally, since Xiaomi relies on contract factories for almost all component production, higher quotes from suppliers lead to higher costs for Xiaomi. Therefore, finding reliable suppliers is one of Xiaomi's important tasks at present.

#### 2. Internal Factors:

According to Xiaomi's profit statement in recent years, its gross profit margin is relatively low. However, many domestic companies in the primary sector have operated on a low-profit model for a long time. Xiaomi's gross profit margin has been increasing year by year, and with its entry into the high-end smartphone market

and the release of popular flagship models, the gross profit margin is expected to further improve in the future.[40]

Another internal challenge for Xiaomi is cooperation with suppliers. Strengthening cooperation with suppliers can effectively improve the company's profitability. Selecting suitable suppliers and meeting their needs can pave the way for the company's business activities, ensuring that both parties can obtain their deserved benefits.

### **2.3 Analysis of marketing strategy based on SWOT analysis**

Xiaomi mobile phone marketing strategy analysis.

As the scale of the smartphone market continues to expand and the hardware and software technologies mature, consumers' individual demands become increasingly apparent. To better cater to the specific needs of certain demographics, customized and personalized smartphone devices have emerged in the market. Precisely analyzing consumer demands and introducing corresponding products will be key to capturing more market share. In modern marketing, employing the STP (Segmentation, Targeting, Positioning) marketing theory is crucial. This theory includes market segmentation, targeting, and positioning. Firstly, market segmentation divides consumers into different groups to better understand their needs and preferences. Secondly, target market selection identifies the consumer groups that the company should focus on and serve. Finally, market positioning determines the company's product or brand position in the target market,

differentiating it from competitors to establish its marketing advantage. By applying the STP marketing theory, companies can better understand consumers, provide more accurate products and services, enhance market competitiveness, and gain more market share.[2]

## Market Segmentation

Market segmentation involves dividing the overall market for a product into distinct consumer groups based on similarities in their demand tendencies. Through comprehensive market research, marketers categorize the market into segments according to variations in consumer needs, preferences, and purchasing behaviors.

### 1. Business Users:

This segment primarily comprises working professionals aged between 30 and 50 years. These individuals prioritize the quality and reliability of their smartphones, emphasizing features such as security and efficiency in handling work-related tasks. With stable incomes and a focus on productivity, they are less price-sensitive compared to other consumer groups. However, they are also discerning buyers who value brand reputation and are less likely to choose Xiaomi due to its positioning primarily in the consumer market.

### 2. Entertainment Enthusiasts:

This segment consists predominantly of students and young working professionals aged between 18 and 25 years. They place a high emphasis on the entertainment features of smartphones, including gaming performance and camera capabilities. Price sensitivity is relatively higher in this group due to limited disposable income. However, they seek products offering high value for money and are attracted to Xiaomi's reputation for delivering performance at an affordable price point.

### 3. Enthusiasts:

Enthusiasts represent a niche segment comprising individuals deeply passionate about specific industries or activities. These consumers exhibit a strong interest in technological advancements and seek smartphones with cutting-edge features and performance. While enthusiasts form a smaller proportion of the overall market, they are willing to invest in premium products that cater to their specialized needs.

#### Target Market

The target market refers to specific segments within the overall market that a company aims to serve with its products or services. By identifying and prioritizing these segments based on factors such as consumer characteristics and market dynamics, businesses can tailor their marketing strategies and product offerings to effectively address the needs of their target audience.

In the case of Xiaomi smartphones, the target market encompasses entertainment enthusiasts and enthusiasts born in the 1980s and 1990s. These segments represent significant portions of the smartphone consumer base, with distinct preferences and purchasing behaviors. Xiaomi can focus its marketing efforts and product development initiatives towards meeting the needs and preferences of these target segments, thereby enhancing its market competitiveness.

#### Market Positioning

Market positioning involves establishing a distinct and desirable position for a company or product in the minds of consumers relative to competitors. By highlighting unique value propositions and key differentiators, businesses can effectively communicate their brand identity and value proposition to target consumers, thereby influencing purchasing decisions and fostering brand loyalty.

Xiaomi's market positioning strategy revolves around offering high-performance smartphones at competitive price points, making advanced technology accessible to a broader consumer base. By emphasizing affordability, innovation, and user-centric design, Xiaomi positions itself as a leading player in the mid to low-end smartphone market segment. Additionally, Xiaomi's commitment to customer satisfaction, as exemplified by its three-guarantee service, reinforces its reputation for reliability and customer-centricity, further enhancing its market position.

### SWOT analysis of Xiaomi Technology Co.

#### Strengths Analysis

##### 1. High Cost Performance:

Xiaomi has always prioritized "value for money" as its development philosophy. The company's founder, Lei Jun, pledged at the annual product launch event in 2018 that the overall after-tax net profit margin for its hardware business would not exceed 5% annually. If it does, the excess portion will be returned to Xiaomi users in a reasonable manner. Xiaomi smartphones offer high cost performance compared to other premium-priced products in the market, creating a distinct impression among consumers that "Xiaomi smartphones are priced lower for equivalent configurations." [3]

##### 2. Unique Marketing Model:

With the widespread adoption of smartphones and various smart devices, online marketing has become an indispensable marketing method for smartphone manufacturers. Xiaomi's innovative marketing strategies leverage the power of the internet to effectively reach target consumers and understand their purchasing habits and desires in real-time. By utilizing its official Weibo account and a matrix marketing policy, Xiaomi engages in targeted marketing campaigns, highlighting the

superior features and value proposition of its smartphones compared to competitors.

### 3. Strong R&D Capabilities:

Xiaomi has established itself as a leader in the smartphone market through continuous innovation and investment in research and development. The company's founder, Lei Jun, and his team have extensive experience and expertise in technology and management. With a focus on talent acquisition and strategic partnerships, Xiaomi has built a robust R&D team capable of delivering high-quality products that meet consumer preferences and market demands.

## Weaknesses Analysis

### 1. Product Quality Issues:

Despite its reputation for offering affordable smartphones, Xiaomi has faced criticism regarding product quality issues such as overheating, poor battery life, and software glitches. These issues have led to dissatisfaction among some consumers and contributed to negative reviews on e-commerce platforms. While Xiaomi has a loyal fan base, ongoing quality concerns limit its appeal to a broader audience, particularly among consumers who prioritize user experience and reliability.

### 2. Weak Production Capacity:

Xiaomi's reliance on external suppliers for crucial components like CPUs, displays, and cameras poses challenges to its production capacity and supply chain management. Any disruptions or delays in the supply chain can affect Xiaomi's ability to meet market demand and fulfill orders in a timely manner. Additionally, the lack of in-house hardware design and manufacturing capabilities limits Xiaomi's ability to differentiate its products and compete in the high-end smartphone market segment.

### 3. Customer Attrition:

Xiaomi's marketing strategy, characterized by flash sales and limited availability, has led to customer frustration and attrition. Consumers who are unable to purchase Xiaomi smartphones due to limited stock availability often turn to alternative brands, resulting in lost sales opportunities and weakened brand loyalty. Moreover, Xiaomi's reliance on online sales channels exposes it to challenges related to after-sales service and customer support, which can further contribute to customer dissatisfaction and attrition.

### 🌟 Opportunities Analysis

#### 1. Development of 5G Technology:

The widespread adoption of 5G technology presents opportunities for smartphone manufacturers to capitalize on enhanced mobile broadband, ultra-reliable low latency communication, and massive machine type communications. By integrating 5G technology into their products and marketing strategies, companies like Xiaomi can offer innovative features and services that cater to evolving consumer needs and preferences. Additionally, 5G technology enables immersive and interactive marketing experiences, allowing companies to engage with consumers in new and meaningful ways.

#### 2. Growth of Mobile Office Trends:

The COVID-19 pandemic has accelerated the adoption of remote work and mobile office solutions, driving demand for smartphones that support productivity and collaboration. Smartphone manufacturers can capitalize on this trend by developing devices tailored to the needs of remote workers and businesses. By offering integrated solutions that combine mobile communication, productivity tools, and cloud services, companies like Xiaomi can expand their market presence and appeal to a broader customer base.[6]

## 🌟 Threats Analysis

### 1. Intense Competition in the Smartphone Market:

The smartphone market is highly competitive, with numerous brands vying for market share and consumer attention. Established players like Huawei, OPPO, and vivo, along with international brands like Apple, dominate the market, leaving little room for new entrants to gain traction. Xiaomi faces the challenge of differentiating its products and brand in a crowded market landscape while maintaining profitability and market share.

S	W
1.High cost-performance ratio 2.Unique marketing model 3.Strong research and development capabilities	1. Product quality defects 2. Weak production capacity 3. Continuous loss of consumers
O	T
1. Development of 5G mobile communication technology 2. Increasing trend of mobile office	1. Intense competition in the smartphone market 2. Lack of innovation in Android smartphones

Figure 2.4 – SWOT analysis [6]

### 2. Lack of Innovation in Android Smartphones:

The Android smartphone market is characterized by homogeneity, with manufacturers often prioritizing incremental improvements over disruptive innovation. Many Android smartphones offer similar features and specifications, leading to a lack of differentiation and innovation. Xiaomi must navigate this

landscape carefully, balancing the need to meet consumer expectations with the imperative to innovate and differentiate its products from competitors.

## **Conclusions on Section 2**

As a leader in the domestic mobile Internet industry, Xiaomi is known for its rapid development. Its successful experience has attracted wide attention from the global Internet industry, especially its flat organizational structure management method and human resource strategy. The flat management model is in sharp contrast to the traditional hierarchical management framework. By accelerating the flow of information and improving the efficiency of decision-making, it effectively solves many shortcomings of hierarchical management, such as "overlapping levels, excessive personnel, and low efficiency of organization operation". Xiaomi fully demonstrated the advantages of flat management in the early days of establishing the company, and Lei Jun spent 80% of his time and energy recruiting elite talents and building a core team. Team members share common beliefs, simplify people management, core principles are less controversial, employees focus on research, planning, innovation, and quickly exchange new information within the team, greatly improving work efficiency.

In addition, Xiaomi has also made remarkable achievements in the management of financial activities. The company has actively taken a number of measures to ensure the effective use of funds and financial soundness. Through fine cost control and capital management, Xiaomi has achieved a sound financial

position, dispersed financial risks with diversified investment layout, and ensured the company's financial soundness through scientific financial planning and budget control. In addition, Xiaomi has continuously optimized the financial process and internal control mechanism, improved the efficiency and transparency of financial management, and ensured the smooth progress of financial activities.

To sum up, Xiaomi has continuously improved its competitiveness and sustainable development ability with its flat organizational structure management mode and effective financial activity management strategy. With the further expansion of the company's business and the intensification of market competition, Xiaomi will continue to strengthen its financial management to better adapt to future challenges and opportunities.

## SECTION 3

### RECOMMENDATIONS FOR RISK OPTIMIZATION IN XIAOMI TECHNOLOGY CO.

#### 3.1 Xiaomi technology company financial risk analysis and reasons

Construction of financial risk evaluation system of Xiaomi Company:

- Debt-paying ability indicators: Current ratio, Quick ratio, Debt-to-Asset ratio, and Operating cash flow ratio.
- Profitability indicators: Return on Equity (ROE), Return on Assets (ROA), Return on Investment (ROI), and Net profit margin.
- Operating capability indicators: Total asset turnover ratio, Inventory turnover ratio, and Accounts receivable turnover ratio.
- Development capacity indicators: Revenue growth rate, Net profit growth rate, Total asset growth rate, and Net asset growth rate.
- Innovation capability indicators: Proportion of R&D personnel and Number of patents.

The entropy weight method, also known as the entropy value method, is a quantitative analysis technique used to assess the degree of dispersion of selected indicators. It calculates the weights of selected indicators to understand their impact on comprehensive evaluation. One of the advantages of the entropy weight method is that it relies on real enterprise data for quantitative analysis, making the results more objective and reliable. However, it is dependent on the selected sample data,

and any changes in the data can lead to changes in the calculated results. [77]

### Enterprise financial risk data analysis

Solvency, profitability, operating capacity, development capacity and innovation capacity were calculated based on Xiaomi's annual report for 2017-2021.

The original values of each measurement index are shown in the table.

Table 3.1. Original value of enterprise financial risk measurement index

Ability		2017	2018	2019	2020	2021
metric debt paying ability current ratio quick ratio	metric	1	0.93	0.99	1.1	1.48
	debt paying ability	0.79	0.79	0.79	0.76	0.72
	current ratio	0.59	0.67	0.65	0.63	0.51
	quick ratio	0.05	- 0.03	0.1	0.12	0
asset-liability ratio	asset-liability ratio	0.09	0.07	0.1	0.17	0.07
Active cash flow ratio	Active cash flow ratio	0.04	0.02	0.04	0.07	0.04
profitability	profitability	0.05	0.04	0.05	0.09	0.06
Return on equity	Return on equity	0.08	0.05	0.06	0.1	0.07
all capital earnings rate	all capital earnings rate	0.46	0.48	0.55	0.62	0.55
Asset remuneration rate	Asset remuneration rate	4.96	4.39	4.3	4.92	4.98
net profit ratio	net profit ratio	1.95	1.94	2.09	2.49	2.74
operation capacity	operation capacity	0.21	0.23	0.21	0.3	0.36
turnover of total capital	turnover of total capital	0.04	- 0.32	0.64	1.12	- 0.12
inventory turnover ratio	inventory turnover ratio	0.17	0.18	0.05	0.15	0.53
average accounts receivable turnover ratio	average accounts receivable turnover ratio	- 0.08	- 0.04	0.1	0.22	1.04
Development ability	Development ability	0.16	0.17	0.18	0.22	0.24
increase rate of business revenue	increase rate of business revenue	8	12	17	30	50

Due to the differences in the evaluation index units in this paper, in order to facilitate the analysis of the original value of the index standardization (normalization method), the entropy weight method is used to calculate the proportion of the standardized data. The formula is as follows:

$$P_{ij} = \frac{b_{ij}}{\sum_{i=1}^n b_{ij}} \quad (3.1)$$

In the formula,  $P_{ij}$  refers to the proportion of the index  $b_j$  in year  $i$ . The result of the proportion is shown in the table 3.2 [71].

Table 3.2. Proportion of enterprise financial risk measurement indicators

Ability		2017	2018	2019	2020
metric	metric	0.06	0	0.05	0.14
debt paying ability	debt paying ability	0.223	0.199	0.207	0.106
current ratio	current ratio	0.168	0.285	0.263	0.233
quick ratio	quick ratio	0.21	0.046	0.304	0.338
asset-liability ratio	asset-liability ratio	0.143	0	0.171	0.554
Active cash flow ratio	Active cash flow ratio	0.151	0	0.097	0.376
profitability	profitability	0.111	0	0.139	0.442
Return on equity	Return on equity	0.207	0	0.091	0.309
all capital earnings rate	all capital earnings rate	0.031	0.075	0.245	0.408
Asset remuneration rate	Asset remuneration rate	0.196	0.027	0	0.185
net profit ratio	net profit ratio	0.006	0	0.096	0.35
operation capacity	operation capacity	0.003	0.068	0	0.254
turnover of total capital	turnover of total capital	0.109	0	0.289	0.433
inventory turnover ratio	inventory turnover ratio	0.125	0.135	0	0.103
average accounts receivable turnover ratio	average accounts receivable turnover ratio	0	0.014	0.067	0.113
Development ability	Development ability	0.066	0.104	0.133	0.313
increase rate of business	increase rate of business	0.023	0.069	0.126	0.276

revenue	revenue				
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The data analysis results indicate that, overall, Xiaomi's comprehensive evaluation score showed a downward trend followed by an upward trend from 2017 to 2021. In 2020 and 2021, Xiaomi's financial condition was good. The impact of Xiaomi's financial risk capabilities from strongest to weakest is: development ability, operational capability, profitability, debt repayment ability, and innovation capability.[72]

Looking at each specific analysis indicator, the impact of financial risk on Xiaomi's ecosystem enterprises from strongest to weakest is as follows: accounts receivable turnover rate, net asset growth rate, number of patents, revenue growth rate, return on equity, current ratio, total asset turnover rate, net profit growth rate, total asset growth rate, proportion of research and development personnel, inventory turnover rate, activity cash flow ratio, asset turnover ratio, debt-to-asset ratio, and quick ratio.[69]

Since 2016, Xiaomi's development and operational capabilities have significantly improved. However, currently, Xiaomi still faces significant risks in areas such as accounts receivable collection, inventory turnover, and net asset growth.

### 3.2 Evaluation of Xiaomi Technology Co. financial risks

Profitability risk identification (table 3.3).

Table 3.3. Statement of comprehensive financial income of Xiaomi Company from 2015 to 2019

	2015	2016	2017	2018	2019
Turnover / (billion)	668.11	684.34	1146.25	1749.15	2058.39
Non-current assets / (billion)	141.84	201.29	287.31	392.15	460.9
Current assets / (billion)	249.53	306.36	611.38	1060.13	1375.39
Total assets / (billion)	391.37	507.66	898.7	1452.28	1836.29
Operating profit / (billion)	13.73	37.85	122.16	11.96	117.6
gross profit margin (%)	4.04	10.59	13.22	12.69	13.87
Operating profit margin of (%)	2.19	5.67	10.64	0.82	5.71
ratio of income as a percentage of sales (%)	-11.43	0.73	-38.29	7.72	4.82
Cost and expense profit margin of (%)	2.14	5.76	11.19	0.79	5.6

From the table, the following conclusions can be drawn:

1. From 2015 to 2019, Xiaomi's total revenue and total assets maintained an upward trend. Total revenue increased from 66.8 billion yuan in 2015 to 205.8 billion yuan in 2019, with an average annual growth rate of 32.5%. Total assets increased from 39.1 billion yuan in 2015 to 183.6 billion yuan in 2019, with an average annual growth rate of 47%. This reflects Xiaomi's rapid growth in profitability over the five-year period.

2. Operating profit remained stable. From the table, Xiaomi's operating profit from 2015 to 2019 was 13.73, 37.85, 122.16, 11.96, and 117.6 billion yuan,

respectively. Due to the low base in 2015, operating profit increased significantly in 2016 and 2017. However, compared to the 122.16 billion yuan in 2017, operating profit plummeted by 90.2% to 11.96 billion yuan in 2018. This was due to Xiaomi's payment of approximately 9.9 billion yuan in equity incentive expenses to Lei Jun before its IPO in July 2018, which also resulted in administrative expenses increasing from 2.29 billion yuan in the second quarter of 2017 to 104.57 billion yuan in the second quarter of 2018.

3. Low gross profit margin. From the table, Xiaomi's gross profit margins from 2015 to 2019 were 4.05%, 10.60%, 13.23%, 12.70%, and 13.87%, respectively, which are lower compared to the industry average. Operating profit margins were 2.19%, 5.67%, 10.64%, 0.82%, and 5.71%, respectively, indicating a lower operating profit margin. Net profit margins were -11.43%, 0.73%, -38.29%, 7.72%, and 4.82%, respectively, showing lower net profit margins. Cost-to-income ratios were 2.14%, 5.76%, 11.19%, 0.79%, and 5.60%, respectively, indicating higher sales costs. Despite Xiaomi's rapid growth in operating income, the gross profit margin remained relatively low. This is consistent with Lei Jun's commitment that Xiaomi's comprehensive net profit margin for hardware should not exceed 5%.

Solvency risk identification (table 3.4).

From the table 3.4, the following conclusions can be drawn:

1. The trends in current liabilities and non-current liabilities vary. Over the five years, current liabilities continued to rise, while non-current liabilities peaked in 2017 and then sharply declined to lower levels in 2018 and 2019. In terms of the total liabilities, the proportion of current liabilities increased from 12.8% in 2015 to 91.1% in 2019, indicating a decreasing long-term debt repayment pressure on the company. The reversal in non-current liabilities in 2018 was mainly due to the

conversion of convertible redeemable preferred shares into ordinary shares brought about by the company's IPO. According to IFRS (International Financial Reporting Standards), convertible redeemable preferred shares are classified as "financial liabilities measured at fair value through profit or loss" on the balance sheet. As the company went public, early investors exercised their conversion rights, converting all preferred shares into ordinary shares at the agreed conversion price, leading to a sharp decrease in non-current liabilities.[78]

Table 3.4. Statement of assets and liabilities of Xiaomi Corporation from 2015 to 2019

Current liabilities (billion)	2015	2016	2017	2018	2019
Non-current liabilities (billion)	164.64	260.63	471.33	619.4	921.81
Total liabilities (billion)	1093.11	1167.6	1699.48	120.38	97.91
current ratio (%)	1257.75	1428.23	2170.8	739.78	1019.72
quick ratio (%)	152	118	130	171	149
asset-liability ratio (%)	99.1	85.4	95	123.6	113.9
Current liabilities (billion)	321	281	242	51	56

2. Short-term solvency remains stable. The quick ratio, which equals quick assets divided by current liabilities, represents the company's ability to repay debts quickly. The current ratio, which equals current assets divided by current liabilities, represents the company's asset liquidity. Quick assets are the amount left after deducting inventory, non-current assets due within one year, and other current assets, including cash, marketable securities, and various receivables. Xiaomi's asset turnover ratios from 2015 to 2019 were 152%, 118%, 130%, 171%, and 149%, respectively, while quick ratios were 99.1%, 85.4%, 95%, 123.6%, and 113.9%, respectively, all higher than the industry average. This indicates a good ability to repay short-term debts, with a significant improvement in short-term debt repayment

ability in 2018 due to a substantial increase in enterprise revenue.[78]

3. Long-term solvency improves. The debt-to-asset ratio, which equals total liabilities divided by total assets, for Xiaomi from 2015 to 2019 was 321%, 281%, 242%, 51%, and 56%, respectively. This means that from 2015 to 2017, liabilities exceeded assets by more than twice, indicating a high debt ratio and long-term solvency risk. After 2018, the indicator returned to normal levels because Xiaomi included the fair value of convertible redeemable preferred shares in equity, significantly reducing liabilities.[78]

In conclusion, from a solvency perspective, Xiaomi's financial risk mainly existed in the high debt ratio from 2015 to 2017. Xiaomi's adoption of a higher debt ratio can effectively promote the company's business expansion. [53]However, adverse changes in the market environment or concentrated long-term debt maturity could significantly impact the company's fund turnover, thereby posing certain financial risks.

Cash flow risk identification (table 3.5).

Table 3.5. Table of assets operation of Xiaomi Company from 2015 to 2019

	2015	2016	2017	2018	2019
Net cash flow from operating activities (RMB 1 billion)	-26	45.3	-9.96	-14.1	238.1
Net cash flow from investment activities (RMB 1 billion)	8.7	-37.4	-26.7	-75.1	-315.7
Net cash flow from financing activities (RMB 1 billion)	5.7	-0.7	62.1	265.7	31.2
Cash current liability ratio (%)	-15.8	17.4	-2.1	-2.3	25.8
Cash in ratio for sales (%)	-3.9	6.6	-0.9	-0.8	11.6
Full Business Cycle (days)	57.2	63.7	61.9	67.3	76.8
Cash Conversion Cycle (days)	-153.8	-34.2	-31	-30.4	-33.1

From the table, the following conclusions can be drawn:

1. Cash flow to current liabilities ratio: Enterprise cash flow mainly arises from operating activities, investing activities, and financing activities. For companies, since production and operation are their main activities, the cash flow generated from operating activities is generally used to represent the total cash flow of the enterprise. Therefore, it can be calculated that Xiaomi's cash flow to current liabilities ratio from 2015 to 2019 were -15.8%, 17.4%, -2.1%, -2.3%, and 25.8%, respectively. Among them, the values were negative in 2015, 2017, and 2018, indicating that the cash flow generated from operating activities in those years was less than the outflow, and the cash was insufficient to repay debts, potentially leading to a cash crisis.

2. Sales cash ratio: This value reflects the net cash flow obtained per unit of sales revenue, with a higher value indicating better utilization of funds by the company. The sales cash ratio is calculated by dividing the annual operating cash net flow by the operating income. Xiaomi's sales cash ratio from 2015 to 2019 were -3.9%, 6.6%, -0.9%, -0.8%, and 11.6%, respectively. Similarly, the values were negative in 2015, 2017, and 2018, indicating poor cash flow generated from operating activities in those years, posing certain financial risks to the company.

3. Cash conversion cycle: Also known as the cash conversion period, it refers to the number of days of cash shortage caused by accounts payable within the operating cycle, calculated by subtracting the payment days of accounts payable from the complete business cycle. The negative cash days of Xiaomi from 2015 to 2019 were -153.8, -34.2, -31, -30.4, and -33.1 days, respectively, indicating sufficient cash turnover and a good financial situation.

In summary, from the perspective of cash flow, Xiaomi's cash flow to current liabilities ratio and sales cash ratio have fluctuated significantly in recent years, and there have been multiple instances where cash inflows were less than outflows, indicating a risk of cash chain rupture.

In conclusion, this analysis focused on Xiaomi's financial statements from the perspectives of profitability, solvency, operational capability, and cash flow. While Xiaomi's overall financial operation is sound, there are certain risks, such as low gross profit margin, high debt ratio in some years, and potential cash flow rupture risk.

### **3.3 Development of recommendations for risk optimization of the enterprise**

#### **Strengthening Internal Financial Risk Management.**

Compared to external market influences, internal financial system management is a decisive factor affecting the survival and development of an enterprise. In light of Xiaomi's current situation, it is recommended to strengthen financial risk control from two aspects:

1. Enhancing awareness of financial risk prevention among management personnel: Financial risk is an inevitable risk that enterprises face in the market environment, existing in various activities such as financing, investment, and profit distribution. Management personnel at Xiaomi often focus on issues such as product supply and sales balance, expansion of sales channels, and breakthroughs in key

technologies, while they may have a relatively weak awareness of financial risk prevention. Therefore, it is necessary to strengthen the dissemination of knowledge among relevant management personnel regarding financial risk management concepts, principles, methods, and key areas. This will help cultivate a risk control atmosphere and enhance awareness of financial risk management.[81]

2. Improving the performance of the internal audit department: The internal audit department, composed of full-time audit personnel within the enterprise, is responsible for supervising the legality and compliance of enterprise activities, internal controls, and risk management, thereby facilitating the achievement of corporate objectives. Unlike external audits that mainly focus on auditing the legality of financial statements, internal audits focus on evaluating the company's risk situation and timely proposing control improvement suggestions to help the company achieve its business goals. [71]Xiaomi should focus on enhancing the professional competence and quality of internal audit personnel, establish job learning plans, and continuously improve internal audit systems and mechanisms. This will enable internal audit personnel to propose adaptive financing and investment strategies based on the characteristics of the company's development stages, thereby avoiding systemic financial risks while seeking rapid growth.

Establishing a Financial Risk Evaluation and Early Warning Mechanism.

While enhancing the awareness and skills of enterprise management and financial personnel, efforts should be made to strengthen the control of financial risks from a technical perspective. Based on Xiaomi's current situation, it is recommended to strengthen financial risk control from two aspects:

1. Establishing a combined qualitative and quantitative financial risk

assessment method: Financial risk is a major risk that enterprises face in their daily operations and must be constantly monitored. Currently, Xiaomi's internal audit department mainly evaluates financial risks based on the analysis of financial statements. [59]Although this approach has a certain objectivity, a customized financial risk evaluation system tailored to the company's financial characteristics has not yet been established, which can fully reflect the different roles of various indicators in the entire system. The Analytic Hierarchy Process (AHP) used in this article is a viable option. It establishes a customized evaluation model by selecting element indicators that are typical in meaning, clear in algorithm, and sufficient in quantity to reflect the true financial situation of the enterprise. Combined with expert scoring of indicators, the financial risk coefficient of the enterprise can be obtained through the model, which combines qualitative and quantitative advantages and has high credibility.[61]

2. Establishing a financial risk early warning mechanism: Conducting regular financial risk assessments is akin to giving the enterprise a "physical examination," while establishing a financial risk early warning mechanism is akin to providing the enterprise with "medical care." The two complement each other. Only by conducting regular and multi-round financial risk assessments can indicators that truly reflect the financial "health" status of the enterprise be screened out. These indicators can then serve as benchmarks and guiding lights for financial risk prevention. By integrating these key indicators, an early warning system for financial risks can be established. Based on the analysis results of Chapters Three and Four and the characteristics of Xiaomi's financial indicators, a financial risk early warning system for Xiaomi is designed, mainly including four sub-modules: profitability, solvency, operating capability, and cash flow. For example, the profitability risk early warning

subsystem mainly monitors indicators such as gross profit margin and operating profit margin. By comparing the actual values of indicators with the expected values, deficiencies can be identified and investment strategies adjusted timely to improve production quality.

#### Optimizing and Perfecting Capital Structure.

Capital structure refers to the proportion relationship between various capitals of an enterprise during a certain period, generally referring to the proportion relationship between equity capital and debt capital. It largely reflects the solvency and refinancing ability of the enterprise. According to the equation  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$ , the capital fluctuation of an enterprise is affected by liabilities and owner's equity. Optimization of the capital structure can be carried out from two aspects:

1. Reasonable adjustment of the debt structure: A reasonable debt ratio can maximize the regulatory role of financial leverage, enabling the enterprise to obtain more capital returns. If the debt ratio is too low, the proportion of owner's equity in the enterprise will be too high, resulting in relatively high capital costs, conservative development, and reduced profits, which is not conducive to the long-term development of the enterprise. If the debt ratio is too high, the repayment pressure will be too great. Once events such as financial crises, trade protectionism, or the COVID-19 pandemic occur, the enterprise will face significant financial passive and may even encounter financial crises. Looking at Xiaomi's balance sheet from 2015 to 2019, the ratio of current assets to current liabilities was 152%, 118%, 130%, 171%, and 149%, respectively, indicating strong short-term solvency. Conversely, Xiaomi can further increase its financing efforts, increase current liabilities, increase the financial leverage ratio, and accelerate corporate capital expansion.[66]

2. Reasonable adjustment of profit margin: Profit is one of the important factors affecting the owner's equity of an enterprise. As Lei Jun promised on Xiaomi's listing day, Xiaomi's hardware comprehensive net profit margin will not exceed 5% in the future. Lei Jun stated that the current net profit margin of Xiaomi's hardware is less than 1%, which means that Xiaomi earns less than 1 yuan in net profit for every 100 yuan of Xiaomi products purchased by consumers. Therefore, from 1% to 5%, Xiaomi still has a large expected profit increase space. Moreover, Xiaomi's profits not only rely on hardware but also on software and Internet services. The profit margin in these areas can be higher, thereby increasing corporate revenue, enhancing owner's equity, and facilitating more extensive business investment activities for the enterprise's next steps.

Financial risk management strategies in corporate financial management include:

#### 1. Diversification of Investment Portfolio:

Diversifying investment portfolios across different asset classes, industries, geographic regions, and company sizes helps reduce the impact of specific risks on the overall investment portfolio. However, diversification alone cannot completely eliminate risks and requires regular assessment and adjustments to adapt to changing market conditions.

#### 2. Capital Planning and Budgetary Control:

Effective capital planning and budgetary control involve assessing and managing funds to reduce the risks of shortages, waste, and losses. This includes short-term and long-term capital planning, budget formulation and control, cash flow management, and capital expenditure management.[53]

#### 3. Risk Insurance:

Purchasing appropriate risk insurance helps transfer some risk responsibility and reduce potential financial losses. However, careful consideration of insurance terms, limits, and deductibles is necessary, along with establishing good cooperation with insurance companies to ensure effective coverage and claims services.

#### 4. Capital Structure Management:

Effective capital structure management optimizes financing costs, reduces debt risks, improves financial flexibility, and increases enterprise value. It involves controlling leverage ratios, optimizing funding costs, diversifying capital structure, matching debt maturities with expected cash flows, managing equity, and assessing and managing risks associated with capital structure.[58]

#### 5. Strategic Planning and Market Analysis:

Strategic planning and market analysis help enterprises better understand market environments, competitive situations, and potential risks, enabling them to formulate appropriate strategies and decisions to adapt to changes and reduce risks. This includes analyzing market demand and trends, conducting SWOT analysis, competitive analysis, developing new markets and products, managing channels and partnerships, innovation, and integrating risk management into strategic planning.[60]

#### 6. Internal Control and Compliance Management:

Establishing sound internal control systems and compliance management mechanisms are crucial for the stability and sustainable development of corporate financial management. This involves establishing internal control systems, assessing and managing risks, ensuring financial reporting compliance, standardizing processes and systems, internal auditing and monitoring, compliance management, legal requirements, and training and education for employees.

Analysis from the perspective of enterprise operation:

(1) Strengthening enterprise development capabilities

Millet company's ability to strengthen its own development can be achieved from three aspects: opening up sales channels, implementing comprehensive cost management and rationally allocating the capital structure of the enterprise. First of all, to further expand sales channels, increase the proportion of offline sales, and improve sales revenue, product quality and service can be optimized and adjusted according to market development needs to ensure that market and customer needs can be met. At the same time, it is necessary to formulate sales policies combined with market development and adopt different sales methods for different products. Ensure the sales revenue of Xiaomi company. Secondly, we should build a scientific and perfect cost control mechanism, establish the concept of all-staff cost management, constantly innovate the budget management mode, emphasize the important role of cost budget, strengthen the work related to cost analysis, and provide more reliable data support for enterprise decision-making. Finally, the proportion of fixed assets and current assets should be rationally allocated to avoid the excessive proportion of fixed assets and the squeeze on working capital, resulting in the shortage of operating cash flow, and avoid the excess of working capital, resulting in idle assets or leaving the operating environment, affecting the efficiency of fund use.

(2) Strengthening the operation capacity of enterprises

Millet company to strengthen its own operating capacity can be achieved from the two aspects of shortening the receivable payment cycle and improving the inventory management level. First of all, all of Xiaomi's business projects are still based on the payment collection method of "prepayment + payment + warranty

period". Compared with the procurement side, the payment ratio of prepayment and payment on arrival is higher, which also leads to the weakness of Xiaomi in terms of cash flow. To solve this problem, we can start with improving the accounts receivable management system, flexibly determine payment methods according to different credit customers, avoid credit sales for customers with poor credit as much as possible, and encourage customers to return early and make more payments by formulating payment incentive terms. Secondly, as a high-tech enterprise, Xiaomi mainly sells high-tech products. However, due to the rapid update and iteration of such products, there are shortcomings in inventory management. Too small inventory is easy to affect sales, while too large inventory will cause serious waste. Xiaomi can improve the inventory management level by improving the inventory management system. Besides setting up specialized warehouse management personnel, improving the ledger and taking regular inventory, it can also carry out regular inspection, set up incentive assessment system and strengthen the communication between departments, so as to improve the quality and efficiency of inventory management while mobilizing the enthusiasm of employees.

### **Conclusions on Section 3**

Establishing and analyzing the financial management and risk assessment system of Xiaomi, a leading company in the mobile internet sector, is crucial for understanding the company's operational status and future prospects. By constructing a financial risk assessment system, a comprehensive evaluation of the company's performance in profitability, solvency, operational capability, and development capacity can be conducted, leading to the formulation of corresponding management strategies and decisions. When assessing Xiaomi's financial risks, key indicators such as debt-paying ability, profitability, operational capability, and development capacity are considered. Notably, metrics like cash flow, sales cash ratio, and cash conversion cycle significantly impact the company's financial condition and risk level.

Analysis of Xiaomi's financial situation reveals occasional risks despite its overall sound financial operation. For instance, fluctuations in cash flow to current liabilities ratio and sales cash ratio, coupled with instances of potential cash flow rupture, highlight the need for heightened attention and timely response to these issues affecting the company's debt-paying ability and operational efficiency.

To effectively manage these financial risks, Xiaomi can adopt various strategies. Firstly, diversifying investment portfolios and optimizing capital planning and budgetary control can mitigate risks and enhance financial stability. Secondly, purchasing suitable risk insurance can minimize potential financial losses. Additionally, optimizing capital structure, formulating strategic plans and market analyses, strengthening internal control, and compliance management are essential

measures to bolster risk resilience and operational efficiency.

In conclusion, establishing and analyzing Xiaomi's financial risk assessment system provides a comprehensive understanding of the company's financial status and risk profile, facilitating the formulation of appropriate management strategies and decisions. Effective financial risk management is pivotal for sustainable development, and Xiaomi's efforts and improvements in this regard will lay a solid foundation for its future growth.

## CONCLUSIONS

In the fiercely competitive market of smartphones today, Xiaomi Corporation, as a prominent manufacturer, holds significant importance in its product marketing and financial risk management for its development. Through an in-depth study of Xiaomi's performance in these two aspects, several crucial conclusions and insights can be drawn.

Firstly, concerning product marketing, Xiaomi enjoys a notable market presence but faces certain limitations. A SWOT analysis reveals both strengths and weaknesses of Xiaomi smartphones. While they possess a respectable market share and reputation, issues such as product quality defects, production capacity constraints, and customer attrition exist. To address these concerns, comprehensive improvements are necessary. Prioritizing product quality and performance is paramount to meet consumer expectations. Additionally, enhancing marketing strategies, selecting suitable channels, and bolstering brand recognition are crucial for competitiveness. Furthermore, continuous product innovation to cater to evolving consumer demands is essential for sustaining market relevance and vitality.

Secondly, financial risk represents a significant challenge for business development. Analysis of Xiaomi's financial status indicates vulnerabilities in profitability, solvency, and cash flow. Mitigating these risks requires proactive measures. Expanding sales channels, optimizing cost management, and rationalizing capital structures can enhance profitability and financial stability. Moreover, improving account receivable turnover and inventory management is essential to ensure liquidity and stability.

In conclusion, an in-depth examination of Xiaomi's product marketing and financial risk management yields valuable insights. Emphasizing product quality, refining marketing strategies, and bolstering financial management are imperative for sustainable growth. Continuous innovation and adaptation to market dynamics are essential for maintaining competitiveness. By implementing these strategies, Xiaomi can solidify its position in the competitive smartphone market and realize its long-term development objectives and strategic vision.

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