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Financial Analysis under the Perspective of Corporate Strategy

--A Case Study of NIO Company

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Abstract: Given the ongoing degradation of the global environment, the imperative of energy conservation and emission reduction has become increasingly apparent. In response to this pressing issue, automobile manufacturers have been actively heeding the call of the nation. Consequently, an escalating number of automotive companies are now engaged in the competitive landscape of the new energy automobile industry. In the context of intense market rivalry, the formulation and implementation of corporate strategy has emerged as a crucial determinant for the sustained growth and success of organizations in the long run. business strategy plays a pivotal role in the comprehensive development strategy of a business, serving as a potent tool to enhance resource utilization and guarantee the value creation of the enterprise. Hence, it is imperative for firms to engage in a methodical and scholarly examination of financial statements through financial analysis. This article employs the case analysis method, literature research method, and SWOT analysis method to perform a financial analysis of NIO, focusing on the perspective of corporate strategy. By utilizing these methods, the paper aims to offer pertinent recommendations for NIO and serve as a reference for other relevant enterprises.

Keywords: financial analysis, new energy vehicles, corporate strategy, NIO company

1. Introduction

In light of the deteriorating global environment, the imperative of conserving energy and reducing emissions has been increasingly apparent. Consequently, numerous automotive sectors are actively heeding the call of the current period, thereby fostering the advancement of new energy cars. The new energy automotive sector necessitates the guidance and impetus of domestic industry leaders, such as BYD, NIO, and Xiaopeng, owing to its distinctive technical demands. Prominent new energy car enterprises possess the potential to significantly advance the subsequent evolution and enhancement of the new energy automobile sector. The current focus of research lies in exploring strategies to facilitate the steady and scientifically grounded development of new energy automotive firms. In their study, Zhou Yan, Cao Yidan, and Zhang Yuxin conducted an analysis of both the financial and non-financial aspects of NIO Company. This analysis was based on the financial diagnosis of NIO Company using the Harvard analysis framework [1]. Yang Chuancai also conducted

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a detailed financial analysis of NIO Company to assess its financial situation [2]. Furthermore, Zeng Yiting examined the external macro-environment and meso-industry environment of Chinese new energy automobile enterprises. Through a study of the competitive strategy of new car-making forces, with NIO as an example, Zeng Yiting clarified the strategic positioning of NIO [3]. Based on an extensive review of relevant literature, it has been observed that there is a scarcity of studies that examine the financial condition of the new energy automobile industry through the lens of corporate strategy. Consequently, this research aims to analyze the solvency, profitability, operating capability, and development potential of NIO, utilizing NIO as a case study. This analysis will be conducted from the perspective of corporate strategy, employing methodologies such as literature review, case study, and SWOT analysis. Furthermore, this study will offer pertinent recommendations based on the findings. Our objective is to offer a valuable point of reference for other firms within the industry, thereby contributing to the advancement of the new energy automotive sector.

The emergence of the new energy automotive business has garnered significant interest from numerous investors. This paper provides a comprehensive analysis of NIO's finance, focusing on the corporate strategy perspective. The aim is to facilitate stakeholders in gaining a holistic understanding of the organization. It is anticipated that other firms would engage in a comparative analysis of NIO, thereby enhancing their own corporate strategies and contributing to the advancement of the new energy automotive industry.

2. Strategic Analysis

2.1. Company Introduction

NIO is an automotive brand specializing in pure electric vehicles, established in 2014 as a prominent participant in China's emerging automotive industry. The company has garnered significant attention due to its distinguished founding team, exclusive high-end brand strategy, and distinctive user management methods, among other factors. Prior to July 2021, NIO held the leading position among domestic new entrants in terms of monthly sales. Additionally, it was the first firm among these new entrants to be listed, so establishing itself as a prominent figure within the Chinese new entrant market. The enterprise's strategic goal for the global high-end intelligent electric vehicle market can be derived from the annual report, official website, and other publicly available information. It aims to compete in the high-end sector and challenge traditional internal combustion engine (ICE) vehicles. The enterprise has expressed its intention to position its brand as a high-end entity surpassing renowned brands like Mercedes-Benz, BMW, Audi, and Apple car [4]. This positioning will be achieved through various means such as technological innovation, user service, product performance, product price, and manufacturing efficiency. Service competence is a fundamental aspect of market rivalry and a key driver of an organization's core competitiveness.

2.2. Strategic Analysis

For the corporate strategy analysis of NIO, this paper will use SWOT analysis to analyze the internal strengths and weaknesses as well as external opportunities and challenges of NIO.

2.2.1. Strengths and Weakness Analysis

NIO, being the pioneering entity in the emerging sector of new energy automobiles, with a substantial customer base and exerts significant influence. Additionally, NIO offers a battery replacement service that has consistently positioned its batteries as industry leaders. This service aims to alleviate consumer concerns regarding the depreciation of their vehicle's value. Simultaneously, NIO has enhanced the brand's attractiveness by implementing user-centric operations and comprehensive

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support services, so achieving the establishment of a direct sales framework for new users, alongside fostering a sense of community and implementing a repurchase system for existing users. Consequently, NIO has successfully cultivated a substantial user base and augmented the company's brand equity.

Regarding weaknesses, NIO faces challenges in popularizing its high-end brand strategy because to the relatively high pricing associated with its products. The present state in China continues to exhibit a disparity in pricing between new energy vehicles and traditional energy vehicles, resulting in a lack of cost-effectiveness for the former. Despite the provision of subsidies by both national and local governments, the majority of customers still find the post-subsidy prices to be unaffordable [5]. The user did not provide any text to rewrite. This evidence indicates that the affordability of NIO's vehicles is a challenge for a significant portion of the Chinese population. Additionally, NIO has consistently demonstrated a strong commitment to its service offerings. However, as the brand has experienced significant growth, there has been a noticeable reduction in the quality of service provided. This decline is evident in the shift from executives personally attending to customer calls to a more aggressive approach of offering points as a means of resolving issues. The potential consequence of this situation is a decline in NIO's reputation in the future. Ultimately, NIO's steadfast commitment to power exchange services has resulted in elevated operational expenses pertaining to the domains of charging, exchanging, and refueling. The establishment of vehicle power exchange stations necessitates substantial financial investments for support. Typically, the recuperation period for a power exchange station exceeds 10 years. Moreover, if the operational capacity is insufficiently saturated, the recuperation period may be further extended. In a recent development, Ningde Times has made an announcement on its inclusion in the power exchange sector. The participation of other automobile businesses in this sector is expected to diminish NIO's competitive edge in the power exchange landscape.

2.2.2. Opportunity and Threat Analysis

In contemporary times, there has been a significant surge in the use of new energy vehicles, driven by the increasing emphasis on carbon neutrality and the reduction of carbon emissions. NIO is presented with more prospects for expanding its business territory and user base due to the backing of government initiatives. Furthermore, the proliferation and acknowledgment of new energy vehicles is gaining traction among the general populace, owing to the increasing sophistication of the internet and the enhanced accessibility to information for individuals. In light of national policy initiatives and increased internet exposure, there is a growing inclination among individuals to favor the use of new energy vehicles in the foreseeable future.

Regarding the potential threat, in the current context where new energy cars have gained significant popularity, an increasing number of companies in the automotive industry, as well as non-automotive enterprises, have entered the rivalry within the new energy vehicle sector. Prominent corporations like Hengda Real Estate, Apple, and Baidu have initiated research and development endeavors in the field of intelligent technology for new energy vehicles. Consequently, they have progressively gained market share, intensifying competition within the industry. In response, other new energy vehicle enterprises are striving to introduce new models that better cater to user needs, exemplified by the pole Kryptonite 001 and Xiaopeng P5 [6]. This situation has presented NIO with a dual challenge, encompassing both cost and technological considerations [5]. Additionally, the new energy automobile industry exhibits a protracted cycle of patent technology research and development, accompanied by substantial professional barriers. Moreover, the future of the automobile industry is characterized by uncertainty. Consequently, NIO may encounter challenges in achieving rapid development and expanding into international markets within a limited timeframe.

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3. Financial Analysis

In this paper, the annual report data of NIO from 2018 to 2022 are selected to analyze the financial analysis of NIO from four aspects: debt service, profitability, operation, and development.

3.1. Solvency

Table 1: Comparison of solvency indicators of three companies (Data from Choice).

Short-term solvency		2022	2021	2020	2019	2018
NIO	Current ratio	1.29	2.18	3.31	0.52	1.42
	Quick ratio	1.11	2.11	3.23	0.43	1.25
XiaoPeng	Current ratio	1.81	2.71	5.06	1.50	6.28
	Quick ratio	1.62	2.56	4.89	1.37	6.10
LingPao	Current ratio	1.47	2.07	0.60	1.00	—
	Quick ratio	1.28	1.90	0.53	0.81	—
Long-term solvency		2022	2021	2020	2019	2018
NIO	Gearing ratio (%)	71.28	54.08	41.69	133.07	56.75
	Equity ratio	2.87	1.29	0.84	(3.08)	1.56
XiaoPeng	Gearing ratio (%)	48.37	35.80	22.99	69.05	37.52
	Equity ratio	0.94	0.56	0.30	2.23	0.60
LingPao	Gearing ratio (%)	57.14	42.28	117.21	150.44	—
	Equity ratio	1.33	0.73	(6.81)	(2.98)	—

For the short-term solvency, the formula of current ratio is: current assets/current liabilities. Based on the data presented in Table 1, it can be observed that NIO's current ratio has exhibited irregular swings over the course of the previous five years. It is worth noting that the ideal value for the current ratio is approximately 2. With the exception of the year 2021, wherein the deviation from the optimal value of 2 is rather small, the remaining years of NIO Company exhibit significantly higher values above the optimal threshold. The calculation of the quick ratio involves dividing quick assets by current liabilities, as expressed by the formula: quick assets/current liabilities. It is generally considered ideal for the quick ratio to approximate a value of 1. According to the data presented in Table 1, it is evident that NIO's quick ratio remains consistently above 1 throughout the years 2020 and 2021. However, in the remaining years, the quick ratio falls within the range of 1. Based on the aforementioned analysis, it is evident that NIO's short-term solvency is moderately average. However, in comparison to the other two firms, NIO exhibits the lowest current and quick ratios. This analysis indicates that NIO's short-term solvency is favorable compared to its peers, and the firm is actively managing the turnover of its current assets to ensure timely debt repayment.

Regarding long-term solvency, the data presented in Table 1 indicates that NIO's gearing ratio peaked at 133.07% in 2019, but has exhibited a declining pattern since then. In contrast, NIO exhibits the highest gearing ratio when compared to the other two corporations. The equity ratio of NIO exhibits a substantial decline between 2018 and 2019, followed by a subsequent steady recovery. Upon comparing the equity ratios of the remaining two firms, it becomes evident that NIO exhibits the highest equity ratio. This observation suggests that the asset structure of NIO is characterized by instability and necessitates timely adjustments.

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3.2. Profitability

Table 2: NIO's Profitability Data for the Last Five Years (Data from Choice).

	2022	2021	2020	2019	2018
Gross sales margin (%)	10.44	18.88	11.52	(15.32)	(5.17)
Net sales margin (%)	(29.30)	(11.12)	(32.62)	(144.36)	(194.68)
Return on net assets(average) (%)	(49.71)	(34.17)	(53.77)	(4,247.88)	—
Net rate of return on total assets (%)	(16.25)	(15.38)	(16.21)	(68.29)	—
Return on invested capital (%)(ROIC)	(21.29)	(27.92)	(47.22)	(85.69)	—

Based on the data presented in Table 2, it is evident that NIO's profitability over the past five years has been less than promising, with a consistent trend of operating at a deficit. However, it is noteworthy that despite experiencing a period of financial losses over the past five years, NIO has exhibited a gradual enhancement in its profitability. From the period spanning 2019 to 2020, NIO has observed a transition in its gross profit margin on sales, shifting from a negative value to a positive one. Furthermore, while other values remain negative, they are exhibiting a consistent upward trend. In summary, NIO's overall profitability is currently at a suboptimal level, and there exist challenges pertaining to its profitability model and business model. However, this does not preclude the potential for a substantial increase in earnings in the future.

3.3. Operating Capacity

Table 3: NIO's Operating Capacity Data for the Last Five Years (Data from Choice).

	2022	2021	2020	2019	2018
Trade receivable turnover(times)	12.45	18.43	13.13	7.42	--
Inventory turnover (times)	8.61	18.68	14.6	7.66	6.7
Total assets turnover(times)	0.55	0.53	0.47	0.47	0.34

Table 3 displays the working capability of NIO, which exhibits a commendable level. Between the years 2018 and 2021, NIO's operational capacity exhibited a consistent upward trend across all metrics. However, a significant decline is observed between the years 2021 and 2022. This implies that NIO's inventory management and supply chain operations in 2022 may have been subject to significant errors. However, there exists a potential for recovery in 2023.

3.4. Development Capacity

Table 4: Data on the Development Capability of NIO (Data from Choice).

	2022	2021	2020	2019	2018
Year-on-year growth rate of operating profit (%)	(247.86)	2.42	58.41	(15.46)	—
Year-on-year growth rate of operating income (%)	36.34	122.27	107.77	58.04	—
Year-on-year growth rate of total assets (%)	16.14	51.68	274.72	(22.61)	—

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According to the data shown in Table 4, it is evident that NIO's development capacity has exhibited a consistent upward trend from 2019 to 2021. However, there is a significant decline observed between the years 2021 and 2022. The increase observed since 2019 may be attributed to NIO's strategic shift in sales approach, wherein the NIO ES6 and ES8 models were equipped with permanent power exchange technology. This move was accompanied by the creation of a service that enables separate sales of vehicles and batteries. Consequently, these developments have contributed to the sustained growth in sales, resulting in the establishment of new sales records. However, it is plausible that the growth of NIO between 2021 and 2022 can be attributed to intense competition within the market. Nevertheless, it appears that NIO has demonstrated the ability to sustain its growth.

4. Suggestions for Improvement for the Current Situation of NIO

First and foremost, it is necessary to enhance the level of scientific and technological advancements and delve further into the fundamental aspects of the organization. The advancement of national policy in promoting new energy vehicles and technology is ongoing, resulting in a progressive decrease in the price of such vehicles. As a consequence, consumers now prioritize factors such as range time and cost-effectiveness when making decisions regarding new energy vehicles. In order to effectively navigate the competitive market landscape, it is imperative for NIO to enhance its scientific and technological capabilities, as well as elevate the proficiency of its core business operations. While prioritizing the fundamental aspects of the business, it is imperative to additionally delve into the brand's potential and devise distinctive selling propositions exclusive to NIO.

Additionally, enhancing financial risk management and enhancing the amount of corporate financing serve as effective measures to bolster the oversight of financing risk. From the perspective of the current state of development, it can be argued that the loan financing model employed by commercial banks is inadequate in meeting the developmental requirements of the new energy automotive supply chain, and it fails to optimize the profitability of new energy automobile firms. The user's text does not contain any information to rewrite in an academic manner [7]. Furthermore, it may be insufficient to only enhance the company's financing risk level; NIO has the potential to develop an internal financial risk early warning system within the organization. An effective financial early warning system can assist enterprises in timely identification of potential financial hazards, analysis of current risks, and prompt adjustment of business strategies to mitigate such risks. The user's text is already academic and does not require any rewriting [8].

The final aspect involves the transformation of the enterprise's profit mode in order to achieve positive profitability. NIO's profit model primarily relies on a thorough understanding of the demands of existing consumers, particularly those belonging to the high-end segment. By closely familiarizing themselves with the user characteristics of these customers, NIO strategically leverages their experiences as a means to promote NIO automobiles and entice new customers. This particular profit model will necessitate NIO's allocation of significant resources towards enhancing the services offered to its existing client base. However, when it comes to durable goods like autos, it becomes challenging to deliver excessive value-added after-sales services that effectively solidify the company's current consumer foundation. Hence, it is advisable for NIO to realign its sales approach with the objective of recruiting fresh clientele and enhancing product promotion.

5. Conclusion

Through an examination of NIO's financial data spanning the last five years and a comprehensive SWOT analysis of its internal and external factors, this study identifies some challenges faced by NIO, namely an inadequate profit model, limited product competitiveness, and insufficient solvency. This report additionally offers pertinent recommendations for addressing these issues.

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This work has several limitations in its research methodology. The developing nature of the new energy automobile business has resulted in a limited duration of listing for many companies, leading to a scarcity of public financial data available for reference. At the time of composing this manuscript, the publication of the annual report data for 2023 is still pending, therefore potentially leading to variations in the analysis outcomes compared to the present state of the enterprise. Furthermore, as a result of geographical limitations, it is impractical to conduct an in-person visit to the enterprise, thereby hindering the ability to directly observe the production line and engage in face-to-face communication with relevant experts. Consequently, the information gathered for this study is primarily derived from online sources, which may limit the comprehensiveness of the research. Ultimately, it is anticipated that there will be an increased focus on conducting further research pertaining to business strategy within the emerging new energy automotive sector.

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