

Research on the Business Model of Midea Group

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Abstract: Midea Group Co., Ltd. is mainly engaged in the manufacturing of general equipment, with four major business segments including smart homes, and implements four major strategies including technological leadership. From 2021 to 2024, both total assets and total liabilities will increase, and financial indicators such as revenue will show an upward trend. In terms of business model, the technology leadership strategy increases research and development investment, the user direct strategy reshapes business models, the digital intelligence driven strategy promotes comprehensive digital transformation, and the global breakthrough strategy continues to expand overseas layout.

Keywords: Midea; Group; Financial; Analysis; Business; Model

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1. Introduction

Midea Group Co., Ltd. is an enterprise mainly engaged in the manufacturing of general equipment. Midea Group's four major business segments are smart home, building technology, industrial technology, robotics and automation, and innovative businesses. Midea Group's four major strategies are technology leadership strategy, data-driven strategy, user direct strategy, and global breakthrough strategy. The strategic transformation of "user centered" and the corporate vision of "technology for the betterment of life". In 2019, Midea Group ranked 23rd on the Top 500 Chinese Manufacturing Enterprises list. In 2020, Midea Group ranked 12th on the list of China's top 500 private enterprises and 6th on the list of China's top 500 manufacturing private enterprises.

2. Financial analysis

2.1. Analysis of Balance Sheet Situation

From 2021 to 2024, the total assets of Midea Group increased from 388 billion yuan to 604.4 billion yuan, with a 55.77% increase in asset size within four years, indicating that Midea Group's enterprise scale continues to expand. On the one hand, the annual increase in the amount of current assets indicates that the company may be more focused on short-term operations and liquidity management. The main source of monetary funds for growth in 2024 comes from Midea Group's public offering of stocks in Hong Kong. According to the prospectus of Midea Group, the funds raised will mainly be used for globalization strategy, with an expected 20% for global research and development investment, 35% for improving global distribution channels and sales networks, enhancing overseas sales of its own brands, and 20% for expanding overseas production capacity. On the other hand, the amount of non current assets has also increased year by year, indicating that the company's investment in long-term investments or fixed assets is constantly increasing.

From 2021 to 2024, Midea Group's total liabilities increased from 253.1 billion yuan to 376.5 billion yuan, indicating that the company's debt scale has expanded during this period. Among them, current liabilities dominate the total liabilities, indicating that the company's debt structure is mainly short-term debt and actively expanding its business. Non current liabilities will increase significantly in 2022 and will be used for long-term investments or project construction. Due to early repayment of long-term debts in the later stage and completion of long-term project construction, the amount of non current liabilities continues to decrease.

2.2. Analysis of the Profit and Loss Statement

From 2021 to 2024, Midea Group's revenue, operating profit, total profit, and net profit have all shown a good upward trend. After the pandemic in 2021, the domestic economy has recovered and sales have grown strongly.

ngly. From 2021 to 2024, the growth rate of operating profit is significant, while the growth rate of operating costs is slower than that of operating revenue, indicating good cost control. From 2021 to 2024, the difference between total profit and operating profit remained relatively stable, indicating that business activities are the main source of profit for enterprises, and non recurring gains and losses such as non operating income and expenses have a relatively small and stable impact on total profit. The proportion of net profit to total profit is relatively stable, indicating that the enterprise maintains a relatively stable state in tax treatment and other aspects, and the growth of profitability is actually translated into the growth of net profit.

Midea Group has comprehensively laid out its business areas such as smart furniture, industrial technology, and building technology. After the epidemic, the domestic economy has recovered and sales have increased. At the same time, in 2021, Midea Group accelerated the expansion of its ToB business, with a total revenue of over 73 billion yuan from the four major business groups, a growth rate of nearly 40%, and accounting for over 20% of its operating revenue.

In terms of operating revenue, the contribution of HVAC and consumer electronics business revenue is basically stable, while the contribution of robot and automation system business revenue has increased, with a growth rate that has consistently outperformed other business segments for many years. This reflects the company's continuous optimization of business structure, promoting the layout of robot and automation business, and also indicates that this business segment has broad prospects.

2.3. Analysis of Cash Flow Statement

From 2021 to 2024, Midea Group's net cash generated from operating activities first decreased and then increased, and then significantly increased in 2023, showing a growing trend, providing a stable source of cash for the company. From the perspective of investment net cash, the cash flow from investment activities from 2022 to 2024 is consistently negative, mainly due to the fact that the project is in a specific stage, the enterprise is still in the expansion stage, the investment scale increases during the strategic adjustment period, and the investment net profit margin is negative and continues to increase. The net flow of operating activities is sufficient to support investment expenses, there is no need for external financing, and the net cash flow is positive. But with increased investment in 2024 and insufficient cash from operating activities to support it, external financing will be increased. Enterprises have a certain degree of flexibility in capital operation, and need to pay attention to balancing investment and return, and reasonably controlling the scale and cost of fundraising.

The high proportion of cash inflows from Midea Group's operating activities for several consecutive years indicates stable sales of the company's main business. The proportion of cash outflows from investment activities continues to rise, indicating that the company is focusing on investing in and developing new market projects. The proportion of cash inflows from financing activities is also constantly increasing, but companies cannot rely on cash inflows from financing activities to maintain and develop in the long run. Good cash inflows from operating activities can increase Midea Group's profitability and maintain a good financial condition. Therefore, it is necessary to further increase the proportion of cash inflows from operating activities.

3. Business Model Analysis

3.1. Technology Leadership Strategy

Midea increases its R&D investment, achieving leading results, trend guidance, industry influence enhancement, and improvement of R&D environment through leading investment.

Midea continues to innovate its product development model, focusing on its product leadership strategy, and building an optimized organizational mechanism of "three-level technical committee" and "four level R&D system" combined with a new R&D model that combines the "three generations" technology dimension, supporting the "first and only" goals of the entire category.

Based on user needs, differentiate different organizations and technologies for innovative product development

nt, leading platform research, key component research, differentiated selling point layout, and basic performance improvement. Through global product group development, build a global product platform, improve product efficiency through group planning and development models, and build technological leadership capabilities.

As of June 2024, Midea has 16 national level science and technology innovation platforms, including national key laboratories, national artificial intelligence open innovation platforms, national dual cross platforms, national industrial design centers and enterprise technology centers, national talent introduction demonstration bases, postdoctoral research workstations, etc; 80 provincial and ministerial level science and technology innovation platforms, including provincial and ministerial level enterprise technology centers, innovation centers, engineering technology research centers, industrial design centers or key laboratories, and doctoral workstations. Under the guidance of the technology leadership strategy, the innovation platform serves as the core of the technology innovation system, responsible for implementing the enterprise's technology development strategy, promoting the transformation and application of technological innovation achievements, and assisting Midea in accelerating its transformation into a global technology group.

3.2. User Direct Strategy

By directly contacting and interacting with users, reshaping product services and business models, and achieving direct user access. Continuously promote the construction of the Meiyun sales ecosystem with a user centered and customer-centric approach, and enhance the overall retail experience from the construction of the monopoly system, optimization of store supply experience, digital retail transformation, DTC transformation, and other aspects. Continuously upgrading the "Meiyun Sales" ecosystem, establishing a grid based layout of Meidi exclusive stores in the domestic market, building flagship Meidi stores at the district and county levels, promoting the full category, front-end decoration, digitalization, and online upgrading and transformation of nearly 30000 Meidi stores, and creating 15000 Meidi digital retail benchmark stores to achieve high-quality growth of Meidi's own channels; Based on the Meiyun Sales APP and Meide Home Mini Program, the store retail system has been restructured to provide services such as delivery visibility, overdue compensation, simplified online policies, cloud warehouse empowerment, and online to offline (O2O) to continuously optimize the supply experience. The delivery visibility rate has reached 100%, the delivery accuracy rate has reached 95%, the online fully automatic redemption rate of simple policies has reached 99%, and the automatic compensation for overdue orders has been achieved. Through a single inventory in the cloud warehouse, the self owned inventory has been reduced by 50%, and the store's light asset operation has been realized through home delivery, cloud credit, and refundable and exchangeable products; Combining digital marketing tools, we will promote the development of model rooms in real estate projects, trade in programs, precise traffic attraction, Midea partner order placement, and multi traffic platforms to assist stores in carrying out online and offline full scene promotional activities, promoting online and offline integration, efficient customer acquisition and traffic attraction, and potential customer conversion and retention; The fourth is to build a digital platform operation system to enhance the efficiency of store operation empowerment. Through the tagging system of products and stores, the classification operation of products and the hierarchical management of stores can be achieved. Retail data and business actions can be viewed online, realizing fast analysis and accurate operation of stores. It also provides industry-leading digital platform services to achieve online business.

3.3. Smart Driven Strategy

Midea focuses on the "digital intelligence driven" strategy, promotes comprehensive digital transformation, realizes full value chain data operation and platform operation, and enhances the competitiveness of enterprises in the digital age. In the domestic sales field, we will continue to promote the digital upgrade of "DTC strategy", "worry free retail 2.0" and "one inventory". Through cloud warehouse inventory sharing, the spot fulfillment rate will increase by 11%, improve on-time delivery rates, and pilot the separation of warehousing and distribution capabilities to support flexible and changing business scenarios; Promote policy onlineization and automation, sig

nificantly increase the proportion of customer policy automatic redemption, retail policy online redemption, and automatic redemption; The OMO multi platform traffic project was launched, focusing on the three major traffic platforms of Tiktok, Meituan and Gaode, and relying on the social media platform to reach consumers directly, realizing the real-time experience of local services and commodity distribution. The total transaction volume (GMV) of this business has exceeded 1.5 billion yuan; Continuously iterating and upgrading the Meiyun Sales APP has significantly improved customer operational efficiency and experience, with an average daily page view (PV) of over 3 million.

In the field of export, with "Digital 3.0" as the core, we aim to enhance global business efficiency. Through end-to-end panoramic analysis of the value chain, we focus on improving the digital capabilities of overseas employees, product management, order management, overseas manufacturing, overseas logistics, overseas e-commerce, direct access to overseas users, and supply chain. We will promote domestic digital transformation experience overseas and assist in global breakthrough strategies; The iBOS system is planned to cover 11 business units throughout the year, integrating end-to-end information on project production, shipping, logistics, and orders, achieving full chain data visualization, improving overseas order fulfillment efficiency by about 20%, and realizing online credit risk management; Promote the improvement of the overseas channel management system, with over 4000 registered channel customers and over 7000 registered installers, further strengthening the channel operation system and online overseas installation service data; In the field of international logistics, we have completed the global planning of the overall informationization route in the logistics field. In the first half of 2024, we will carry out overseas finished product warehousing online projects in Vietnam, Thailand, and Egypt, effectively improving the efficiency, accuracy, and service quality of overseas logistics; We have established three sets of digital solutions in the field of overseas manufacturing, namely "basic, standard, and advanced", to accelerate the digital transformation of overseas manufacturing bases. These solutions have been applied in manufacturing bases such as Thailand, Vietnam, Indonesia, and Egypt to enhance overseas delivery capabilities. At the same time, through the integration of information throughout the entire process from order to delivery, we have reduced the risk of production stoppage caused by material shortages and achieved a 50% reduction in delivery cycles.

3.4. Global Breakthrough Strategy

Midea continues to establish overseas business organizations in front of local first tier markets, in order to respond to the market faster and better and meet the needs of local customers. The international business headquarters has transformed its functions into Centers of Excellence (CoE), further consolidating the organizational capabilities of the overseas market team; Establish and improve organizational teams in various overseas regions, accelerate investment and scale expansion of overseas R&D centers, continuously increase the construction of local talent teams overseas, continuously integrate local and international talents, optimize the talent system, ensure the sustainable development of overseas business, and comprehensively build core competency systems such as front-end user demand research, product definition and development, channel development, sales and operation, and user service.

Continuously expanding overseas manufacturing layout, accelerating the promotion of the "China Supply Global+Regional Supply Regional" model, promoting the smooth production of manufacturing bases in four countries and the construction of new factories in four production bases, and promoting collaborative support between domestic and overseas factories in the manufacturing end; Strengthen the management of overseas joint venture factories, draw on the successful practices of domestic lighthouse factories, continuously cultivate overseas lean manufacturing talents, carry out production line layout improvement and automation transformation projects in overseas manufacturing bases, and enhance overseas manufacturing efficiency and delivery capabilities.

4. Summary

As a general equipment manufacturing enterprise, Midea Group has achieved significant results in business and strategic layout. In terms of finance, the scale of assets and liabilities has expanded, income and other indic

ators have grown well, cost control is effective, and profitability is strong and stable. In terms of business model, the technology leadership strategy relies on R&D investment and innovative models, resulting in fruitful achievements and numerous patents; The user direct strategy optimizes the "Meiyun Sales" ecosystem and enhances the retail experience through interaction with users; The strategy driven by digital intelligence promotes comprehensive digitization, and progress has been made in both domestic and international sales. The achievements of industrial empowerment have been selected for the demonstration list; The global breakthrough strategy builds a core capability system, enhances overseas manufacturing efficiency and delivery capabilities, and lays a solid foundation for global development through pre positioning overseas business organizations, accelerating R&D center construction, expanding manufacturing layout, and strengthening joint venture factory management.

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