

Xiaomi's "Human × Car × Home" Platform Play

Balancing EV Investment and Ecosystem Integration

Kevin B. Simon¹

Introduction

At 9:22 a.m. Beijing time on 19 September 2025, China's State Administration for Market Regulation (SAMR) posted a recall notice for 116,887 Xiaomi SU7 Standard sedans built between 6 February 2024 and 30 August 2025. The defect sat in software. With the L2 highway Navigate on Autopilot (NOA) function switched on, the notice said, some cars might not identify, warn of or handle certain extreme scenarios well enough, and the risk of a collision rose if the driver did not step in. The remedy was a free over-the-air (OTA) software update, so no owner needed to visit a workshop ([State Administration for Market Regulation, 2025](#)). A report published eleven minutes later named the update: Xiaomi was pushing its autumn release, Xiaomi HyperOS 1.10.0, to the SU7. The same package that fixed the highway-assistance logic also brought an upgraded Super XiaoAi voice assistant, a feature called Super Task and support for "some ecosystem accessories" in the car ([IT Home, 2025](#)).

That single software package shows how Xiaomi's car is wired. The SU7 runs on the same operating system brand as the company's phones, televisions and smart-home devices. It is sold under the same logo, and its software carries the HyperOS name. When the wiring works, the car inherits attention, trust and software capability that Xiaomi built up over many years. When something goes wrong in the car, the same wiring can carry the problem back the other

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way: a safety remedy shipped inside an ecosystem update, a crash reported against the Xiaomi name rather than a separate car brand, a share-price move in a company whose revenue is still mostly phones and devices.

By mid-August 2026 the economics of that wiring were under strain. In 2025, its first full year of comparable disclosure, Xiaomi's smart electric vehicle (EV), artificial intelligence (AI) and other new initiatives segment reported income from operations of RMB0.9 billion on 411,082 vehicle deliveries ([Xiaomi Corporation, 2026a](#)). In the first quarter of 2026 the same segment reported a loss from operations of RMB3.1 billion ([Xiaomi Corporation, 2026b](#)). Deliveries from January to July 2026 totalled 216,322, or 39% of the 550,000-vehicle target the company had set for the year ([Kang, 2026d](#)). On 30 July 2026 Xiaomi opened pre-sales for its first extended-range electric vehicles (EREVs), two sport utility vehicles (SUVs) under the name Sky Nomad ([Zhang, 2026c](#)), and its shares closed down 7.28% on the following day ([Kang, 2026d](#)).

This case is set on 15 August 2026, three days before Xiaomi's second-quarter results were due. It asks a question that the public record frames but does not answer. On the evidence that was public by that date, what capital posture should Xiaomi's leadership adopt for the car business over 2026–2028, and how tightly should the car stay coupled to the Xiaomi brand and the HyperOS ecosystem? The case treats these as two separate choices. To help readers see them separately, it proposes an analytical device, labelled throughout as a proposed framework, called the Ecosystem Coupling Ledger. The ledger records what the car gains from being tied to the ecosystem and what the ecosystem carries because of the car.

The case first describes Xiaomi's business model and the road to the car, then states the problem and the method. The narrative covers the factory and its licences, the launch record, the ecosystem claims, the capital committed and the incidents of 2025–2026, with a benchmark against five Chinese and United States competitors. A simple break-even model and three hypothetical scenarios follow. It closes with findings, four alternatives assessed on common criteria, a set of implementation gates and questions for discussion. It offers no verdict on the alternatives.

Background and Context

A Hardware Company with a Software Margin

Xiaomi's prospectus for its Hong Kong listing, dated June 2018, carried an unusual undertaking to customers: starting in 2018, the overall net profit margin of its hardware business, defined as smartphones, Internet of Things (IoT) and lifestyle products, would not exceed 5% a year, and any excess would be returned to users ([Xiaomi Corporation, 2018](#)). The pledge implied the logic of the model: devices priced close to cost, with profit coming mainly from the internet

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services that run on them, such as advertising. In its first annual report as a listed company Xiaomi said the 2018 hardware net margin was “positive and less than 1%” ([Xiaomi Corporation, 2019](#)). The case writer found no later compliance statement in the results announcements reviewed for this case, and the pledge, by its terms, does not cover cars.

The gross margins in later filings show the same structure (Exhibit 1). In 2025 smartphones earned a gross margin of 10.9%, IoT and lifestyle products 23.1% and internet services 76.5% ([Xiaomi Corporation, 2026a](#)). Xiaomi shipped 165.2 million smartphones that year and held a 13.3% share of global shipments. The installed base sat behind those devices: 754.1 million monthly active users of its phone software worldwide at the end of 2025, 1,079.2 million connected IoT devices (excluding phones, tablets and laptops) and 22.7 million users with five or more devices connected to the platform. Advertising alone brought in RMB28.5 billion ([Xiaomi Corporation, 2026a](#)).

Exhibit 1: Gross Margin by Business Line, FY2022 to Q1 2026 (R)

Business line	FY2022	FY2023	FY2024	FY2025	Q1 2025	Q4 2025	Q1 2026
Smartphones	9.0%	14.6%	12.6%	10.9%	12.4%	8.3%	10.1%
IoT and lifestyle products	14.4%	16.3%	20.3%	23.1%	25.2%	20.1%	25.2%
Internet services	71.8%	74.2%	76.6%	76.5%	76.9%	76.8%	76.1%
Smartphone × AIoT segment	n/a	n/a	21.2%	21.7%	22.8%	20.0%	22.5%

Note: All values reported (R). The Smartphone × AIoT segment combines smartphones, IoT and lifestyle products and internet services. Company-stated causes of the 2025 and Q1 2026 smartphone margin declines are reduced national subsidies, higher key-component (memory) prices and competition.

(Source: [Xiaomi Corporation, 2024](#); [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2025c](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#))

Group results through the first quarter of 2026 appear in Exhibit 2. Revenue rose 25.0% in 2025 to RMB457.3 billion and operating profit nearly doubled to RMB47.9 billion. Part of that operating profit came from items unrelated to selling products. Fair value gains on financial instruments contributed RMB13.3 billion in 2025, against RMB1.1 billion in 2024. After removing those gains, other income, other gains and the share of profits from associates, the case writer calculates an operating result from products and services of RMB28.8 billion in 2025, up from RMB21.5 billion in 2024 ([Xiaomi Corporation, 2026a](#)). The first quarter of 2026 was weaker. Revenue fell 10.9% year on year to RMB99.1 billion, and operating cash flow was negative at RMB1.8 billion ([Xiaomi Corporation, 2026b](#)).

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Exhibit 2: Xiaomi Group Financial Summary, FY2024 to Q1 2026 (RMB million unless stated)

Item	FY2024	FY2025	Q1 2026	Label
Revenue	365,906.4	457,286.7	99,141.6	R
Gross profit (gross margin)	76,560.2 (20.9%)	101,805.8 (22.3%)	GM 22.0%	R
Research and development expense	24,050.5	33,132.2	8,954.4	R
Operating profit	24,502.9	47,900.9	5,312.6	R
of which fair value changes on financial instruments	1,050.8	13,311.7	—	R
Operating result from products and services (gross profit less R&D, selling and administrative expenses)	21,518.9	28,806.3	—	C
Adjusted net profit (non-IFRS)	27,234.5	39,166.3	6,072.1	R
Operating cash flow	39,295	34,142	−1,792.0	R
Cash resources (RMB billion, period end)	—	232.6	220.6	R
Borrowings (RMB billion, period end)	—	36.1	35.4	R
Capital expenditure	10,480.2	18,157.0	3,274.1	R

Note: R = reported; C = calculated by the case writer. The calculated row removes fair value changes, the share of profits of equity-method investments, other income and other gains from operating profit. Q1 2026 revenue fell 10.9% year on year. — = not used or not captured for this case. Q2 2026 results, scheduled for board approval on 18 August 2026, fall after the cut-off and are excluded.

(Source: [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Xiaomi Corporation, 2026c](#))

From Devices to a Car

On 30 March 2021 Xiaomi told the exchange that it would set up a wholly owned subsidiary to make smart EVs. The initial phase of investment would be RMB10 billion, and “the total investment amount over the course of the next 10 years” was estimated at US\$10 billion. Lei Jun, the founder, chairman and chief executive officer, would also serve as chief executive of the EV business ([Xiaomi Corporation, 2021](#)). The US\$10 billion figure was an estimate, not a cap. In November 2021 Xiaomi agreed with the authorities of Beijing’s Yizhuang economic development zone (Beijing E-Town) to build a plant with an annual capacity of 300,000 vehicles in two phases of 150,000 each. Phase 1 was completed in 2023 ([Kang, 2025a, 2025b](#); [Yu, 2024](#)).

In October 2023 Xiaomi upgraded its corporate strategy to “Human × Car × Home” and unveiled Xiaomi HyperOS, an operating system intended to run across its phones, home devices and the car ([Xiaomi Corporation, 2024](#)). The phrase describes a technical ambition as much as a market one: one operating system and one device-to-device connection layer spanning the pocket, the house and the vehicle. At the technology launch on 28 December

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2023, Lei Jun said that through 15 to 20 years of effort Xiaomi Auto would become one of the world's top five carmakers (case writer's translation) ([National Business Daily, 2023](#)).

A car cannot be sold in China until the model is listed in the vehicle product catalogue maintained by the Ministry of Industry and Information Technology (MIIT). When the SU7 first entered the catalogue on 15 November 2023, the listed manufacturer was a subsidiary of the state-owned BAIC group, and the car carried a "Beijing Xiaomi" badge. Xiaomi was using BAIC's production qualification while it built and ran its own plant ([Zhang, 2024b](#); [Yu, 2024](#)). The arrangement was a licence to manufacture rather than contract manufacturing in the usual sense, and it lasted until July 2024 (see the Case Narrative).

Market, Policy and Competitors

China's new energy vehicle (NEV) market grew on the back of a vehicle purchase-tax exemption. Under an announcement of June 2023, NEVs bought in 2024 and 2025 were exempt, up to RMB30,000 a car. For 2026 and 2027 the exemption was halved, with a cap of RMB15,000 ([Ministry of Finance et al., 2023](#)). The step-down took effect in January 2026, straight after Xiaomi's strongest delivery quarter. Xiaomi later reported that it had subsidised the purchase tax for buyers in the first quarter of 2026, and named this as one cause of lower segment margin ([Xiaomi Corporation, 2026b](#)).

Xiaomi entered a field crowded with capable rivals. In 2025 BYD sold 4,602,436 NEVs ([BYD Company, 2026a](#)). Tesla delivered 1,636,129 vehicles worldwide ([Tesla, 2026](#)). Three younger Chinese EV makers, NIO, Li Auto and XPeng, delivered between 326,028 and 429,445 vehicles each ([NIO, 2026](#); [Li Auto, 2026](#); [XPeng, 2026](#)). Their margins are compared in the Case Narrative.

A Reported Exit at Apple

One comparison sits in the background of most discussion of Xiaomi's car. On 27 February 2024, Bloomberg reported, citing people familiar with the matter, that Apple had told about 2,000 employees that it was winding down its car project. Staff were to move to the AI group, and Apple declined to comment ([Gurman, 2024](#); [Roth, 2024](#)). The same report said that executives had doubted the margins on a car expected to cost about US\$100,000, that the board had worried about spending hundreds of millions of dollars a year, and that the project had earlier been scaled back to a less autonomous design and delayed to 2028 ([Gurman, 2024](#)). These reasons come from unnamed sources, and Apple never confirmed them. They are presented here as reported, and no conclusion about Xiaomi is drawn from them. Exhibit 3 sets out the main events from the 2018 prospectus to the cut-off date.

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Exhibit 3: Timeline of Events, June 2018 to 15 August 2026

Date	Event
Jun 2018	Listing prospectus: hardware net margin capped at 5% a year from 2018
30 Mar 2021	EV business announced; RMB10bn initial phase; US\$10bn estimated over ten years
Nov 2021	Plant agreement with Beijing E-Town: 300,000 a year in two phases
2023	Phase 1 completed
Oct 2023	“Human × Car × Home” strategy and Xiaomi HyperOS unveiled
15 Nov 2023	SU7 enters MIIT catalogue with a BAIC subsidiary as listed manufacturer
28 Dec 2023	Lei Jun: top-five global carmaker within 15–20 years
27 Feb 2024	Bloomberg reports Apple winding down its car project
28 Mar 2024	SU7 launch from RMB215,900; 88,898 firm orders in 24 hours
Jun 2024	Phase 1 moves to two shifts
12 Jul 2024	Xiaomi listed as SU7 manufacturer; “Beijing” dropped from the badge
29 Mar 2025	SU7 Standard crash on an Anhui expressway with NOA engaged before takeover
31 Mar 2025	Placing completed; net proceeds about HK\$42.5bn
8 May 2025	Apology over SU7 Ultra bonnet; aluminium option and points offered
19 Jun 2025	Land for Phase 3 won for RMB635m
26 Jun 2025	YU7 launch; more than 240,000 locked orders in 18 hours
19 Sep 2025	SAMR recall of 116,887 SU7 Standard cars; OTA fix in HyperOS 1.10.0
13 Oct 2025	Chengdu crash and fire; scrutiny of electronic door releases
18 Nov 2025	Q3 2025 results: first positive segment income from operations
1 Jan 2026	NEV purchase-tax exemption halved (cap RMB15,000)
Feb 2026	First-generation SU7 production ends
19 Mar 2026	New-generation SU7 launch from RMB219,900
24 Mar 2026	FY2025 results; 2026 delivery target of 550,000
13 May 2026	Court ruling in the SU7 Ultra bonnet case
21 May 2026	YU7 Standard (RMB233,500) and YU7 GT (RMB389,900) launched
26 May 2026	Q1 2026 results: segment loss from operations of RMB3.1bn
30–31 Jul 2026	Sky Nomad EREV pre-sale; shares close down 7.28% next day
12 Aug 2026	July deliveries 31,267; January–July 216,322 (39% of target)
15 Aug 2026	Case information cut-off

Note: Dates are as reported by the sources. Events after 15 August 2026, including the Q2 2026 results scheduled for 18 August 2026, are excluded.

(Source: [Xiaomi Corporation, 2018](#); [Xiaomi Corporation, 2021](#); [Xiaomi Corporation, 2024](#); [Xiaomi Corporation, 2025b](#); [Xiaomi Corporation, 2025d](#); [Xiaomi Corporation, 2025e](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Yu, 2024](#); [Zhang, 2024a](#); [Zhang, 2024b](#); [National Business Daily, 2023](#); [Gurman, 2024](#); [Kang, 2025a](#); [Kang, 2025b](#); [Guo, 2025](#); [Sina Finance, 2025](#); [State Administration for Market Regulation, 2025](#); [IT Home, 2025](#); [Butts, 2025](#); [Ministry of Finance et al., 2023](#); [Zhang, 2026a](#); [National Business Daily, 2026](#); [Kang, 2026c](#); [Zhang, 2026b](#); [Zhang, 2026c](#); [Kang, 2026d](#))

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Problem Statement

Xiaomi's position on 15 August 2026 combined three problems, each visible in its own disclosures.

The first was margin pressure in the core. Smartphone gross margin fell from 12.6% in 2024 to 10.9% in 2025 and was 8.3% in the fourth quarter of 2025, before recovering to 10.1% in the first quarter of 2026. The company attributed the 2025 decline to reduced national subsidies and higher prices for key components, and the first-quarter 2026 figure to memory prices and competition ([Xiaomi Corporation, 2026a, 2026b](#)). IoT gross margin held up at 25.2%, but IoT revenue fell 23.7% year on year in that quarter. These causes are disclosed, and the case does not attribute them to the car. They matter because the core business was carrying the car's capital and operating spending at a time when its own margins were thin.

The second was the car itself. The segment's gross margin fell from 24.3% in 2025 to 20.1% in the first quarter of 2026, its operating result swung from a RMB1.1 billion profit in the fourth quarter of 2025 to a RMB3.1 billion loss, and the average selling price fell from RMB249,846 to RMB235,116 ([Xiaomi Corporation, 2026a, 2026b](#)). Prices moved down as well. The new-generation SU7 launched at RMB10,000 below its own pre-sale price, and the YU7 Standard came in RMB20,000 below the original YU7 entry price ([Zhang, 2026a; Kang, 2026c](#)). By July, deliveries were running at about 31,000 a month against a target that, the case writer calculates, required about 66,700 a month for the rest of the year.

The third was the unproven economics of the ecosystem. Xiaomi reports how many devices are connected, how many users own five or more and how many people use the Xiaomi Home app. It does not report how many car buyers came from its phone base, how much a car buyer spends on other Xiaomi products, what it costs to acquire a car customer or how long customers stay. Technical integration can be measured; ecosystem monetisation, on the public record, cannot.

The decision question follows from these three problems. On the evidence that was public by 15 August 2026, what capital posture should Xiaomi's leadership adopt for the car business over 2026–2028: accelerate, discipline or partner? Separately, how tightly should the car stay coupled to the Xiaomi brand and HyperOS? No public record shows a board decision on this question around that date. The question is the case writer's framing for teaching purposes.

Methodology

This is a document-based teaching case. It draws on no interviews, no company access and no confidential material. Sources were ranked in four tiers. Xiaomi's announcements to the Hong Kong exchange came first, followed by regulatory notices from SAMR, MIIT and the Ministry

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of Finance. Third came company statements reported by established outlets, and last came independent reporting, mainly CnEVPost for delivery data compiled by the China Passenger Car Association (CPCA), and Chinese financial media for court and incident reports. Competitor figures come from the competitors' own filings. Academic sources were read in full, except Teece (1986), of which the abstract was read. Every figure in the case comes from a source the case writer opened.

The information cut-off is 15 August 2026. Xiaomi's board had scheduled a meeting for 18 August 2026 to approve the interim results for the six months to June ([Xiaomi Corporation, 2026c](#)), so those results and anything published after the cut-off are excluded. The latest financial statements used are therefore those for the first quarter of 2026, released on 26 May 2026. For April to July 2026 the case relies on monthly delivery figures published before the cut-off.

Values are labelled in exhibits as reported (R), calculated by the case writer from reported figures (C) or hypothetical (H). Two definitional breaks are flagged wherever they matter. From the first quarter of 2025 the car segment was renamed "smart EV, AI and other new initiatives" and widened to include AI. In addition, 2024 profitability was disclosed as adjusted net loss, whereas from 2025 it is income or loss from operations. Segment gross margin is therefore not a vehicle margin, and the series is not like-for-like across the break. Firm orders (refundable within seven days), locked orders and deliveries are used in the senses given by the sources and are not merged. Translations from Chinese are the case writer's. Share-price moves are reported as the sources gave them; the case makes no event-study claim. The Ecosystem Coupling Ledger is a proposed framework for discussion, not a validated theory.

Case Narrative and Analysis

The Plant, the Licence and the Badge

Xiaomi chose to own the factory. Phase 1 of the Beijing E-Town plant, with a planned capacity of 150,000 vehicles a year, was finished in 2023. It began running two shifts in June 2024 ([Kang, 2025a](#)), and on 6 July 2025 it was still the only operating factory ([Zhang, 2025](#)). Local media reported in May 2025 that Phase 2 would be finished by mid-June ([Kang, 2025a](#)), and later reports said production there would start in July or August ([Zhang, 2025](#)). The filings reviewed for this case do not confirm the date Phase 2 started. On 19 June 2025 a Xiaomi unit won a further plot next to the first two phases for RMB635 million, covering 485,133.91 square metres on a 50-year lease ([Kang, 2025b](#)). This plot became known as Phase 3.

The licence followed the plant. On 12 July 2024 MIIT published a catalogue in which Xiaomi itself, rather than the BAIC subsidiary, was listed as the SU7's manufacturer. The new model codes began with "XM", and the "Beijing" element of the rear badge was dropped ([Zhang,](#)

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[2024b](#); [Yu, 2024](#)). The 2025 recall shows the two regimes side by side. Of the 116,887 cars recalled, 98,462 carried codes beginning XMA7000 and 18,425 carried the code BJ7000MBEVR2 ([IT Home, 2025](#)). On the case writer's reading, the second group consists of cars built while the BAIC listing was still in use. In practice this meant that a Xiaomi-run plant was building Xiaomi-designed cars under a borrowed qualification for the first months of sales, and a single software recall reached both groups.

Exhibit 4 places nameplate capacity, deliveries and orders side by side. They measure different things. Fourth-quarter 2025 deliveries of 145,115, multiplied by four, give an annualised run-rate of 580,460 vehicles, almost twice the 300,000 nameplate of Phases 1 and 2 ([Xiaomi Corporation, 2026a](#)). That gap suggests that either output per shift, the number of shifts or the capacity of Phase 2 was higher than the 2021 plan, but Xiaomi does not disclose installed capacity, shift patterns or utilisation. No utilisation figure is therefore reported, and the model later in the case treats capacity as a hypothetical input.

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Exhibit 4: Capacity, Deliveries and Orders: Three Different Measures

Measure	Value	Definition or status	Label
Planned capacity, Phase 1	150,000 a year	2021 plan; completed 2023; two shifts from June 2024	R
Planned capacity, Phases 1 and 2	300,000 a year	Phase 2 completion reported by media for mid-2025; not confirmed in filings reviewed	R
Phase 3 land	RMB635m; 485,133.91 m ²	Won 19 Jun 2025; planned capacity not disclosed	R
Deliveries, FY2024 / FY2025	136,854 / 411,082	Company-reported	R
Q4 2025 deliveries, annualised	580,460	145,115 × 4	C
Deliveries, Jan–Jul 2026	216,322	Monthly data; Q2 2026 monthly sum 104,199 (not a company-reported quarterly figure)	R / C
Required monthly run-rate, Aug–Dec 2026	≈ 66,700	$(550,000 - 216,322) \div 5$	C
SU7 firm orders, first 24 hours	88,898	Includes orders refundable within seven days	R
SU7 locked orders, by 24 Apr 2024	75,723	Past cooling-off; 5,781 delivered in 28 days	R
YU7 locked orders, first 18 hours	> 240,000	Deposit of RMB5,000 non-refundable after seven days	R
New-generation SU7 locked orders	> 15,000 (34 min); > 30,000 (23 Mar); > 80,000 (6 May 2026)	Company statements	R
New-generation SU7 deliveries	> 26,000 by 23 Apr 2026	Company-reported	R

Note: R = reported; C = calculated by the case writer. Installed capacity, shift patterns and utilisation are not disclosed, so no utilisation figure is reported. Firm orders, locked orders and deliveries are different measures and should not be added or compared directly.

(Source: [Kang, 2025a](#); [Kang, 2025b](#); [Zhang, 2025](#); [Zhang, 2024a](#); [National Business Daily, 2024](#); [Liu, 2025](#); [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2025d](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Zhang, 2026a](#); [Kang, 2026a](#); [Kang, 2026b](#); [Kang, 2026d](#))

Orders, Queues and Price Points

The SU7 launched on 28 March 2024 in Standard, Pro and Max versions, priced from RMB215,900. Within 24 hours Xiaomi announced 88,898 “firm orders”, a category that included orders still refundable within seven days ([Zhang, 2024a](#)). A month later, at the Beijing auto show, Lei Jun gave a narrower number: 75,723 locked orders, meaning orders past the cooling-off period, and 5,781 cars delivered in 28 days ([National Business Daily, 2024](#)). The gap between the two order figures shows why the case keeps the three definitions apart. A firm

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order measures interest, a locked order measures a commitment backed by a deposit, and a delivery measures what the plant and the supply chain could produce.

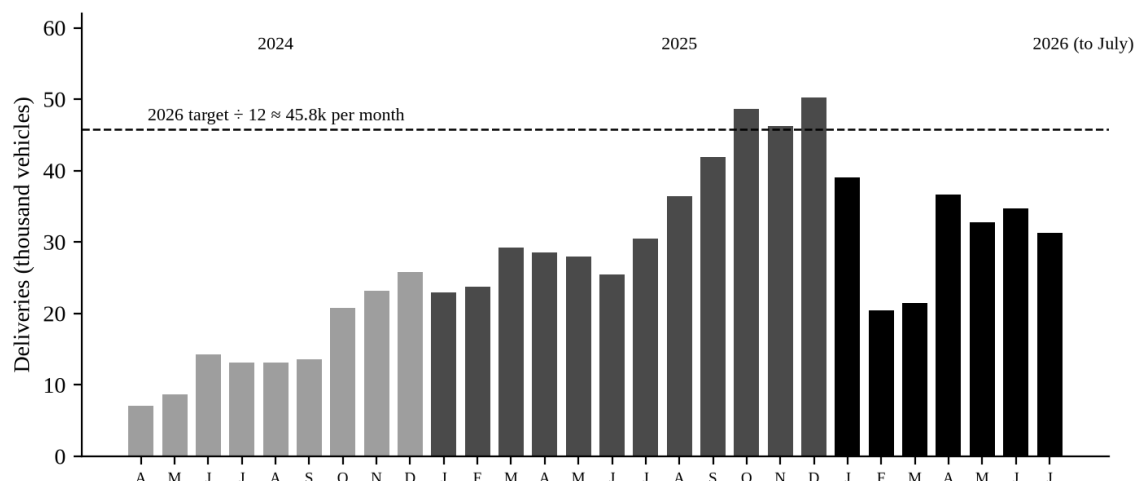
The YU7 SUV, launched on 26 June 2025, drew more than 240,000 locked orders within 18 hours ([Xiaomi Corporation, 2025d](#)). Under Xiaomi's ordering rule, buyers could change or cancel during a seven-day cooling-off period, after which the order locked automatically and the RMB5,000 deposit became non-refundable. Quoted waits ran to about a year, and sales staff at several rival brands, including Zeekr, NIO, IM and Avatr, said online that they would cover the forfeited deposit for buyers who switched ([Liu, 2025](#)). When deliveries began on 6 July 2025, waiting times for some versions were quoted at 59 to 62 weeks. Lei Jun said in a livestream that fewer than 15% of YU7 orders had been transferred from SU7 orders ([Zhang, 2025](#)).

Monthly deliveries (Exhibit 5) rose from 7,058 in April 2024 to 50,212 in December 2025, the highest monthly figure on record at the cut-off ([Kang, 2026d](#)). They then fell. The first-generation SU7 went out of production in February 2026, and deliveries that month dropped to 20,414 ([Zhang, 2026a](#)). The new-generation SU7 launched on 19 March 2026 at RMB219,900, RMB249,900 and RMB303,900, with the entry price RMB10,000 below its pre-sale price. Locked orders passed 15,000 in 34 minutes and 30,000 by 23 March ([Zhang, 2026a](#); [Kang, 2026a](#)). By 6 May they had passed 80,000, with quoted waits of 11 to 14 weeks ([Kang, 2026b](#)), and more than 26,000 of the new cars had been delivered by 23 April ([Xiaomi Corporation, 2026b](#)).

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Exhibit 5: Monthly Vehicle Deliveries, April 2024 to July 2026



Note: Deliveries in thousands of vehicles (R), from CPCA and company data as compiled by CnEVPost. The dashed line is the 2026 target of 550,000 divided by 12 (C). Monthly sums reconcile to company-reported quarterly deliveries for Q4 2025 (145,115) and Q1 2026 (80,856). Peak month: December 2025, 50,212.

(Source: [Kang, 2026d](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#))

The YU7 range was widened on 21 May 2026. A YU7 Standard at RMB233,500 came in RMB20,000 below the original entry price, and cumulative YU7 deliveries had reached about 232,000 by 30 April ([Kang, 2026c](#)). A high-performance YU7 GT started at RMB389,900 ([Zhang, 2026b](#)) and was, according to Xiaomi, the first model developed with deep involvement from its EV design and research centre in Munich, set up in early 2025 ([Xiaomi Corporation, 2026b](#)). Even so, YU7 deliveries fell from 37,869 in January 2026 to 10,223 in July ([Kang, 2026d](#)).

On 30 July 2026 Xiaomi opened pre-sales of the Sky Nomad N90 Max at RMB299,900 and the N70 Max at RMB259,900, with a refundable deposit of RMB1,000 and a launch planned for September. The two SUVs use an extended-range drivetrain, with a petrol engine that charges the battery. Lei Jun said that cumulative SU7 and YU7 deliveries had passed 700,000. CnEVPost noted that first-half 2026 deliveries of 185,055 represented about 34% of the annual target ([Zhang, 2026c](#)). When July's figure of 31,267 was published on 12 August, cumulative 2026 deliveries stood at 216,322, or 39% of the target. Reaching 550,000 would need about 66,700 deliveries a month from August to December, against a 2026 monthly high of 39,002 ([Kang, 2026d](#)).

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The Segment Accounts

Exhibit 6 sets out the segment's reported results, and Exhibit 7 plots them by quarter. In 2024 the business reported an adjusted net loss of RMB6.2 billion on 136,854 deliveries ([Xiaomi Corporation, 2025a](#)). On the later definition (gross profit minus operating expenses), the case writer's approximate figure for 2024 is a loss of about RMB7.15 billion. The 2025 quarters show the effect of scale. Gross margin rose from 23.2% in the first quarter to 26.4% in the second, and the segment reported its first positive income from operations, RMB0.7 billion, in the third quarter ([Xiaomi Corporation, 2025c](#), [2025d](#), [2025e](#)). Fourth-quarter income was RMB1.1 billion, and the full year closed at RMB0.9 billion on revenue of RMB106.1 billion ([Xiaomi Corporation, 2026a](#)).

Exhibit 6: Smart EV, AI and Other New Initiatives Segment, FY2024 to Q1 2026

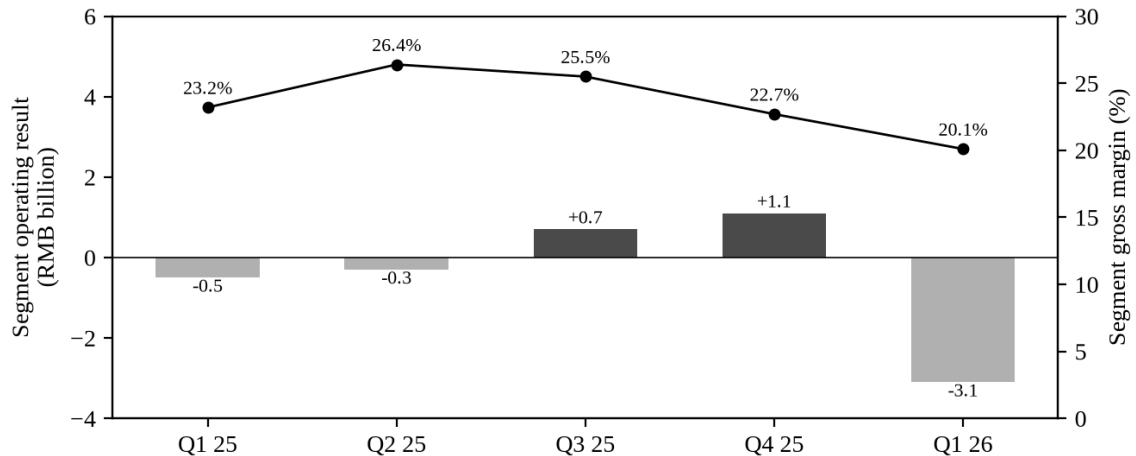
Period	Segment revenue (RMB bn)	Segment gross margin	Operating result (RMB bn)	Deliveries	EV average selling price (RMB)
FY2024	32.75	18.5%	Adjusted net loss −6.2 (R); GP less opex ≈ −7.15 (C)	136,854	234,479
Q4 2024	16.7	20.4%	Adjusted net loss −0.7 (R)	69,697	—
Q1 2025	18.58	23.2%	−0.5	75,869	238,301
Q2 2025	21.26	26.4%	−0.3	81,302	253,662
Q3 2025	29.01	25.5%	+0.7	108,796	260,053
Q4 2025	37.2	22.7%	+1.1	145,115	249,846
FY2025	106.1	24.3%	+0.9	411,082	251,171
Q1 2026	19.9	20.1%	−3.1	80,856	235,116

Note: Reported (R) unless marked. Definition break: from Q1 2025 the segment includes AI and other new initiatives, and profitability is reported as income or loss from operations (gross profit less operating expenses); FY2024 figures are adjusted net loss. The FY2024 calculated (C) figure is segment gross profit of RMB6,050.3m less segment operating expenses of about RMB13.2bn. Segment gross margin is not a vehicle margin. — = not disclosed.

(Source: [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2025c](#); [Xiaomi Corporation, 2025d](#); [Xiaomi Corporation, 2025e](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#))

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Exhibit 7: Segment Operating Result and Gross Margin by Quarter, Q1 2025 to Q1 2026


Note: Bars: segment income or loss from operations, RMB billion (R, left axis). Line: segment gross margin (R, right axis). Q1 2025 onwards only, because the earlier profit measure is not comparable.

(Source: [Xiaomi Corporation, 2025c](#); [Xiaomi Corporation, 2025d](#); [Xiaomi Corporation, 2025e](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#))

The first quarter of 2026 reversed the trend. Segment revenue rose only 6.9% to RMB19.9 billion, gross margin fell to 20.1% and the operating loss was RMB3.1 billion. Xiaomi named three causes: its subsidy of buyers' purchase tax, rising prices of key components, and the sale of first-generation SU7 inventory at lower prices while the new model ramped up ([Xiaomi Corporation, 2026b](#)). Segment operating expenses for the quarter were RMB7.1 billion, against RMB24.8 billion for all of 2025. Because the segment now also contains AI and other new initiatives, part of that spending does not belong to the car, but the disclosures do not show how much.

What the Car Has Cost

Exhibit 8 compares capital spending with the 2021 estimate. Capital expenditure for the EV and AI segment was RMB4.06 billion in 2024, RMB12.02 billion in 2025 and RMB1.49 billion in the first quarter of 2026, a cumulative RMB17.58 billion ([Xiaomi Corporation, 2026a, 2026b](#)). At an illustrative exchange rate of RMB7.1844 to the US dollar, the rate implied in a June 2025 report ([Kang, 2025b](#)), the 2021 estimate of US\$10 billion equals about RMB71.8 billion, so the disclosed segment capital spending since 2024 amounts to about a quarter of it. The comparison is incomplete in two directions. Capital spending for 2021–2023 is not separately disclosed in the documents reviewed, and the 2025 and 2026 figures include AI. The estimate also covered a ten-year horizon that runs to 2031.

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Operating spending and research absorb more cash than the plant. Group research and development expense was RMB33.1 billion in 2025, and Xiaomi said it expected to spend more than RMB200 billion on research and development from 2026 to 2030 ([Xiaomi Corporation, 2026a](#)). In March 2025 Xiaomi raised net proceeds of about HK\$42.5 billion through a placing of 800 million new shares at HK\$53.25. The stated uses were business expansion, research and development, and general corporate purposes; the proceeds were not ring-fenced for cars ([Xiaomi Corporation, 2025b](#)). Between 1 January and 22 May 2026 the company bought back HK\$8.4 billion of its own shares, and at the end of March 2026 it held cash resources of RMB220.6 billion against borrowings of RMB35.4 billion ([Xiaomi Corporation, 2026b](#)). Capital was therefore available. The question was where to put it, and how much the car should receive compared with research, buybacks and the core business.

Exhibit 8: Capital Expenditure, Research and Development, and the 2021 Estimate (RMB million unless stated)

Item	FY2024	FY2025	Q1 2026	Label
Capex: smart EV, AI and other new initiatives	4,061.3	12,023.8	1,494.1	R
Capex: Smartphone × AIoT	6,418.9	6,133.2	1,780.0	R
Capex: group total	10,480.2	18,157.0	3,274.1	R
Segment operating expenses	≈ 13,200	24,800	7,100	R
Group research and development expense	24,050.5	33,132.2	8,954.4	R
Cumulative EV/AI segment capex, FY2024 to Q1 2026			17,579.2	C
US\$10bn 2021 estimate at RMB7.1844 per US\$			71,844	H / C
Cumulative segment capex as share of the estimate			24.5%	C
R&D guidance, 2026–2030			> 200,000	R
2025 placing, net proceeds (HK\$ million)			≈ 42,500	R
Share buybacks, 1 Jan to 22 May 2026 (HK\$ million)			8,400	R

Note: R = reported; C = calculated; H = hypothetical. The exchange rate is illustrative. Segment capex for 2021–2023 is not separately disclosed in the documents reviewed, and FY2025 onwards includes AI. The 2021 estimate covered ten years and was not a cap. Placing proceeds were not ring-fenced for the car business.

(Source: [Xiaomi Corporation, 2021](#); [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2025b](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Kang, 2025b](#))

The Ecosystem Thesis: Theory, Claims, Outcomes and Inference

The case separates four kinds of evidence about the claim that Xiaomi’s ecosystem gives its car an advantage, because public discussion tends to mix them.

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Theory comes first. [Jacobides et al.](#) (2018) define an ecosystem as a group of actors linked by complementarities that are multilateral and specific to the group, where no single actor exercises full hierarchical control. They note that a carmaker deciding on its own what to buy from its suppliers stands at the centre of a supply chain, not of an ecosystem in their sense. [Adner](#) (2017) defines an ecosystem by the alignment structure among the partners who must interact for a value proposition to materialise, and separates the risk that partners fail to innovate in time (co-innovation risk) from the risk that intermediaries fail to adopt (adoption-chain risk). [Eisenmann et al.](#) (2011) describe platform envelopment, in which a firm enters a neighbouring platform market by bundling its own platform with the target's functionality, drawing on the users the two markets share. [Teece](#) (1986) argues that the profits from an innovation may go to whoever owns the complementary assets needed to deliver it, and that manufacturing often matters. On these definitions, Xiaomi's car is a hierarchically owned product placed inside a wider set of partner-built IoT devices. Whether "Human × Car × Home" is an ecosystem or an integrated product system with ecosystem branding is an open question, and it becomes one of the questions for discussion.

Company claims come second. At the April 2024 auto show Lei Jun said that 51.9% of SU7 locked orders came from iPhone users ([National Business Daily, 2024](#)). In November 2024 he said in a livestream that 56% of SU7 owners were iPhone users, some of them carrying both kinds of phone. He added that early in 2024 he had pushed a strategy requiring the company's Human × Car × Home devices to support Apple users ([IT Home, 2024](#)). These are unaudited statements by the chief executive and are treated as such.

Reported outcomes come third (Exhibit 9). Between December 2025 and March 2026 connected IoT devices rose from 1,079.2 million to 1,118.7 million, users with five or more devices from 22.7 million to 23.6 million and Xiaomi Home app users from 112.7 million to 117.0 million, while global smartphone monthly active users dipped from 754.1 million to 746.2 million ([Xiaomi Corporation, 2026a, 2026b](#)). The EV sales network grew from 200 stores in 58 cities at the end of 2024 to 490 stores in 143 cities by March 2026 ([Xiaomi Corporation, 2025a, 2026b](#)). None of these numbers links a car buyer to other Xiaomi spending.

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Exhibit 9: Ecosystem Metrics and Company Claims

Metric	Dec 2025	Mar 2026	Label
Global smartphone monthly active users	754.1m	746.2m	R
Connected IoT devices (excluding phones, tablets, laptops)	1,079.2m	1,118.7m	R
Users with five or more connected devices	22.7m	23.6m	R
Xiaomi Home app monthly active users	112.7m	117.0m	R
Smart EV sales centres / cities (200 / 58 in Dec 2024)	477 / 138	490 / 143	R
Advertising revenue, FY2025	RMB28.5bn		R
iPhone users among SU7 locked-order customers (Apr 2024)	51.9%		Claim
iPhone users among SU7 owners (Nov 2024)	56%		Claim
YU7 orders transferred from SU7 orders (Jul 2025)	< 15%		Claim

Note: R = reported in results announcements. Claim = unaudited public statements by Lei Jun, reported by the press. Not disclosed: car buyers new to Xiaomi devices, customer acquisition cost, cross-purchase after a car sale, retention and customer lifetime value.

(Source: [Xiaomi Corporation, 2025a](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [National Business Daily, 2024](#); [IT Home, 2024](#); [Zhang, 2025](#))

Inference comes last, and here the case offers a hypothesis rather than a finding. The usual story holds that ecosystem loyalty feeds the car. Two disclosed facts point the other way. If most early SU7 buyers used iPhones, the car may have been acquiring customers for the Xiaomi ecosystem rather than monetising existing ones. And in 2025 the car segment's gross margin of 24.3% was more than twice the smartphone margin of 10.9% ([Xiaomi Corporation, 2026a](#)). On this reading the car is an entry point and a margin source rather than an accessory to the phone. This is the inverted-funnel hypothesis. It is untested: Xiaomi discloses no cohort, acquisition-cost or customer-lifetime data, and segment margin includes AI and other businesses.

Incidents and How They Travel

Exhibit 10 logs the incidents and disputes of 2025–2026 that the sources tie to the Xiaomi car, together with the outcome and the share-price move reported at the time.

On the night of 29 March 2025 an SU7 Standard crashed into a concrete barrier on the G3W Dezhou–Shangrao expressway in Anhui province, where roadworks had closed its lane. Xiaomi said that NOA had been engaged at 116 km/h, that the system detected the obstacle, warned the driver and began slowing, and that the driver took over shortly before impact, at a last confirmed speed of about 97 km/h. Media reported three deaths. Xiaomi gave its driving and system data to the police on 31 March and said, “We deeply regret this” (case writer's translation) ([Guo, 2025](#)). On 1 April Xiaomi's shares fell 5.5% to HK\$46.50 ([Ren, 2025](#)).

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In spring 2025 buyers of the SU7 Ultra complained that an optional carbon-fibre bonnet with two air ducts did not work as its promotion suggested; online tests claimed the ducts were not open ([National Business Daily, 2026](#)). On 8 May Xiaomi apologised, offered buyers with undelivered orders the option of switching back to the aluminium bonnet, and offered 20,000 points to those who had already taken delivery or locked their orders ([Sina Finance, 2025](#)). One buyer sued. On 13 May 2026 a district court in Jinan found that Xiaomi's publicity was exaggerated but did not amount to fraud. It ordered the RMB20,000 deposit refunded and rejected a claim for treble damages ([National Business Daily, 2026](#)).

The September 2025 recall described in the Introduction followed. On 13 October 2025 an SU7 crashed and caught fire in Chengdu. Police said the 31-year-old driver, who died, was suspected of driving under the influence, and bystanders reported that they could not open the doors. The incident drew scrutiny of electronically released door handles, which state-backed media had reported in late September that China was considering banning, and Xiaomi's shares fell as much as 8.7% during trading that day ([Butts, 2025](#)). The last item in the log is the share-price fall after the Sky Nomad pre-sale: as much as 11% intraday on 31 July 2026 and 7.28% at the close. A Deutsche Bank analyst quoted at the time read the pricing as a sign of pressure to lift sales ([Kang, 2026d](#)).

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Exhibit 10: Incidents and Disputes Linked to the Xiaomi Car, March 2025 to July 2026

Date	Event	Reported facts	Outcome	Share move (as reported)
29 Mar 2025	SU7 Standard crash, G3W expressway, Anhui	NOA engaged at 116 km/h; warning and slowing; driver takeover; about 97 km/h at impact; three deaths reported	Data given to police on 31 Mar; police investigation	–5.5% to HK\$46.50 (1 Apr)
Apr–May 2025	SU7 Ultra carbon-fibre bonnet dispute	Owners questioned whether the air ducts worked as promoted	Apology 8 May; aluminium option; 20,000 points. Court, 13 May 2026: exaggerated publicity, not fraud; RMB20,000 returned; treble damages rejected	Not reported
19 Sep 2025	SAMR recall	116,887 SU7 Standard cars built 6 Feb 2024 to 30 Aug 2025; L2 highway NOA risk in extreme scenarios	Free OTA update; HyperOS 1.10.0 also carried ecosystem features	Not reported
13 Oct 2025	SU7 crash and fire, Chengdu	Driver died, suspected of driving under the influence; bystanders could not open doors	Scrutiny of electronic door releases	As much as –8.7% intraday
30–31 Jul 2026	Sky Nomad pre-sale pricing	N90 Max RMB299,900; N70 Max RMB259,900	Analyst reads pricing as pressure to lift sales	As much as –11% intraday; –7.28% at close

Note: All facts reported (R) by the sources listed. Share moves are as reported and are not adjusted for market-wide movements. The case makes no causal claim about share prices.

(Source: [Guo, 2025](#); [Ren, 2025](#); [Sina Finance, 2025](#); [National Business Daily, 2026](#); [State Administration for Market Regulation, 2025](#); [IT Home, 2025](#); [Butts, 2025](#); [Zhang, 2026c](#); [Kang, 2026d](#))

Three limits apply to this log. Share prices move for many reasons, and the case has no control group with which to separate the incidents from market-wide moves. The incidents may have hurt car demand without affecting phone or IoT sales, and no disclosed data separate the two. And the smartphone margin decline of 2025 has a disclosed cause unrelated to the car. What the log does show is the route each incident took: through the Xiaomi name, through the same operating system and through the shares of a company whose car segment was less than a quarter of 2025 revenue.

A Benchmark, with Warnings

Exhibit 11 compares Xiaomi with five competitors on 2025 results. Its main lesson concerns definitions. Tesla reports automotive gross margin, which was 17.8% under generally accepted

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accounting principles and 15.4% excluding regulatory credits ([Tesla, 2026](#)). NIO, Li Auto and XPeng report a vehicle margin, which was 14.6%, 17.9% and 12.8% respectively ([NIO, 2026](#); [Li Auto, 2026](#); [XPeng, 2026](#)). BYD's annual results give a group gross margin of 17.74% ([BYD Company, 2026b](#)). Xiaomi reports a segment margin that includes AI and other businesses. On these figures Xiaomi's 24.3% is the highest in the group, but the metrics are not the same and the gap should not be read as a like-for-like margin advantage. The operating results tell a plainer story. NIO lost RMB14.0 billion from operations in 2025 and Li Auto RMB0.5 billion, while Xiaomi's segment earned RMB0.9 billion on about 411,000 deliveries, a volume similar to Li Auto's and XPeng's.

Exhibit 11: Competitor Benchmark, FY2025

Company	2025 deliveries	Margin metric (definition)	Value	Other reported item
Tesla	1,636,129	Automotive gross margin, GAAP (excluding regulatory credits)	17.8% (15.4%)	Automotive revenue US\$69,526m
BYD	4,602,436 (NEV sales)	Group gross margin	17.74%	Attributable profit down 18.97%
NIO	326,028	Vehicle margin	14.6%	Loss from operations RMB14,041.2m
Li Auto	406,343	Vehicle margin	17.9%	Loss from operations RMB521.1m
XPeng	429,445	Vehicle margin	12.8%	Vehicle margin 8.3% in 2024
Xiaomi	411,082	Segment gross margin (includes AI and other)	24.3%	Segment income from operations RMB0.9bn

Note: All values reported (R). The margin metrics differ in scope and are not directly comparable. BYD's automotive segment margin was not found in the document reviewed. Tesla deliveries are worldwide; the Chinese companies' deliveries are mainly in China.

(Source: [Tesla, 2026](#); [BYD Company, 2026a](#); [BYD Company, 2026b](#); [NIO, 2026](#); [Li Auto, 2026](#); [XPeng, 2026](#); [Xiaomi Corporation, 2026a](#))

Unit Economics and Break-even

A simple model helps show what the segment accounts imply. Let V be annual deliveries, P the average selling price, m the segment gross margin used as a proxy for vehicle margin, and F the segment's annual operating expenses. The segment's operating result Π is then given by equation (1), and the break-even volume V^* by equation (2).

$$\Pi = V \cdot P \cdot m - F \quad (1)$$

$$V^* = \frac{F}{P \cdot m} \quad (2)$$

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Exhibit 12 applies these definitions. At the 2025 margin and selling price, each vehicle earned about RMB61,000 of gross profit, and segment operating expenses came to about RMB60,300 per vehicle, which is why the year closed close to break-even. In the first quarter of 2026 gross profit per vehicle fell to about RMB47,300, while operating expenses per vehicle rose to about RMB87,800 on the lower volume. Annualising first-quarter 2026 operating expenses gives F of RMB28.4 billion. On that cost base the break-even volume is about 465,000 vehicles a year at the 2025 margin and about 601,000 a year at the first-quarter 2026 margin. On a quarterly basis, the break-even range is about 116,000 to 150,000 deliveries, compared with 145,115 delivered in the fourth quarter of 2025 and 80,856 in the first quarter of 2026. These figures are proxies. Segment operating expenses include AI and other initiatives, and segment gross margin includes non-car revenue of RMB2.8 billion in 2025 and RMB0.9 billion in the first quarter of 2026.

Two further measures connect the model to capacity and capital. Capacity utilisation at break-even is given by equation (3), where K is annual capacity. Because Xiaomi does not disclose capacity, K is set at a hypothetical 600,000 vehicles a year, a little above the fourth-quarter 2025 run-rate. Economic profit is given by equation (4), where I is invested capital, taken as the cumulative disclosed segment capital spending of RMB17.58 billion, and c is a hypothetical capital charge of 10% a year.

$$u^* = \frac{V^*}{K} \quad (3)$$

$$EP = \Pi - c \cdot I \quad (4)$$

Exhibit 12: Unit Economics and Break-even Volume

Item	FY2025 basis	Q1 2026 basis	Label
EV average selling price, P (RMB)	251,171	235,116	R
Segment gross margin, m	24.3%	20.1%	R
Gross profit per vehicle, P · m (RMB)	≈ 61,035	≈ 47,258	C
Segment operating expenses (RMB bn)	24.8 (year)	7.1 (quarter)	R
Operating expenses per vehicle (RMB)	≈ 60,329	≈ 87,810	C
Annual break-even volume V* at F = RMB28.4bn	≈ 465,300	≈ 601,000	C
Quarterly break-even volume at RMB7.1bn opex	≈ 116,300	≈ 150,200	C
Actual quarterly deliveries (Q4 2025 / Q1 2026)	145,115	80,856	R
Break-even utilisation u* at K = 600,000	0.78	1.00	C (K is H)

Note: R = reported; C = calculated; H = hypothetical. F is Q1 2026 segment operating expenses annualised (× 4). Segment gross margin and operating expenses include AI and other initiatives, so all per-vehicle figures are proxies. Capacity K is hypothetical because capacity is not disclosed.

(Source: Case writer's calculations from [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#))

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Exhibit 13 runs three hypothetical full-year scenarios. The downside holds deliveries at the January–July 2026 average of about 30,900 a month, with first-quarter 2026 price and margin. The base case assumes 450,000 deliveries at RMB245,000 and a 22% margin. The upside returns to the fourth-quarter 2025 run-rate with 2025 price and margin. Operating expenses are held at the annualised first-quarter 2026 level in all three. The operating result ranges from a loss of about RMB10.9 billion to a profit of about RMB7.0 billion, and only the upside clears the capital charge. Exhibit 14 shows the sensitivity of the base-case economic profit. Volume moves the result most, followed by margin, operating expenses and price. Invested capital matters least, because the plant is a small number next to the annual operating cost of the segment.

Exhibit 13: Hypothetical Full-Year Scenarios for the Car Segment

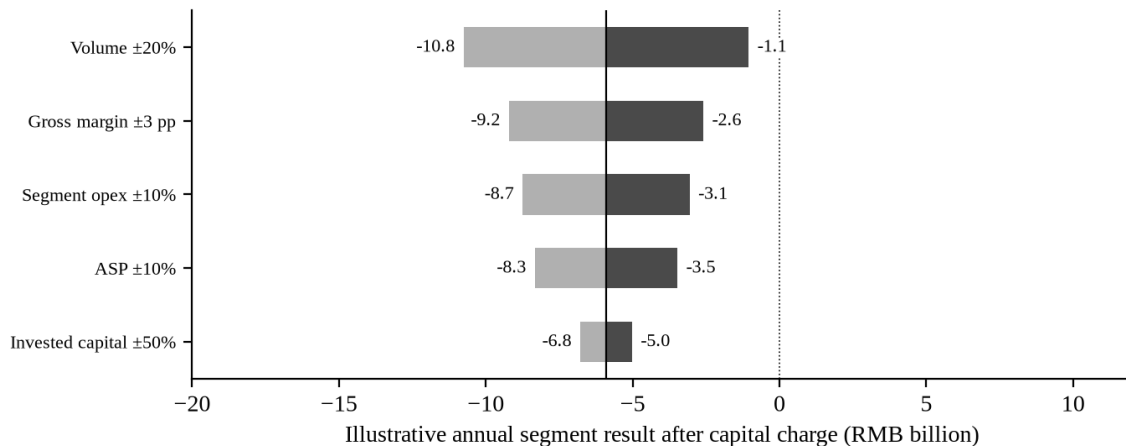
Input or output	Downside	Base	Upside	Label
Deliveries, V	370,836	450,000	580,460	H
Average selling price, P (RMB)	235,116	245,000	251,171	H
Segment gross margin, m	20.1%	22.0%	24.3%	H
Segment operating expenses, F (RMB bn)	28.4	28.4	28.4	H
Invested capital, I (RMB bn)	17.58	17.58	17.58	C
Capital charge rate, c	10%	10%	10%	H
Operating result, Π (RMB bn)	−10.87	−4.15	+7.03	C
Economic profit, EP (RMB bn)	−12.63	−5.90	+5.27	C
Utilisation, V / K ($K = 600,000$)	0.62	0.75	0.97	C

Note: Illustrative teaching scenarios, not forecasts. Downside: January–July 2026 average monthly deliveries $\times$ 12, with Q1 2026 price and margin. Base: between the downside and the 2026 target, with price and margin between Q1 2026 and FY2025. Upside: Q4 2025 deliveries annualised, with FY2025 price and margin. F is held at annualised Q1 2026 operating expenses in all three.

(Source: Case writer's model (model/model.py), inputs from [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Kang, 2026d](#))

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Exhibit 14: Sensitivity of Base-Case Economic Profit (RMB billion)


Note: Each bar shows economic profit when one input moves while the others stay at the base case (EP = -RMB5.90bn). Ranges: volume $\pm 20\%$; average selling price $\pm 10\%$; gross margin ± 3 percentage points; segment operating expenses $\pm 10\%$; invested capital $\pm 50\%$. All values hypothetical (H) or calculated from hypothetical inputs (C).

(Source: Case writer's model (model/model.py))

Findings

The findings below rest on the evidence in the Case Narrative. Where a finding goes beyond the reported figures, the case says so.

Finding 1: the car reached break-even on scale, and lost it on margin. In 2025 the segment covered its operating costs with about 411,000 deliveries and a 24.3% gross margin. In the first quarter of 2026 a lower price, a smaller tax subsidy to buyers, higher component costs and a model changeover cut gross profit per vehicle by more than a fifth. On the case writer's calculation, the annual break-even volume at that margin, about 601,000 vehicles, sat above the 2026 target of 550,000.

Finding 2: volume is the variable that matters most, and it was behind plan. Deliveries of 216,322 in seven months, against a target of 550,000, left a required run-rate well above anything the plant had delivered. The model's sensitivity analysis puts volume first by a wide margin. Every other choice in the case, from pricing to capacity to coupling, works through volume.

Finding 3: capital was not the binding constraint. Disclosed segment capital spending since 2024 equals about a quarter of the 2021 estimate, the group held RMB220.6 billion of cash resources at the end of March 2026, and it was buying back its own shares. The binding

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constraints were the margin per vehicle and the operating cost of the segment. This separates the question of how much to invest from the question of how fast to grow.

Finding 4: the ecosystem dividend is visible in attention and orders, but not in money. Order books of 75,723 locked orders in 28 days for the SU7 and more than 240,000 in 18 hours for the YU7, a store network built to 490 sites, and a rising count of multi-device users all point to a real advantage in reaching customers. None of the disclosures prices it. Lei Jun's statements on iPhone users and the gap between segment and smartphone margins support the inverted-funnel hypothesis, under which the car brings new users into the ecosystem. The hypothesis remains untested.

Finding 5: the coupling liability has visible routes, but no measured size. The 2025 recall was remedied through an ecosystem-wide software release. The Anhui and Chengdu crashes and the bonnet dispute were reported against the Xiaomi name, and Xiaomi's shares fell after the Anhui crash, the Chengdu crash and the Sky Nomad pre-sale. The routes are clear. The size of any spillover into phone or IoT demand cannot be measured from public data, and share-price moves cannot be separated from market-wide movements without a control.

Finding 6: coupling is already being adjusted, in both directions. Xiaomi dropped the "Beijing" element of the badge once it held its own licence, put ecosystem accessory support into the same release as a safety remedy, and said it had required its devices to support Apple users. The first and third moves loosened ties to partners or to Xiaomi's own phones; the second tightened the car's tie to the ecosystem. These choices suggest that the degree of coupling is a management variable that can be set separately from the amount of capital committed, and that is the premise of the framework that follows.

The Ecosystem Coupling Ledger (proposed Framework)

The ledger is offered as a teaching device, not a validated theory. It records two columns for the car (Exhibit 15). The coupling dividend contains what the car gains from sharing the Xiaomi brand, accounts, operating system and retail network: lower customer acquisition cost, faster launches, shared software talent and, if the inverted-funnel hypothesis holds, a flow of new users into the rest of the ecosystem. The coupling liability contains what the ecosystem carries because of the car: safety incidents reported against the parent brand, software defects that ride on the shared release train, marketing disputes and delivery delays that customers attribute to Xiaomi as a whole, and equity-market reactions borne by all shareholders. The framework draws on platform envelopment, which explains the dividend side through shared users ([Eisenmann et al., 2011](#)), and on the ecosystem literature, which separates hierarchical control from partner complementarities ([Jacobides et al., 2018](#); [Adner, 2017](#)). Its addition is the liability column, and the claim that the degree of coupling can be set separately from capital intensity.

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Exhibit 15: The Ecosystem Coupling Ledger Applied to the Xiaomi Car (Proposed Framework)

Coupling surface	Dividend: what the car gains	Liability: what the ecosystem carries	Evidence status
Brand	Large launch order books: 75,723 SU7 locked orders in 28 days; > 240,000 YU7 locked orders in 18 hours	Crashes in Anhui and Chengdu and the bonnet dispute reported against the Xiaomi name	Reported
Operating system and software	HyperOS 1.10.0 brought the voice assistant, Super Task and ecosystem accessories to the SU7	Safety remedy for 116,887 cars shipped in the same release train	Reported
Users and accounts	23.6m users with five or more devices; iPhone-user claims suggest new users enter through the car	No data on phone or IoT churn after car incidents	Claims; gap
Retail and service	490 EV sales centres in 143 cities by March 2026	Year-long waits; rivals offered to cover forfeited deposits	Reported
Capital market	Segment gross margin of 24.3% against 10.9% for smartphones; first segment operating income in 2025	Share falls after the Anhui crash, the Chengdu crash and the Sky Nomad pre-sale	Reported; not causal

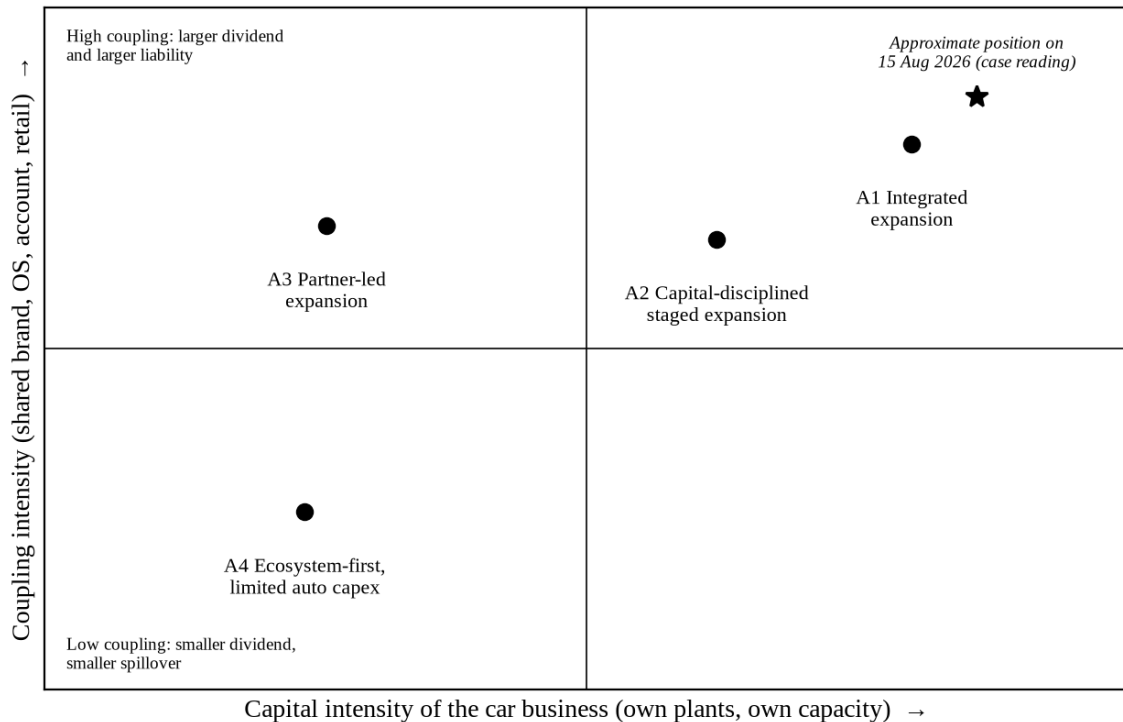
Note: The ledger is a proposed framework for discussion, not a validated theory. Entries summarise evidence in the case; magnitudes of the dividend and the liability are not measurable from public data.

(Source: Case writer's framework; evidence from [National Business Daily, 2024](#); [Xiaomi Corporation, 2025d](#); [IT Home, 2025](#); [State Administration for Market Regulation, 2025](#); [Xiaomi Corporation, 2026a](#); [Xiaomi Corporation, 2026b](#); [Liu, 2025](#); [Ren, 2025](#); [Butts, 2025](#); [Kang, 2026d](#))

Proposed Solutions and Recommendations

Four alternatives are set out below and placed on a grid of capital intensity against coupling intensity (Exhibit 16). Each is assessed against the same seven criteria: value creation, capital at risk, exposure to coupling liability, ecosystem dividend captured, option value and reversibility, execution feasibility, and consistency with stated commitments (the US\$10 billion estimate, the hardware pledge and the top-five aim). Exhibit 17 summarises the evidence for and against each. No alternative is recommended over the others.

Exhibit 16: Four Alternatives on the Capital × Coupling Grid



Note: Positions are the case writer’s qualitative reading for discussion, not measurements. The star marks the approximate posture visible on 15 August 2026. The lower-right quadrant (high capital, low coupling) is left empty for students to explore.

(Source: Case writer’s framework (proposed))

A1, integrated expansion, continues the course visible at the cut-off. Xiaomi would build out Phase 3, launch the Sky Nomad line and further models in its own plants, and keep the car fully inside the Xiaomi brand and HyperOS, sold through Xiaomi’s own sales centres. This alternative offers the most volume and so the clearest path above the break-even range, and it is the most consistent with the top-five aim. It also puts the most capital and the most reputation at risk, and it relies on the 2026 order flow recovering.

A2, capital-disciplined staged expansion, keeps the integrated model but releases capacity and model launches in stages, each tied to observable triggers such as the monthly delivery run-rate, segment gross margin and operating cost per vehicle (see the Implementation Plan). Coupling stays high, but the release of safety-critical driving software could be separated from the general ecosystem release train. A2 preserves options and limits capital at risk. It may cost

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volume and scale economies in a market where competitors are cutting prices, and staged gates can delay launches.

A3, partner-led expansion, moves part of the capital burden to others. Options include contract manufacturing or joint-venture capacity with an established carmaker, licensing the HyperOS cockpit and connected services to other brands, and wider use of partner components, as the Sky Nomad already does with a third-party range extender, lidar units and computing chips ([Zhang, 2026c](#)). A3 lowers capital at risk and could spread the ecosystem to cars Xiaomi does not build. It gives up some control over quality and margin, a point that [Teece](#) (1986) makes about owning complementary assets, and it may create a partner with access to Xiaomi's customers.

A4, ecosystem-first with limited car capital, holds car capacity at Phases 1 and 2, defers Phase 3 and puts investment into the ecosystem layer: the HyperOS cockpit, IoT attachment, AI and services for the 700,000-plus cars already sold and for the phone base. It lowers coupling on the liability side by presenting the car more as a separate business and separating its safety-critical software. A4 has the least capital at risk and the most reversibility. It probably cannot reach the 2026 target or the break-even volume at first-quarter 2026 margins, and it moves away from the top-five aim.

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Exhibit 17: Four Alternatives Assessed on Common Criteria

Criterion	A1 Integrated expansion	A2 Staged expansion	A3 Partner-led	A4 Ecosystem-first
1. Value creation	Most volume; clearest path above break-even if demand recovers	Similar path, slower; scale economies deferred	Margin shared with partners; licensing income untested	Below break-even volume at Q1 2026 margins; services income undisclosed
2. Capital at risk	Highest; Phase 3 cost undisclosed	Released in tranches against gates	Lower own capital; partner commitments instead	Lowest
3. Coupling liability	Highest: one brand, one release train	High; driving software can be separated	Medium; partner quality enters the brand	Lowest
4. Ecosystem dividend	Fullest	Full, but later	Wider reach, less control	Concentrated on cars and phones already sold
5. Option value and reversibility	Low once Phase 3 is built	High	Medium; contracts bind both sides	Highest; re-entry may be costly
6. Execution feasibility	Ramp proven in 2025; 2026 demand weaker	Needs gate discipline and reliable data	Partner availability not tested in the case	Simple; may lose car talent and momentum
7. Consistency with commitments	Fits the top-five aim; may exceed the US\$10bn estimate	Compatible with the estimate	Keeps within the estimate; top-five aim harder	Moves away from the top-five aim

Note: Qualitative assessment by the case writer for discussion. The assessment does not score or rank the alternatives. Readers are expected to challenge the entries using the evidence in the case.

(Source: Case writer's analysis based on Exhibits 4 to 15)

The empty quadrant of the grid, high capital with low coupling, is also worth a look. It would describe a separately branded car business with its own plants and its own software stack, closer to how most incumbent carmakers organise. None of the four alternatives sits there, and readers may wish to build a fifth alternative for it. Exhibit 18 lists ten risks that apply in different degrees to all four alternatives. Each is scored for likelihood and impact on stated scales, and each score is tied to evidence in the case.

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Exhibit 18: Risk Register (Likelihood × Impact, 2026–2028)

Risk	Evidence in the case	L	I	Score
Demand shortfall against target	39% of the 2026 target delivered by July; YU7 deliveries down from 37,869 to 10,223 a month	5	4	20
Price war	YU7 Standard RMB20,000 below original entry price; new SU7 below its pre-sale price	4	4	16
Serious incident involving driver assistance	Anhui crash; SAMR recall of 116,887 cars	3	5	15
Component cost inflation	Named by Xiaomi as a cause of Q1 2026 segment and smartphone margin declines	4	3	12
Policy step-down	Purchase-tax exemption halved for 2026–2027; Xiaomi subsidised buyers in Q1 2026	5	2	10
Software release coupling	Safety fix and ecosystem features shipped in one OTA release	3	3	9
Regulatory tightening on vehicle design	Chengdu crash drew scrutiny of electronic door releases; a ban was reported to be under consideration in September 2025	3	3	9
Capacity overhang after Phase 3	Capacity undisclosed; demand below plan in 2026	3	3	9
Brand spillover into phone and IoT demand	Routes visible; size not measurable	2	4	8
Key-person dependence	Lei Jun is group chief executive and chief executive of the EV business	2	4	8

Note: Scores are hypothetical (H) and illustrative. Likelihood (L), over 2026–2028: 1 = rare (under 10%), 2 = unlikely (10–30%), 3 = possible (30–60%), 4 = likely (60–90%), 5 = almost certain (over 90%). Impact (I): 1 = negligible (under RMB0.5bn on the annual segment result, no brand effect); 2 = minor (RMB0.5–2bn); 3 = moderate (RMB2–5bn or a regional brand effect); 4 = major (RMB5–10bn or national media attention); 5 = severe (over RMB10bn, or a group-wide brand or regulatory event). Score = L × I.

(Source: Case writer’s assessment; evidence from [Kang, 2026c](#); [Kang, 2026d](#); [Zhang, 2026a](#); [State Administration for Market Regulation, 2025](#); [IT Home, 2025](#); [Xiaomi Corporation, 2021](#); [Xiaomi Corporation, 2026b](#); [Ministry of Finance et al., 2023](#); [Butts, 2025](#))

Implementation Plan

Whichever alternative is chosen, its execution can be organised around gates: points at which leadership reviews measurable indicators and decides whether to release the next tranche of capital or the next launch. The plan below describes a generic gate design. It does not prescribe a choice among the alternatives, and the thresholds are illustrative.

Gate 1, demand: the three-month average monthly delivery run-rate against the volume needed to reach break-even at the prevailing margin. At first-quarter 2026 costs, this means about 39,000 to 50,000 deliveries a month, depending on margin. Gate 2, unit margin: segment gross

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margin for two consecutive quarters at or above a set level, for example the 2025 average of 24.3%, with the non-car share of revenue disclosed or estimated. Gate 3, cost discipline: segment operating expense per vehicle trending towards the 2025 level of about RMB60,000. Gate 4, safety and software: the number of recalls, regulatory notices and serious incidents in a rolling twelve-month window, with a defined pause on capacity releases when a threshold is crossed. Gate 5, ecosystem evidence: disclosure or internal tracking of the share of car buyers new to Xiaomi devices and of cross-purchases after a car sale, which would test the inverted-funnel hypothesis.

Each gate needs an owner, a review date and a pre-agreed response. Under A1 the gates would mainly govern the timing of launches. Under A2 they would govern capacity tranches. Under A3 they would govern partner commitments, and under A4 the decision to reopen capital spending. Separating the release of safety-critical driving software from general ecosystem updates can be done under any alternative, and the 2025 recall gives a reason to consider it.

Conclusion

Xiaomi built a car business inside a consumer-electronics company by running one operating system and one brand across devices that differ in price, risk and regulation by orders of magnitude. The approach produced fast launches, large order books and, in 2025, a segment that covered its costs. By August 2026 the same structure carried a quarterly loss, a delivery gap against target and a record of incidents that had travelled through the Xiaomi name, the HyperOS release train and the company's shares.

The case separates two decisions that are often merged. One concerns how much capital to commit to plants and models. The other concerns how tightly the car should be tied to the ecosystem that launched it. The Ecosystem Coupling Ledger, a proposed framework, records both the dividend and the liability of that tie. The four alternatives show that the two decisions can be combined in different ways, and the model shows that volume and margin matter more to the outcome than the size of the capital commitment. Whether the ecosystem helps the car, or the car is in fact building the ecosystem, is a question the public record could not settle on 15 August 2026.

Discussion Questions

1. Using the segment disclosures in Exhibits 6 and 12, estimate the quarterly delivery volume at which Xiaomi's car segment broke even in 2025 and in the first quarter of 2026. Which proxies make these estimates fragile, and how would the answer change if a third of segment operating expenses belonged to AI?

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2. Is “Human × Car × Home” an ecosystem in the sense used by Jacobides et al. (2018) and Adner (2017), or an integrated product system with ecosystem branding? Why does the distinction matter for capital allocation and for who bears the risk?
3. Which evidence in the case supports, and which challenges, the inverted-funnel hypothesis that the car acquires users for the ecosystem rather than monetising existing ones? What data would Xiaomi need to disclose or track to test it?
4. Using the Ecosystem Coupling Ledger, map the dividend and the liability shown by the 2025–2026 incidents, the over-the-air recall and the Sky Nomad pre-sale. Can coupling be reduced on the liability side without giving up the dividend?
5. Compare the four alternatives on the common criteria in Exhibit 17. Under which observable conditions should the preferred alternative change? Construct a fifth alternative for the empty quadrant of Exhibit 16.
6. How should Xiaomi’s 2018 hardware net-margin pledge and its 2021 estimate of US\$10 billion over ten years shape, or not shape, the expectations of investors and customers for the car business?
7. What do the reported reasons for Apple’s 2024 wind-down of its car project suggest about the conditions under which a consumer-electronics firm should or should not own vehicle manufacturing? How far do the two cases really compare?

Editorial Conflict-of-Interest Statement

Kevin B. Simon is an editor of Open Access Cases (OAC) and a contributing author of this manuscript. To maintain editorial independence, he did not participate in the editorial assessment, selection of peer reviewers, peer-review deliberations, or publication decision for this article. The manuscript was handled by an independent editor, who oversaw the review process and editorial decision.

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