Original Research Article

Research on optimizing the profitability of Great Wall Motor

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Abstract: Since 2020, the growth of the domestic auto market has slowed, the price war in the industry has intensified, and the cost of raw materials has risen. The new energy transition has brought development opportunities to traditional automakers while also continuously increasing operating pressure. Great Wall Motor, the leading Chinese automaker, has accelerated its layout of new energy products in recent years, but has faced prominent profit fluctuations due to supply chain risks and high R&D investment. Based on the company's financial reports from 2020 to 2024, this paper uses financial ratio analysis to calculate core profit indicators such as gross profit margin, net profit margin, and return on total assets, and sorts out existing problems restricting profits such as product structure imbalance and outsourcing procurement of core components such as power batteries; Optimization measures are proposed from three dimensions: Supply chain cost control, high-end new energy vehicle development, and idle asset revitalization, providing practical references for domestic traditional automakers to improve their profit levels during the industry transformation stage.
Keywords: Great Wall Motor; profitability; financial ratio analysis; new energy vehicles

1. Introduction

Since 2020, the development of China's auto market has gradually slowed down, and the auto industry has encountered new opportunities and challenges. On the one hand, the slowdown in domestic economic growth and the escalating trade war between China and the United States have had a negative impact on the market demand and import and export trade volume of auto parts and complete vehicles. On the other hand, the exhaust emissions from fuel vehicles contain a large amount of harmful substances, seriously polluting the environment and running counter to the new development concept. This has led governments to introduce various policies to address the challenges posed by environmental pollution and climate change. Great Wall Motor Co., LTD. (hereinafter referred to as "Great Wall Motor") is one of the leading players in China's automotive industry and enjoys a high reputation both at home and abroad. It is also the only enterprise in China that has a full industrial chain layout in new energy and intelligence. Although it has developed well in recent years, it still faces many challenges in its operation and management. Analyze its profitability. Digging deep into its problems and proposing optimization suggestions can guarantee the automotive industry's understanding of the current market situation and the formulation of new development plans.

2. An overview of corporate profitability

2.1. The connotation of corporate profitability

Profitability refers to the ability of an enterprise to make profits. It is an important component of corporate financial analysis, reflecting the strength and level of the enterprise's ability to earn profits over a certain period of time, and is crucial for the survival and development of the enterprise. Strong profitability can help enterprises attract more investors, as investors want their money to be invested in[4]. lucrative enterprises. At the same time, enterprises with good profitability are more likely to obtain loans from financial institutions such as banks for activities such as expanding production scale and conducting technological research and development. In addition, profitability is an important indicator of a company's competitiveness. In the market competition, only companies that can sustain profits can survive and develop in the long term.[1]

2.2. The application of profitability

By analyzing their own profitability, enterprises can assess business performance, optimize resource allocation, and facilitate internal management decisions[3]. Profitability evaluation often involves a large number of financial indicators, such as gross profit margin on sales, net profit margin on sales, return on total assets, return on net assets, etc. Listed companies often evaluate their profitability with earnings per share, dividends per share, price-earnings ratio, and price-to-book ratio, etc.[2]

3. Profitability analysis of Great Wall Motor

3.1. Company profile

Great Wall Motor was founded in 1984 and, as a pioneer among China's private vehicle manufacturers, was the first to successfully list on the Hong Kong H-share market. The company's business is extensive, covering the entire industrial chain of automobiles and auto parts from design, research and development to production, sales and service. With its China headquarters as the strategic core, Great Wall Motor has been actively expanding overseas markets and has built a global market network covering Europe, Asia and North America. The company is committed to creating a new mobility ecosystem that integrates elements such as green carbon neutrality, cognitive intelligence, global trendy brands and products, and co-play, co-intelligence and co-creation, based on its mission and vision of "Green, Smart, trendy, fun,co-intelligence and co-creation".

3.2. Basic indicators of profitability analysis

3.2.1. Net profit margin of cost and expense

The cost and expense ratio is the ratio of a company's net profit to its total cost and expense, which reflects the relationship between consumption and income in the production and operation process. The higher the ratio, the stronger the company's ability to make higher profits at a lower cost. The indicator can indirectly reflect the efficiency of cost control and overall business strategy of the enterprise.

Table 1. Net profit margin on costs and expenses of Great Wall Motor 2020-2024.

Item/Year	2020	2021	2022	2023	2024
Cost and expense (billion yuan)	989.30	1321.22	1305.85	1676.13	1920.12
Net profit (billion yuan)	53.62	67.25	82.53	70.23	126.92
Cost and expense net profit margin (%)	5.42%	5.09%	6.32%	4.19%	6.61%

As can be seen from **Table 1**, Great Wall Motor's net profit margin on costs and expenses was unstable from 2020 to 2024, with significant fluctuations. Only in 2022 did it increase, from 5.09% to 6.32%. It was probably because it adjusted its business model and adopted advanced production technology to save production costs. The ratio fluctuated significantly from 2022 to 2024 because Great Wall Motor increased its investment in new product development, product promotion and other areas, resulting in a higher increase in capital investment than in net profit for the company from 2022 to 2024. At the same time, in 2024, as its financing needs increased and interest expenses rose, financial expenses turned from negative to positive, further affecting Great Wall Motor's profitability.

3.2.2. Gross profit margin on sales

Gross sales margin, which reflects the ratio of gross sales to operating income, is an important indicator of profitability and can illustrate a company's ability to make profits through sales. Among them, gross sales is the difference between operating income and operating cost, reflecting the direct profitability of products and services. The higher the gross margin on sales, the smaller the proportion of operating costs in operating income, and the stronger the ability of the enterprise to make profits through sales. This paper uses the revenue and operating costs of Great Wall Motor from 2020 to 2024 to calculate its gross profit margin on sales. As shown in **Table2**:

As shown in **Table 2**, the gross profit margin fluctuation trend of Great Wall Motor was on the rise, with only declines in 2021 and 2023. In 2024, the gross profit margin rebounded to 19.53%, thanks to Great Wall Motor's optimized allocation of resources and the introduction of advanced technologies for product transformation and upgrading, which attracted a large number of consumers and expanded the market size.

This led to a greater increase in gross sales profit than operating income, resulting in a certain recovery in its profitability.

Table 2. Gross profit margin on sales of Great Wall Motors 2020-2024.

Project/Year	2020	2021	2022	2023	2024
Revenue (billion yuan)	1033.00	1364.00	1373.00	1732.00	2022.00
Operating costs (billion yuan)	855.31	1144.00	1107.00	1418.00	1627.00
Gross sales (billion yuan)	177.69	220.00	266.00	314	395
Gross margin on sales (%)	17.20%	16.12%	19.37%	18.12%	19.53%

In addition, from 2020 to 2024, Great Wall Motor's operating revenue continued to grow, rising from RMB 103.3 billion in 2020 to RMB 202.2 billion in 2024, representing a growth rate of 95.74%. This was mainly driven by overseas sales performance. Great Wall Motor's domestic and overseas sales volumes are shown in **Table 3** below:

Table 3. Domestic and overseas sales volumes.

Item/Year	2020	2021	2022	2023	2024
Domestic Sales	104	113.7	89.5	91.6	78
Overseas Sales	7	14.3	17.3	31.4	45.3

As shown in **Table 3**, Great Wall Motor has a market presence both domestically and internationally. However, sales performance in China—Its core market—Has been underwhelming. Domestic sales declined from 1.04 million units in 2020 to 780,000 units in 2024, a drop of 25%. In stark contrast, overseas sales surged from an initial 70,000 units to 453,000 units, expanding by a factor of 6.47. This substantial growth in overseas sales has been the key driver of the significant increase in operating revenue.

3.2.3. Return on total assets

Total Return on total assets, also known as return on investment, is the ratio of a company's net profit to its average total assets over a certain period. The higher the return on total assets, the higher the efficiency of asset utilization, indicating that the enterprise has achieved good results in terms of increasing revenue and saving the use of funds, and has strong profitability; Conversely, it indicates that the enterprise has low asset utilization efficiency and poor profitability. The return on total assets of Great Wall Motor is shown in **Table 4**:

Table 4. Return on total assets of Great Wall Motor 2020-2024.

Project/Year	2020	2021	2022	2023	2024
Net profit (billion yuan)	53.62	67.25	82.53	70.23	126.92
Initial assets (billion yuan)	1130.80	1540.00	1754.00	1854.00	2013.00
Ending assets (billion yuan)	1540.00	1754.00	1854.00	2013.00	2173.00
Average total assets (billion yuan)	1335.40	1647.00	1804.00	1933.50	2093.00
Return on total assets (%)	4.01%	4.08%	4.57%	3.63%	6.06%

As shown in **Table 4**, Great Wall Motor's return on total assets rose slowly from 2020 to 2023, increasing by only 0.56% in total, indicating that the company's ability to generate profits from assets remained largely unchanged in the previous three years, with little change in asset utilization efficiency. In 2023, it declined by 0.92%, as the increase in period expenses in 2023 squeezed net profit, resulting in a decrease in the ratio. The rebound reached its peak in 2024, with a 2.43% increase, still due to effective cost control and product transformation and upgrading that year, which led to a net profit increase far exceeding the increase in total assets.

4. There are problems with Great Wall Motor's profitability

4.1. Costs and expenses increase too rapidly

Great Wall Motor's rising costs and expenses have affected the improvement of its profitability. In 2020, its cost was 98.93 billion yuan, and by 2024, that figure had climbed to 192.012 billion yuan, doubling the increase. The increase in costs inevitably had a negative impact on the gross profit margin of various models under Great Wall Motor. For instance, the passenger car business had a gross margin of 18.5% in 2020, but dropped to 14.2% in 2024; The commercial vehicle business was also not optimistic, with a gross margin of 15.8% in 2020, dropping to 12.1% in 2024. Operating costs have been rising year by year, putting Great Wall Motor under increasing pressure of capital expenditure and a increasingly tight cash flow situation, which undoubtedly poses a considerable challenge to the company's normal operation and long-term profitability.

4.2. Expanding domestic sales channels

To increase Great Wall Motor's sales volume, the company itself should expand its sales channels and actively improve its service model. On one hand, it should adopt diversified sales strategies and vigorously explore and implement new retail models. By setting up brand direct stores in core cities, each brand can directly reach consumers and accurately grasp sales terminal dynamics. At the same time, it should provide dealers with advanced digital tools to help them improve operational efficiency and service capabilities, achieving coordinated development with the brand. It should also make full use of live-streaming platforms for product promotion and sales, stimulating users' purchase intention through hosts' professional explanations, interactive Q&A sessions, and other forms. On the other hand, the company should continuously optimize and improve the functions of its corporate app. Using big data analysis technology, it can dig deeply into user behavior data to achieve precise push of personalized marketing content, effectively improving user conversion rates. It should establish complete user feedback channels to quickly respond to user needs and continuously optimize product and service quality. In addition, inviting users to deeply participate in product development, design, naming, and other processes can enhance users' sense of belonging and participation.

4.3. Capital expansion is too rapid

From 2020 to 2024, the total assets of Great Wall Motor rose from 113.08 billion yuan to 217.3 billion yuan. The company has been continuously building new vehicle bases and battery production lines on a large scale, and the scale of fixed asset investment has been increasing year by year. But the large capital investment did not match the profit conversion. In 2023, a number of new production capacity were put into operation in a concentrated manner. Affected by the market sales falling short of expectations, the capacity utilization rate of the new plants was low, a large number of factories and production equipment were idle, and the depreciation cost of fixed assets continued to rise. Idle assets pushed up the average total assets of the company, and the net profit for the year declined year-on-year. Eventually, the return on total assets fell year-on-year, the asset investment return period was prolonged, and the efficiency of capital expansion was low.

5. Countermeasures and suggestions for enhancing the profitability of Great Wall Motor

5.1. Full chain control of costs and expenses

Implement centralized procurement of raw materials upstream and long-term contract price locking model, refine the quota control of costs for all categories, and curb the rapid increase of costs from the procurement and cost ends. Sign annual long-term supply agreements with suppliers of core raw materials such as steel, lithium, and plastics to lock in bulk commodity purchase prices and mitigate the risk of cyclical price increases of raw materials; Integrate the purchase demands of all brands of vehicles, concentrate on bulk purchasing of components, and obtain preferential bargaining in centralized procurement. At the same time, establish a quota management system for sales, management and R&D expenses, assess the use of expenses by each business division on a monthly basis, strictly control the disorderly growth of non-production expenses, slow down the increase in cost and expense in all aspects, and improve the problem of excessive fluctuations in the net profit margin of cost and expense.

5.2. Increase efforts in product research and development

Upgrade the product structure, increase the production and sales share of high-end new energy and hybrid models, expand the proportion of self-developed batteries and components, and reduce the drag of external purchase costs. The company will focus on promoting high-end hybrid models of WEY and Tank, relying on the high premium advantage of the Tank series to increase overall gross profit, and gradually reduce the production capacity of low-profit entry-level fuel vehicles. Deepen the self-developed supporting capabilities of SVOLT Energy Technology, increase the self-supply rate of power batteries, and reduce the impact of fluctuations in bulk commodities on purchased battery cells. By mass-producing hybrid models to reduce R&D and manufacturing costs, and by relying on self-developed components to cut external procurement expenditures, cost squeeze will be resolved from both product structure and supply chain ends, and sales gross margin will be steadily restored.

5.3. Full-chain capacity control

Great Wall Motors should utilize resources rationally and avoid blind expansion. It should immediately slow down heavy-asset projects such as new vehicle manufacturing bases and power battery production lines to prevent excessive fixed-asset investment. For ongoing projects, it is necessary to re-evaluate the importance of their commissioning, suspend or terminate low-return projects, reduce unnecessary capital expenditures, and avoid further increases in fixed assets and depreciation expenses.At the same time, the company should tighten budget approval, prioritize funding for core businesses, strengthen real-time market tracking, produce on-demand, focus on market-leading vehicle models and new energy products, and avoid production-sales disconnection. Ultimately, it needs to establish a linkage mechanism between sales volume, production capacity, and capital expenditure, taking market sales and profitability as the basis to reverse-engineer the pace of capacity expansion, and avoid the reverse logic of "building factories first and then finding markets". Expanding overseas markets to balance domestic inventory will help achieve balanced development of supply, production, and sales.

6. Conclusion

This paper analyzes Great Wall Motor's profitability via four key financial indicators from 2020 to 2024 and peer comparison, finding its profit growth restricted by slow sales, high costs and unreasonable R&D spending. Three underlying drawbacks including single sales channel, surging material cost and unsystematic R&D management account for the enterprise's poor profit performance. Corresponding countermeasures covering diversified sales layout, refined procurement cost control and standardized R&D system construction are put forward to improve its profitability. This research has limitations for only using published financial data and neglecting non-financial and post-balance-sheet influencing factors.

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