

Original Paper

Research on the Profitability Model of Li Auto from the Value Chain Perspective

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Received: March 16, 2026

Accepted: March 24, 2026

Online Published: April 28, 2026

doi:10.22158/jbtp.v14n1p74

URL: <http://dx.doi.org/10.22158/jbtp.v14n1p74>

Abstract

Thanks to technological advancements and the strong support from the government for the new energy vehicle (NEV) industry, NEV companies have experienced rapid development in China. Li Auto Inc. (hereinafter referred to as “Li Auto”) is an emerging automobile manufacturing enterprise that adopts an omnichannel sales model, focuses on energy layout, builds a complete industrial chain, and engages in independent production. Li Auto emphasizes user experience and enters the market with mid-to-high-end vehicles. This paper, based on a value chain perspective, conducts an element analysis of the current profitability model of Li Auto and evaluates its effectiveness using related indicators from both internal and external value chains. The analysis identifies the shortcomings in its profitability model and provides optimization suggestions to address these issues.

Keywords

Li Auto, Value Chain, Profitability Model

As venture capital in the NEV industry becomes more rational and new technological advancements emerge, competition in the NEV sector has intensified. After government subsidies for NEVs came to an end, market demand has declined, putting pressure on automakers' profitability. The value chain, as a strategic management analysis tool, is vital for enterprises to enhance their core competitiveness and optimize their industrial chains. The value chain of the NEV industry is primarily characterized by offline sales, contract manufacturing, independent research and development (R&D), and user demand orientation. Li Auto, as an emerging car manufacturer, adopts an omnichannel sales approach, focuses on energy layout, builds a complete industrial chain, produces independently, emphasizes user experience, and targets the mid-to-high-end automobile market. Although the company has narrowed its losses and achieved profitability above the industry average, it still faces issues such as technical deficiencies and an imperfect industrial chain, which has led to stagnation in profitability. This paper analyzes Li Auto's profitability model from a value chain perspective, aiming to optimize the model for greater profitability. The research is also intended to provide improvement strategies for other companies in the industry, thereby contributing to the high-quality and sustainable development of China's NEV industry.

1. Current Status of Li Auto's Profitability Model

1.1 Overview of Li Auto

Li Auto is a new energy vehicle manufacturing enterprise established in 2015. Its business includes the design, R&D, manufacturing, and sales of luxury NEVs. Through product innovation and technological development, Li Auto aims to provide safe and convenient products and services for family users.

Li Auto's mission is to create a "mobile home" and "a happy home." The company actively innovates its products, develops technology, and adjusts its business model to provide users with safe and comfortable products and services. In November 2019, Li Auto began mass production. The models include the family-oriented six-seat flagship SUV Li Auto L9, the six-seat luxury SUV Li Auto L8, the five-seat family SUV Li Auto L7, and the mid-sized five-seat SUV Li Auto L6. Li Auto has expanded its product line by introducing more pure electric and range-extended electric vehicles to reach a wider user base. Its in-house R&D focuses on its unique range extension system, next-generation electric vehicle technologies, and smart car solutions.

1.2 Element Analysis of Li Auto's Profitability Model

1.2.1 Profit Focus on Family SUVs

Li Auto's main sources of profit include automobiles and related products, energy layout, and user software upgrades for vehicles. Currently, family SUVs are the most important profit source.

Since the release of its first product, the large mid-size SUV Li Auto ONE in October 2018 (which was discontinued in June 2023 and updated as the Li Auto L8), Li Auto has been focusing on building SUVs suitable for family use, with interior designs that reflect the concept of a family-friendly vehicle. The spacious interior meets the travel needs of a family, with features like a refrigerator and rear multimedia screens to meet the entertainment needs during family trips. Additionally, Li Auto's use of range extension technology provides better power reserve compared to typical family cars. According to Li Auto's 2024 annual report, 97.84% of the total revenue in 2024 came from the sales of family SUVs, with each SUV model performing well in sales (as shown in Table 1), contributing significantly to Li Auto's profitability in 2024.

Table 1. Sales of Li Auto Models in 2024

Model	Sales (Units)	Category	Sales Share (%)
Li Auto L6	192257	Luxury SUV	38.41%
Li Auto L7	134018	Flagship SUV	26.78%
Li Auto L8	77623	Luxury SUV	15.51%
Li Auto L9	85817	Flagship SUV	17.15%
Li Auto MEGA	10793	Flagship MPV	2.16%
Total	500508		

1.2.2 Profit Source from Omnichannel Sales Revenue

Li Auto's sales model is omnichannel, which is different from the traditional model where most car manufacturers rely on offline sales. As of December 31, Li Auto has set up 502 direct retail centers in 150 large and medium-sized cities across China, covering 225 cities with 478 after-sales maintenance centers and authorized collision repair centers. Furthermore, Li Auto has begun exploring overseas markets, establishing direct service centers in Kazakhstan, UAE, and Uzbekistan. This ensures transparent vehicle purchases, convenient services, and efficient delivery.

Li Auto continues to innovate in its sales approach, breaking away from the traditional 4S store sales framework and building an online-offline integrated model supported by internet technology. Customers interested in purchasing can first complete online reservations via the official website and then visit nearby experience stores for test drives. Currently, Li Auto has established flagship experience stores in several key areas of first and second-tier cities. Sales staff provide detailed explanations throughout the process, helping build trust with the brand and quickly adapting to customer feedback. This model not only enhances user loyalty but also generates strong brand exposure, significantly boosting the company's brand influence.

1.2.3 Profit Target Focused on Families with Children

Li Auto clearly targets the family market, focusing on luxury vehicles for parents. The target demographic is clear, for the following three reasons:

First, families with children are a significant stage in most people's lives, making them a broad demographic.

Second, the needs of families with children are clear. Scenarios like elderly people caring for children, car seats, and strollers require larger space and multifunctional features.

Third, families with children tend to have stronger purchasing power. Urban families generally have higher incomes and thus more disposable income, which matches the pricing of Li Auto's vehicles.

To cater to the family market, Li Auto pays extra attention to comfort and design in its vehicles, focusing on seating arrangements, ergonomics, and storage space. It also provides features like refrigerators and multimedia screens, typically found in luxury cars, significantly meeting the travel needs of families. Moreover, the vehicle's exterior is designed to be high-end and stylish, while the interior is simple, aligning with the aesthetic preferences of modern young people.

1.2.4 Profit Leverage from After-Sales Services

Li Auto has been committed to the construction of new energy charging infrastructure. As the number of NEV users in China grows, the demand for timely energy replenishment has increased, making charging infrastructure a significant source of profit growth for NEV companies. However, the development of charging infrastructure has not kept pace with the growth of NEVs. Li Auto has invested heavily in building charging and battery swapping stations, alleviating the range anxiety of NEV owners. By increasing its charging network investment, Li Auto has built a nationwide 5C supercharging network covering over 90% of national highway mileage, with a maximum output power of 520 kW, providing a 500 km range in just 10 minutes for pure electric models. In urban areas, Li Auto has also expanded 4C charging stations, covering over 90% of core urban areas. By the end of 2024, Li Auto will have installed 1,420 new charging stations and 7,792 charging piles, creating the largest highway supercharging network in China. Moreover, Li Auto has been increasing partnerships with quality industry players to promote charging station construction and platform interconnection, with 3,018 third-party selected supercharging stations already in operation.

1.2.5 Profit Barrier from Range-Extended Electric and High-Voltage Pure Electric Technologies

Li Auto simultaneously develops range-extended electric and high-voltage pure electric vehicle technologies. The aim is to enhance the range-extended technology for city use and long-distance power generation, providing better experiences than traditional gasoline vehicles. Meanwhile, Li Auto also strives to improve pure electric technology to extend the driving range beyond urban areas, matching the refueling experience of gasoline cars.

Li Auto's goal is to widely replace gasoline vehicles. On the one hand, by constructing a large-scale ultra-charging pile network on highways, users can experience the same safety and convenience as gasoline vehicles. On the other hand, through effective R&D and supply chain management, Li Auto aims to offer the most competitive products in the market at a lower price.

2. Evaluation of the Effectiveness of Li Auto's Profitability Model from the Value Chain Perspective

2.1 Internal Value Chain Indicator Analysis

The internal value chain can be divided into primary activities and support activities. Among the primary activities, production operations, marketing, and after-sales services significantly impact the profitability model. In support activities, technological R&D plays an important role. This section will analyze Li Auto's internal value chain using relevant indicators based on the above-mentioned production activities.

2.1.1 Primary Activity Analysis

(1) Production Operations

The costs incurred in production operations are mostly accounted for as operating costs, which include main business costs and other business costs. As a result, operating costs tend to fluctuate in the same direction as revenue, and therefore, operating costs cannot fully reflect Li Auto's management control in production operations. Operating cost ratios are static ratios that reflect operational efficiency over a given period. Therefore, this section will evaluate the performance of Li Auto's production operations based on the ratio of operating costs to operating income.

Li Auto's operating cost ratio has consistently shown a downward trend and has remained stable. Additionally, the growth rate of operating costs has been slightly lower than that of operating income (as shown in Table 2). This is a positive sign for the company, as it suggests effective cost management in the production operations process.

Table 2. Li Auto's Operating Cost Ratio Changes

Year	Operating Cost (Billion RMB)	Operating Income (Billion RMB)	Operating Cost Ratio	Operating Cost Growth	Operating Income Growth
2019	3.82	2.84	134.51%	-	-
2020	79.9	94.57	84.49%	1991.62%	3229.93%
2021	213.85	270.1	79.17%	167.65%	185.61%
2022	366.33	452.87	80.89%	71.30%	67.67%
2023	963.54	1239	77.77%	163.03%	173.59%
2024	1148	1445	79.45%	19.14%	16.63%

(2) Marketing Activity Analysis

Most of the costs generated in marketing activities are accounted as sales expenses. Since sales expenses also tend to change in the same direction as revenue, the fluctuation in sales expenses does not fully reflect Li Auto's management control in marketing activities. Therefore, this section will evaluate the performance of Li Auto's marketing activities based on the ratio of sales expenses to operating income (as shown in Table 3).

Table 3. Changes in Li Auto's Sales Expense/Operating Income Ratio

Year	Sales Expense (Billion RMB)	Operating Income (Billion RMB)	Sales Expense/Operating Income
2019	17.43	2.84	613.73%
2020	21.05	94.57	22.26%
2021	66.42	270.10	24.59%
2022	123.08	452.87	27.18%
2023	203.54	1239.00	16.43%
2024	233.01	1445	16.13%

As seen in Table 3, Li Auto's sales expenses have been increasing year by year, and the sales expense-to-operating income ratio has remained around 20%. Since Li Auto only started mass production in 2019, the ratio for that year is excluded from consideration.

In addition to comparing Li Auto’s performance over time, it is necessary to benchmark against other automakers in the industry. BYD, as a leading company in the NEV industry, has the largest global market share in the sector. A comparison with BYD helps identify Li Auto’s shortcomings. Furthermore, since Li Auto, XPeng Motors, and NIO are all significant competitors in the NEV industry, comparisons among these companies provide a more intuitive understanding of Li Auto’s marketing performance. Therefore, this section compares Li Auto’s sales expense-to-operating income ratio with BYD, XPeng Motors, and NIO (as shown in Figure 1), revealing that Li Auto’s ratio is much lower than that of NIO and XPeng Motors and is closer to the industry leader BYD.

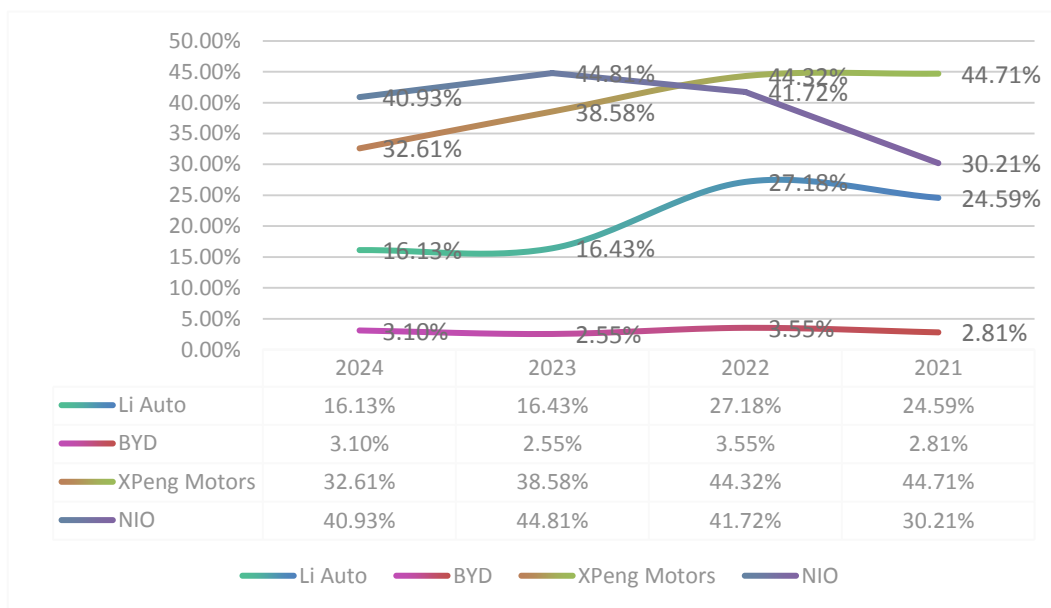


Figure 1. Comparison of NEV Sales Expense/Operating Income Ratios

(3) User Services

Li Auto’s user services are transparent, convenient, and efficient, focusing on the real needs of NEV owners and offering practical services. The services are mainly divided into pre-sales and after-sales services, with after-sales services being more comprehensive.

To improve pre-sales service, Li Auto has created an independent online platform where users can learn about the vehicle’s performance, configuration, and appearance. Additionally, users can book test drives through the online platform, offering convenience and enhanced service.

To improve after-sales service, Li Auto has focused on increasing the coverage of charging and battery-swapping facilities. The company has invested significantly in building charging stations and swap stations, while continuing to use its own intelligent manufacturing bases for production. Li Auto also emphasizes employee professionalism by hiring experienced staff to offer timely and effective services. Moreover, the company has innovated in technology to improve charging and battery-swapping efficiency, thus shortening waiting times and ensuring convenience. Finally, the company provides a centralized online platform that offers 24/7 after-sales service and troubleshooting, providing a significant advantage over traditional phone-based or in-store service models. This allows users to resolve issues without waiting for appointments, and descriptions and solutions are recorded

for future reference. Additionally, this online service model can reach a wider user base without being limited by geographic location, increasing the accessibility of services.

2.1.2 Support Activity Analysis

(1) Technological Development

As an NEV company, Li Auto must continue strengthening its technological R&D to stay competitive in the highly competitive NEV industry. R&D investment can reflect the company's resource allocation for technological development but does not necessarily reflect the emphasis the company places on it. The ratio of R&D expenditure to operating income can better reflect the company's emphasis on R&D. This section evaluates Li Auto's profitability model based on the ratio of R&D expenses to operating income (as shown in Table 4).

Table 4. Changes in Li Auto's R&D Expense/Operating Income Ratio

Year	R&D Expense (Billion RMB)	Operating Income (Billion RMB)	R&D Expense/Operating Income
2019	11.69	2.84	411.62%
2020	11.00	94.57	11.63%
2021	32.86	270.10	12.17%
2022	67.80	452.87	14.97%
2023	105.86	1239.00	8.54%
2024	110.71	1445	7.66%

As shown in Table 4, Li Auto has consistently invested heavily in R&D, with R&D expenses exceeding 1 billion RMB every year. From 2019 to 2021, R&D expenses grew steadily, and in 2022, there was a significant increase, reaching over 10 billion RMB by 2023. From 2020 onward, the R&D expense ratio has remained around 10%, higher than the industry average. However, starting from 2023, this ratio has begun to decrease, which could be a signal for Li Auto to reflect on its approach. The company should continue to prioritize technological R&D and reinforce its technological barriers.

It is worth noting that Li Auto has developed active safety technologies such as Anti-lock Braking Systems (ABS), Electronic Stability Programs (ESP), and others, ensuring stability and safety for passengers in complex road conditions and adverse weather. Additionally, Li Auto offers numerous safety features such as lane departure warnings and adaptive cruise control, ensuring both driving enjoyment and safety. Li Auto's strong sales performance is partly due to the company's tireless R&D efforts, which have enabled it to achieve profitability while the industry is generally facing losses.

2.2 External Value Chain Indicator Analysis

This section analyzes Li Auto from the perspective of external value chains, which includes both vertical and horizontal value chains. In the vertical value chain, we focus on the supplier value chain and customer value chain, while in the horizontal value chain, we analyze competitors.

2.2.1 Horizontal Value Chain Analysis

Horizontal value chain analysis refers to comparing Li Auto's performance with that of its competitors to identify its strengths and weaknesses within the industry. BYD, as a leading company in the NEV sector, occupies a dominant position in the global market, with a market share of 33.2% globally and 15.5% in the Chinese market in 2024. BYD has invested heavily in R&D, expanded its business scope, and proactively explored overseas markets. With its strong brand influence and ability to control the industrial chain, BYD has maintained strong profitability despite fierce market competition. However, the large market scale and the completeness of BYD's industrial chain pose significant challenges for Li Auto in competing with BYD.

Li Auto, XPeng Motors, and NIO are all major competitors in the NEV industry, and their company sizes and market conditions are somewhat similar. A comparison with these companies allows for a clearer view of Li Auto's marketing strengths and weaknesses. Therefore, in this section, we compare Li Auto with BYD, XPeng Motors, and NIO, focusing on net profit margin and gross profit margin.

(1) Net Profit Margin

Li Auto, despite starting later, achieved a net profit margin of 5.56%, slightly higher than BYD's net profit margin of 5.18% (as shown in Table 5). This suggests that Li Auto has a strong ability to convert sales revenue into net income, reflecting its operational and profitability strength, as well as its cost control and expense management abilities.

Table 5. Comparison of Li Auto and BYD's Key Indicators

	Operating Income (Billion RMB)	Operating Cost (Billion RMB)	Net Profit Margin	Gross Profit Margin
Li Auto	1445	1148	5.56%	20.53%
BYD	7771	7379	5.18%	5.04%

(2) Gross Profit Margin

Li Auto's gross profit margin is also higher than BYD's, reaching 20.53% (as shown in Table 5). A higher gross profit margin directly reflects Li Auto's strong profitability and market competitiveness. Although Li Auto started later and its scale is smaller than that of industry leaders, it has substantial growth potential. With time, Li Auto could establish itself as a leading player in the industry.

2.2.2 Vertical Value Chain Analysis

The vertical value chain consists of the supplier value chain and customer value chain. The supplier value chain is fundamental to the overall value chain as it directly impacts the customer value chain and the internal value chain. The end of the vertical value chain is the customer value chain, which refers to the users or consumers—the final link in the production and operational process.

(1) Supplier Value Chain

The selection of suppliers directly impacts the stability of product production. A stable relationship with suppliers is crucial for obtaining raw materials and parts at reasonable prices and ensuring product quality. This aspect corresponds to the profit leverage element in the profitability model. The supplier value chain includes upstream suppliers, manufacturers, and channels, which influence both the

internal value-adding activities and the external customer value chain. For Li Auto, maintaining good cooperation with suppliers is particularly important, as it has not yet fully covered production requirements with its own resources. Collaborating with suppliers to optimize resource allocation and improve mutual benefits is a core part of Li Auto's supplier value chain.

Li Auto has established a nationwide supply chain management system characterized by visualization and digitalization. This flexible system allows for the shared use of regional intelligent manufacturing technologies and collaborative development. This gives the company the flexibility to select suitable suppliers based on demand, improving the interchangeability of parts, reducing procurement costs, and accelerating R&D.

Li Auto's supply chain mainly consists of batteries, motors, and control systems. Batteries are one of the most critical technologies in NEVs. Major battery manufacturers include CATL and BYD. Li Auto has made strategic decisions to benchmark its technology against CATL, with a focus on self-developed mass-produced batteries from XWDA, and cost-effective batteries from Honeycomb Energy. This multi-tiered strategy helps Li Auto strengthen its supply chain and reduce production costs, while also ensuring high-quality and stable battery supply.

(2) Customer Value Chain

Li Auto's customer value chain extends beyond users to create an ecosystem. In terms of sales channels, Li Auto integrates both online and offline channels, improving product distribution efficiency. The company has also established independent business partnerships, focusing on enterprises with high demand for automobiles, creating an ecosystem of cooperation. By positioning itself as a provider of intelligent electric vehicles, Li Auto attracts product users who are then converted into customers of its value-added services, increasing product value and allowing Li Auto to share profits with its ecosystem partners.

In conclusion, Li Auto's value chain is user-centric, aiming to meet the higher demands for quality living from its customers. By offering electric, intelligent, and modernized products, Li Auto is building an ecosystem around its brand. By understanding consumers' buying habits and focusing on user experience, Li Auto increases customer loyalty and continuously boosts sales.

3. Shortcomings of Li Auto's Profitability Model from a Value Chain Perspective

Based on the evaluation of Li Auto's internal and external value chains and performance, its profitability model still faces challenges, particularly in the areas of user market concentration, industrial chain, and range-extended technology. These areas require adjustments to ensure more robust profitability.

3.1 User Market Concentration Leading to Fewer Profit Targets

Li Auto has chosen to enter the market with mid-to-high-end vehicles, and subsequent models have mainly focused on luxury family SUVs and flagship vehicles. Although Li Auto has turned losses into profits, expanding its market coverage is essential for better profitability.

Li Auto's vehicle prices range from 200,000 RMB to 600,000 RMB, with the lowest-priced model, the Li Auto L6 Pro, priced at 249,800 RMB. Furthermore, Li Auto uses a "base model and top-end configuration" strategy, meaning that customers must pay a higher price for enhanced vehicle performance. This pricing approach excludes lower-income families, representing a significant loss of potential customers for Li Auto's target market.

3.2 Overly Vertical Industrial Chain Leading to Unstable Profit Sources

The government's support for the NEV industry has helped Li Auto accelerate the integration of its NEV industry chain. Li Auto has adopted a "co-manufacturing + in-house core component R&D and production" model, where it works with upstream suppliers for material and component procurement and collaborates on vehicle production. However, this model has led to excessive vertical integration, which may result in an increase in inventory levels and higher costs associated with funding and capital turnover.

Despite the benefits of vertical integration, such as more control over production processes and pricing, excessive integration can lead to inefficiencies, especially as the company faces challenges in financing and managing its resources. This could disrupt the profitability model if the company fails to maintain a balance between autonomy and external partnerships.

Additionally, while integrating the industrial chain allows Li Auto to have better control over production, it also means increased investment in manufacturing facilities, R&D, and procurement, which puts pressure on its financial resources. This may negatively impact other business areas and reduce profitability if not managed effectively.

3.3 Deficiencies in Range-Extended Technology Leading to Thin Profit Barriers

Li Auto uses both range-extended and pure electric technologies, which are applied across its entire vehicle lineup. While range-extended electric vehicles have benefits such as longer driving range and easier recharging, they also have significant shortcomings that may affect their long-term competitiveness.

First, the production cost of range-extended electric vehicles is relatively high because they require both an internal combustion engine (ICE) and an electric drive system, as well as additional components such as the battery pack. This increases the production cost, which becomes a barrier in targeting the lower-end market. If Li Auto cannot reduce production costs, it will face difficulties selling its range-extended vehicles in the mid- to low-end markets. Moreover, the inclusion of both ICE and electric systems increases the weight of the vehicle, potentially affecting its handling, suspension, and overall performance, leading to safety concerns.

Second, compared to pure electric vehicles, range-extended vehicles emit pollutants and produce noise during operation when the internal combustion engine is engaged. This runs counter to China's "dual carbon" policies aimed at reducing carbon emissions and promoting clean energy. Additionally, the energy conversion process in range-extended vehicles leads to energy loss, reducing overall energy efficiency.

Due to these shortcomings, some regions in China have expressed negative signals toward the adoption of range-extended vehicles. For example, in February 2022, Shanghai released a policy stating that from January 1, 2023, no additional special license plates would be issued for plug-in hybrid vehicles or range-extended vehicles. This policy significantly impacts Li Auto, which has focused on these technologies in its product lineup.

Li Auto's range-extended technology is a core differentiator from other players in the industry and an important part of its profitability model. If this technology loses its market acceptance, it could be a significant blow to the company's future development.

4. Optimization Suggestions for Li Auto's Profitability Model from a Value Chain Perspective

In light of the challenges identified in the previous section, this chapter proposes several optimization suggestions to improve Li Auto's profitability model. These suggestions focus on expanding the customer base, adjusting the industrial chain, and concentrating on R&D efforts to reinforce profit barriers.

4.1 Expanding the Customer Base to Diversify Profit Targets

Li Auto's focus on the mid-to-high-end market has resulted in a concentrated customer base, limiting its profit sources. To achieve better profitability, Li Auto should expand its customer base to include all income segments, particularly targeting lower-income groups. This can be achieved by introducing low-cost models and offering transparent pricing strategies to build consumer trust.

Li Auto could develop smaller models with moderate configurations that are priced more affordably, targeting consumers in third- and fourth-tier cities. Additionally, maintaining price transparency and customer communication is key to gaining the approval of a broader audience. Regular user experience surveys should be conducted to understand customer preferences and address concerns. This user feedback can be used to improve existing products and further align the company's offerings with consumer expectations.

Li Auto should also consider adjusting its marketing strategies to attract customers across different income levels. By offering a variety of pricing options and adjusting the vehicle configurations, Li Auto can cater to a broader market. Moreover, it should focus on after-sales services and user satisfaction, which will help strengthen customer loyalty and drive further sales growth.

4.2 Adjusting the Industrial Chain to Stabilize Profit Sources

Although Li Auto's complete industrial chain integration has accelerated its growth and provided opportunities for greater market penetration, excessive vertical integration may lower operational efficiency and increase management costs. To optimize its industrial chain, Li Auto should adopt a more flexible approach by focusing on its core technologies and allowing more autonomy in key areas, while streamlining its internal operations to improve overall efficiency.

Li Auto should consider decentralizing certain aspects of the industrial chain, outsourcing less critical components to external partners, and maintaining more flexible supplier relationships. This would reduce inventory costs and financial pressure while maintaining production capacity. Furthermore, Li Auto should continue to optimize its charging infrastructure, especially in remote areas, to enhance customer convenience and alleviate concerns related to range anxiety.

4.3 Focusing on R&D to Strengthen Profit Barriers

R&D plays a critical role in the competitiveness of NEV companies. Li Auto should continue to focus on R&D, especially in areas such as battery technology, autonomous driving, and smart vehicles. By developing cutting-edge technologies and advancing its product offerings, Li Auto can reinforce its profit barriers and sustain its long-term growth.

Li Auto should also invest in large-scale model development and focus on creating technologies that enhance urban driving, such as fully automated navigation and advanced intelligent driving systems. If Li Auto succeeds in offering these technologies at scale, it will provide a significant competitive advantage and establish itself as a leader in intelligent electric vehicles.

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