Credit card business analysis of Bank of China

- Is BOC credit card competitive?

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Abstract

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Research Problem: With China’s entry into the World Trade Organization, abundant of foreign capitals will invest or have invested into Chinese financial market. Undoubtedly this would bring unprecedented chances for Chinese economic development. However domestic commercial banks face more intense competition with foreign funded banks at the same time. Bank of China, as the first Chinese credit card issuing bank in 1985, is the oldest and famous Chinese state-owned bank. During that period, Bank of China owned many rich, genteel and powerful customers, because credit card is a sort of status symbol at that time. However, the reputation of credit card of Bank of China business tarnished with time passing by. Today, sales of credit cards of some other banks have overtaken the sales of Bank of China. For all these facts, the authors conduct the investigation from the following three aspects: First, what’s the current external environment of Bank of China? Second, what’s the current internal marketing practice of Bank of China? Finally, the authors will locate competitive situation of Bank of China.

Purpose: The purpose of this thesis is to investigate the current situation of credit card business in Bank of China and identify competitive position of BOC credit card business. Meanwhile, the thesis will propose suggestions for the bank’s future improvements.

Method: The authors have collected both primary and secondary data in order to fulfill the purpose of this paper. The authors analyze external and internal environments with PEST theory and Marketing Mix. What’s more, SWOT framework is applied to locate competitive position of credit card business of Bank of China.

Conclusion: After thoroughly analysis with internal and external factors, we find out strengths, weaknesses, opportunities and threats of credit cards business in Bank of China. Also, this thesis proposes several improvement suggestions for Bank of China, such as enhance credit card attached services and expand current product line.
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1. Introduction

In this chapter, the authors will introduce the thesis topic, research problem, research purpose, target groups, definitions and research approach. What’s more, delimitation and references system will explain in this chapter as well.

1.1 Background

The financial industry is an emerging market in China. There are various financial institutions with completely different backgrounds that compete for every potential customer. With China’s entry into WTO, abundant of foreign capitals will invest or have invested into Chinese financial market. Undoubtedly, this would bring unprecedented chances for Chinese economic development, but at the same time, domestic commercial banks would face more intense competition with foreign funded banks. Bank of China, as the first credit card issuing bank and one of the four state-owned banks in China, has very competitive advantages in the last century. Nevertheless, nowadays the performance of credit card business of Bank of China is not ideal as people have expected. In this thesis, the authors will investigate current credit card business in China, analysis macro and micro environment in Chinese credit card industry and make a better understanding of competitive position of credit card in Bank of China.

1.2 Choice of Topic

To begin, as two students studying both finance and business, we want to find a point where the two fields could possibly meet. After evaluating several alternatives, marketing analysis of credit card business seems to meet our first criteria perfectly. We come originally from China, thus an investigation of a Chinese bank with the knowledge we have learned in Sweden is very interesting for us. Bank of China is one of the most internationalized banks in China; it has established branches in many countries in Asia, Europe, Africa and North America. Information online both in Chinese and English is widely available as well.

After China became a member of WTO, foreign investment in the Chinese financial market has been rising continuously. The Chinese financial market also managed to weather the financial crisis in 2008. There are great potentials in this market on the rise. However, along with the opportunities brought along by foreign entries, there are threats to the local business. Some domestic banks suffered from the increased competition and were forced to change. We feel that it will be of considerable interest, to investigate where Bank of China, the first bank to introduce credit card to the nation, stands in this wave of change. Due to the nature of our research objective and the fact that plenty of researches regarding analysis of different topics have been conducted from a consumer point of view, we decide to conduct our thesis from the management’s point of view. Bank of China’s marketing environment is investigated as the starting point, and analysis will be carried further from there.
1.3 Problem Discussion

Bank of China, as the first credit card issuing bank in China in 1985, is one of the four state owned banks in China. As the state-owned bank with the longest history, during last decade, Bank of China had many rich, gentle and powerful customers, because credit card is in a way a symbol of status at that time. However, the reputation of credit card of Bank of China business tarnished as time passed by. Today, sales of credit cards of some other banks have overtaken sales of Bank of China’s. For the purpose of better understanding credit card business in Bank of China and why the business is losing its leading position, the authors find it interesting to analyze external/internal environment of Bank of China and investigate the current marketing practice of Bank of China to locate competitive situation of Bank of China.

1.4 Research Problem

We determined to investigate credit card business in China and analysis marketing activities in Bank of China. In order to fulfill the research, we concluded following three research problems:
First, what’s the current external environment of Bank of China?
Second, what’s the current internal environment of Bank of China?
Third, what’s the competitive position of credit card business of Bank of China?

1.5 Research Purpose

The purpose of this thesis is to investigate the current situation of credit card business in Bank of China and identify competitive position of BOC credit card business. Meanwhile, the thesis will propose suggestions of improvements for the bank’s current credit card business.

1.6 Target Groups

The main target group of our paper is Bank of China, since the study is conducted in a case analysis approach with the purpose of giving insights into the situation and competitiveness of BOC credit cards. This research work can also be a reference for other commercial banks’ operation of credit card business, both domestic funded banks and foreign funded banks. Especially to those who are trying to find better solutions for their credit card businesses in China.

Meanwhile, this research could also be a good reference for other business students. The analysis and conclusion of this research could contribute to other students’ further investigations.

1.7 Scope of the Research

This research primarily discusses current credit card situation of Bank of China with a case study approach and tries to propose possible marketing suggestions for Bank of China. In the first place, the authors investigated both external and internal
environment of credit card of Bank of China from a managerial perspective. In the second place, the paper analyzes BOC credit card business with the SWOT model. In order to get more primary and incisive information, interviews with managers in Bank of China are conducted during the process. Finally, the research proposes several marketing advices for the bank based on the results of the study.

1.8 Delimitations

First, the investigation is focused on the credit card business, not debit card business. Second, the external environment analysis is only about Chinese macro-environment, not international. Parts of our analyses depend on secondary information from magazines, reports and websites. It’s difficult to get all information about BOC from original company source. Third, thought the authors would like to, due to the limit of time and sources, we couldn’t able to obtain information about all banks in China. Hence the paper focuses on Bank of China as a case study in the last section and interviewed managers who work with credit card business in Bank of China.

1.9 Reference System

The work is cited in accordance with the American Psychological Association (APA) system of referencing: it means that the thesis would mention the authors’ surname in the text, the year of publication and the page number. The entire reference at the end stated in alphabetical order later on in the reference list

1.10 Definitions

Credit Card: Credit card is a part of nowadays international payment system. It allows the card holders to pay for their bills without any deposit in advance. (Report of BOC 2008, p.4)

BOC: Bank of China, the oldest Chinese state owned bank. It was founded in 1912 by the Chinese government. (Report of BOC 2008, p.2)

China: China short for People’s Republic of China, established in 1949, has control over mainland China and the self-governing territories of Hong Kong (from 1997) and Macau (since 1999).

Marketing Mix: The list of marketing items when manager devise marketing plans, including product, place, price, promotion. Later the max was extended to include people, process and physical process for service products. (Baines, Fill and Page, p.550)

PEST: Tool that we used to analysis external environment from political, economic, social and technological aspects.

RMB/Yuan: RMB shorts for Renminbi, Renminbi or Chinese Yuan is the official currency of China. The distinction between Yuan and Renminbi is similar to that of pound and sterling.
1.11 Chapter Overview

This research is structured as the diagram below.

1. Introduction

The first chapter provides an overview of the thesis.

2. Country & Company Presentation

The second chapter presents description of the company Bank of China and the country China.

3. Credit Card

The third chapter describes the history of credit card and credit card traction processors in China.

4. Research Model

The fourth chapter presents the research model of this thesis.

5. Method

The fifth chapter provides the procedure regarding the way of data collection.

6. Theoretical Framework

The sixth chapter describes the theories that the authors have implemented in this thesis.

7. Empirical Findings

The seventh chapter is a summary of the interviews and some other data from Bank of China.

8. Analysis

The eighth chapter discusses empirical findings with the help of SWOT analysis.

9. Conclusions

The ninth chapter of conclusion is a summary of analysis results.

10. Recommendations

The tenth chapter presents suggestions from the authors based on the research.
2. Country and Company Presentation

In this chapter, the authors will briefly describe the company: Bank of China, and basic introduction of China. The background and key characteristics of Bank of China will be described.

2.1 Introduction of China

China has 1.328 million people that distribute in 56 minority ethnic groups. The People’s Republic of China was established in 1949, has control over mainland China and self-governing territories of Hong Kong (from 1997) and Macau (from 1999). Chinese government’s policy is freedom of brief, and these religious activities are protected by the constitutions. (Background of China, n.d.)

According to the rules of the WTO, Chinese bank industry will eliminate the restriction on the market accession of bank business and authorize foreign banks to operate RMB business. China would have a more modern and flexible regulation on financial products operations. Relying on their Strong Financing background, advanced management experience and technical means, perfect service functions as well as flexible operation mechanism, foreign banks would promptly use credit cards and other modern technology as their breakthrough into the Chinese market (Ibid). Consequently, credit card businesses would become one of the most competitive businesses between domestic and foreign banks.

2.1.1 The Chinese Economy

China has become one of the major economic powers with its great potential during these decades. After the reform and opening up in 1979, China’s economy developed at an unprecedented rate. With the development of science and economic, China is responsible for 10 percentage of the world’s total value of goods experts and 8 percentage of the world’s total value of goods imports. It is the second largest trading country around the world, which means the largest exporter and second largest importer of goods. (Brief Introduction to China, n.d) The economy of China is the third largest in the world, after the United States and Japan with a nominal GDP$4.91 trillion.

The overall Chinese economic construction objectives were stated in the following development steps: Step one, to double the GNP in 1980 and ensure that Chinese residents have enough food and clothes, this has achieved at the end of 1980s. Step two: to quadruple the GNP in1980 at the end of the 20th century, this was achieved in1995. Step three, to increase per-capita GNP to the level of the medium developed countries by 2050. (Economy of the People's Republic of China, n.d.) For instance, Chinese GNP was 30285 billion Yuan in 2008. However decade years ago, it was only 8302 billion Yuan. (National Bureau of Statistics of China, 2009, p. 37)

After the financial crisis between 2008 and 2009, China launched its economic stimulus plan. It has aimed on increasing affordable housing, easing credit restrictions
for mortgage, lower taxes on real estate sales and so on. (Economy of the People's Republic of China, n.d.)

![GDP Index](image)

*Figure 1: Chinese GDP Index From 1991-2008* (National Bureau of Statistics of China, 2009, p. 37)

### 2.1.2 Financial and Banking System

In China, the chief instruments of financial control are the People’s Bank of China and the Ministry of Finance, both are under the authority of state councils. Among all banks institution, 98% of banking assets are state owned (Economy of the People's Republic of China, n.d.). The People's Bank of China takes responsibility to control all banking business and assume all the functions of regulation. It supervises over all the other financial performances and is responsible for international trading.

Other financial institutions like four state-owned banks and three policy banks are important for Chinese economic development. The big four state-owned banks contain Bank of China, China Construction Bank, Agriculture Bank of China and Industry & Commercial Bank of China. Currently, the big four state-owned banks account for 50% of Chinese banking assets, each bank has its main target fields. For example, Bank of China is engaged in high quality financial services. China Construction Bank is responsible for providing funds for industrial and constructional enterprises. Agricultural Bank of China provides funds for agricultural sector and Industry & Commercial Bank of China commits itself to the investment for economic development and instructs foreign investment. (Ibid)
2.2. Bank of China

2.2.1 Profile of BOC

Bank of China (BOC) is one of China’s largest state-owned commercial banks. The bank provides a comprehensive range of high quality financial services to both domestic and overseas markets. As the most diversified financial institution in China, the bank is engaged in various fields, such as commercial banking, investment banking, insurance, fund management, direct investment, aircraft leasing etc. It operates financial institutions like BOC Hong Kong, BOC International, BOC Investment Management, BOC Insurance and BOC Aviation. As the most internationalized commercial bank in China, Bank of China has nearly 10,000 domestic outlets and more than 800 overseas branches, subsidiaries and representative offices in 29 countries. What’s more, the bank has created many ‘first times’ in Chinese bank industry. It was the first bank in China to set up an overseas financial institution that was in London in 1929. It was the first bank to issue bonds overseas, in 1984. It was the first bank to issue a bank credit card in 1985; meanwhile it was also the first bank to launch private banking services in 2007. (Report of BOC 2008, p. 7)


2.2.2 History of BOC

Bank of China was founded in the capital city of China Beijing in 1905. Before October 1949, the founding of People's Republic of China, Bank of China operated as central bank of China. After the founding, the bank mainly operated foreign exchange business, committing itself to the development of international trade.

In 1994, the bank was transformed from a foreign exchange bank into a state owned commercial bank. In August 2004, Bank of China Limited was officially corporate and listed on the Hong Kong Stock Exchange and Shanghai stock Exchange in 2006 as the first commercial bank to go public in both domestic and foreign market. (Ibid, p. 10)
3. Credit Card

In this chapter, the authors will present basic introductions of credit card, history of credit card, current situation of credit card industry in China.

3.1 Definition

Credit card is an invention of modern commerce. It is a plastic card that allows the card holder to purchase goods and services by paying with the card. Usually a user purchases firstly and pays back later with the interest. The credit card is issued by financial institution like commercial bank with whom the user has an agreement to repay the outstanding debt on the card. It is the most popular and convenient payment tools in the world. It is a part of payment and clearing system. From appearance, credit card is a plastic card having a magnetic strip, issued by a bank that authorizes the card holder to buy goods or services within credit limit. At present, credit card production adopt international ISO standard. The standard credit card is made by plastic with a length of 85.725mm, width 53.975mm, and height 0.762 mm. (Li, 2008, p.20-21)

3.2 History of Credit Card

3.2.1 History of Credit Card in the World

The first bank card called "Charge-It" was introduced in 1946 by John Biggins, a banker in Brooklyn, Ohio, United States. When a customer used the bank card for a purchase, the bill was forwarded to Biggins' bank. The bank reimbursed the merchant, and later on, the bank obtained payment from the customer. However during that period, purchases could only be made locally, and Charge-It cardholders had to have an account at Biggins bank. (Credit card history, 2008)

Later in 1950, the Diners’ Club issued their credit card in the United States. This card was invented by Diners’ Club founder Frank McNamara and it was designed for paying restaurant bills. In the beginning, the Diners’ Club card was a charge card instead of a credit card. The bill should be paid off at the end of each month. (Ibid)

In 1958, Bank of America as the latest ancestor issued the first credit card to the modern day and that card eventually became Visa with MasterCard emerging in the 1960’s. (Ma, 2005, p. 25)

3.2.2 History of Credit Card in China

During the late seventies, credit cards as main means of payment entered into China rapidly. In 1979, Bank of China Guangdong Branch signed agreement with the Bank of East Asia, and acted as an agent for Bank of East Asia to issue credit cards in Chinese mainland. Until March of 1985, Bank of China Zhuhai branch primarily issued its own credit card called ‘BOC credit card’ in China. Later in June of 1986, Bank of China Beijing branch launched ‘BOC Great Wall credit card’ (Credit Card History, 2008).
Today credit cards are much more widely be used. Visa and MasterCard sales in 1977 were $3.61 billion, in 1987 sales were $26.37 billion, in 1997 sales were $76 billion and in 2007 $240.52 billion (Ibid).

### 3.3 Credit Card Transaction Processor

#### 3.3.1 Processor Brand Structure

The most common transaction processors in China is Visa international, MasterCard, American Express, Diners Card, Japan Credit Bureau Card, and China Unionpay. Until Dec. 12th, 2009, Visa international, MasterCard and Unionpay remain the majority 97 percentage of the credit card transaction processor market.

As the following figure shows, Unionpay covers 62 % market share in China until 2009, Visa and MasterCard possess 18.21% and 17.31 % respectively. JCB and American Express have 2% and 1% market shares respectively.

![Credit Card Brand Structure](image)

*Figure 2: Chinese Credit Card Transaction Processor Structure, until 2009 Dec. (Credit Card Business Report 2009, 2010)*

#### 3.3.2 Processor Brand Structure Comparison

As the figure 4 shows, Compared with 2008, Unionpay decreased by 3.23% in 2009, Visa and MasterCard increased by 0.23% and 2.14% respectively, American Express and JCB (Japan Credit Bureau) remained almost the same shares as in 2008.


3.4 Credit Card Industry in China

Company with the fierce competition in financial industry and the new adjustment of business strategy after accession to the WTO from 2002, every bank increase innovation and applications of credit cards, after several years of development, credit card business in China has achieved creditable achievements. These achievement illustrated the progresses of Chinese bank’ business capacities, levels of social credibility, and community authorization. While compared with developed countries there is still a gap need China to fill in. Chinese credit card industry had not fully reflected the credit function of credit card, the positive effect of stimulating household consumption etc. Currently, Chinese credit card market has the following characteristics:

First, in order to maintain a rapid growth, credit cards create new functions ceaselessly. With development of credit card popularity and fierce market competition, in order to increase market shares, every bank makes every effort including monitoring new market demands, increasing credit cards varieties and expands service extents. Thus, making the usage of credit card is becoming more convenient and faster than before. (Zhou, 2009, p.19)

Second, the reason of credit card appearance is credit payment and customer credit demand. Thus, all along foreign banks provide credit services as their main business in their development of credit card business. They provided their customers “first consumer, pay back later” fundamental rights. However, the restrictions of Chinese existing clearing and settlement system, currency composition and bank transfer form, Chinese commercial banks adopt developing debit card as their targets. Actually, influenced by “made both ends meet, cut one's coat according to one's cloth” believes, Chinese credit card customers didn’t apply credit function very well, which should be a main role of credit card services. (Liu, 2009, p.46)
Third, compared with foreign banks, there is still a huge potential space for Chinese card issuing banks to fill in. Until end of 2008, there are more than 150,000,000 credit card users in China. However, compared with developed countries, credit cards consumption per head and the frequency of credit card usage are still much lower in China. Except that, credit card business is still at a low profits level for Chinese credit card issuing banks. Both the current gaps and space of development indicate that to increase Chinese credit card business is an attainable target. (Zhou, 2009, p.20)
4. Research Model

The research model chapter describes the structure of our research. It is a guideline of the underlying logic of the thesis. The model identifies areas to be investigated and the meanings and purposes they forebear.

![Figure 4: Research Model (Own Construction)](image)

The authors focus on both external and internal matters of BOC credit card business during the overall investigation. In the first place, the authors will present the overall induction of credit card business in China. In the second place, the authors will collect data and present the data from external and internal prospective with the help of PEST theory and Extended Marketing Mix (the traditional Marketing Mix plus people). Next, the authors will analyze their empirical findings based on the SWTO framework and locate competitive position of BOC credit cards. Finally, the authors will summarize the analysis and propose possible improvements.
5. Method

_In the chapter five, the procedure of the research will be thoroughly described. This chapter will also present the way how the authors collect their data and the reason._

5.1 Choice of Method

The decisions concerning method we have made in our research on Bank of China will be explained with regard to the aspects listed below. To sum up, we have chosen to use deductive reasoning, qualitative data collection method, case study approach and a mix of primary and secondary information.

Since Bank of China is a renowned company applying various marketing practices on many of its products, we think an in-depth study of its marketing activities would be necessary and interesting. The choices concerning method serve our goal of an insightful study on card business of Bank of China.

5.1.1 Deductive Reasoning

Deductive reasoning is talked about in parallel to inductive reasoning. Through induction, general conclusion is drawn based on empirical observations. In this type of research the process is from observation→findings→theory building. (Ghauri and Gronhaug, 2005, p.15) The flaw with induction method is that the number of observations are always limited, thus we cannot be 100% sure about the correctness of a theory based on mere observations.

Deductive reasoning, on the other hand, is based on logical reasoning. The starting point of it is existing knowledge or theory in literature, which can be tested against reality and accepted or rejected. (Ibid, p.15) It is a preferred approach in business studies.

This thesis employs deductive reasoning in its analysis of credit card business of Bank of China. Business studies emphasize the role of deduction where the reliability of all findings depends only on the quality of logic used and accurate measurement. Since our investigation of Bank of China is based on facts and conclusion only drawn from our findings afterwards, our method is deductive in nature.

5.1.2 Qualitative Method

The means we use to discover findings is qualitative method. The main difference between qualitative and quantitative research is procedure. In qualitative research, findings are not arrived at by statistical measurement but by observations and interviews. (Layder, 1994, p.125) However, it is possible to quantify qualitative result thus they are not mutually exclusive. We state that we are employing qualitative method is because our overall form, emphasis and objectives fit with qualitative approach better.

In general, we decide to use qualitative method mainly for two reasons. The first one is that we conduct our research from the management’s perspective, thus
questionnaires and such used in quantitative research is not quite relevant. Qualitative method is used to find out facts, opinions, minds and souls of people involved. Through our semi-structured interviews (Ghauri and Grønhaug, 2005, p.132), primary data is collected based on in-depth and open direct communication with managers of Bank of China. Through our literature research, key activities and underlying motivations of credit card sector of Bank of China are discovered. The second reason is that since we are living in Sweden, collecting data in large amount (to justify any conclusion made from them) from Bank of China’s consumers is difficult and not realistic within a three-month period.

5.1.3 Case Study

This thesis is written from the management’s perspective and can be referred to as a single case study for the company Bank of China.

Case study is a preferred approach when ‘how’ and ‘why’ questions are to be answered, when the researchers have little control over events and when the focus is on a current phenomenon in a real-life situation. (Yin, 1994, p.16) The case study method is helpful when the concepts under study are hard to quantify. It is a description of management situation which often requires various sources such as verbal reports, personal interviews and observations as primary sources. Other sources include financial reports, archives, and market and competition reports. (Ghauri and Grønhaug, 2005, p.115) Sufficient and comprehensive information about different dimensions of the case subject should be included in order to characterize and explain the unique features of the subject being studied. ( Selltiz, Kidder & Judd, 1976, p.235)

Information we have collected from interviews, magazines, industry reports, books and articles etc. enable us to gain an in-depth and comprehensive understanding of credit card business of Bank of China. The aim of our case study is mainly to identify the business environment as well as the business practice of Bank of China compared to other banks, and therefore is mainly valuable for Bank of China. Although we reserve the generalization of our conclusion, this case study can be a valuable source of reference for similar companies or researches.

5.2 Choice of Theory

After identifying our thesis purpose: investigate the current situation of credit card business in Bank of China, identify possible problems of credit card business in Bank of China and suggest strategic recommendations for improvements. We found different theories, and after carefully compared thesis theories, we chose extended marketing mix (the traditional marketing mix plus people), PEST and SWOT as our theoretical models.

First, in order to make sense of the external environment the authors use a framework called PEST analysis, which could bring us macroeconomic environment analysis. Concerning the internal environment the authors choose extended marketing mix. Since credit card business is partly belongs to service sector, it’s more logical to use
the traditional marketing mix 4P plus people. Second, SWOT analysis could help us find both internal capability and external situation of an organization. The Strength and Weakness could analysis internal environment, while Opportunity and Weakness could analysis external environment. Thus, we want to use SWOT determining an overall view of Bank of China’s strategic position.

5.3 Data Collection

The choice of data collection depends upon overall judgment on what sorts of data is needed to solve the research problem. (Ghauri and Grønhaug, 2005, p.108) Primary data are original data collected by us focusing on our own thesis problem. Secondary data are information gathered by others for goals that might be different from ours. (Ibid, p.91) Due to the advantage of primary data, we try to build our research mainly on primary data from Bank of China. Direct information is obtained from two managers from BOC who are well-familiared with credit cards and their operations. However, secondary source is also a good complement when primary information is not available. official report of Bank of China, established credit card magazines and many other financial and marketing websites are referred to in the paper. We always try to locate them from credible sources to ensure the accuracy of our research findings. Besides, by “listening to both sides of the story” from primary and secondary data neutrality and unbiasesness are improved.

5.3.1 Primary Data

When secondary data are not available or are not able to provide answers to our research topics, we need to gather data ourselves that are relevant to our specific questions. These data are called primary data. The key advantage of primary data is that they are more consistent with our research goals. (Ibid, p.102)

We have contacted two managers - Jianmin Meng from Beijing branch and Congming Wu from Jiangxi branch- in the credit card sector of Bank of China as our interviewees since they both have worked with the business for many years. We believe that they are reliable information source due to their years of experience and expertise in BOC credit cards business. They have provided us with insiders’ data which creates depth for our research.

**Telephone Interview:**

For primary data, we have to decide whether to communicate with the respondents/subjects or to observe them. Direct observation is more or less impossible due to geographical distance; we then choose to conduct telephone interviews with personnel from Bank of China. The advantage of telephone interview is that we can obtain access to people who might not often have time for face-to-face interviews. It is a quick, flexible and efficient way to obtain real-time information. The disadvantage of telephone interviews is that it is hard to get answers to questions that are more complex or that demand detailed or long answers. (Fisher, 2007, p.169) Our
solution to this adversity is that we send our questions in emails before we conduct
the actual interview. The interviewee would then have time to prepare in advance to
offer us more insightful information.

We interviewed two managers who both have worked in Bank of China’s credit card
section for years—one of them is from Beijing branch (north of China), the other is
from Jiangxi branch (south of China). The interviews were conducted in April, 2010
separately and lasted for an hour.

Our interviews are semi-structured, which means we neither give the interviewee
multiple choice questions only (structured), nor do we enable completely open
discussion with the respondent (unstructured). (Ghauri and Grønhaug, 2005, p.132) In
semi-structured interviews, topics and issues to be covered, people to be interviewed
and questions to be asked are determined beforehand. In setting a fixed framework as
stated above, semi-structured interviews try to rule out bias arisen from inadvertent
omissions or questions. (Ibid, p.132) At the same time, respondents are given certain
latitude of freedom in expressing opinions. The interviews are recorded by typing and
writing with pen and reviewed to eliminate any omission or misunderstanding from us
and to ensure the accuracy of the interviews.

Emails:
Before our interviews we sent lists of questions we were going to ask to the
interviewee so they could be better prepared when the actual interviews came around.
Also, if some answers to our questions require long response supported with charts or
figure, our interviewees could send us their answers back through email. This
facilitated efficiency and accuracy of our communication.

5.3.2 Secondary Data
To ensure the unbiasedness of our research findings, we also collect data from
secondary sources in addition to primary ones to “listen to both sides of the story”.
Secondary data are helpful not only to find information to solve the problem, but also
to better understand and interpret our research problem. (Ghauri and Grønhaug, 2005,
p.92) We begin with a literature review on and around our research. Then we spent
time locating relevant and reliable information, evaluating the usefulness of them and
saved the best candidates. We know that once people see secondary data in our report,
the reliability of the information becomes our responsibility (Cooper and Schindler,
2001).

The secondary sources we use are textbooks, studies and reports of institutions and
departments such as universities and Goldman Sachs, professional journals, central
and local government studies and reports and internet sites and web pages from
different companies and organizations. Research articles are mainly found through
Mälardalen University library database ELIN@Mälardalen and Wanfan Database (a
well-known Chinese research database).
5.4 Validity and Reliability

In a valid measure the observed data should be close to its true value, meaning the random error should be very small. Reliable measure is one with high stability. The observed score does not change or have small changes every time being measured. (Ghauri and Gronhaug, 2005, p.81) We try to maintain our own objectivity, and collect data from different authentic sources to maintain the validity and reliability of our report. Primary information has been collected from experienced managers in the credit card business of BOC to increase the validity and trustworthiness of the paper. Also, secondary information is also taken into consideration to check up and complement the primary information. But the methods, theory and data we have collected, both secondary and primary, are still subject to our own interpretations when we use them. For the same reason, they are also influenced by particular attitudes and stances of people who wrote or offered the source to us. In sum, we want to point out that qualitative researches are in general more difficult to set up some standardized rules or procedure to ensure validity.
6. Theoretical Framework

In this chapter our theoretical framework will be introduced. The choice of theories depends on the research focus: external and internal matters of credit card sector of Bank of China. PEST framework is employed to investigate the external conditions; the traditional marketing 4P plus people is used to research in the internal practices of BOC’s credit card sector.

6.1 PEST Analysis

Environmental analysis is critical important in any industry especially in the dynamic financial services industry. This PEST analysis contains assessing influences on the following four aspects: Political Environment, Economic Environment, Social Environment and Technological Environment. “The company and all the other actors operate in a large macro-environment of forces that shape opportunities and pose threats to the company itself.” (Johnson & Scholes (1993) in: Kotler & Armstrong, 2010, p. 94)

As the following figure shows, PEST analysis is the analysis of external macro-environment that affects all companies. PEST is an abbreviation for political, economic, social and technological. These four macro-environment factors are beyond the company’s control. It is a helpful tool for us to understand market growth and decline, the position and direction for a business. Changes or innovations in the external environment also create new opportunities. Thus, it is very important for us to consider the environment before beginning the other marketing process.

![Figure 5: PEST Analysis Factors of Financial Institution (Own Interpretation)](image-url)
6.2 Extended Marketing Mix

The marketing mix is the tactical marketing tools for internal matters analysis for the organization in the target market. It consists of everything the firm can do to influence the demand for its product. (Kotler & Armstrong, 2010, p. 76) The marketing mix known as the four Ps are product, price, place and promotion, since credit card business is partly belongs to service sector. Thus we figure out our new marketing mix as the figure 6 shows:

![Marketing Mix Diagram](image)

Figure 6: Elements of New Marketing Mix (Kotler & Armstrong, 2010, p. 76)

**Product** includes both tangible and physical products and services. Decisions regarding products involve the following aspects: product variety, quality, design, features, functionality, warranties and services. Product means the goods and services combination the organization offers to the customers.

**Price** is the costs for the customers must pay to obtain the certain product. Decisions regarding prices involve the following aspects: list price, discount, allowance, payment period, and credit terms.

**Promotion** is mainly about conveying information and purchasing incentives of the product with a goal of invoking customer response. Such decisions typically are promotional strategy as advertising, personal selling, sales promotion, public relations and sales force.

**Place** is about where to make products available and how to distribute them. Some dimensions of place include channel type, exposure, intermediaries, outlet locations, transportation and storage.
People refers to all human actors who play a part in service delivery and thus influence the buyer’s perceptions: namely, the firm’s personnel, the customer, and other customers in the service environment. The aspects of people concerning employees include recruiting, training, motivation, rewards and teamwork. As for customers, customer education and training is crucial for a smooth service delivery. (Zeithaml, 2006, p. 26)

6.3 SWOT

SWOT stands for strengths, weaknesses, opportunities and threats. It is an essential series of checklists derived from international and external factors. It is an analysis tool for auditing an organization and its environment. In SWOT, strengths and weaknesses are internal factors. Opportunities and threats are external factors.

As the figure shows above, strength is something an organization is good at or something that gives the organization advantage. Weakness is something an organization lacks, that means inferior aspects compared with competitors. Both strength and weakness belong to internal factors of the organization. Opportunity is a potential to advance the organization by the business development and satisfaction of an unfulfilled market need. Threat is something may reduce the potential advantage of the organization. Both threat and opportunity belong to external factors of the organization. (Baines, Fill, & Page, 2008, pp. 188-189)
7. Empirical Findings

This chapter is mainly based on telephone interviews conducted by the authors to gain in-depth knowledge of BOC’s credit card practice. The company reports are offered by our interviewee as supplements to give the authors a comprehensive understanding of the company.

7.1 External Matters

7.1.1 Political

Any marketing decisions are strongly affected by the transformation of political environment. The political environment consists of laws, government agencies and pressure groups that influence or limit various organizations and individuals in a given society (Kotler & Armstrong, 2010, p. 108). After joined in the World Trade Organization (WTO) in December 11, 2001, China has to commit the elimination of regulations about foreign funded financial institutions operate RMB business in the country. Thus, all foreign banks could operate credit card businesses if the foreign banks fulfill requirements.

The World Trade Organization (WTO) is an international organization designed by its founders to supervise and liberalize international trade. The WTO deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments. (Alan, 2004, p.21-22). After China entered into WTO, the Chinese Banking Regulatory Commission has announced that China would implement the following commitments:

First, expand the scope of RMB business in foreign funded banks. Second, expand the scope of foreign exchange businesses in foreign funded banks. Third, lose up the rules of off-site business. It means foreign banks could conduct RMB business to customers in other cities. Forth, abolish the restrictions on customers of RMB business (Chen, 2009, p. 34).

“"In mainland China, among four most representative foreign banks: the HSBC Group, the Standard Chartered Bank, Citibank and the Bank of East Asia, the Bank of East Asian has already carried on credit card business from last two year. The HSBC group has implemented credit card unite with the Communication Bank as well."” (Wu, 2010)

The Chinese government launched a program supporting financial electronization in China called the “Gold Card Program”. The goals of this program are building a modern and comprehensive electronic currency system and introducing bank cards to 0.3 billion people in 400 cities. The four state-owned banks (Bank of China, Industrial
and Commercial Bank of China, China Construction Bank and Agricultural Bank of China) and other private-owned banks will all benefit from it. (Ibid)

In addition, the credit cards issuing banks have quite a lot concerning about their risks. According to the statistics of international monetary fund organization, 14% of 1914 billion USD consumer debts are bad debts in United States, 7% of 2467 billion USD consumer debts are bad debts in Europe. (International Monetary Fund, 2010) During 2009, Chinese Banking Regulatory Commission launched reinforced management of credit card risk rule. And Chinese Banking Regulatory Commission has cooperated with Ministry of Public Security and administrative bureau of industry and commerce to effectively guard against the bad debts risk and reduce the loss (Meng, 2010).

7.1.2 Economic

The economic environment consists of factors that affect consumer purchasing power and spending pattern (Kotler & Armstrong, 2010, p. 95). Banks must pay close attention to major trends and consumer spending patterns both across and within their world markets. Economic environment consists of stages of economic growth, consumer income, consumer expenditure, national economy trends and personal disposable income etc. In 2008, China succeeded in holding the 29th Olympic Games in Beijing. During these years, China’s economy maintained steady and rapid development.

The development of Chinese economy has kept a rapidly increase since last century. According to the statistics by National Bureau of Statistics of China (Figure 8), Chinese annual per capita disposable income of urban households is 15781 Yuan in 2008, and it increased by 13% compared with in 2007. The research on economic development theory studies has shown the positive correlation between per capita GDP and the loan amount of personal credit, the correlation coefficient is 0.97. Thus, the high positive relation stressed that high increasing Chinese per capita GDP ensured better opportunity for the expansion of Chinese credit card market. The increasing per capita GDP would accelerate the growth of Chinese credit card industry. (Goldman Sachs Report of Chinese Credit Card Industry, 2003, p.2)

In pace with rapid growth of Chinese economic and national income, consumption level of Chinese residents has improved more than three times as it was decade years ago. From the Figure 8 below, Chinese annual per capita consumption expenditure of urban households is 11243 Yuan in 2008, and it was 11% higher than in 2007. Nowadays, credit card has accepted and become a new favorite purchasing habit for more and more youngsters. The new consumption idea of credit consume has been widely accepted in many different places. This credit consumption has high correlation with level of consumption: the higher level of personal consumption, the higher level of credit card consumption.
Credit card business analysis of Bank of China
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Figure 8: Annual Income and Consumption of Chinese People (National Bureau of Statistics of China, p. 315)

“Until the end of 2009, there are 142,000,000 credit card users in China. Bank of China sold 15.79 million credit cards, annual transactions have exceeded 371.8 billion, average annual transactions per card was 2355 Yuan, which was increased 13.71% compared with 2008” (Wu, 2010). Currently, Chinese sustainable economic growth is a fundamental guarantee to the expanding of Chinese credit card industry.

Another economic factor is the increased competition between Chinese banks. Price reduction, product line extension have become the main method for banks to increase their competitiveness. Banks are forced to lower or waive away the annual fee, transaction fee in order to stay in line with other competitors. This has created considerable pressure on profits from credit cards. (Ibid)

7.1.3 Social
The traditional Chinese personal financing idea emphasize on saving. The order of doing things is first to earn, second to save and finally to spend. There is a story comparing the consumption pattern of Chinese and American people. One old American says that she has finally paid back all her debts for buying the house after 30 years of work. One old Chinese lady says that after saving for 30 years, she has finally got enough money to buy a house. (Comparison of Chinese and American Consumption Tradition, 2005) However, during recent years the Western thinking of ‘consuming comes first, then paying back’ becomes more and more popular in China. As a result, it creates an advantage for the introduction and prosperity of credit card business. “Now it’s already many years into the initial introduction, the urban Chinese consumers are getting more and more confident in using credit cards as a primary payment tool. In big cities like Beijing and Shanghai, the usage rate has reached 44.5% this year. In middle-sized cities the number is also high at 35%. On average more than 20% are new users from last year. However, the traditional
Chinese concept of ‘save’ or ‘do not want to owe others money’ are still the main hinders of credit card adoption. This is a challenge for us. We will have to help the potential consumers get out of their old psychological ‘box’, so to speak.”

“The main groups of consumers are youth, middle-aged people. They tend to be well-educated and high-income citizens who primarily cluster in cities. Thus the rural areas are still underdeveloped in terms of credit card usage. But farmers have become richer and therefore they demand higher life quality which leads to more consumption. Also, during busy harvesting seasons, many farmers need more money to run the seasonal heavy operations. However, at the moment it is really difficult for them to borrow money. Some of them just borrow from the local government, but the amount are usually small and not enough for everyone either. This is where credit card should come in handy and we believe that BOC has realized the potential market in rural areas very quickly” (Meng, 2010)

One major concern in China is the growing credit card crime. (Wu, 2010) According to Visa International’s statistics, from July to December 2003, credit card frauds caused a 66.02 million USD loss in Asia-Pacific region. Safety has become an urgent problem for the card issuers to solve.

At the same time, credit card issues have the most number of lawsuits from customers among all bank services. The main reasons for these conflicts involve banks authorizing credit card with unstrict examination of the applicants’ economic foundation, banks allowing too high credit limits to customers who do not have the ability to pay back on time, or customers misunderstanding of credit card rules and terms. (Ibid)

Also, “Nowadays, every bank has tons of different products with different co-brand cooperators such as shopping malls or airlines.” One card normally only has one co-brand company besides the bank. “For consumers it is a difficult thing because it is way too hard to choose one among all the cards with different attractive features. Some consumers are demanding a card with both shopping mall and airline and some other merchant benefits added to one single card. That is not very easy for us banks to operate though. But indeed it is a potential market.” (Meng, 2010)

Recently results of a survey concerning customer satisfaction of banks in China are published by a renowned marketing research company in China. Bank of China was ranked fifth among all banks. (Data 100 Market Research, 2010)
Figure 9: Customer Satisfaction Ranking 2010 (Data 100 Market Research, 2010)

7.1.4 Technological

“Technologies have been developing very fast in this industry recently. I guess it is because of the fierce competition, everyone wants to have something new and create extra convenience for customers. Technologies include technologies at the customers’ side and at banks operation side. At customer side, it is mainly the multi-payment channels enabled by technology. Now you can pay through the Internet and even mobile phones. I know Internet payment is prevalent in Europe, but mobile phones are less common. How does mobile phone work then? If you want to buy something online, then you just send a message to the number designated on the website by the seller, then you will receive a message saying that you are already debited. You just charge your phone with enough credit then you can use that as a bank account. I think the British operator Vodafone is offering the same thing in some countries in Africa where people don’t have access to internet, and they live in rural areas with no bank presence. For them, mobile phone is the perfect solution. They can pay all sorts of bills, and they can even transfer money to each other through mobile phones! In China, this is not only suitable for rural areas but also welcomed by people in cities. China Construction Bank is the first to have mobile bank service which enables account information checking, money transfer, credit card automatic payment and other functions of a real bank account. Bank of China is also going to start that service in a few days on May 4th, 2010. We call it WAP service in Bank of China. We understand that security is a big concern of customers, thus we are the first in China to adopt the highly secure E-token technology which allows access to only authorized individuals. It generates a new password everything 60 seconds and saves the trouble of customers forgetting their passwords.” (Meng, 2010)
At the banks side, profiling every customer and digging their needs and wants is what banks in China are lacking. Many banks are thinking of introducing Customer Relationship Management (CRM) system. Bank of China in Wenzhou, a city in the south of China, has started to experiment with CRM and has gained back 20% of their lost customers. We believe this is a technology that will bring profits to us in the future if implemented properly. We are still preparing for it. (Ibid)

On February 24th, 2010, the vice-president of People’s Bank of China, Ming Zhu had announced that personal credit evaluation system will be implemented in 2011. Personal credit evaluation system would efficiently value personal credit regarding the income, fixed assets, education level, consumption history etc. of each target customer. After successfully implemented in 2011, the majority of application process of credit cards would be handled through new personal credit evaluation system. The new personal credit evaluation system would work as a tool concerning credit decisions and post loan management. After successfully launched personal credit system, the system will apply to the life cycle management of credit card business, the management of housing loan, the management of automobile consumption loan and the management of other personal loan services. (Wu, 2010)
7. 2 Internal Matters

7.2.1 Product
In the last couple of years, Bank of China has continuously enriched its credit card product mix. “Generally speaking, there are 46 different kinds of credit cards in Bank of China, and these 46 different cards can be divided into 4 series” (Meng, 2010). The first series is BOC Great Wall credit card, the second series is BOC standard credit card, the third series was called BOC theme credit card and the last series was called BOC co-brand credit card. As the figure 10 shows below, the first BOC standard credit card that emerged in China in 1985, meanwhile this was the first credit card in China. One year later, the first BOC Great Wall has issued in Beijing. “Among all credit card issuing banks, four state-owned banks sales best in Chinese credit card market. The sales of credit cards in Bank of China ranked the fourth place that sold 15.79 million credit cards until the end of 2009 ” (Wu, 2010).

![Diagram of Credit Cards in BOC(46)](image)

*Figure 10: Categories of Credit Cards in Bank of China (Own Contribution)*
Credit card business analysis of Bank of China  
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I. **Great Wall Card:**

1) Great Wall Amway Credit Card  
2) Great Wall China’s 60th Anniversary Credit Card  
3) Great Wall RMB Credit Card  
4) Great Wall Office Credit Card  

There are four different great wall credit cards in Bank of China. These great wall cards were issued by Bank of China and were adopted revolving overdriving consumption mode that domestic or internationally accepted. The card issuer grants a card holder certain credit limit according to his credit standing, and the card holder can consume within the credit limit and later make repayment. As for consumption by overdriving within credit limit, the card holder needs to pay for interest when he pays back the principle. *The highest authorized credit limit for a card is 50,000 Yuan, and the limit varies depending on each applicant’s financial statement (Wu, 2010).* These four great wall cards have functions of overdriving consumption, account transfer settlement, deposit and disbursement of cash.

Among four different great wall credit cards, the first three great wall credit cards are domestic credit cards, which mean credit cards can be used in BOC business offices, BOC special emporiums, ATMS with “Chian UnionPay” logo. Domestic credit cards could also be used at certain overseas such as South Korea, Thailand and Singapore. The fourth Great Wall Office Credit Card is an international credit card, that means the card could be used both home and abroad. Great Wall international credit cards can be used in BOC business offices, BOC special emporiums, ATMS with “China UnionPay” logo, VISA or MasterCard logo at overseas. The settlements can be made either in RMB or a specified foreign currency. International card has functions of overdriving consumption, account transfer settlement, deposit and disbursement of cash, overseas consumption, disbursement of foreign currency while pay back with RMB. (Ibid)

II. **Standard Card**

1) BOC Credit Card  
2) BOC JCB Credit Card  
3) BOC Great Wall Study Abroad Credit Card  
4) BOC Great Wall International Credit Card  
5) BOC Great Wall International Hong Kong-Macau Credit Card

The second series of credit cards were called standard cards. Standard cards involve five different kinds of credit cards: BOC Credit Card, BOC JCB Credit Card, BOC Great Wall Study Abroad Credit Card, BOC Great Wall International Credit Card, and BOC Great Wall International Hong Kong-Macau Credit Card.
These five different standard credit cards can be used both at home or abroad, and they are double-currency cards. Each type of standard credit card has gold card or silver card two kinds that vary according to the competences of applicants. The highest authorized credit limit of a silver card is 20,000 Yuan, but the highest authorized credit limit of a gold card is 50,000 Yuan. The card holder can enjoy interest-free repayment period of 50 days. Standard cards can be used in BOC business offices, BOC special emporium, deposit and disbursement of cash, ATMS with “China UnionPay”, VISA or MasterCard logo at overseas for more than 300 countries. Settlement can be made either in RMB or a specified foreign currency that repaid by RMB afwards. The standard credit cards have high security control. The customer could require for payment double check service, that means the holder’s signature and password should dovetail with the records in the database of Bank of China (Wu, 2010).

“JCB is short for Japan Credit Bureau Card. It is one of credit card transactors in the World, thus BOC JCB credit card is designed especially for people who usually visit Japan. BOC Great Wall Study Abroad Credit Card and BOC Great Wall International Credit Card are dual currency cards, especially for overseas study students or international trading businessmen. The dual currency cards contain RMB-EUR card, RMB-USD card, RMB-GBP card, RMB-HKD card, and RMB-AUD card” (Meng, 2010). When the card holder of dual currency cards abroad, they could pay for their bills with RMB or certain foreign currency as they wish. Thus he does not need to take a risk of floating exchange rate.

“The biggest difference between standard card and great wall credit card is that great wall credit card can be used for depositing money and gain interest income from saving, but the card holder is not able to enjoy the interest-free repayment period of 50 days. While BOC standard credit cards can deposit money but no interest income from the saving, but the card holder can enjoy the interest-free repayment period of 50 days” (Ibid).
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III. Theme Card

1) BOC Olympic Credit Card
2) BOC City Credit Card
3) BOC National Fitness Credit Card
4) BOC Fortune Cat Credit Card:
5) BOC I Love Hainan Credit Card
6) Platinum Card: (2)
   - BOC Platinum Card; BOC Platinum Lady Card
7) Student Card: (5)
   - BOC Peking University Credit Card; BOC Tongji University Credit Card
   - BOC Donghua University Credit Card; BOC Sichuan University Credit Card
   - BOC Shanghai Jiao Tong University Credit Card
8) Finance Card: (2)
   - BOC Consonance Credit Card; BOC Financing Credit Card

The theme series credit cards contain 14 different kinds, and they could be divided into 8 categories. BOC Olympic Credit Card was launched for 2008 Beijing Olympic Game. BOC I Love Hainan Credit Card was designed for Hainan province established for 20 years in 2008. BOC City Credit Card is for young city residents, and the cover of this card is cartoon ‘turn left or turn right’ (Meng, 2010). BOC Fortune Cat Credit Card is a RMB-JPY dual-currency credit card and was designed for people who usually go to Japan. There are two platinum cards in Bank of China: BOC Platinum Card and BOC Platinum Lady Card. The BOC Platinum Card is for upper class customers. The card holder could enjoy more luxury services such as ten free golf courses annually in more than 20 cities, enjoy ‘priority pass’ service at 49 airports in China and 151 airports abroad (Ibid, 2010). What's more, the credit limits can more than 50,000 Yuan depending on the applicant documents. However, the application requirements are much higher than the others credit cards. There are five different student cards: BOC Peking University Credit Card, BOC Shanghai Jiao Tong University Credit Card, BOC Tongji University Credit Card, BOC Donghua University Credit Card and BOC Sichuan University credit card. All these five partner universities are top famous universities in China, the college students who studied in these universities are well educated. Every year, Bank of China denotes 0.12% total expense of each student card to the university foundations. “The reason why Bank of China cooperates with these universities is that these college students are high-quality, and these students have big possibilities to become high-income people in the future” (Ibid, 2010). The universities would enjoy the donations from every holder of student credit cards every year, and Bank of China could enjoy the honor to cooperate with top universities. Finance Cards are designed for people who need more financial services, and finance managers could provide one to one consultancy services.

Bank of China grants each standard card holder certain credit limit according to his credit standing, the highest authorized credit limit of gold card is 50,000 Yuan, while
the highest authorized credit limit of silver card is 20,000 Yuan. As for consumption by overdrawning within credit limit, the card holder can enjoy interest-free repayment period of 50 days. (Wu, 2010)

IV. **Co-brand Card**

1) **Shopping Cards**
   - BOC Taobao Credit Card; BOC Amway Credit Card
   - BOC Joycity Credit Card; BOC Baijia Credit Card
   - BOC Auchan Credit Card; BOC Sogo Credit Card
   - BOC Dennis Credit Card; BOC Laiya Credit Card
   - BOC Intime Credit Card; BOC Hisense Credit Card
   - BOC Taifu Credit Card; BOC Jiuguang Credit Card
   - BOC Goodee Credit Card; BOC Sunlight Credit Card;
   - BOC Dreamisland Credit Card

2) **Travel**
   - BOC Ctrip Credit Card; BOC Air China Credit Card
   - BOC Air Shenzhen Credit Card; BOC Air China Southern s Credit Card

3) **Dining**: BOC Fantong Credit Card
4) **Theater**: BOC NCPA Credit Card
5) **Public Welfare**: BOC Mongolian Cow Love Credit Card
6) **Mobile Telecom**: BOC China Mobile Credit Card

Generally speaking, co-brand credit card holders have equal rights to enjoy the highest authorized credit limit, and the highest authorized credit limit of gold card is 50,000 Yuan while the highest authorized credit limit of silver card is 20,000 Yuan. As for consumption by overdrawning within credit limit, the card holder can enjoy interest-free repayment period of 50 days. Among these 23 co-brand credit cards, the card holder can enjoy more services or discounts from alliance companies. For example, the holder of shopping card can enjoy discount or more benefits when he/she uses this co-brand credit card in the alliance shop. (Ibid, 2010)

For travel co-brand card, take BOC Air China credit card as an example, the card holder can easily obtain mileage by suing BOC Air China credit card to pay for air ticket or services. “*When the card holder paid transportation expense with his card, he can enjoy an aviation accident insurance worthy of up to RMB 1 million. Meanwhile, card holder can easily obtain more mileage (mileage earned by POS spending+ mileage earned by taking Air China flights) by using BOC Air China credit card*” (Wu, 2010).

As to shopping card, take BOC Sogo Credit Card as an example. “*BOC Sogo Credit Card has not only all functions of traditional credit card, such as credit consumptions, transfer settlements and installments, but also Sogo membership management*
functions, which enable the card holders to enjoy the fun and profits of shopping. Once successfully became a Sogo member, the card holder could enjoy corresponding membership treatments by Sogo.” (Wu, 2010)

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<tr>
<th>Bank</th>
<th>Functionality and Service</th>
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<td></td>
<td>Repayment Channels</td>
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<td>24-hour Hotline</td>
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<td>Internet Bank</td>
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<td>Agricultural Bank of China</td>
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Figure 11: Product Comparison of Four State-owned Banks (Own Contribution)
7.2.2 Price

Most credit cards generally tend to charge fees from annual fee, transfer commission, interest on overdraft, late payment fee, over limit charges, transaction fee, cash advance fee etc. Among 46 different credit cards, annual fee is 100 or 200 RMB respective to silver card or gold card. Later payment charges a fine of 5% of the total amount.

Nowadays, a great number of banks in China are engaged in price competition since firstly, credit card market in China is still in its infancy thus price competition is a dominant form of card-marketing. Secondly, most consumers are sensitive to prices. Probably the most common price-teaser is annual fee waiver. If credit card holder used the card for more than five times per year, he/she could enjoy an annual fee waiver. “Thus, it is meaningless to discuss about annual fee”. (Wu, 2010)

Skepticism on annual fee waiver has been growing since annual fee is one of the major income sources of card issuers. However, in order to maintain market share, most banks seem to have no choice other than participating in this annual fee war even if profits are harmed by it. “Customers are highly sensitive to the annual fee waiver, transfer commission fees, interest on overdrafts, transaction fees. Fierce competitions between different banks lead to offering cards with no annual charge by requiring for increased usage time” (Meng, 2010).

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<th>Bank</th>
<th>Annual Fee</th>
<th>Overdraft Limit (Yuan)</th>
<th>Withdraw cash commission: ( %) *Cash amount</th>
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<td>Gold Card (Yuan)</td>
<td>Silver Card (Yuan)</td>
<td>Consumption requirements for annual fee exemption</td>
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<td>Bank of China</td>
<td>200</td>
<td>100</td>
<td>5 times/year</td>
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<tr>
<td>Industrial &amp; Commercial Bank of China</td>
<td>160</td>
<td>100</td>
<td>5 times/year</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>200</td>
<td>80</td>
<td>3 times/year</td>
</tr>
<tr>
<td>Agricultural Bank of China</td>
<td>200</td>
<td>100</td>
<td>5 times/year</td>
</tr>
</tbody>
</table>

*Figure 12: Price Comparison of Four State-owned Banks (Own Contribution)*
7.2.3 Promotion

Promotion factor includes promotion blend of product, sales people management, advertising, publicity and internet/web strategy (Zeithaml, 2006, p. 26). As a large corporation, Bank of China’s promotion efforts cover nearly all of the aspects mentioned above. Until the end of 2009, the best seller is Industry & Commercial Bank of China which sold 39.05 million credit cards. Construction Bank of China and Agriculture Bank of China sold 18.71 million and 0.94 million respectively. Bank of China sold 15.9 million credit cards.

**Product Promotion:**
Bank of China has different promotion mixes for its different products. Common promotion method for credit card is Bonus Point Program. “*Every Yuan a customer spends using BOC’s credit card gives the customer two points. 200 points collected in the card can be used as one Yuan.*” (Wu, 2010) Also, co-branded cards with big shopping malls or airlines have also proved to be an attractive promotion method. Customers’ benefits are expanded to discounts in shopping or travel.

**Advertising and Internet Strategy:**
The advertising channels of BOC are magazines, street advertisement boards, TV commercials and internet banners. Bank of China’s main website has both Chinese and English versions. It is very easy for the authors to find product and service information from the website. The descriptions of products are clear, but prices of products are missing from its websites which makes it very inconvenient. Also, offices located in different countries have their own websites dedicated to stressing matters specific to them.

**Public Relations:**
Bank of China is building the image of a socially responsible organization. Its slogan is ‘Contributing to a harmonious society’. Bank of China is active in many disaster relief efforts, including the earthquake happened in Wenchuan and sleet icy weather in the south of China. Also, a main project of Bank of China is to sponsor children in remote and underdeveloped areas to go to school by providing loans with low interest rates, building schools and money donation. It helped to establish Education Charity Fund Ltd., with an initial HKD85 million under disposal of management. Supporting artistic, scientific and technological research and development is also one goal of Bank of China. The bank is involved in endeavors of organizing concert, preserving Chinese national treasures lost abroad, establishing science and technology parks etc. The bank advocates the concept of green financial service, green office and waste recycling to be an environmentally friendly company. (Wu, 2010)

“*Bank of China issues many theme credit cards. 2008 Beijing Olympic Games theme card was one of them. Also, Bank of China was the only authorized bank dealer to sell the Olympic Games tickets in its branch offices*” (Ibid).
Credit card business analysis of Bank of China
- Is BOC credit card competitive?

<table>
<thead>
<tr>
<th>Bank</th>
<th>Gift Incentive to Purchase/Use of Credit Card</th>
<th>No Annual Fee For Frequent Shoppers</th>
<th>Interest-free Payment Period</th>
<th>Bonus Point Program</th>
<th>Encouraging Word-of-mouth</th>
<th>User-friendly Website Design</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of China</td>
<td>✓</td>
<td>✓</td>
<td>Max 50 days</td>
<td>✓</td>
<td>×</td>
<td>Good</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Bank of China</td>
<td>✓</td>
<td>✓</td>
<td>Max 56 days</td>
<td>×</td>
<td>✓</td>
<td>Good</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>✓</td>
<td>✓</td>
<td>Max 50 days</td>
<td>✓</td>
<td>✓</td>
<td>Good</td>
</tr>
<tr>
<td>Agricultural Bank of China</td>
<td>✓</td>
<td>✓</td>
<td>Max 56 days</td>
<td>Only Oversea Usage</td>
<td>×</td>
<td>Good</td>
</tr>
</tbody>
</table>

*Figure 13: Promotion Comparison of Four State-owned Banks (Own Contribution)*

### 7.2.4 Place

As at the end of 2008, the Bank has totally 10,789 domestic and overseas branches, subsidiaries and outlets, including 9,983 branches, subsidiaries and outlets in the mainland China and 806 branches, subsidiaries and representative offices in Hong Kong, Macau and other countries. In the mainland China, there were 37 tier-1 and direct branches, 284 tier-2 branches and 9,659 outlets. *“The common used channels to promote credit card products of Bank of China are TV commercials, internet commercials, and printed advertisements. At the same time, events marketing practiced very well in Bank of China”* (Meng, 2010). As the sole official banking partner of the Beijing 2008 Olympic Games and the Paralympic Games, Bank of China provided service to customers attending the games with no errors and no customer complaints record. Bank of China established temporary outlets in Beijing, Hong Kong, Qingdao and other host cities, installed 8,000 ATMs. During the same period, Bank of China published the BOC Olympic Credit Card that has issued for over 2.4 million (Wu, 2010).

Currently, there are three channels could offer new credit cards to new applicants. *“First, visit and apply through Bank of China business offices. Second, apply through BOC internal staffs. Third, bundle credit cards together with its housing mortgage loan services, or package credit cards with its personal comprehensive consumer loan*
services. Right now Bank of China did not provide online application services for the applicants" (Wu, 2010).

<table>
<thead>
<tr>
<th>Bank</th>
<th>Apply Cards Online</th>
<th>Domestic Branches</th>
<th>Overseas Branches</th>
<th>Sales Volume (million, until 2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of China</td>
<td>No</td>
<td>9983</td>
<td>806</td>
<td>15.79</td>
</tr>
<tr>
<td>Industrial &amp; Commercial Bank of China</td>
<td>Yes</td>
<td>16,386</td>
<td>70</td>
<td>30.95</td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>No</td>
<td>13,551</td>
<td>8</td>
<td>18.71</td>
</tr>
<tr>
<td>Agricultural Bank of China</td>
<td>No</td>
<td>24,064</td>
<td>8</td>
<td>15.43</td>
</tr>
</tbody>
</table>

*Figure 14: Place Comparison of Four State-owned Banks (Own Contribution)*

### 7.2.5 People

People include all the human actors participating in the service delivery, i.e. service employees, customers receiving the service and other customers. Not only the competency and expertise of service employees in performing the service affects the perceptions of customers, but also their outfits, attitude/emotion and language (including body language). (Zeithaml, 2006, p. 26)

**Employee Diversification:**

Employee diversification is an important characteristic of employment structure in Bank of China. It creates a challenge for the bank in employee management. In 2008, the bank had 13,727 new employees in mainland China and overseas and the figure is rising in pace with the company’s global expansion. The bank in total had 223,202 workers in 2008. The chart below shows the employee data according to education and age in 2008.

The card service employees in Bank of China range from the most common window clerks with junior college (vocational school) degrees to personal financial consultants with master degrees or above. Employees’ divergent educational backgrounds require different trainings in terms of job competency and soft human factors (attitudes, polite language and so on). (Meng, 2010)
Performance Management:
According to one of our interviews, Bank of China is fully aware of the importance of the employee factor in providing service satisfaction and its direct impact on the company image. The bank has established an internal performance management system where the bank’s performance is bound with employees’ performance; performance targets and planning, training and communication, appraisal and feedback, performance bonus and service improvement are interlinked in order to continuously strengthen employees’ motivation and dedication to service quality. (Ibid, p.48)

Training:
Bank of China provides various training to meet the career development needs of employees. The three main focus teams being provided training are operation managers, professionals and technical personals such as front-desk employees. The bank offers training domestically and overseas to professionals such as financial

Figure 15: BOC Employee Education and Age Distribution (Report of BOC, 2008, p.46)

Figure 16: BOC Process of Performance Management (Ibid)
service consultant. To meet the flexibility needs of employees, these trainings take various forms such as work-time education and off-work-hour education. As for the so-called ‘technical personal’ (frontline clerks) training, the bank prepared ‘Guideline of BOC on Training of Front-office Employees’ and established the pre-job training system for these workers. Company culture, code of conduct in dealing with customers, and some job competency lessons are included in the trainings mentioned above. The target training intensity for every employee is 40 hours per year; Employees are in addition encouraged to self study if they want to be promoted in the future. (Ibid, p.48)

![BOC Employee Training Progress](image)

*Figure 17: BOC Employee Training Progress (Ibid)*

**Reward System:**
Bank of China rewards efficiency, performance and competency. It implements a market-based compensation and reward policy to ensure the employees are market-oriented and response quickly to new market trends and customer preference shifts. The policy’s first emphasis is efficiency. Also, the rewards are determined by both position held in the company. (Ibid)

**Employee Outfits and Communication**
Employees who have contacts with customers (both front desk clerks and personal finance consultants) must wear uniforms provided by the company. (Wu, 2010) Internal employee communication also helps to improve ‘soft’ human factor performances such as emotions, attitudes and use of polite language. The bank provides various social opportunities for its employees to get together to share their experiences at work and exchange solutions. It helps service improvement because employees get both mental and technical support from these communications with colleagues. “*They feel that someone else is also suffering from the same problem as I am*’ from talking to peers and sometimes they learn not to show negative emotions to customers” (Wu, 2010).
8. Analysis

In this chapter the deep findings are structured according to the chosen theory SWOT model, from both internal and external environmental perspectives. The authors have discussed and built their own views and ideas on this part.

8.1 Internal Matters

8.1.1 Strengths

Well-recognized Brand Name and Respected Reputation

Bank of China has a long history and a large customer base, as the first credit card issuing bank in China in 1985, the majority customers were successful business men, public figures and celebrities. The brand of credit card was an intangible wealth of Bank of China during that period. For the majority clients, they intend to choose famous brand and accept to pay premium price for famous brand product. Bank of China enjoys its brand prestige at home and abroad, for example: as for the oldest bank in China; the first Chinese bank to set up an overseas financial institution in London in 1929; the first Chinese bank to issue a bank credit card in 1985; the first bank to arrange a syndicated loan in 1998; the first bank to launch private banking in 2000, the sole official financial partner of the Beijing Olympic Games in 2008. In 2008, Bank of China ranked the most respected bank in China by Wealth Management Weekly magazine.

Proficient Staff and Experienced Management Team

Among all fulltime employees in Bank of China, 38.2% of them are bachelor degree holders, 41.8% of them are Junior college graduates. These education levels of its staffs are high for any Chinese financial institution. The more-educated staffs are solid security for keeping a competitive position. Meanwhile, Bank of China provides strict trainings for every member, and these trainings in terms of work-time education or off-work-hour education.

Product Variety

As the most diversified financial group in China, Bank of China is engaged in different business fields such as: commercial banking, investment banking, insurance, fund management, aircraft leasing and so on. Concerning its credit card business, there are totally 4 different series and 46 different kinds of credit cards in Bank of China. These diversified credit cards could satisfy divergent needs of needs of different customers. In 2008, BOC Air China Southern Credit Card ranked as the best co-brand card by the transactor MasterCard. What's more, standard cards are quite salable in Chinese market. The 5 different standard cards are designed for different customers. Take BOC Great Wall international credit card as an example, it was designed for business men who need go abroad frequently and overseas students. BOC Great Wall is a dual-currency credit cards, the card holder could pay for their
bill with RMB or certain foreign currency without taking any risk of floating exchange rate. It’s worthy of mention that BOC dual-currency credit cards take 61% of overall Chinese dual-currency credit cards market.

**Extensive Global Network of Business Outlets**

As a multinational banking group with a diversified and integrated business platform, Bank of China operates its businesses in Europe, North America, Africa and Asia-Pacific countries. The bank has 10,789 domestic and overseas branches, subsidiaries and outlets. Include 9,983 in Chinese mainland and 806 in Hong Kong, Macau and other foreign countries.

Bank of China was officially incorporated in 2004, as the first bank to go public, it consecutively list on Shanghai Stock Exchange and Hong Kong Stock Exchange in 2006. The commission charge of credit card business arrived at 4828 million in 2008, compared with 3721 million in 2007. At the end of 2009, Band of China renovated all ATM terminals and self service outlets. All ATMs provide both Chinese and English that are customer interfaces friendly. Providing Chinese and English user interface could be appreciated warmly by its diversified customers.

**8.1.2 Weaknesses**

**Product Homogeneity**

Similar functions of credit cards in different banks have not shaped unique credit card brands. For instance, once Bank of China had launched installment payment for expenditure of credit cards, other banks duplicated the payment model in couple of months.

What’s more, the promotion of BOC credit cards was controlled by the headquarter in Beijing. During the promotion process through different media ways, there is not an outstanding promotional spot differs from other banks. Thus, the majority clients believe that BOC credit cards are analogous with other banks.

**Less Domestic Banking Outlets**

Bank of China has 9,983 domestic banking branches, subsidiaries and outlets, that is the least compared with other three state-owned banks. Industrial & Commercial Bank of China has 16.386 domestic branches, Agricultural Bank of China has 24,064 branches and China Construction Bank has 13,551 branches in China. Although Bank of China has 806 branches abroad, small quantities of domestic branches makes its domestic clients feel inconvenience when they were carrying on some business like applying for new credit cards. After all, Chinese market is the most important and profitable market for Bank of China.

**Relatively Weak Service**

After succeeded issuing each credit card, the bank should provide complete and excellent post-selling services, for example providing over the counter/ATMs
tractions, answering clients’ requirements. In our research, we have found that BOC credit card do not have internet bank function, therefore its credit card clients cannot trade and pay the bills on the internet. Compared with best credit card selling bank Industry & Commercial Bank of China, the bank had launched internet bank three years ago and online card application procedure on year before.

**Improper Promotion Method**

Each card applicant could apply BOC credit card through three channels: First, visiting bank office; second, applying through internal staffs; third, bundling credit cards with other loan services. Until the end of 2009, Bank of China has 15.79 million credit card clients, which means Bank of China owns 10% of overall Chinese credit card shares.

In Bank of China, staff wages are linked to their cards selling results. Thus every internal member wants to promote more credit cards to accomplish or surpass sales target. The more he/she sells, the more he/she got paid. Driven by self-interests, some internal staffs encourage their relatives and friends to apply BOC credit cards no matter they really need the card or not. Notwithstanding these practices increasing the sales volume of BOC credit cards, many of relationship selling credit cards have cancelled registration after several months. Except that, Bank of China issued one credit card to each financial loan client no matter the client really needs the card or not. Actually if the client did not activate the credit card, it charges the bank 100 RMB as a fixed cost. Last year, the average consumption amount of each credit card of Bank of China is only 2355 Yuan. Thus, the bank should pay attention to the usage frequency instead of only caring about sales achievement.

**Risky Business**

The individual credit card business feature larger quantities, smaller transaction amounts, while commercial credit has smaller quantities but larger transaction amounts. This is why different banks enlarge their card client amount aiming for increasing overall profits from each client, in other words, the profits depend on the amounts of authorized credit cards to some extent. In order to increase its credit card issuing amount, Bank of China in line with other banks promote annual free exemption activity, reduces the application threshold etc. Each credit card has withdrawal, overdraft and transfer accounts three main functions. If Bank of China cannot carefully handling the relationship between quality and quantity of customers that possibly increases the occurrence of bad debt losses.
8.2 External Matters

8.2.1 Opportunities

Policies Conducive to Credit Card Introduction and Healthy Profits
Gold Card Program launched by the Chinese government has facilitated the introduction and adoption of bank cards in China with policies conducive to the development of credit cards. Nationwide and large in scale banks are the ones who have benefited very much from the program since they have the most resources and coverage to expand the usage of electronic cards. (Wu, 2010) Thus this program will continue to open up opportunities for Bank of China and provide help in terms of policy. Also, profits can be earned with less risk after the launch of reinforced management of credit card risk rule by the Chinese Banking Regulatory Commission (Ibid).

Developing the Chinese Rural Market
First of all, farmers are growing richer, therefore their needs to consume more also expands accordingly. Also, during busy harvesting seasons, farmers tend to need more cash to keep up with their operations. But now credit cards are barely present in the rural area and it is difficult for farmers to borrow enough money merely from local governments. (Meng, 2010) Credit cards are the best answer to their problems. About 70% of the Chinese populations are still farmers, therefore this market is huge. The Chinese traditional idea of ‘saving not borrowing’ is gradually fading and replaced by the new one promoting ‘borrowing first and then paying it back’. This important social change will serve to facilitate the acceptance of credit cards in rural/suburban areas. Since BOC is one of the first to be aware of the potential, it has an advantage in exploring profits in the rural market.

The technology of mobile phone banking and internet banking will also provide tremendous convenience to rural citizens. Usually, banks are only available in the town centre, but a vast number of people live in remote places far away from the nearest town area (Ibid). A bank visit could be painfully time-consuming. Providing internet and mobile banking service associated with credit cards should be appreciated by rural citizens.

Personal Credit Evaluation System and CRM System
Having bad debt due to customers’ inability to pay back is a major cause of loss in profits for credit card business. But now a personal credit evaluation system will be implemented in China in 2011 (Wu, 2010). This allows banks to know better their customers before they decide to authorize credit cards to them. What’s more, Bank of China is currently having a large database for its customers who that will provide foundation for a solid working CRM system in the future to enable better customer knowledge and management (Meng, 2010).
E-token Technology
Bank of China just firstly in China launched the E-token technology to ensure secure mobile banking service. (Ibid) If this technology can be implemented in credit card internet banking service as well, BOC will have a great advantage over other competitors in security issues.

Multi-Cobranded Cards
At the moment it is mostly the case that one card is only bound with one co-brander (a merchant offering goods or services such as shopping website or travel agency). As the variety of cards keep on growing wider, many customers find it becoming harder to choose one card among all the appealing options. Therefore some consumers start to demand for multi-co-branded cards. (Ibid) Until the end of 2009, Bank of China owns 10% credit card market shares, and the market growth rate was 24.6%. Thus we conclude that the bank credit card business is in a high growth environment but with lower market shares. If BOC can come up with the first multi-co-branded card, then it will preempt the market and other competitors in product innovation.

8.2.2 Threats

Domestic State-Owned Banks
Bank of China has three main domestic competitors-- Industrial and Commercial Bank of China, Agricultural Bank of China and China Construction Bank. (Wu, 2010) Including Bank of China, these four banks are the four state-owned banks. The other three banks, similar to Bank of China, have strong financial foundation, covering all China with a great number of branch offices, and having a large customer base. Bank of China ranked fifth in terms of customer satisfaction, behind all the other three state banks, signaling need to improve for Bank of China.

Foreign Bank Entrants
The foreign banks entering China bring in their technologies, organization flexibility and years of experience of handling credit card business. (Wu, 2010) HSBC, Citibank, Standard Chartered Bank and Bank of East Asia will create serious competition for Bank of China.

Price War with Competitors
Price war has become a main form of competition in Chinese credit card industry. It is an intense state of rivalry signaled by multi-lateral series of price reduction. If one player in the market lowers price then others have to response by reducing their prices to stay in the competition. While price war can be beneficial to consumers in the short term, it threatens the profits and even survival of companies. Those who are able to cut price and keep on operating till the end will absorb the market share while others who cannot bear running with low margins will be forced out of the competition. Banks in China now are engaged in price wars (Ibid), which is a threat to Bank of China’s profit margins from its credit card sector in the short run. It doesn’t seem likely that BOC will be forced out of the market in the long term.
Credit Card Crimes and Lawsuits

Credit card crimes have caused tremendous loss to the industry in Asia-Pacific region. The number of lawsuits concerning the usage of credit cards also topped among all types of bank lawsuits. (Ibid) These are inter-related issues between credit card criminals and customers, between customers and banks, and banks and criminals. As for Bank of China, if customers keep on being confused about their rights and responsibilities, if criminals continue to succeed in stealing money from banks and consumers, Bank of China will suffer from serious decrease in profitability and damage in brand name. Also, it has to spare energy and time dealing with lawsuits constantly.

<table>
<thead>
<tr>
<th>Internal Matters</th>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prestige/International Brand</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>High Level Customers</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Well Trained Staffs</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Diversified Credit Cards</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Many Branches Abroad</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Product Homogeneity</td>
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<td>√</td>
</tr>
<tr>
<td>No Unique Product Feature</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Relatively Less Banking Outlets</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Lack of Internet Bank Function</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>10% of Chinese Market Shares</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Inappropriate Staff Promotions</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>Thoughtless Package Sales</td>
<td></td>
<td>√</td>
</tr>
<tr>
<td>High Risk Business</td>
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</table>

<table>
<thead>
<tr>
<th>External Matters</th>
<th>Opportunities</th>
<th>Threats</th>
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</thead>
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<tr>
<td>Policies Conducive to Credit Card Introduction &amp; Healthy Profits</td>
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<td>Developing the Chinese Rural Market</td>
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<td>Personal Credit Evaluation System &amp; CRM System</td>
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<td>E-token Technology</td>
<td>√</td>
<td></td>
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<tr>
<td>Multi-Cobranded Cards</td>
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<td>Domestic State-Owned Banks</td>
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<td>Credit Card Crimes and Lawsuits</td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>

*Figure 18: Internal & External Matters List (Own Construction)*
9. Conclusions

In this chapter the research problem will be answered with respect to internal and external aspects. The research finding will also be presented in this part.

Bank of China has enjoyed its brand recognition among Chinese financial industry. Diversified BOC credit cards were targeted at large different users. Since Bank of China is a well-recognized brand that owns respected reputation. Being the sole financial sponsor of Beijing Olympic Games in 2008 shows it great popularity in China. Besides, Bank of China has diversified credit card series that could satisfy different kinds of customers. Additionally, the bank has an experienced management team, and the bank often provide prompt training for every employee.

Nevertheless, BOC credit cards have less functions compared with other banks’ credit cards. There is not clear differences between BOC credit cards and other banks’ credit cards, and that leads to a lower market shares amount the overall industry. Right now, all BOC credit cards do not have internet bank function, so that the clients are not able to shop or pay the bills online. In order to pay the monthly bank bill every card holder has to visit the bank office, while that is the most inconvenience matter for the majority office workers. What’s more, even if Bank of China has a brand advantage among the whole industry, relatively less market shares (10%) brings less gross income compared with other three state-owned banks in China. Bank of China must focus on its core business distinctive in the Chinese market and try to enlarge Chinese market shares so as to increase the earnings on credit card business. Lastly, BOC credit cards did not shape their unique characteristics compared with other banks’, because many functions of credit cards are easy to follow.

Nowadays, Bank of China enjoys high brand reputation but lower market shares in China. At this status, in order to enlarge market occupation and promote the competitiveness, the bank should add more unique features for the current credit cards and develop credit card business in rural areas. Some relatively rich rural areas are the main potential market for Bank of China; also, the introduction of new technologies composed of new payment method, CRM software and E-token security solution, will further the competitive advantage of Bank of China. New rules addressing the systematic evaluation of credit card applicants’ economic strengths will make the market more regulated. All banks in China including Bank of China will also be helped by the government in the development of their credit card businesses.

When Bank of China is competing with other competitors, the bank should concern the potential threats from the fierce price competition, foreign funded banks and popular commercial crimes. Threats come from other three state-owned banks that are in possession of a large amount of resources and customer base. At present, many Chinese banks are engaged in price wars which actually are harming the profits. After China joined WTO, foreign banks also entered the Chinese market with years of
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experience in credit card products and services. Their entrants will force the domestic banks to improve in terms technology, staff proficiency and internationalization. What’s more, Bank of China has to combat credit card crimes and disputes from many Chinese customers who are unfamiliar with using credit cards and who need support and help from banks.

Bank of China meets not only opportunities but also challenges. The bank has to grasp opportunities while retaining its own strengths. Only foster strengths and circumvent weaknesses could enhance the competitive advantage of Bank of China.
10. Recommendations

Based on the investigation of credit card business in Bank of China, the authors propose four suggestions for Bank of China concerning its marketing strategies. First, offer internet banking associated with credit cards. Second, create car co-brand and multi co-brand cards. Third, provide more product solutions. Finally, improve customer satisfaction.

1) Offering Internet Banking Associated with Credit Cards
As is stated before in the weakness section, Bank of China currently does not offer internet banking service for credit card users. Customers have to open another debit card account only to have an internet account. The costs saved from this cannot balance the inconvenience caused to customers. Opening internet banking service associated with their credit cards is urgent for BOC also because our investigation shows that now many of their competitors already are providing this service.

2) Product Innovation and Brand Name Distinguishment
We suggest that Bank of China shall promote star products different from other banks that customers can connect immediately with the BOC brand. According to our research, product features are of little difference among different banks. Therefore, it does not matter to consumers which bank to choose if they solely look at the product features themselves. Bank of China should try to innovate new products to distinguish the BOC brand from other competitors. One suggestion is to create multi co-brand products demanded by many consumers mentioned in opportunities. It is also advisable for Bank of China to co-brand with merchants with renowned and established brand name so that Bank of China can share the reputation at the same time. Besides, as the number of households owning cars grow at an overwhelming pace, co-brand with automobile related merchants which hasn’t been done by Bank of China, should be attracting more new customers. Benefits can include insurance to cars and discounted gas refill at certain gas stations.

3) More Detailed Segmentation
Segment the market further according to demographic, psychographic and behavioral dimensions. For example, Bank of China can segment customers who have high-income, are well-educated and often go abroad into one group. Then the company can decide the right channel to approach this group, the kind of sales personal to use when communicating with the people in this group, and the features of products appreciated by this group. For instance, it might be plausible to use email, sales people who are better educated, objective and not too pushy for customers who want to purchase double currency card products cobranded with airlines. Since this customer group tends to be highly educated people who are used to communicate in emails and who think objectively and independently. Approaching the customers with what they want and need instead of what they do not need has proven to be cost efficient and for both companies and customers. Profiling customers and building
customer base have given Bank of China a very golden opportunity to achieve this.

4) Improving Customer Satisfaction through Quality Service
Credit card business at large belongs to service business. Service quality becomes increasingly decisive at present when many banks are offering products that are very similar to each other. It is fair to say it is service that distinguishes one bank from another.

One way to improve customer satisfaction and enhance service quality is to create rules and standardization. People working in an organization are different in their goals, way of thinking and degree of politeness. The barrel theory tells us that it is the shortest board of a wood barrel that decides how much water this barrel can hold. If we want to hold more water, we need to make sure that all boards are long. Therefore, standardization and rules are needed in order for BOC to improve its service delivery. At some places, the rules might even need to be very particular and precise about what is and is not required from the employees. Asking employees to smile with exposing exactly eight teeth could be an extreme example.

In addition, it is advisable for Bank of China to offer discriminated service to ordinary customers and VIP customers who demand personalized service. Since VIP customers contribute more value for the bank, Bank of China should also provide more value-added products by offering extra services to keep those customers loyal to the company. Last but not the least, customer education is also crucial to customer satisfaction of the service from the bank.
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Interviews

Wu, Congming, a manager from BOC credit card department, conducted from 9:30 am-10:30 am, 2010-04-26

Meng, Jianmin, a manager who has worked in the credit card department of Bank of China for over fifteen years, conducted from 10am-11am, 2010-04-29
Appendix: Interview Questions

Questions of Internal Matters:
1. What’s your name? What’s your position in Bank of China?
2. So far, what is the total number of credit cards issued in mainland China? What is the ranking of BOC in its number of credit card issued in China?
3. What are the main geographical target markets in China?
4. How many credit cards is BOC having at the moment? What are the main types?
5. What are the best-selling cards and worst-selling cards?
6. As for co-branded cards such as BOC-Sogo (Sogo is a large shopping mall) credit card, what is the cooperation pattern between the merchant/retailer and BOC? Do the merchants need to pay fee in order to be partner of BOC?
7. Concerning BOC-Peking University theme card, is it still profitable business for BOC? How can BOC benefit from this? Are BOC-Air China and BOC-Ctrip co-branded cards? What are the credit limits of them?
8. What’s the cooperation pattern with other theme cards and co-brand cards?
9. What are the main concerns of customers in getting a credit card? What’s the annual fee for each credit card of BOC?
10. What is the biggest customer group of credit card users of BOC? Their occupations?
11. What are the major marketing promotion channels that BOC is using?
12. What types of different employees are needed for the operation of BOC’s credit card business?

Questions of External Matters:
13. Is Bank of China aware of employees’ roles in credit card service delivery? If yes, what BOC is currently doing to ensure the quality of customer experience from its employees’ side?
14. What are the goals of BOC in its credit card sector? What are the strategies of BOC to achieve these goals? What are the difficulties?
15. Did China’s entry into WTO have a great effect on BOC, especially credit cards business?
16. What’s the other macro-economic environment factors would affect or have already affected credit business of BOC?
17. How competitive the market is and what is/are the main form of competition?
18. What are the current social issues related to credit cards?
19. How are the technologies relevant to credits cards developing?