Asia Pacific Science Press

Asia Pacific Economic and Management Review
ISSN(O):3005-9275
ISSN(P):3005-9267
Vol. 2 No.5 (2025)

Research on the Development Strategy of Commercial Bank Business Based on BCG Matrix—Taking Bank A as an Example

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Abstract: Based on public annual reports and financial statistics from the People's Bank of China, this study employs an adjusted BCG Matrix analysis to conduct an in-depth analysis of the main business operations of Bank A. The study finds that its business mainly falls within high-growth, low-market-share categories, lacking significant competitive advantages, with issues like insufficient market competitiveness, challenges in risk management, and ineffective policy implementation. Recommendations include enhancing market competitiveness by innovating financial products and personalized services, optimizing the customer relationship management system, and mitigating price disadvantages through market segmentation; strengthening risk management by introducing advanced risk management tools, optimizing business structure allocation, establishing risk mitigation mechanisms, and enhancing the risk management committee's structure and team expertise; optimizing policy execution by adjusting internal incentive mechanisms, improving performance assessments for policy-related businesses, conducting regular internal training, and developing internal promotional materials, while also refining loan distribution channels to enhance cooperation with small and micro enterprises and individual business owners.

Keywords: Commercial Bank; BCG Matrix; Business Development Strategy

Published: Aug 27, 2025

DOI: https://doi.org/10.62177/apemr.v2i5.569

1.Introduction

Commercial banks play a key role in promoting the adjustment of the national economic structure and driving the development of the real economy. Currently, the global economy is complex and ever-changing, with intensified international competition, while China's economy has entered a new "dual circulation" development pattern. Under this framework, as the main goal of expanding the domestic financial market has been established, competition among commercial banks in China is expected to become increasingly fierce [1]. Business development strategy, being a crucial factor influencing competition, also presents some new challenges in the new context.

At present, the digital transformation of Chinese state-owned commercial banks has made significant progress [2]. With the gradual refinement of digital transformation in financial institutions, there have been considerable changes in the business development and transformation of commercial banks compared to before, particularly in the impact on the proportion of different business segments. The overall business structure has seen notable differences from the past [3]. However, in practice, many business segments have not evolved in tandem with digital transformation, leading to issues such as delays in business structure adjustments. By analyzing the latest business data, it is possible to uncover deeper problems in the current business development strategies of commercial banks and address them accordingly.

On this basis, risk management, as an important part of the development strategy of commercial banks, must not be overlooked in any environment or phase. In the process of digital transformation, risk factors have the most critical impact on the overall development of commercial banks, and issues related to risk management in business development significantly influence the bank's overall performance [4]. When studying business development strategies, we must pay close attention to risk issues, using risk management as a guiding principle for proposing optimizations and solutions.

In addition, the strategic formulation of Chinese commercial banks has unique characteristics compared to their foreign counterparts. The strategic vision and objectives of Chinese commercial banks tend to be more macro-oriented [5], with strategies generally based on the specific characteristics of domestic industrial structure and financing needs, aiming to serve the real economy and contribute to national development [6]. Conducting case studies on specific banks can help reveal issues brought by homogeneous competition, thereby providing valuable insights for other financial institutions in the industry and achieving policy objectives that promote economic development.

Based on the widespread issues currently existing in commercial banking business development, this paper takes Bank A as an example, compiling data on business development from its annual report, along with data from its main competitors and industry-related statistics as a basis for research. Data analysis uses the BCG Matrix, a classic strategic analysis tool, which has been optimized for this study to analyze Bank A's business development status and identify existing problems. Finally, combined with industry characteristics and guided by risk management, relevant optimization strategies are proposed.

2.Review of Relevant Theories

The BCG Matrix, also known as the market share matrix or the growth-share matrix, is a strategic management tool used for analyzing a company's portfolio of products or services. This matrix was developed by the Boston Consulting Group in the 1970s to help companies identify the market potential of their products or services and assess their relative market position [7]. In recent years, the BCG Matrix has been applied in various fields, including dynamic analysis of strategic positions [8], studies on changing patterns and driving mechanisms [9], strategic evolution processes in enterprises [10], performances and potentials in different market segments [11], and the impact of macroeconomics on banking costs and efficiency [12]. There have also been studies that combine the BCG Matrix with other theories to explore strategic decision-making methods [13] and further analyze the influence of market share dimensions on company performance [14]. These studies have enriched the theoretical foundation of the BCG Matrix, providing valuable references for strategic planning and market competition analysis.

The analysis of the current business development of commercial banks using the BCG Matrix allows for a clear understanding of the specific issues with their products, enabling the formulation of more informed decisions to address these problems and optimize their business development strategies.

3.Selection and Adjustment of Matrix Indicators

3.1 Selection of Relevant Indicators

As a commercial bank, Bank A currently has three main businesses: deposit business, loan business, and intermediary business. By utilizing these three primary indicators and their corresponding sub-indicators as the analytical foundation, it is possible to identify and reflect the underlying issues within the bank.

3.2 Processing of Relevant Indicators

For market share, the corresponding data of the largest competitor in the industry is used to calculate the relative market share. The basic formula is as follows:

$$\text{Relative Market Share of a Product} = \frac{\text{Market Share of the Product (Bank A)}}{\text{Market Share of the Product (Largest Competitor)}}$$

Due to the nature of the industry, the core value of banking competition is often directly reflected through balances. These balances are not only a direct reflection of a bank's business achievements but also a fundamental measure of business scale. After incorporating the concept of market share, the market share of a banking product is the ratio of its balance to the total market volume, with the same approach applied to the market share of competitors. By canceling out the common factor of total market volume, the adjusted formula for relative market share is:

$$\text{Relative Market Share of a Product} = \frac{\text{Balance of the Product}}{\text{Balance of the Product (Largest Competitor)}}$$

For market growth rate, data from 2023 and 2022 of Bank A were used, with the basic formula as follows:

$$\text{Market Growth Rate of a Product} = \frac{\text{Current Year Balance} - \text{Previous Year Balance}}{\text{Previous Year Balance}} \times 100\%$$

In the BCG Matrix, the market growth rate is evaluated against the industry average growth rate for the year, which is used as the benchmark. Since the average growth rates differ across various business segments, to make the comparison more intuitive, the difference between the product growth rate and the industry average growth rate is taken, and 10% is used as a common benchmark line. The final adjusted growth rate is calculated by adding 10% to the difference. The formula for adjusted growth rate is as follows:

$$\text{Adjusted Growth Rate} = \text{Product Growth Rate} - \text{Industry Average Growth Rate} + 10\%$$

3.3 Data for Relevant Indicators

The specific data for the indicators come from the annual reports of listed companies, while the industry average growth rates are derived from the 2023 financial statistics report by the People's Bank of China. Specific data is shown in Table 3-1.

Table 3-1 Relevant Indicator Data

Business Indicator	**2023balance (Trillion CNY)**	**2022balance (Trillion CNY)**	**Competitor 2023 Balance (Trillion CNY)**	**Market Growth Rate**	**Industry Average Growth Rate**
Deposit Business	28.9	28.2	31.1	16.59%	9.60%
Loan Business	22.6	19.8	25	14.52%	10.10%
Intermediary Business	0.0801	0.0813	0.1193	-1.46%	-8.10%
Corporate Loans	12.8	10.7	16.1	19.63%	12.70%
Short-term Corporate Loans	3.3	3.1	3.7	6.45%	8.20%
Medium-to-long-term Corporate Loans	9.5	7.6	12.4	25.00%	15.70%
Personal Loans	8.6	7.5	8.7	14.67%	5.70%
Personal Housing Loans	5.2	5.3	6.3	-1.89%	-1.60%
Personal Consumption Loans	0.3	0.2	0.3	50.00%	9.40%
Personal Business Loans	0.7	0.6	1.3	16.67%	17.20%
Credit Card Loans	0.7	0.6	0.68	16.67%	2.35%

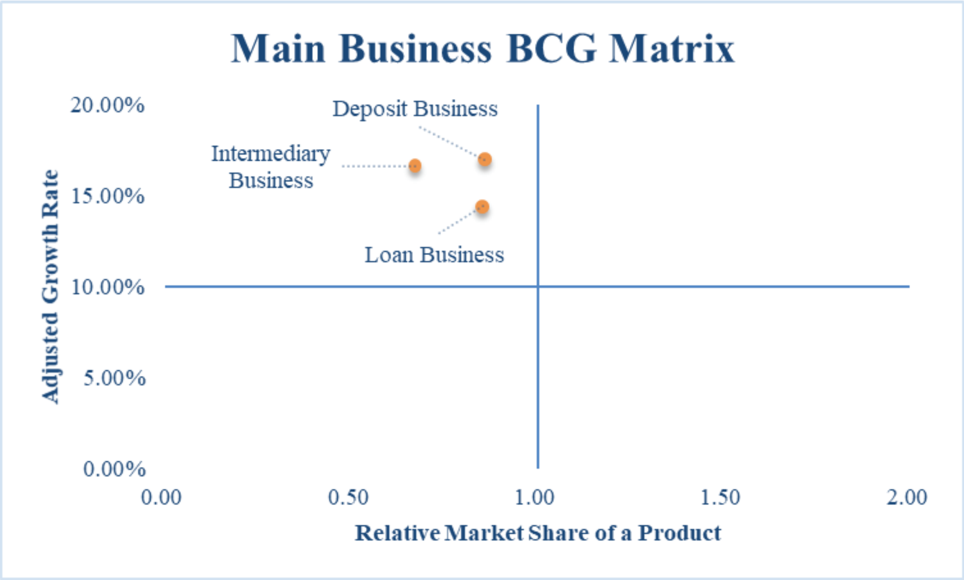
Source: Listed company annual reports, financial statistics report by the People's Bank of China

4.BCG Matrix Analysis of Bank A's Business

4.1 Analysis of Main Business Segments

Based on the annual report data of Bank A, the adjusted matrix is shown in Figure 4-1.

Figure 4-1 Main Business BCG Matrix

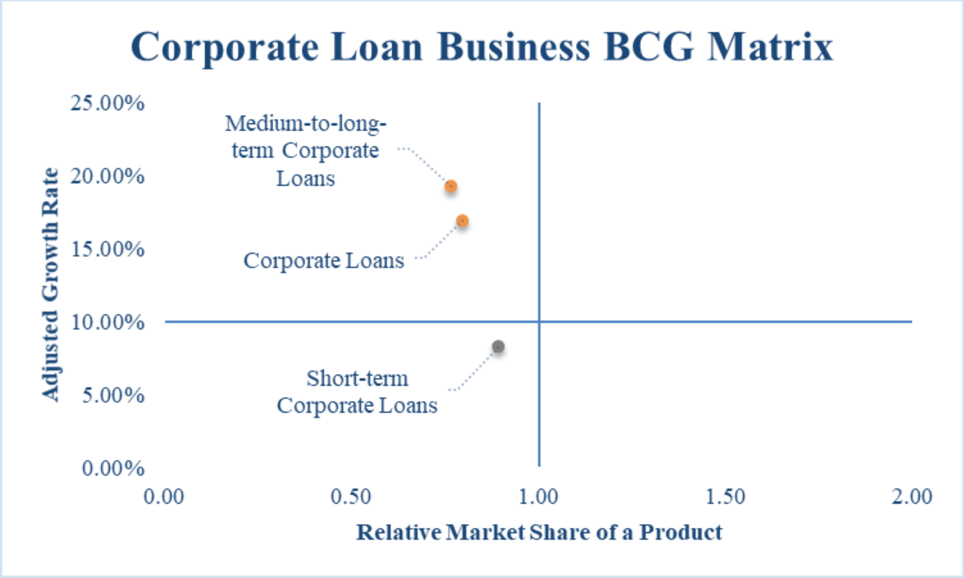


From Figure 4-1, it can be observed that both Bank A's deposit and loan businesses belong to the high-growth, low-market-share quadrant, with deposit business showing relatively high growth. Although the growth rate of intermediary business was negative, due to factors such as capital market volatility in 2023, fee reform, and the "one rate for all" initiative in the insurance industry, the overall intermediary business income of the banking industry dropped significantly. Compared to peers, Bank A's intermediary business income was above the industry average growth rate, placing it in the high-growth quadrant after adjustments.

4.2 Analysis of Corporate Finance Business

Further analysis of loan business divides it into corporate business and personal business. The BCG Matrix for corporate loan business after adjustment is shown in Figure 4-2.

Figure 4-2 Corporate Loan Business BCG Matrix

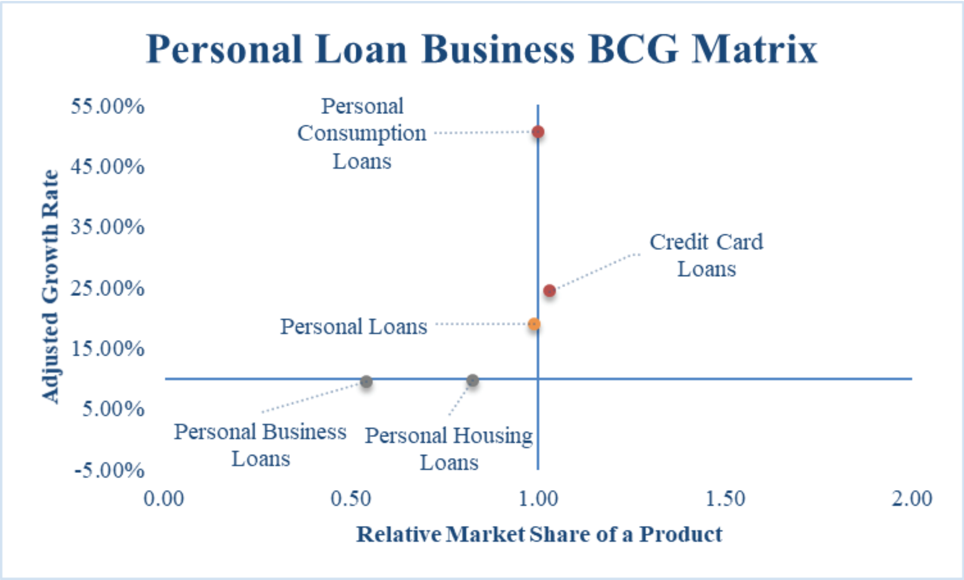


From Figure 4-2, it is evident that the total corporate loan business of Bank A has a relatively high growth rate, but its relative market share compared to its main competitor is low. Further segmentation shows that although medium-to-long-term corporate loans have a high growth rate, short-term corporate loans are in the quadrant of both low growth and low market share, indicating insufficient market competitiveness. However, compared to short-term loans, medium-to-long-term loans carry higher risks, impacting overall bank risk management significantly. This is a common issue in the industry, but it requires attention, and the overall structure of corporate loans needs appropriate optimization.

4.3 Analysis of Personal Finance Business

In 2023, the total personal loan amount for Bank A was 8.6 trillion CNY. The adjusted BCG Matrix for personal loans is shown in Figure 4-3.

Figure 4-3 Personal Loan Business BCG Matrix

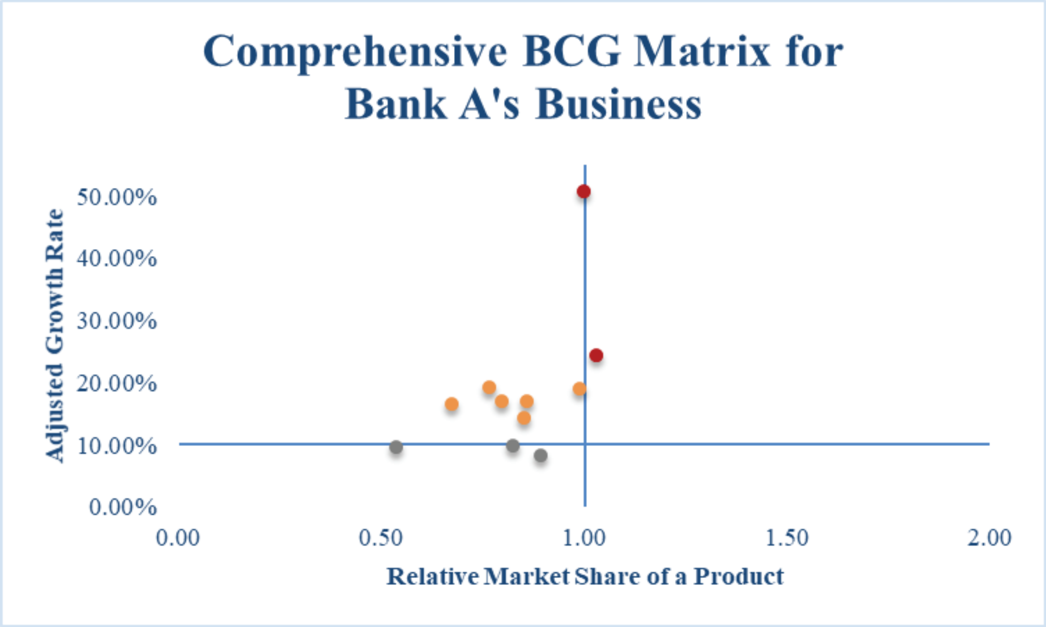


From Figure 4-3, it can be seen that Bank A's overall personal loan business has a market share close to 1 compared to its main competitor, indicating no significant competitive advantage. After further segmentation, the credit card business stands out in the high-growth, high-market-share quadrant, remaining in the "Star" category despite the strengthening of regulatory requirements and increased management of credit card business in recent years, suggesting a successful strategic approach for the credit card business. Due to industry factors, the largest component of personal loans, personal housing loans, is in the quadrant of both low growth and low market share. Personal business loans are also in this quadrant, indicating underperformance relative to peers, particularly in promoting economic development—a significant issue in light of the broader economic policy aims. Meanwhile, Bank A's personal consumption loan business showed significant growth in 2023, indicating a favorable trend due to recent strategic shifts.

4.4 Comprehensive Analysis and Summary of Problems

The comprehensive BCG Matrix for Bank A's overall business is shown in Figure 4-4.

Figure 4-4 Comprehensive BCG Matrix for Bank A's Business



From Figure 4-4, the business development is competitive, it lacks absolute competitive advantage. Based on all the matrix analysis results, Bank A's current business faces the following issues: firstly, market competitiveness is insufficient, as shown by lower relative market shares for deposits, loans, and intermediary businesses compared to the industry leader. Secondly, challenges in risk management are notable, particularly concerning the structure of corporate and personal loans under the current economic environment, as well as the sharp decline in intermediary business income that has weakened its risk-hedging role. Finally, Bank A's personal business loan performance lags behind peers, failing to effectively channel funds into the real economy, thereby undermining the effectiveness of national economic policies and posing a risk of regulatory penalties.

5.Conclusions and Recommendations

From the adjusted BCG Matrix, it can be observed that Bank A's overall business in 2023 lacked competitive advantages. Most of the business indicators, compared to peers, were located in the high-growth, low-market-share quadrant, with only a few indicators showing relatively high market share. Further analysis of industry factors and policy backgrounds reveals that Bank A has three major problems: insufficient market competitiveness, challenges in risk management, and poor effectiveness in supporting policy implementation. To solve these problems, this paper provides targeted recommendations as follows:

5.1 Enhance Market Competitiveness and Promote Differentiated Advantages

The competitiveness problem of Bank A mainly lies in serious product homogeneity, lack of innovation, and uniqueness. To enhance differentiated advantages, the following strategies can be adopted:

5.1.1 Innovate Financial Products and Launch Deeply Customized Services

To implement digital transformation effectively, Bank A can leverage big data and artificial intelligence technologies to develop customized financial products for different customer groups, such as high-AUM customers, small and micro enterprises, and rural customers, thereby avoiding product homogeneity. The bank should clarify its market positioning in serving agriculture and inclusive finance, retain its existing customer base, introduce savings and wealth management products targeting different age groups, develop loan solutions for small technology enterprises, and continuously create green finance products by referencing domestic and international achievements.

5.1.2 Optimize the Customer Relationship Management System and Enhance Customer Experience Using Financial Technology

Bank A should continuously improve its customer relationship management system. By conducting precise customer data analysis, it can identify high-value customers and provide exclusive VIP services to enhance customer satisfaction and loyalty. The bank should also optimize existing digital tools to improve customer interactions with front-end devices and software such as smart counters, mobile banking apps, and smart customer service, enhancing service efficiency and customer experience. This will increase customer stickiness and reduce the likelihood of customers switching to other banks due to service issues.

5.1.3 Reduce Pricing Disadvantages Through Market Segmentation and Offer Value-Added Services

Bank A can adopt a refined market strategy by further segmenting existing customer groups in cities, rural areas, and businesses based on factors like occupation, residence, and hobbies. This approach allows the bank to meet the specific needs of different groups beyond basic products and services, thereby reducing pricing disadvantages. For example, in the rural market, it could offer differentiated loan repayment terms based on product cycles for agricultural enterprises producing different products, while in urban areas, it could provide specific financing solutions for different occupational groups. By avoiding direct price competition with competitors, Bank A could build a differentiated advantage, reducing customer attrition caused by price differences.

5.2 Strengthen Risk Management to Address Environmental Challenges

Bank A's risk management faces significant challenges under conditions of heightened market volatility, exposure of real estate and local government debt risks, and changes in supply-demand relationships. To address these risks effectively, Bank A can take the following measures:

5.2.1 Introduce Advanced Risk Management Systems and Tools

Bank A can introduce advanced AI-based risk management systems and tools, utilizing a Multi-Layer Multi-View Stacking (MLMVS) method to enhance the identification of actual default loans [15]. It can also use heterogeneous deep forest models (Heter-DF) to establish customer credit scoring [16], or adopt new frameworks to manage market risk in trading accounts to monitor the risk status of loan portfolios in real-time [17]. Additionally, the bank can perform intraday liquidity monitoring, scenario analysis, and stress testing, assessing risks in extreme scenarios such as reputational crises, real-time gross settlement payment system interruptions, increased deposit outflows, and bank runs [18]. Through these advanced tools, monitoring in high-risk fields such as real estate and local government debt can be strengthened to ensure timely risk warnings.

5.2.2 Optimize Business Structure Allocation and Establish Risk Mitigation Mechanisms

Bank A needs to optimize its business structure allocation, adjusting the ratio between medium-to-long-term and short-term loans in corporate finance to reduce overreliance on high-risk areas like real estate and local government debt. As regulatory reforms are implemented, the income from intermediary business (fees and commissions) is expected to decrease significantly in the coming years, affecting the bank's overall risk management. Therefore, Bank A should take measures to mitigate the indirect impact of declining intermediary business income on risk and make strategic adjustments to prevent negative compound effects when combined with other issues. On top of addressing these problems, Bank A can introduce risk-sharing mechanisms from a broader perspective, cooperating with the government or third-party guarantee institutions to share exposure in high-risk fields, further enhancing its overall resilience to risk.

5.2.3 Adjust Risk Committee Structure and Strengthen the Professional Competence of the Risk Management Team

The risk management committee structure of Bank A may have overlapping functions, with two committees possibly covering similar responsibilities without clear differentiation. To streamline operations, Bank A could integrate the "Risk Management and Internal Control Committee" with the "Loan Review Committee" to form a unified "Risk Management Committee," while separating internal control and compliance functions to establish a dedicated "Internal Control and Compliance Committee." Concurrently, by attracting high-level risk management talent or collaborating with fintech companies, Bank A can enhance the risk identification and management capabilities of its internal team. Regular training programs should also be conducted to ensure that employees are equipped with the skills necessary to navigate complex market environments.

5.3 Optimize Policy Execution to Improve Policy Implementation Effectiveness

In terms of promoting policy execution, Bank A faces both internal and external challenges that impact the effectiveness of policy implementation, hindering the bank's ability to fully fulfill its role in inclusive finance. The following specific measures can be taken to enhance the effectiveness of policy execution:

5.3.1 Optimize Internal Incentive Mechanisms and Strengthen Performance Assessment for Policy-Oriented Business

To address the lack of motivation for executing policy-oriented business at the grassroots level, Bank A should optimize the performance assessment system and implement assessment metrics for policy-related business. Establishing a reward mechanism linked to policy-oriented business could encourage grassroots departments to be more proactive in executing tasks related to inclusive finance. Additionally, an innovation reward mechanism could be established to encourage departments to innovate methods of business development while promoting policy implementation.

5.3.2 Conduct Regular Internal Training and Develop Internal Policy Manuals

Bank A can ensure a thorough understanding of national policies and bank strategies among grassroots employees by conducting regular training programs. Employees should understand the rationale behind serving agriculture and inclusive finance, thus enhancing compliance and effectiveness in policy-oriented business execution. Internal policy manuals and case studies should also be developed to help employees apply policy requirements in complex business scenarios, allowing grassroots branches in less developed areas to learn from best practices in more advanced regions.

5.3.3 Improve the Channels for Issuing Business Loans and Strengthen Connections with Small and Micro Enterprises

Bank A needs to implement improvements in the quality and effectiveness of digital operations, simplifying the loan application process through its existing digital service system and improving the channels for issuing business loans to enhance the efficiency and coverage of policy implementation. To enhance the effects of policy implementation, Bank A should increase its support for small and micro enterprises and individual business owners by organizing activities such as “Financial Policy Support for Rural Revitalization” and providing exclusive financing products to help these groups better understand and benefit from policy incentives.

Funding

no

Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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