

E-Trade Finance: The Case of B2BeX*

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Standard Chartered Bank has developed a Web-based B2B exchange called B2BeX, a banking solution that supported international e-trade. B2BeX was later expanded to supply chain finance (SFC), and integrated with the working-capital requirements of the supply chain. This feature ensures stickiness for B2BeX, and makes it difficult for users to turn over to competitors' systems. Via the implementation of a banking solution, Standard Chartered Bank was able to address many of the legal, credibility, and document exchange issues relevant to international trade. Additionally, SCB pursued a differentiation strategy in order to achieve ascendancy over competitors such as Citibank (CitiDirect) and DBS (db-dBills). Connection and integration among multinational corporations (MNCs) and small- and medium-sized enterprises (SMEs) in the supply chain are facilitated by credit risk management. In this study, using the case of B2BeX, the role and functional features of banks were evaluated, including their efficacy in the settlement of e-trade transactions.

Key Words: business-to-business exchange; e-trade; supply chain finance

I. Introduction

"There is a trend towards open account trading, and we are moving quickly to meet this need. Through this innovation, we offer our customers a holistic channel covering end-to-end document and open account trade services. This will deliver significant

operating efficiencies and cost savings to buyers, suppliers and their trading partners. We are putting the power in our customers' hands to choose the systems auto purchase order grouping functionality to create a letter of credit or settle on open account terms." - Jiten Arora, Global Head of Channels & Solution Delivery, Transaction Banking Standard Chartered Bank said.¹⁾

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1) The Asian Banker (2007), "Standard Chartered innovates with global B2BeX supply chain"

In late 2002, Standard Chartered Bank developed an initial version of a business-to-business (B2B) portal (namely, B2BeX) that functions as a Web-based banking solution for international trade. B2BeX is a multi-award winning finance chain management solution: the prestigious Wharton Infosys Business Transformation Award (WIBTA) 2003, the prize in the Enterprise Wide Transformation category for the Asia-Pacific Region, and the 2002 ifs/BT (Institute of Financial Services in partnership with British Telecoms) Financial Innovation Award.²⁾

By 2006, the transaction volume moving through B2BeX had increased by five-fold as compared to the volume at the time of the launch of the exchange.³⁾ Additionally, more than 60,000 consumers and 15,000 corporate clients are currently using the exchange. Standard Chartered Bank has predicted that the usage of the exchange will triple by 2011. Half of the current clients of Standard Chartered Bank are using B2BeX, and the target penetration into this market segment was 90% by 2008.⁴⁾ The B2BeX has been adopted in more than 48 countries including India, Singapore, and Hong Kong; these countries constitute the overbalance of B2BeX users. However, in terms of transaction volume, the UK and the US were the two most dominant regions. Differentiation is a strategy for

achieving ascendancy over competitors.

II. What is B2BeX?

"With B2BeX, Standard Chartered is leveraging almost 150 years' of experience and excellence in international trade. Banks have traditionally been important providers of trade finance. B2BeX moves us beyond being a provider of trade finance solutions to being a facilitator of trade. Now, we are applying our expertise across a bigger part of the supply chain with B2BeX, to deliver significant efficiencies and cost savings to buyers, suppliers and their trading partners. We are giving our customers the support they need as their business partner by helping them manage their entire supply chain activity and becoming a more integral part of their core business." said Peter Wong, Director of Standard Chartered Bank (Standard Chartered Press, 2002).⁵⁾

In late 2002, Standard Chartered Bank introduced its e-trade platform, B2BeX (www.scb2bex.com). Standard Chartered Bank was established via the merger of two banks in 1969, has extensive knowledge on local and regional areas, and serves a broad range of consumers and industries. Standard Chartered Bank adopted a revolutionary strategy to cope with this rapidly changing environment, ultimately developing B2BeX, including such components as Supply Chain Finance Solutions,

2) Prodmain.com(2003), "Standard Chartered's B2BeX wins Wharton Infosys Business Transformation award"

3) TradeCard White Paper (2002), "Financial Supply Chain Automation: The Missing Link in Supply Chain Management"

4) Information Economy Report (2005), "United Nations Conference on Trade and Development, New York and Geneva"

5) Standard Chartered press (2002), "Standard Chartered Launches B2BeX Globally."

designed on the basis of their 150 years of global banking experience.

Unlike many other bank platforms, B2BeX is an ambitious web-based system designed to streamline and accelerate trade transactions in sourcing, procurement, financial services, delivery, insurance, payment, etc.⁶⁾ B2BeX allows for the exchange of documents and data, such as the request for quotation (RFQ), purchase order (PO), order confirmation, shipping instructions, and letter of credit (L/C), over the network. Additionally, a variety of trade-related services are available to all participants. The B2BeX solution eliminates a great deal of administration activity by automating the process, and enabling accurate and clear communication between trading partners. The sharing of documents and data can be implemented via back-office or ERP systems, and B2BeX is seamlessly integrated with major EDI networks.

B2BeX is a single platform which enables transactions between importers and exporters on the same platform by integrating the key processes in an end-to-end manner, which is crucial for competitiveness and efficiency. The B2BeX system provides users with the flexibility to combine the component modules to best fulfill their specific needs. Many key factors drive B2BeX internationally, including the need to provide a comprehensive range of functionality for a common platform, as well as the need to integrate trade processes.

The B2BeX solution is comprised of the following modules for international trading services.⁷⁾

- Trade Document Manager: Manages online all trade documents such as RFQ, PO, request for finance (RFF), etc.
- Purchase Order Grouping Service: Provides flexibility in the integration of purchase orders into a single L/C application.
- Trade Banking Service: Offers L/C services.
- Catalogue Service: Promotes clients' products.
- Logistics Service: Supports product delivery, insurance, and inspection clearance for B2BeX partners.
- Business Intelligence: Delivers information for business decisions.
- Management Information Reports: Offers businesses the ability to track and monitor all B2BeX transactions.

III. Revolutionizing of international trade

3.1 The change of international trade

International trade is defined as the exchange of products and services across national borders (Lee, 2008). Traditionally, trade refers to the exchange of goods between countries or within countries, along with payments. Trade

6) Fianceasia.com (2005), "Financing trade in an increasingly competitive world."

7) http://www.standardchartered.com/us/cib/trade_value/value_b2bex.html

commences from the gathering of information for the business transaction, and encompasses negotiation, contract signing, and execution. Additionally, the transfer of payments not only to trade stakeholders but also to financial companies, insurance firms, taxation bodies, etc., can be included along with the transaction of goods and various types of information during trading (Lee, 2008).

Payment upon the receipt of goods is the responsibility of the buyer, and the corresponding payment method is generally determined during the trade contract. Once the stakeholders in an international trade contract sign the sales contract, the terms of the contract pertaining to delivery and product payment should be fulfilled. Settlement is the process of making payment upon the receipt of goods. If the buyer does not settle payment within the designated time, a dispute can arise, and redemption owing to a breach of the contract is possible.

The traditional methods of settlement in trade include the following: remittances, such as letters of credit (L/Cs), wire/telegraphic transfers (T/Ts), mail transfers (M/Ts), remittance checks (or demand drafts, D/Ds), and collections, such as documents against acceptance (D/A) and documents against payment (D/P). Currently, the most frequently used payment method is L/C. Among these payment methods, L/C is beneficial to both buyers and sellers, due primarily to the irrevocability of payment (Lee, 2008). However, the method of trade settlement can be

determined arbitrarily by the stakeholders. Therefore, the terms of payment that take effect upon the signing of the sales contract should comprehensively consider the method of payment, time, payment currency, etc. Additionally, the process of L/C issuance is both complex and cost-ineffective. The seller should open the L/C to receive payment, and the required documents need to be prepared for evaluation.

All these processes are handled manually, and the time required for document preparation and evaluation can be rather lengthy. In addition, the many complex processing steps are highly susceptible to error. The difficulty in managing the bonds received makes it difficult for the company to plan operating capital precisely. The independent and abstract nature of L/Cs thwarts transparency in debt and bond management, and the corresponding tasks are time-consuming (Lee, 2008). That is, the features of a trade transaction differ from those of general transactions of goods or services owing to multiple aspects of trade bodies and the long trade process.

If management systems for the flow of goods in international trade correspond to material supply chain management systems, then the provision of settlement and other financial services related to trade—all of which speak to capital flow—is a function of financial supply chain management (Lim et al., 2004; Presutti et al., 2007). Financial supply chain management refers to the processes of ordering, contract signing, document

control, settlement, and risk management (Viswanadham, N. and Roshan Gaonkar, 2001). In its early stages, e-trade focused on the improvement of document trade systems and electronic messaging systems that had been the basis of international trade; for the most part, the role of the finance supply chain in trade was not emphasized (Lim et al., 2004). Despite the fact that the finance supply chain is associated with the entire spectrum of the physical supply chain in e-trade, it was developed independently by banks and financial institutions during their efforts to build e-trade finance systems and services. Global e-trade systems must integrate physical and finance supply chains in order to establish automated and systematized electronic trade networks between countries.

Currently, global e-trade systems operate automated and systematized electronic trade networks between countries, and help to solve problems with the two primary integration processes relevant to trade: the supply chain and the finance chain. E-trade systems have moved to an open account model, in which the user opens one account in a selected e-trade system, and then either automatically creates a L/C or settles on open account terms (Lee, 2004; Chae, 2005). The shifting trend toward open accounts creates a heavy financial burden for trading partners, who face increased risk and more acute working capital management issues.

3.2 New opportunity for Banks in e-trade

"Banks will need to integrate their financial services offerings with their customers' internal and supply chain systems and processes. This will enable them to prepare, store and archive a range of trade-related documents (linked to financial transactions) on behalf of their customers. They will also be able to carry out secure, automated transactions across multiple parties and systems and to track, match and report physical and financial supply chain events – using these events as triggers for payment and finance related activities." —Jon Richman, executive director of corporate and business development at Economy, a subsidiary of Standard Chartered Bank in Hong Kong.⁸⁾

Traditionally, banks are involved in international trade, either financing the purchases of goods by a buyer (i.e. importer) or providing loans to a seller (i.e. exporter) to produce goods. However, recently, most banks have begun to provide value-added trade services to Importers/Exporters in the areas of trade financing and risk management (Table 1).

With globalization and technological advances, international trading has moved online. Finance supply chain systems should not only be technically innovative, but should also be easy for clients to trust and use. Banks support collection assurance and the export process for the seller, and provide the opening of L/Cs, payment assurance, and importation process to the buyer (Hammond, 2002).

8) SWIFT (2005). "Dialogue: The Vice of the SWIFT community, Sibos 2005 Copenhagen, 5-9 September 2005"

〈Table 1〉 Trade Services

For Importers/Buyers	For Exporters/ Sellers
<ul style="list-style-type: none"> • Import Letter of Credit (L/C) Issuance • Trust Receipts/ Import Financing • Shipping Guarantees • Import Collection Services 	<ul style="list-style-type: none"> • Export Letter of Credit Advising • Letter of Credit Confirmation • Letter of Credit Document Checking and Negotiation • Transfer of letter of Credit • Export Financing • Export Collection • Sale of Receivables

Financial supply chain management can help in the establishment of a safe and convenient foundation for trade, and promote international trade. Banks must improve their competencies via cost reduction and improved task efficiency (Chung, 2006). Additionally, bank clients demand convenience and safety in financial services (Presutti et al., 2007). These demands were the impetus for the development of an electronic payment system for e-trade. In an effort to meet these demands, global banking corporations have implemented banking solutions for international trade.

The computerization of the payment process can be optimized via the automation/integration of financial support management, including the management of accounts payables and receivables, cash management, working capital management, risk management, administrative support, transaction costs, etc. That is, electronic payment systems will streamline the processes of trade finance and settlement in banks, and help to reduce clients' trading costs (Chea, 2007).

With the development of financial supply chain management systems, the material/

financial management process can be integrated, to provide turnkey solutions for e-trade platforms. Here, the integrated processing of trade transactions refers to a single point-of-contact for handling every aspect of the process, regardless of which provider offers what service(s). An e-trade platform provides a safe and convenient virtual working environment via user-centered interfaces, as well as the interconnection, integration, and simplification of a broad range of features (Sim & Ghi, 2006; Chea, 2007). Therefore, in order to connect and integrate all relevant stakeholders in international trade, one must establish a system by which the diverse electronic systems that prevail worldwide can be interlinked.

Banks are expected to perform crucial functions in the operation of e-trade platforms due to their responsibilities in credit provision and financial supply chain management, both of which are core activities in international trade (Chung, 2006). That is, e-trade has been acknowledged as a new opportunity for financial institutions. Accordingly, banks around the world are currently implementing systems

to provide banking solutions for international trade.

IV. e-Trade platform: B2BeX

4.1 The Motivation for Developing B2BeX

Despite recent technological advances, trade transactions remain labor-intensive, relying heavily on the manual exchange of information. It is necessary to champion innovative methods in order to save processing time and cost among trade partners such as buyers, sellers, logistics companies, banks, insurance companies, and government organizations. Standard Chartered Bank has taken a conscientious look at the problems and requirements of electronic trading, and has located some troubles that must be solved.

Firstly, Standard Chartered Bank understands the difficulties its customers faced in managing documents during transactions. Despite recent relevant technological advances, trade transactions are still largely very labor-intensive, relying heavily on the manual exchange of information (Hammond, 2006). 60~70% of export trade documents accrue errors over the course of trading, and a lot of the cost associated with these transactions are related to paperwork and administration alone, according to the investigation conducted by Standard Chartered Bank (Stratton, 2004). Secondly, trading partners utilized different

systems, thus creating difficulties in communication and interruptions of automated transaction processes. The linkage of documents and data facilitates more efficient business analysis and management of all supply-chain-related activities, and it was determined that this needed to be applied to cross-border trading activity without dependent systems. Thirdly, a lot of trading documents occur via a single transaction. Until now, the majority of e-trade systems, including Bolero, e-trade card, etc, have separately provided a broad range of financial and non-financial services. The execution of international trade is bound up not only with the non-financial services that support trade with partners, but also financial services related to payments and insurance. Both of these trade processes use separate systems, and it is difficult for importers and exporters to effectively manage and exchange these systems. Namely, they anticipated more innovative financial services that support the mitigation of risk between trade partners who use e-trading systems.

According to this, the Standard Chartered Bank organized a dedicated e-trade system project team for the design of a B2BeX solution, which consisted of professionals focusing on the experience of trading, including trade banking, logistics, technology, etc. The project team dealt with these issues from the perspective that these were managerial, not technical, issues. Prior to designing the solution, the project team concerned themselves with the borders of transactions that occurred

across national borders. First of all, they set about simplifying the international trade process from end to end. They also identified and arranged the key factors necessary for the B2BeX e-trading platform, which included the following:

- the need to provide a comprehensive range of functionality from global sourcing, procurement, financial service, shipping and insurance to payment.
- the need for a common platform to bring together multiple parties across borders to provide the required services for the entire supply chain process.
- the need to integrate and streamline the cross-border trade processes within companies to provide efficiency for customers.
- the need to improve overall speed of processing and accuracy between a company and its global trading partners.
- the need to ensure faster compliance of cross-border regulations through automated frameworks.

4.2 Characteristics for B2BeX

Aiming to become the world's leading facilitator of international trade, Standard Chartered Bank designed a B2B platform on which enterprises from around the world could conduct financial transactions in a seamless and integrated manner. Standard Chartered Bank planned to achieve this by providing a

range of financial and non-financial services over the web, enabling participants to send, receive, and process documents and data electronically between all related parties during transactions.

At the core of B2BeX is a document exchange engine which integrates all organizations within the supply chain, facilitating collaborative transactions among buyers, sellers, banks, logistics, insurance, government, and other organizations. The systems interface with traditional EDI and XML or other proprietary formats utilized commonly for web-based interactions, thereby providing a seamless and integrated trading platform for the bank's customers and trading partners. Therefore, B2BeX could bridge the bank's legacy systems with the web, and enable ready integration with external systems. Bank systems such as Letter of Credit (L/C) applications, billing services, payment gateways, security infrastructures, and other custom-built applications had to be integrated to allow for real-time transactions over the B2BeX platform. For this purpose, B2BeX supported the messaging standards including ANSIX12, DEIFACT, SWIFT, Rosettanet, and SAP iDOcs and the delivery of trade documents over multiple channels: any media or format including fax or EDI messages, and e-mail attachments or web forms or web services.⁹⁾ The centralized administration feature of B2BeX allows Standard Chartered

9) ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC.(2005), E-trade Finance Infrastructure development Handbook For Economies Transition, New York.

Bank to maintain full control over the system, and provides a low-cost means by which new online services can be introduced to the market more quickly than ever before. New clients, for example, can be put into production within as short a time as two weeks.

Therefore, B2BeX simplifies international trade via the end-to-end integration of key trade processes, and delivers them to a single platform (Stratton, 2004). When applied to cross-border trading activities in which more than 100 documents can be involved in a single transaction, companies all along the supply chain can enjoy significant gains in efficiency and competitiveness.

4.3 Positioning of B2BeX

As with the majority of the global banks, Standard Chartered Bank rode along with the internet banking revolution. Standard Chartered Bank was a prime mover among banks in its release of B2BeX, leveraging its excellent internal tools. Standard Chartered Bank's initial e-business strategy was to provide a tool for online document exchange, thereby reducing paperwork and other administrative labor for themselves and their clients. Currently, 98% of customers who used B2BeX for document exchanges are MNCs, while 2% are SMEs. Standard Chartered Bank's initial strategy included private labeling positioning itself as a B2BeX banking solutions provider.

Standard Chartered Bank further formulated

its strategy to handling channel conflicts by extending to its corporate clients—both buyers and suppliers—the use of the B2BeX platform for financial services. The pricing strategy was to continue charging each buyer on the basis of traditionally opened L/C, thus ensuring buyers that they could use the B2BeX platform without incurring any increases in service charges. The suppliers, who were assured payment through a credible bank, were also on board.

Standard Chartered Bank did not restrict the use of its B2BeX platform to any particular segment of corporate clients but to all, even clients who simply wished to utilize the platform for document exchange with the Bank and electronic storage. Thus, the initial objective of reducing unnecessary paperwork and administrative costs works with corporate clients at all levels.

Currently, Standard Chartered Bank is moving towards providing working capital solutions to buyers and suppliers, who are corporate customers, through loan financing and other financing packages. This would strategically position Standard Chartered Bank as a financial supply chain integrator in the banking industry. This unique value proposition of Supply Chain Finance (SCF) will include existing clients and will draw more MNCs and SMEs as corporate clients.

4.4 Revenue models for B2BeX

Despite the low interest rate environment,

Standard Chartered Bank has been trying to generate more customer revenue from its capital. B2BeX has new revenue sources from the supply chains of its clients, which include not only the partners of clients, but also vendors. Automated data provision can reveal processing errors and reduce costs. Therefore, B2BeX has different revenues than traditional banking services.

Channel Financing provides working capital solutions to buyers and suppliers, which constitute a means of revenue generation for Standard Chartered Bank, through interest rates. A typical financial supply chain consists of the following components: purchasing, risk management, order fulfillment, payment preparation, and settlement. Most banks have attempted to provide solutions to address risk management, order fulfillment, and settlement. However, few have processed the linkages between these processes. With B2BeX, channel financing becomes a seamless end-to-end process.

Advance payment terms and payments after the receipt of goods are the usual trading terms through which dealers procure goods. However, such trading cycles can significantly impact cash flows. Their working capital is tied up in purchasing products against which sales proceeds will be realized only at a later date. Standard Chartered Bank understands the pressures faced by customers and their dealers. Under dealer finance conditions, Standard Chartered Bank will pay the customer for goods sold to the dealer either

prior to or immediately after shipment. Then, once the dealer sells these goods in the market, they will pay the bank directly. This simple yet valuable proposition ensures a reduction in the purchasing capacity and profitability of dealers.

Credit based open account payment terms are the norm in today's marketplace. However, such trading cycles impair the suppliers' cash flows. Their working capital, for example, is tied up in meeting the buyer's supply needs, whereas the rewards of the sale are not forthcoming until transaction maturity. By funding the entire period of the transaction—from shipment to receipt of payment—Supplier Finance provides post-shipment finance to the suppliers, assuring them of a guaranteed source of funds at low rates.

Initially, Standard Chartered Bank provided private labeling of B2BeX to other banks that did not compete with it directly. Standard Chartered Bank charges for service based on transaction volume. However, providing banking solutions is not a core function of Standard Chartered Bank's business and there is a constant risk of banks with B2BeX eventually competing with Standard Chartered Bank in the future. This risk was partially realized when one of the banks with privately labeled B2BeX planned to set up a back-operations office in Singapore. Hence, Standard Chartered Bank may not provide private labeling of B2BeX in the future, in order to maintain its strategic advantage over other banks.

Other sources of revenue for Standard Chartered Bank include the cross-selling of other financial products from Standard Chartered Bank, like loans at attractive rates and subscriptions to business and market intelligence data via its online platform.

4.5 B2BeX's pursuit of value

"Standard Chartered B2BeX allows us the opportunity to look at the link between the Purchase Order issuance and the Letter of Credit. There are three important advantages with this link. First, we can introduce straight through processing. Second, orders that are amended can be sent straight through to the L/C. Thirdly, we can reduce discrepancies in documents when the supplier presents to the bank. All of these combined should mean potentially better trade terms. The modular aspect of B2BeX allows us to implement one step at a time. The Web platform allows us to work across Asia and with the UK. B2BeX also standardizes electronic documents and this, together with the modular design, might, in the future, encourage us to introduce our other trading partners to the system." -- Simon Atkinson, Group Treasurer of Woolworths Group PLC, a major retailer based in the UK.¹⁰⁾

The B2BeX's client has achieved increased efficiency, saving from 25% to 50% of costs as compared to the traditional trading method, because it offers significant reductions in the amount of labor-intensive documentation work, automation of routine tasks, diminished paperflow, and radically improved overall

speed of communication, accuracy, and clarity with trading partners.¹¹⁾ B2BeX was designed on the basis of the following six things: convenience, efficient trading processes, cost saving, multiple online channels, value-added service, security, and trust.

4.5.1 Convenience

B2BeX provides a turnkey solution for international trading transactions that is available to trade participants (suppliers, buyers, logistics service providers, insurance firms, firms that provide inspection services, etc). Full-featured trade documents can be created, delivered, and tracked online. Preset standard forms of PO, RFQ, invoices, memoranda, packing lists, and payment settlements are available. A user-created template can be utilized for future documentation. A new trade document created from a preset template is already populated with data to curtail the workload and reduce errors.

The "data inheritance" feature can enable full or partial automation in document preparation, reduce errors, and ensure document integrity.

In addition, the export of documents to PDF, CSV, and XML formats, and the web/email/fax alert features are implemented for the purposes of user-friendliness. An automated-reply system is also available. For instance,

10) Standard Chartered Bank Press(2002), "Standard Chartered Launches B2BeX Globally"

11) Prodmain.com(2003), "Standard Chartered's B2BeX wins Wharton Infosys Business Transformation award"

when a purchase order is received, the corresponding shipping order will be created automatically. All created documents are treated and filed together in order to allow faster tracking and referencing.

4.5.2 Efficiency from streamlined processes

Standard Chartered Bank ensures payment upon product delivery and efficient fulfillment of orders via streamlined processing. To provide additional value in supply chains through the "Working Capital Cycle," the integration of B2BeX with SWIFTNet¹²⁾ was investigated. This integration permits a client to communicate with its partners via SWIFTNet. The extended capability of the client reduces the costs of processing and enables less interaction with the bank via enhanced control, transparency, and straight-through processing. The Trade Services Utility (TSU) from SWIFTNet is adopted for a supply chain strategy.¹³⁾ The TSU can create documents such as POs, invoices, transportation documents, etc., at trigger points at which physical and financial supply chains intersect.

4.5.3 Cost savings

Trade comprises complex, paper-based, and labor- and time-consuming activities. In

addition, trade generally requires a large amount of documentation to be prepared and communicated among a number of stakeholders. Many documents might be prepared to facilitate a single international trade transaction. Therefore, a single error or delay in preparation can result in crucial letdowns and missed opportunities.

By employing standardized international trade transaction processes, B2BeX can identify any issue that concerns or creates inefficiency. B2BeX can save more than half the operating costs associated with the management of international trade. For instance, Chung Nan Industrial Suppliers, which is based in Hong Kong, recently reported that B2BeX saved them more than 40% in processing costs and thousands of dollars in late payment fees.¹⁴⁾

4.5.4 Multiple online channels

Standard Chartered Bank provides multiple online channels such as the Web Channel, Bulk Channel, EDI Channel, Secure E-mail, etc.

Trading partners with different systems can communicate via B2BeX's messaging and translation service. B2BeX can work with other legacy ERP systems, message types, and formats in major EDI Value-Added Networks. This "any-to any messaging" enables

12) Standard Chartered Bank Press(2007), "Wholesale Banking"

13) SWIFT(2006), "Standard Chartered embraces SWIFTSolutions end-to-end"

14) Standard Chartered Bank Press (2002), "Standard Chartered Launches B2BeX Globally"

communication by clients in their own formats.

4.5.5 Value-added services

The customization and integration of B2BeX services with existing transactional systems is available via a turnkey solution. This solution allows for a quick return of value and time-to-market, without the hassle of establishing proprietary solutions.

B2BeX can be integrated fully with existing banking services from Standard Chartered Bank, such as financing at attractive interest rates. Additionally, third-party services such as reporting on business trends and market information are available via this platform.

4.5.6 Security, trust, and reliability

B2BeX has been certified to meet the steep security criteria standard to the industry. B2BeX utilizes the framework of the Identrus Public Key Infrastructure (PKI), and the Global Certified Authority status was obtained from Identrus in 2001. PKI is integrated throughout the corporate-banking portal of Standard Chartered Bank. "Web Bank" and B2BeX are available as a component of the online services of Standard Chartered Bank.¹⁵⁾

Via this approach, transactions are encrypted for confidentiality and privacy, and fraudulent or illegal transactions are disallowed. The authorization of transactions re-

quires the insertion of one's smart-card and the entry of an individual PIN. For stronger authentication, the user uses a token, entering the randomly generated token number in response to the "challenge."

To protect data against catastrophes, B2BeX implements high-availability, system-monitoring and redundancy (including a disaster-recovery module) in B2BeX.

V. Competitors of B2BeX

B2BeX has two sides' competitors in e-trade: the development of an e-trade platform initiated by Bank and by a trading service organization.

On one hand, many banks and financial institutions have independently developed and managed e-trade finance service models, including Citibank (CitiDirect) and DBS (db-eBills), which provide trade services. They focused on their competency as solely providing e-banking services (Lim et al., 2004). Currently, they attempt to integrate and provide turnkey solutions for electronic trade with regard not only to payment but also certification, trade mediation, the provision of trade information, and the delivery of relevant documents. The ABN/Amro service with BeXcom or Identrus, which is led by SWIFT and global banking corporations, is

15) Newswit.com(2007), "Standard Chartered innovates with global B2BeX supply chain capabilities"

an example of the integrative approach.¹⁶⁾ In Korea, LG Electronics, Samsung Electronics, etc., conduct electronic payments with collaborating companies through this service. Although it has the advantage of being a prime mover, this strategic differentiation of Standard Chartered Bank will stand until other banks can catch up. On the other hand, trading service organizations have investigated the e-trade system from a functional perspective.¹⁷⁾ The Bolero project, which began as a consortium of the naval transport, banking, and communication industries in Hong Kong, The Netherlands, Sweden, the UK, and the US in June 1994, is currently led by SWIFT and the TT Club (Chea, 2007). Bolero Operation Ltd., which was established via a joint investment of these groups, aims to provide global commercial services through electronic trade documents, along with the user group, the Bolero Association. The TradeCard project, which is promoted actively by the World Trade Centers' Association and several large US corporations, is an excellent example of the functional approach. In this fashion, traditional letters of credit are replaced by the electronic transfer of importation/exportation documents and payment. These systems are focused not on financial services only, but rather on total e-trade services, whereby computerization can eliminate redundant

processes and maximize task efficiency. Bolero systems, for example, replace paper documents with electronic documents while maintaining existing procedures.¹⁸⁾

However, thus far, Standard Chartered Bank is the first and only bank to marry both B2B trading facilities and banking facilities via an integrated online trading platform designed for MNCs and SMEs starting from initial trade stages, such as RFQ. Hence, Standard Chartered Bank needs to continuously expand its platform with market penetration and Supply Chain Finance. The major advantage in Standard Chartered Bank's strategy of effectively integrating the financial aspect of supply chain on B2BeX is that it increases client's "Stickiness" to the bank over the long-term. The switching cost for clients would mean considerable changes to their supply chain business processes. <Table 2> shows some of the competitor's online delivery platforms for trade:

VI. Challenges to B2BeX

Past attempts to minimize or eliminate paperwork in international trade have fallen short of expectations. Hundreds of billions of dollars have been spent on paper related to

16) ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC.(2005), E-trade Finance Infrastructure development Handbook For Economies Transition, New York.

17) ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC.(2005)

18) ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC.(2005).

(Table 2) Online Trade Delivery Platform

Bank	Online Trade Platform	Description
ABN AMRO	All Trade Platform	Provide a cross-border trade solution. The application addresses companies' global supply chain management processes by automating the risk mitigation and financing
JPMorgan	JPMorgan's Trade POS and JPMorgan Trade Information Exchange (TIESM)	TradePOS and TIESM allow large-scale importers and exporters. TradePOS is an automated purchase order system. JPMorgan creates purchase orders on the client's behalf and feeds the data into the client's enterprise resource planning (ERP) system. TIESM enables clients to check the status of their trade transactions and initiate inquires on letters of credit, documentary collections, purchase orders, and document images.
HSBC	Global Transaction Banking	Paperless trade, document imaging, automated documentary credit (DC) issue, finance, integration, and reporting.
Calyon	TradCard	The TradeCarde Platform enables Calyon's corporate customers to automate the financial processes in their supply chains from orders to cash.
CitiGroup	CitiDirect	Trade through CitiDirect Online Banking provides access and control over trade transactions, enabling importers and exporters to manage their trading activities.
BNP Paribas	Connexis Trade	A tool for online management of trade operation can be connected to clients' internal systems and back offices. This service is built on the Misys Trade Portal solution.
Deutsche Bank	db-eBills	db-eBills is a global platform that is integrated with the bank's financial solutions, delivering a range of payments and financing services linked to electronic invoicing.
First Rand Bank	FNB TradeOnline	FNB TradeOnline is a secure Internet-based system that enables importers to apply online for import Documentary Credits (DC), Standby Letters of Credit and amendments, and submit these electronically to FNB International Bank for processing
Royal Bank of Scotland	RBS TradeFlow (Private Labeling by XYZ)	RBS TradeFlow, a secure, web-enabled document management and financial settlement platform.

trade contracts, invoices, payments, transportation, customs, etc. The principal difficulties were attributable to the inertia of companies to move from trusted and legally tested paper-based trade finance documents to electronic ones, in particular concerns

regarding the legality and security of electronic documents. In the context of industry standards, complex workflows of online e-trade finance transactions and the need for major investments in new models are among the roadblocks to the adoption of online in-

ternational e-trade regimes.¹⁹⁾

To become a true exchange for international trading, Standard Chartered Bank needs to include other banks in its B2BeX value chain, apart from the buyers and sellers comprising its corporate client base. This will open a much larger market to Standard Chartered Bank in the area of inter-banking financial services.

Current challenges of CEOs for major MNCs and SMEs include the need to improve supply chains globally via low-cost sourcing and to increase companies' reach. These challenges generate pressures including supply chain risks and financing costs, supplier credit risks, and country-related risks, to name a few. In order to adapt to the global supply chain needs of companies, Standard Chartered Bank will need to ensure continuous growth of its platform into the global market. This process will require a greater understanding of the technological, political, and economic characteristics and regulations in each market.

VII. Conclusion

The initial strategy of Standard Chartered Bank with regard to B2BeX was to promote a document-exchange portal for trade transactions. The reduction in paperwork and the integrated provision of services achieved by

B2BeX have been received by the market. The Standard Chartered Bank can be positioned as a leader in the corresponding business. Currently, Standard Chartered Bank has further plans to implement Supply Chain Finance (SCF) in B2BeX, in an effort to provide integrated services within clients' supply chains.

As a pioneer in online B2B trade transactions, Standard Chartered Bank has endeavored to integrate clients' supply chains to provide end-to-end SCF with existing trade facilitation services, including RFQ and RFF. SCF will offer a better rate of interest than that currently available in B2BeX, and suppliers will see benefits from predictable cash flow. Clients can outsource payables and receivables at lower rates via SCF in B2BeX. This will increase the "stickiness" of the service not only for clients but also for their trading partners. For instance, the outsourcing of payables is available from Standard Chartered Bank to buyers, and this may lower the cost of the product being purchased. Standard Chartered Bank plans to replicate the corresponding B2BeX platform in new and emerging markets where there is a sizeable demand for globalization.

Standard Chartered Bank aims for the convergence of physical and financial supply chains over managed B2BeX services. These services clearly exceed the boundaries of traditional Internet banking services.

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전자 무역거래 금융에 대한 B2BeX 사례연구*

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요 약

Standard Chartered Bank는 국제 e-trade를 지원하는 banking solution으로 웹 기반의 B2BeX를 개발하였다. B2BeX는 다른 경쟁사와는 달리 공급체인인 운전자본요구를 통합하여 supply chain finance (SFC)로 확장하여 고객들에게 차별화된 가치를 제공할 수 있었다. 이러한 banking solution을 이용으로 Standard Chartered Bank는 국제적 교역에 있어서 법적인 문제들과 진실성에 대한 문제를 해결할 수 있었다. 더불어 이 차별화 전략은 Citibank (CitiDirect)와 DBS (db-dBills) 같은 경쟁자들보다 유리하게 하였다. 또한 공급체인상에서 다국적기업(MNCs)과 중소기업(SMEs)의 연결과 통합을 용이하게 하여 신뢰 위험 관리를 할 수 있었다. B2BeX 사례를 통해 e-trade에서 거래확정의 유효성을 포함하여 은행의 기능적 특징과 역할이 평가된다는 것을 알 수 있다.

주제어: B2B 거래(business-to-business exchange), 전자무역(e-trade), 공급체인금융 supply chain finance)

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〈Teaching Note〉

E-Trade Finance: The Case of B2BeX

The case of B2BeX in e-trade was developed by an undergraduate student in Business Administration at the University, as a component of a class discussion. The case of B2BeX can be used in e-business courses on electronic settlement systems in B2B, and in corporate strategies for electronic trade settlement systems in the market. The teaching notes will present a case synopsis, summary of educational objectives, proposed assignment questions, and a detailed question-by-question analysis.

Case Synopsis

Business-to-Business (B2BeX) is a Web-based corporate banking solution for international trade that was established by Standard Chartered Bank to ensure streamlined and accelerated trade cycles for the bank's clients by providing capabilities for resource management, procurement management, financial management, shipping, and insurance for payment. B2BeX enables the different parties participating in the trade process to exchange documents and data with one ano-

ther right from the initial phases of trading, including requests for quotations (RFQs), purchase orders, confirmations, shipping instructions, and letter of credit (L/C) applications. The platform features a range of trade-related services and offers online access to a network of 15,000 clients from the shipping, insurance, catalogue, and other trade-related lines of business.

B2BeX has the following problems.

- There are many competitors that provide trade services, including Citibank (CitiDirect) and DBS (db-eBills). However, STANDARD CHARTERED has the first-mover advantage in supply chain finance, an advantage which should hold until the other banks can catch up.
- There are some difficulties attributable to the inertia of companies in moving from trusted and legally tested paper-based trade finance documents to electronic versions. In particular, some concerns remain regarding the legality and security of electronic documents.

- The primary challenges for major MNCs and SMEs include the need to globally improve supply chains via low-cost sourcing and expansions of market reach. These result in pressures including supply chain risks and costs of financing, supplier credit risks, and country-related risks.

Standard Chartered Bank can expand its platform to include Supply Chain Finance (SCF). The major advantage in STANDARD CHARTERED's strategy of effectively integrating the working capital requirements of the supply chain in B2BeX is that it increases clients' "stickiness" to the bank in the long term. The switching cost for clients would imply substantial changes to their supply chain business processes. Considerable internal investment will be required for Standard Chartered Bank to build and maintain B2BeX with SCF components.

Standard Chartered Bank needs to effect a continuous expansion of its platform with market penetration and increased service offerings via B2BeX in order to remain competitive in the corporate banking industry. To become a true trading exchange, Standard Chartered Bank must seek to include other banks within its B2BeX value chain, in addition to the buyers and sellers that comprise its corporate clientele base. This will open a bigger market for Standard Chartered Bank in the area of inter-banking financial services. In order to adapt to companies'

global supply chain needs, Standard Chartered Bank will need to achieve a continuous growth of its platform into the global market. This process will require a firm understanding of the technological, political, and economic characteristics and regulations of each market. Ultimately, Standard Chartered Bank will need to climb the value-chain of the banking industry by integrating B2BeX with services to satisfy companies' requirements for working capital through Supply Chain Finance.

Teaching Point

This case addresses the role of banks in electronic finance solutions, problems in providing an e-trade finance solution, and strategies for electronic finance solutions in international B2B exchanges.

Since the first introduction of e-trade, electronic payments have been possible. The conventional payment process is increasingly limited by the need for complex documentation, and thus there is an increasing need for electronic finance solutions. Standard Chartered Bank, which has a great deal of experience with and expertise in information technology, developed B2BeX as an e-trade finance solution. B2BeX began with the simple exchange of trade documents for e-trade between supply chain partners. B2BeX implemented a turnkey solution for the support of all trade processes conducted between

bank clients and their relevant partners, including financial and trade transactions.

B2BeX offers user-friendliness, efficient trade processes, cost reductions, multi-channels, value-added services, value in security/trust/reliability, ease of delivery, standardization, technology, CRM, third-party services, etc. B2BeX can be positioned as a market leader in electronic finance solutions via the simplification of complex processes and user-friendliness in trade transactions.

With increasing interest in B2B trading and the increased role of banks in trade settlements, competing companies, including Citibank and DBS, have ventured into the field of electronic finance solutions. With steep competition, each bank has promoted a differentiation strategy in order to maintain competitiveness. Through the case of B2BeX, the differentiation elements of the Standard Chartered Bank can be observed, and its success/failure can be evaluated.

B2BeX has garnered steady profits by providing value-added services, in addition to the profits it gains from payment. However, the business model of B2BeX is based on Internet technology, which can be replicated easily. To reduce copying of the business profit model by competitors, and to sustain profitability, strategic change will be required.

The benefits of this study would be enhanced by a greater overall understanding of e-trade based on actual cases.

Assignment Questions

1. Which approach has Standard Chartered Bank used in terms of its choice of B2BeX as an e-trade settlement system? What is the reason for its approach?

Bolero and TradeCard are solutions that compete with B2BeX. Bolero adopted a comprehensive approach that replaces the existing trade process. TradeCard aims for an efficient process by removing redundancies and duplication via a functional approach. However, B2BeX adopted an integrative approach for easy and safe end-to-end service in international trade. B2BeX provides a variety of services in electronic document exchange, document standardization, required logistics, transportation, shipping, and insurance for trade. Therefore, user convenience is the most salient feature of B2BeX. In addition, B2BeX has the framework of an e-trade platform.

An e-trade platform is a network created to provide seamless and turnkey solutions for international trade. In the near future, existing e-trade systems will be developed into e-trade platforms for information sharing and collaborative planning, via the connection and integration of task information systems among participating companies. Banks that play essential roles in international trade and that implement information systems at an early stage are anticipated to perform critical

roles in the construction of e-trade platforms. Thus, in response to this reality, many banks have established electronic payment systems for e-trade.

Standard Chartered Bank responded to this trend by developing B2BeX, and in doing so, secured ascendancy over its competitors.

All e-trade platforms share the same goals, however much their details might differ. Bolero adopted the existing international trade process, but lacked computerization. TradeCard enlarged the level of computerization, and reduced the role of banks; instead of banks, trade stakeholders directly participate in the settlement process. However, this system requires tedious payment processing protocols. Meanwhile, B2BeX supports all payment methods. B2BeX is designed not only to be a user-friendly and efficient payment system, but also to provide a variety of international trade-related services.

2. What are the problems associated with offline trade settlements? Has electronic trade settlement solved this problem?

The existing trade settlement process requires manual processing and complex document handling. Therefore, it is susceptible to processing errors. To open a letter of credit, the corresponding documents should be prepared. Even if the documents are prepared, the process of the review will take quite a long time, which will delay the receipt of

items. Additionally, the subsidiary cost of preparing the documents for a letter of credit is relatively high. To remedy this procedural issue in trade settlement, electronic trade settlement protocols were developed. Two electronic settlement methods are currently available. The first aims to streamline processes and reduce costs by maintaining the existing settlement method. Examples of this method include the 'Bolero Bill of Credit' by Bolero and the TradeCard System (without credit). The second method exploits a wholly novel settlement process for convenient e-trades, such as those provided by BeXcom and Identrus. An electronic settlement system can simplify, via technical innovation, the issue of complexity in document exchange, but this method still needs to be deemed trustworthy by users. Additionally, the requirements for electronic settlements, including precision, speed, low cost, stability, compatibility, convenience, and universality, should be properly implemented for such a system to achieve its full potential impact.

3. What are the strengths, weaknesses, opportunities, and threats of B2BeX?

The strengths, weakness, opportunities, and threats of B2BeX are as follows:

Strengths

- B2BeX provides a one-stop service for every aspect of international B2B e-trade, from business leads through to the

final financial settlement, including online order management, electronic settlement, authorization, and other related aspects.

- B2BeX allows users to implement a basic infrastructure at a low cost without investments in other software or personnel, and entails a low maintenance cost.
- B2BeX has created a broad range of alliances with business partners, authorization agencies, System Integration firms, and logistics companies.

Weaknesses

- B2BeX fails to reflect conventional trade processes in financial settlements, causing disconnects with existing applications.
- Transaction information is exposed on the B2BeX system, whereas anonymity of transactions is required.
- B2BeX requires the offline implementation of customs processing of trade.

Opportunities

- Costs must be reasonable for system implementation and transactions to promote the use of electronic finance solutions.
- Users demand electronic finance solutions that can be easily integrated, regardless of system environments.
- Banks are expected to play key roles in providing the security and reliability that are required in B2B and e-trade transactions, given the trust they have gained from the public by providing traditional financial services.

Threats

- B2BeX uses the common technology of the Internet, making it easy for competitors to copy the model.
- E-trade electronic finance solutions need to implement technical measures for security issues to not only ensure safety and integrity but also to guard against unlawful usage, including identity theft, manipulation, and counterfeiting.
- There is a dearth of national and international policy efforts supporting the use of electronic finance solutions in e-trade.
- Transaction procedures, rules, regulations, and technical standards regarding electronic finance solutions differ across countries.

4. What is the role of banks in e-trade finance? Why does the Standard Chartered Bank pay attention to manage Supply Chain Finance?

Banks provide financial support and credit assurance in the trade settlement process, which encompasses simple payments. Financial supply chain management allows banks to optimize the flow of trade documents and capital through automated trade transactions, ranging from the signing of the contract through to payment and post-payment management. Banks can provide financial supply chain management to manage the cash/deposits and operating assets of companies. Trading businesses can lower transaction costs, and

can experience quicker processing via electronic information exchange and the reduction of complex preparation work.

5. Which competitive strategy did B2BeX adopt? Why did B2BeX choose it?

B2BeX from Standard Chartered Bank adopted a differentiation strategy to gain competitiveness by providing unique products and services. B2BeX aims at "stickiness" in usage for trading partners through Supply Chain Finance by providing clients with a strategy for the management of their operating and trade assets. Close relationships between B2BeX and its clients can increase the switching costs for the clients. In order to successfully pursue a differentiation strategy, the features and superiority of B2BeX among electronic finance solutions should be clearly acknowledged. B2BeX, which holds a leading position in the electronic finance solutions market, has greater recognition and differentiated technology. Therefore, it is more effective for B2BeX to adopt a differentiation strategy, as opposed to a cost leadership or focus strategy. As one component of a differentiation strategy, Supply Chain Finance should help B2BeX to achieve a competitive edge in the market.

6. Where is B2BeX in the Complementary Assets model?

If the competency of Standard Chartered

Bank in electronic finance solutions can be achieved via differentiation, a strategy for consistent profit creation must be reviewed. B2BeX enjoys greater market recognition than its competitors, but can be easily copied. In order to maintain its business model and create consistent profit, a complementary asset model strategy needs to be implemented. This model addresses the brand, distribution network, production or marketing capability, and relationship with partners. B2BeX was developed by Standard Chartered Bank, which holds a leading position in electronic finance solutions and offline recognition. The position of B2BeX in the complementary asset model is Cell II.

Standard Chartered Bank entered the electronic finance solution market in its nascent stages, and formed complementary assets in the market, as a result of its understanding of the online environment and application capability. B2BeX builds in switching costs for its clients and customers.

However, the advancement of competitors with high complementary assets will face a steep competition environment owing to easy imitation via internet technology. In accordance with this situation, B2BeX might be reinforced via a team-up strategy with other banks that need to use finance solutions for e-trade and that have complementary assets. The more clients are involved, the more valuable B2BeX will be to members, and the more difficult it will prove to be for a member to switch to its competitors. The team-up

strategy will ensure liquidity in the market, provide a sufficient number of participants, and ensure sufficient transaction scale. Eventually, it would be expected that such strategies would improve the profits attained through electronic finance solutions.