



**Asia-Pacific
Economic Cooperation**

**Universal eXChange, Inc
Chinese Taipei**

**The Financial Service
Platform of UXB2B**

Written by

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The case was developed with the cooperation of Universal eXchange, Inc. solely for educational purposes as a contribution to the project entitled “IPR Strategies for Emerging Enterprises – Capacity Building for Successful Entry to Global Supply Chain,” conducted under the auspices of the Asia-Pacific Economic Cooperation (APEC). The case is neither designed nor intended to illustrate the correct or incorrect management of the situation or issues contained in the case. Reproduction and duplication of this case for personal and educational use is encouraged. No part of this case however can be reproduced, stored, or used for purposes other than the above without the written permission of the author(s) and APEC.

One morning in early January of 2010, Chrissy, the CEO of UXB2B, came to a meditation for the future of her company. Having entered the 10th year since its inception, UXB2B was undergoing a change of growth pattern. Chrissy recalled those difficult and hard-working days in the first five years, while the company was encountering the bursts of internet bubbles so that made drastic changes, and the corporate was repositioned to the ongoing service model. Ever since, the company had been developing steadily, in which the business model and quality service were quite contributing to its success.

Chrissy had a doctoral degree in computer and information science, and studied in the US graduate school before joining a national defense research institute. She worked in the research institute for 15 years and had been a leader of software teams. She was invited to be one of co-founders of UXB2B in 2000 by the Board Chairman of UXB2B, Mr. Chung, who was a Chief Financial Officer of a major company.

While UXB2B enjoyed the increase of business transactions on their platform, the top management was considering the growth of revenues and exploration of new markets in the future. It gave Chrissy a chance to review the corporate competencies and prepare for the changes in the dynamic market. Moreover, most of the corporate values UXB2B had were intangible assets, such as human capitals, customer relationship and company structures. Chrissy considered if a measurement of the company's performance in the use of its intangible assets may offer some insights for their next-level strategy.

Company Profiles and Business Model

Universal eXchange Inc. (UXB2B, where B2B stands for Business to Business), an electronic commerce (e-commerce) company providing the financial service platform and service for trading partners, was established in Taipei City in January of 2000. It designed and operated an integrated information system, in which it communicated the purchasing orders, the payment and the financing requests among the participating companies and banks.

The major shareholders of UXB2B were China Steel Corporation (CSC) Group- and Far Eastern Group-invested companies. The mission of UXB2B was to build a professional, secure and efficient B2B e-commerce service to enhance the business competitiveness of the enterprises in a digital economy. Their vision was to be a world-class B2B e-commerce solution provider.

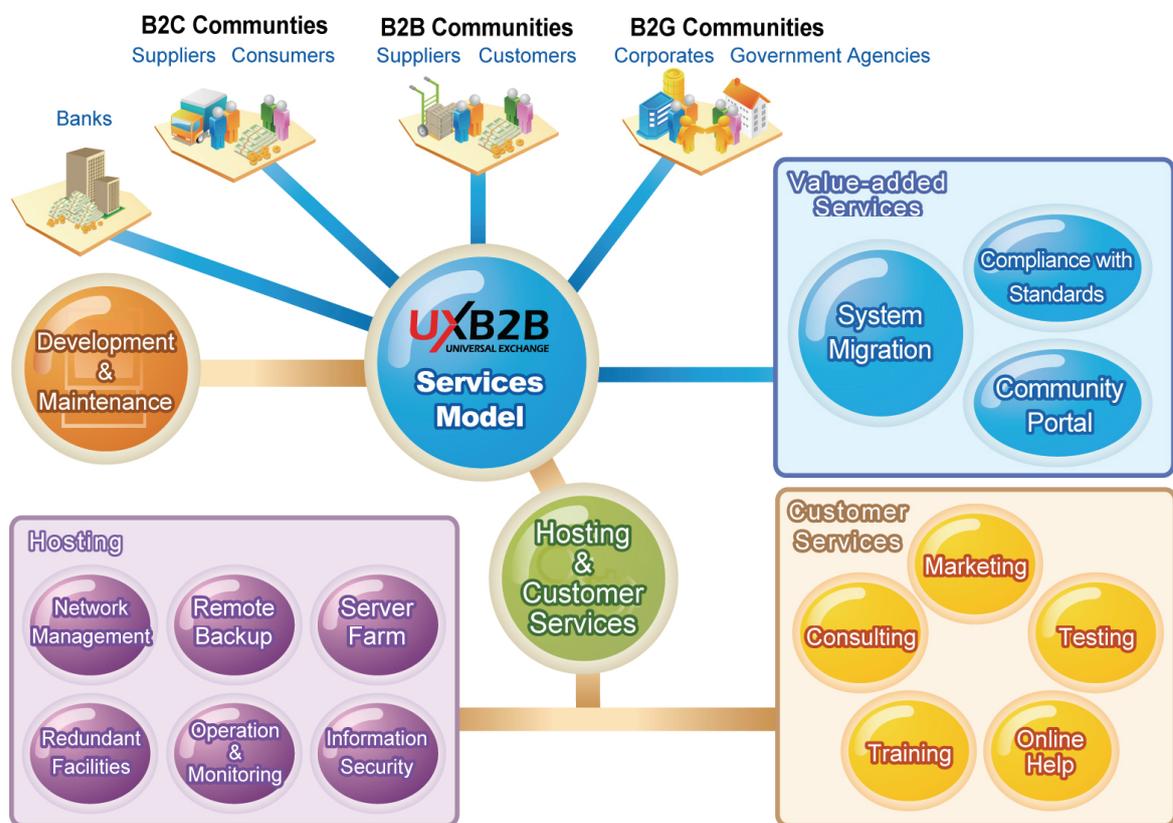
A Unique Service Platform Facilitating Sales, Procurement and Financing on the Web

Prior to the introduction of internet and e-commerce infrastructures, financial operations and services required many documents writings and people meetings, in order to cope with the domestic and international needs for procurements and sales. The transactions among buyers and sellers mostly engaged the banks for financial warranties, loans and collaterals. There were heavy paper work produced and costs generated among the trading companies and financing organizations. The system

designed by UXB2B was to provide an integrated platform to facilitate the financing-accompanied transactions efficiently. This financial service platform was the first and the only of its kind in Chinese Taipei as of 2010.

UXB2B offered the systems and services of eSales, eProcurement and eFinance. The model was called “SaaS(Software as a Service)”, which facilitated an automated and interconnected system for the buyers, sellers and banks to meet the needs of payments, contracting documents, and many relevant processes. A major buyer or seller, who had many counterparts of transactions, would be interested in such a financial supply chain on the internet as the transactions were followed by voluminous documents, payments and financing matters. Figure 1 illustrated the business and service model in the platform.

Figure 1. Service Model and Information Flow of UXB2B



The Key to Success

It seemed not as difficult a service as the UXB2B provided at the first glance, since process automation and network services were common after the launch of world-wide web. But there were hurdles to overcome for the transactions along with financial services to be integrated in a platform by a neutral party. Some of them were technical issues, but mostly the mutual trusts and information security of trading and financing in the internet.

The technical matters were primarily the digital signatures, the electronic seals and the internet security. Technological instruments were required to abide by the

electronic signature law, eUCP (electronic Uniform Customs and Practice), etc. Build-up of technical support and use of modern know-how were not considered a major difficulty of UXB2B's business development.

Instead, the trading concerns and organizational inertia among the participants were the prime hurdles, especially the integration of management of information system of each company and every bank with the financial platform provided by UXB2B, where internal process was altered and confidentiality was disclosed, to some extents, so as to cope with the structural needs of new system. As a matter of fact, whoever intended to join the financial platform had to negotiate the terms and conditions with the leader and banks in the supply chain, as the major buyer/seller controlled the trading information and the banks had to evaluate the financial status of each participant for future loans and services. The leading buyer/seller had to link their internal system, such as the outputs of its enterprise resource planning (ERP), to the platform of UXB2B. The other participants could take advantage of the standardized formats and configurations provided by UXB2B.

Among the participants of this eService platform, the financing institutions, i.e., banks in this case, were the most cautious to join. The security management and internal control were prime concerns of the banks; moreover, the management structure and control process were quite diverse among the banks. Each bank required customized information system to participate in the financial service platform. UXB2B offered such service projects, in order to convince and invite as many banks to the join the platform.

A market leader played the central role of the platform and attracted many trading partners to use the financial platform. The trading platform was utilized by the contractual relationships in which mutual trust and information sharing were held among the participants. It was the China Steel Corporation that foresaw the benefit of having such a system and was willing to offer incentives, including investing on platform construction, subsidizing the participating companies and banks to adopt the software restructuring, as well as giving discounts for the transactions on platform. China Steel worked closely with UXB2B to encourage their trading counterparts and banks in line with such a system. The increase of participants, along with the technological progress, brought the growth of business.

Furthermore, a supply chain in general consisted of one or very few leaders and many small and medium enterprises (SMEs). The SMEs might have been lacking of sufficient manpower in information system, as well as a shortage of financial robustness for financing credits. It took the leader of such a supply to negotiate with the banks for the SMEs. Some banks gave credits loans favorable considerations for SMEs, which had long-term transactions with the China Steel Corporation. In order to manage the risks of Credit Sales without collaterals, China Steel paid the insurance premium to an insurer and invited a reinsurer to ensure the banks with acceptable security of repayments and financing provisions.

Corporate Milestones of UXB2B

UXB2B provided the corporate financing chain platform, which was a unique and import bridge between corporate and banks and was called B2B2B (Business to Business to Bank). For corporate, UXB2B provided the consulting and IT services to help them design the financing solutions to integrate their own systems with UXB2B's finance chain platform. For banks, UXB2B supported them to interchange the corporate financing chain with banks' information system. Many banks in Chinese Taipei were using trade financing software products delivered by UXB2B.

The value-added services included the cost and time-saving of labor work in dealing of procurements, sales and financing arrangements, as well as the competitive offerings of financing conditions and insurance coverage in the platform.

As the first mover in the market, as well as to fulfill the requirements of financial supply chain, UXB2B had accomplished several major tasks in the past. Among them, the internet security, trading and financial documents, such as the Certificate Authority (CA), the Letter of Credits, the invoice, etc., served as the vehicle to build up the system. Furthermore, patents of risk sharing and electronic seal were granted in 2003 and 2004, respectively.

The success of such a system attracted the attentions of corporate and government agencies. Not only several major players in steel and optoelectronic industries, such as Chung Hung Steel Corporation and Chi Mei Optoelectronics, joined the club, the product and service model of such a financial supply chain was also adopted by government to facilitate public procurement matters.

UXB2B launched new e-Standby Letter of Credits (L/C) service and provided service to Government e-Procurement system, which was owned by the commission of Public Construction Commission (PCC) of Executive Yuan. The users in Government e-Procurement system comprised government agencies, corporate, and banks, and the number of companies was estimated more than 30,000. With this service, users could apply for e-Standby L/C issued by banks, and used as a performance bond and/or bid bond to government agencies.

Another project was also earned by UXB2B that some participating banks were able to provide their financing services to Formosa Plastic Group, which was one of the largest enterprise groups in Chinese Taipei. Nevertheless, such a financial linkage was done within a one-to-one interaction (each bank to Formosa Plastic Group individually), instead of many-to-many among the companies and banks in UXB2B platform.

The capacity building and company growth of UXB2B was shown chronologically in Exhibit 1, where the milestones indicated that it had established the competence and business by introducing the new model to the market of Chinese Taipei.

As of 2009, more than 28 banks and 1,000 business clients, including domestics and overseas financial institutions, adopted the UXB2B platform. The monetary amount of transactions generated in the platform exceeded 34,000 M USD, as drawn in Exhibit 2. The revenue dropped in 2009 was caused by the global economic recession incurred in 2008.

Technological Competence of UXB2B

1. Software engineering expertise in internet security and e-commerce syndication

In order to deliver secured e-Commerce service for customers, UXB2B developed software systems in a high standard of internet security and abided by software engineering discipline. Engineers were well trained in internet security related technology, such as PKI (Public Key Infrastructure) and web application security.

UXB2B adopted the PKI technology and developed a security toolkit, called "uxca", to provide a secured and efficient e-commerce environment and complied with the digital signature law in Chinese Taipei. It was used for information exchanges between trading partners that the messages were enveloped with the security module to fulfill the requirements of identification, non-repudiation, confidentiality and integrity.

PKI was also used in UXB2B's proprietary seal mechanism for secure storage and portability with the seals of participants. Seal was a notary stamp in traditional Chinese transaction, as well as a must to comply with the commerce law in Chinese Taipei. UXB2B developed a database storing the seals of companies and banks, called "eSeal". The eSeal was seamlessly integrated during the transactions in the trade finance platform. This model was awarded a patent of Chinese Taipei.

2. Proprietary risk sharing mechanism

The Credit Sale service operated by UXB2B was designed for corporate supply/sales chain, banks, and insurance company. It proposed a total solution to improve the uses of account receivables of the sales chain, as well as to diversify account payables of the supply chain, which were some of the most relevant financial issues for businesses.

This model was different from the traditional banking practices, in which not only the accounts of receivable and payable were operated individually without further being cycled for financing uses, but also the insurance-supported warranties were not included for sharing the risks of credit sales and loans.

This model offered the buyers and suppliers a highly interactive mode to operate their business accounts, as well a collaborative paradigm between banking service and their customers in procurements and sales. Moreover, this model was awarded a patent of Chinese Taipei.

Services and Products

The customers of UXB2B included banks, B2B communities and B2C communities (in planning). In addition to assist customers in developing and maintaining software, UXB2B provided hosting and customers services as well.

1. Planning, design and implementation for foreign exchange and internet banking.
2. Design and implementation of letter of credit for domestic and overseas companies, letter of credit for overseas companies and Enterprise Credit Sale for the financial industry.
3. Integrated services of eSales, eProcurement, and eFinance.
4. Design, implementation and Application Service Provider (ASP) services for eInvoice value-added service center (both seller- and buyer-side).
5. Planning, design, implementation and ASP services for digital certificate center.

UXB2B's service practices were illustrated with diagrams in *Exhibit 3*.

Measurement of Company Performance in Intellectual Asset Management

A survey of the intellectual assets of UXB2B was performed. The measurement of intellectual assets was made up of five prime aspects for corporate performance, i.e., the financial focus, the human focus, the customer focus, the process focus and the renewal and innovation focus. The detailed results were presented in *Exhibit 4*

Chrissy reviewed the performance that her company had achieved, and highlighted the key factors which she considered critical for running the company.

In the past few years, the financial performance was fairly satisfactory as the transactions were booming, except for that of 2009 when the global impact of economic tsunami occurred in 2008. The number of project was also growing steadily and the customers were maintained well.

UXB2B had maintained about 50 employees in the last three years and more than half were software engineers; the salary policy being set at the level of 75 percentile of the IT industry in Chinese Taipei. The turnover rate was about 5% in the past three years, which was contrast to the first five years when the turnover rate was about 10 to 20%. The internal management was fairly stable and staffs were productive, especially the middle-level managers became experienced group leaders, after a few years' training and struggles for better service. Most of the founding members remained in the company from the year 2000 onwards.

The core competence was gradually built up in the last few years, and so was the structural capital of the company. As for the relational capital, it was apparent that the service and projects offered for the clients remained stable.

Revenues Due to Service Charges of Web Transactions (70%) and IT Projects for Banks and Enterprises (30%)

In order to link with the platform equipped by UXB2B and allow the participating banks and companies to access the information and service, UXB2B provided the IT projects to meet such demands. The IT projects were mostly customized for the clients who were participating in the platform, and constituted a portion approximately 30% of the revenue. The projects served were dependent upon the needs of the clients that were primarily to network with the platform of UXB2B, and occasionally to restructure

the internal information system of a bank or a company, if required. The charges of such service projects were thus widely ranged from some tens of thousands to half-million US dollars.

The transactions on the service platform contributed approximately 70% of the revenues. Minor services were also delivered, such as a dispatch of manpower, to supply the in-sourcing needs of China Steel Corporation. The management team of UXB2B considered growing the revenues with a higher portion of service charges from the transactions in the financial service platform, and the one-time IT projects would be reduced merely to assist the participation of the new clients.

Chrissy was aware that, although the IT played an important role in its system and security, the initiatives to implement such a system and the trust to take part in such a trading platform, were the key to the business growth. To effectively deliver the concept and feasible solutions to potential clients was critical for the business development.

Turning Point to Next-Level Strategy

Although the outcomes of intangible asset measurements seemed fine and gave positive signals to the company performance, Chrissy was concerned about the corporate strategy to move forward. This model had hurdles to overcome before the platform could be expanded for more users. Chrissy highlighted the success of such a model was primarily the initiative of a major player who was aware of the cluster efficiency of such a platform and willing to invest on the trading cluster. It was also feasible for industrial leaders, such as the Formosa Group, Chunghwa Telecommunications, etc., to create independent eFinancing platforms. Nevertheless, Chrissy was not particularly concerned about such possible competitions, as most clusters had their specific ecology and distinct requirements of transactions. The fundamental ideas of trading and financing remained the same, but each industry and every company had diversified needs of operation and process. One unified eService platform which offered the same service for several industries was not feasible in the near future. The cost of such a system was about a few tens of millions US dollars, but the lead time to operate the platform was about two to three years. It was not the competition, but how to duplicate the model and expand to other industries with UXB2B's success in the steel community, that worried Chrissy.

1. As the platform became profitable, it also indicated that the growth of this company might as well be limited. The system was established primarily for steel industry and that also gave a glass ceiling to impede the expansion of business transactions. Furthermore, the recruitment of each new participant required negotiation which was a very time-consuming process to earn the confidence of prospective clients, as the infrastructure relied very much on mutual trusts and long-term relationships. What would be the growth strategy for UXB2B?
2. The market leaders preferred to have their own platform in managing the transactions. UXB2B carried the brand, or under the umbrella, of China Steel Corporation to introduce their services, which also seemed to be an obstacle for other market leaders or business groups from collaborating with UXB2B and applying the same model. How could UXB2B duplicate their model for other

industries without having such a shadow on future exploration of business opportunities?

3. It took a vision and determination for the leader of a supply chain to initiate such a procurement, sale and financing cluster. It was the China Steel Corporation that foresaw the benefit of having such a system and was willing to offer incentives, including investing on platform construction, subsidizing the participating companies and banks to adopt the software restructuring, and giving discounts for the transactions on platform. All those were costs for those who might be interested in building such a platform. It was necessary for a market leader to have a mindset of sharing the profit and risk, and a dedication to bearing the costs of exploring the financial cluster. It was not easy to identify the target as the ecology of each industry varied. How could UXB2B find and access to such industrial leaders?

Exhibits

Exhibit 1. Major Activity and Milestones of UXB2B

Year	Major Activities and Milestones
2001	Launched the Enterprise Credit Sale service and inaugurated the CA (Certificate Authority) center.
2002	Announced the letter of credit and negotiation system for domestic companies, and built the eInvoice value-added service center for China Steel Corporation (seller side).
2003	Awarded ISO 9001:2000, and granted the first invention patent of Chinese Taipei (No. 207159, An E-Commerce System and Method for Transaction and Risk Sharing of Credit Sales).
2004	Bank of Taiwan issued the first electronic letter of credit in Asia to comply with the eUCP (electronic Uniform Customs and Practice) via UXB2B's e-ISSUED system; Built the foreign exchange and letter of credit system for domestic companies for Bank of Taiwan; and Granted the second patent of Chinese Taipei (No 234976, A System and Method of Remote Electronic Seal).
2005	Created the Enterprise Credit Sale Service for Chung Hung Steel Corporation; Commissioned to implement the foreign exchange and letter of credit system for domestic companies for Taiwan Corporate Bank; Selected to participate the national eInvoice project by Financial Data Center, Ministry of Finance, to provide the technical and compliance consultation services; and Implemented and introduced the eInvoice service center (buyer side) for China Steel Corporation and Chi Mei Optoelectronics.
2006	Introduced the Credit Sale-Firefly mode with China Steel Corporation, Small and Medium Enterprise Credit Guarantee Fund of Taiwan, and Banks for small- and medium-sized businesses; Announced the import letter of credit for overseas companies, expanding the online service to international market.
2007	Implemented the eInvoice value-added service center (seller side), the letter of credit and negotiation system, and the import letter of credit for five steel companies; Created the Integrated Finance System with grant from Industrial Development Bureau, Ministry of Economic Affairs and joined the Flagship project led by InfoChamp Systems Corporation with grant from Industrial Development Bureau, Ministry of Economic Affairs; and Marketed Integrated Finance System with ERP.
2008	Announced the Integrated Finance System platform, the next-generation enterprise finance solution

Exhibit 2. Transactions in UXB2B-developed platform (2001-2009)

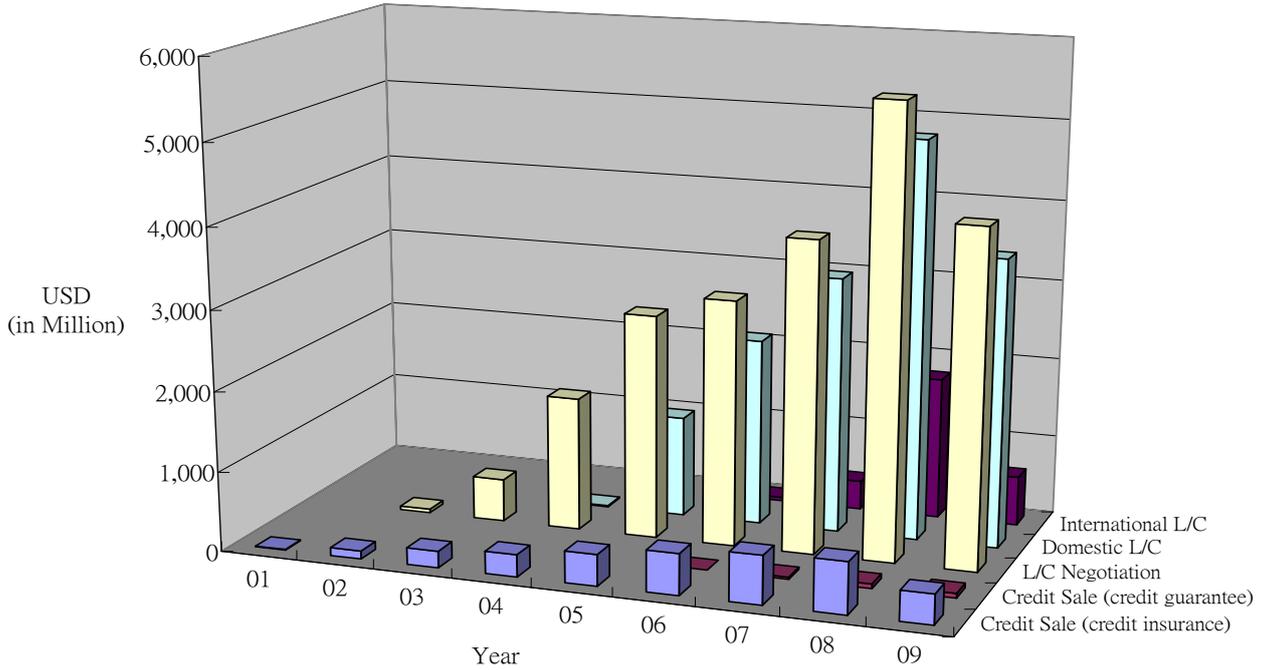
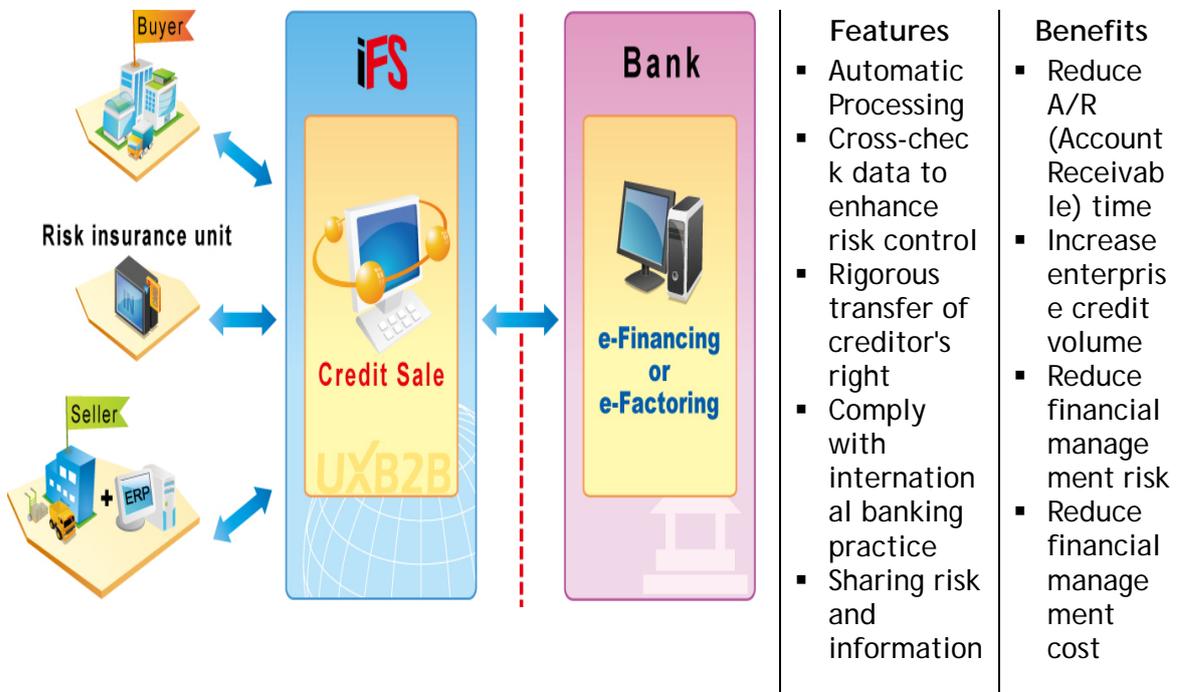
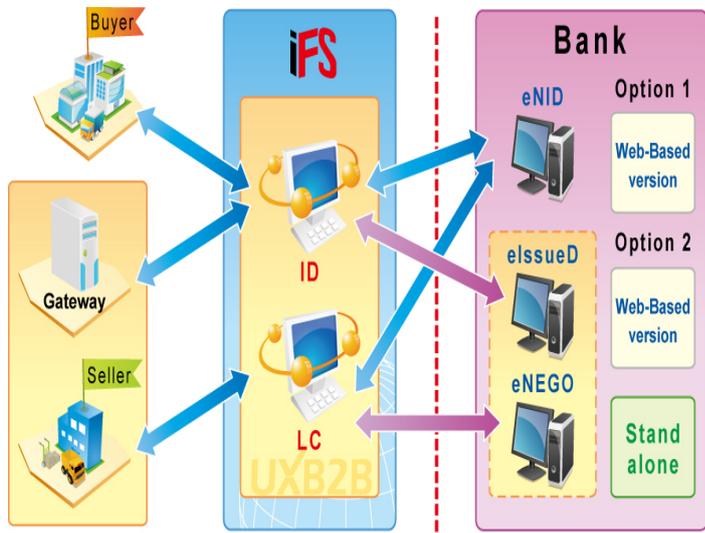


Exhibit 3. Services and Products of UXB2B

Enterprise Credit Sale Service-Sales/Supply Chain



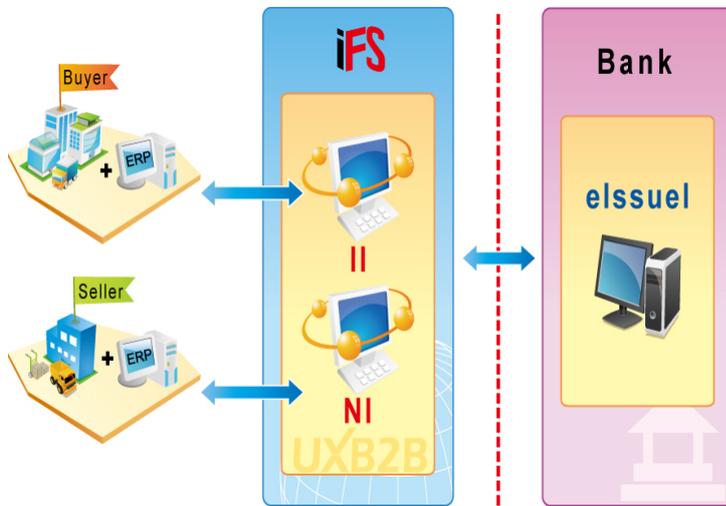
Letter of Credit for Domestic Companies



- Features**
- Unified J2EE platform
 - Friendly GUI (Graphical User Interface)
 - Access control and PKI framework designed for compliance regulations
 - Component-based design
 - Compliant with eUCP

- Benefits**
- One stop service
 - Save processing time and cost
 - Maximize cost savings
 - Minimize errors
 - Proactive alerts
 - Easy report generation

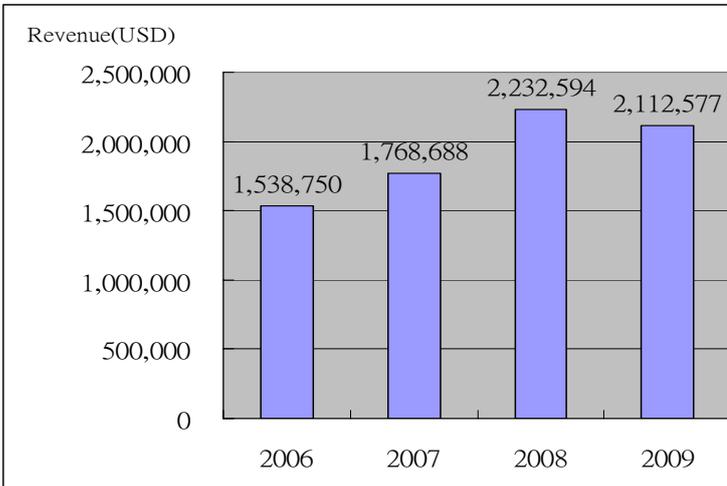
International Letter of Credit for Overseas Companies



- Features**
- Unified application form
 - Compliant with eUCP
 - Multi-tiered security mechanism
 - Non-repudiation
 - Leverage information

- Benefits**
- Paperless application
 - Efficient
 - Quick, accurate documents
 - Apply anytime, anywhere
 - Easy to manage

Exhibit 4. Intellectual Asset Measurement of UXB2B (2006-2009)
(USD: US Dollar)

Capital: 6 Million USD (186,000,000 Taiwan Dollar)												
Major Shareholders: China Steel Corporation Group (65%) and Far Eastern Group (35%)												
Financial Focus												
Annual Revenues	 <table border="1"> <caption>Annual Revenues (USD)</caption> <thead> <tr> <th>Year</th> <th>Revenue (USD)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>1,538,750</td> </tr> <tr> <td>2007</td> <td>1,768,688</td> </tr> <tr> <td>2008</td> <td>2,232,594</td> </tr> <tr> <td>2009</td> <td>2,112,577</td> </tr> </tbody> </table>		Year	Revenue (USD)	2006	1,538,750	2007	1,768,688	2008	2,232,594	2009	2,112,577
	Year	Revenue (USD)										
	2006	1,538,750										
2007	1,768,688											
2008	2,232,594											
2009	2,112,577											
Return on Investment (%)	2.6%											
Added Value/Employee	USD41,423											
Customer Focus												
Contract Number	64											
Sale/Contract	USD33,000											
Revenue	USD2,112,577											
Human Focus												
No of Employees	51											
Managers	5											
Female Managers	3											
Training Expense/No. of Employees	USD2,000/employee											
Process Focus												
No of Contract/No. of Employees	120%											
Overhead/gross premiums written (%)	15.5%											
IT Expenses/Overhead (%)	20%											

Renewal and Innovation Focus												
	Share of gross premiums written from new launches (%)	<p>Share of gross premiums written from new launches</p> <p>Percentage</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Share of gross premiums written from new launches (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>51.35%</td> </tr> <tr> <td>2007</td> <td>47.06%</td> </tr> <tr> <td>2008</td> <td>38.46%</td> </tr> <tr> <td>2009</td> <td>18.75%</td> </tr> </tbody> </table>	Year	Share of gross premiums written from new launches (%)	2006	51.35%	2007	47.06%	2008	38.46%	2009	18.75%
Year	Share of gross premiums written from new launches (%)											
2006	51.35%											
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2009	18.75%											
	Increase in net premium written (%)	<p>Increase in net premium written</p> <p>Growth Rate</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Increase in net premium written (%)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>-9.83%</td> </tr> <tr> <td>2007</td> <td>14.94%</td> </tr> <tr> <td>2008</td> <td>26.23%</td> </tr> <tr> <td>2009</td> <td>-5.38%</td> </tr> </tbody> </table>	Year	Increase in net premium written (%)	2006	-9.83%	2007	14.94%	2008	26.23%	2009	-5.38%
Year	Increase in net premium written (%)											
2006	-9.83%											
2007	14.94%											
2008	26.23%											
2009	-5.38%											
	Development Expense/Overhead (%)	54%										
	Employees aged below 40 (%)	63%										