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**Strategic challenges of expansion in Central Asian
land transport market:
-A case of CombiTrans**

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Abstract

Globalization is one of the main reasons behind a merging logistics market that is formed through the continuous growth in trade in Central Asia. Many opportunities exist to be explored on this potential market, to which CombiTrans, a land transport specialist company, have focused its attention.

The main purpose of this thesis is to explore the land transport market with focus on high value products from Sweden to Central Asia, a market in which CombiTrans is an important player. A market research through use of Porter's Five Forces model along with other theoretical concepts lays the foundation for a strategic design.

The empirical results imply the existence of a potential market in the region and an increasing competition within the road haulage industry despite the geographical differences. The conclusion includes identification of success factors and sustainable competitive advantages and a framework based on which CombiTrans can tweak their long term strategy toward Central Asian region.

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1 Introduction

Land transport is an intensely competitive business. A big number of players are competing with each other in different regions, from big players such as Schenker, DHL, and DSV with strong financial power and expertise, to small players with niche operations and/or quality oriented approaches. To compete in such a competitive environment, small and medium sized transportation companies have to rely on strategies that stem from thorough studies of the environment, market, customers and competitors.

Since the big companies have services to most developed regions around the globe, an offhand strategy for small-medium sized transportation companies would be to use their expertise in niche markets to survive in the big player's presence. Price reduction, offers of better service quality and specialized services are simple strategic moves to attract customer groups. Each of these strategies can be a smart move in one situation and a suicide move in another. Thus a company active in transportation has to evaluate the situation thoroughly before it makes any major move.

One of these major considerations regards the choice of transportation mode. The situation in Road transport sector is serious, as the focus is ever increasing on the environmental effects of transportation, and a trend and effort is forming in advocating against road transportation in favor of more environmentally efficient modes of transport. The Rail and Sea transport on the other hand, though much cleaner, have their own inherent problems in satisfying the more demanding service requirements of today's industry. Thus any decision regarding the use of each mode of transportation has to consider all the options and circumstances.

Another major strategic decision for any company is the one regarding shift or expansion of the business to other market regions. Any activity toward global markets brings about risks that one has to fully study before any commitment.

These are the cases that CombiTrans, the company which is subject of this study, is facing. CombiTrans strives to move its operations further towards east with a focus on Central Asian countries. The purpose of this study is thus, to take a precautionary look in the situation and circumstances, before undertaking any big step that would lead to a commitment. In the following parts a brief introduction of this company will come, followed by an account of the geographical area they want to expand their operations in. A discussion of the strategic challenges facing the company in relation to the market comes in the end that results in the formulation of our research problem and questions.

1.1 Company Background

CombiTrans AB is a forwarding company based in Sweden and specializing in international land transport services. It provides different types of transport services

for its customers including single consignment transport; part and full loads; secure transport using an international monitoring system along with GPS and encrypted direct contact in cooperation with security companies; climate –controlled refrigerated transport with continuous monitoring and temperature checks by satellite; site deliveries directly to the assembly location; and project transport from start to finish with all the services of the complete transport and logistics chain. Furthermore, due to various customer demands, 3PL and warehousing services are also included in their business scope.

CombiTrans started operation in the late 1970s with single consignment road transport to the Middle East. When transport boom started to decline, CombiTrans switched its operational focus to countries in Eastern Europe, the Balkan Peninsula, and the Mediterranean Sea. After an incessant growth in those regions, Turkey, Greece, and the former Yugoslavia soon were added to their target market.

In November 1986, after a significant organizational reform, CombiTrans became one of the well-known brands among the logistics and transport providers in the Eastern European region as well as in the Balkan Peninsula. Over the last few years, CombiTrans has also established new transport networks in the Baltic States, Ukraine, Belarus, Russia and Central Asia. The competition over these regions tends to be intense as most of the road transport providers have operations in the region. In the meantime, CombiTrans has taken continuous measures to strengthen their leading position in those regions.

1.2 Background of the Region

There are varying opinions about the definition of Central Asia, in some of which the Caucasian states are not included as Central Asia. But we have opted to the definition of bigger Central Asia which includes these states along with some parts of China and Iran and Afghanistan. For the purpose of this study, and as stressed by CombiTrans, we will focus primarily on three of the countries in bigger Central Asia, namely Kazakhstan, Azerbaijan and Georgia.

Central Asia has been a “land bridge” since the ancient times between Asia and Europe, bringing the civilizations from both continents closer (Byrd et al. 2006).

After the dissolution of USSR in 1991, Central Asian soviet republics, among others, gained independence. With the collapse of central planning economic system, the unprepared change brought a “transformation depression” to those states and the citizens suffered a dramatic decline in their living standards (De Melo & Gelb 1996).

However, the economic situation of Central Asian countries is on the rise. All the Countries of Central Asia have had positive development ratios during last years and average growth rate in Central Asia is reported to be 12.4%, a very promising prospect for the region (ADB 2007).

The political situation in the Central Asia is, on the other hand, rather gray, as most of the states suffer from autocratic governments which in return affect their economic growth as well. According to Bremmer (2006) and his J Curve theory all of three states we will focus in this study are placed on the left side of the curve, which has significant implications on doing business with these countries.

According to the Civil Engineering magazine (Jan 2008, p 32) Lengthy border procedures and poor transportation infrastructure in the region has resulted in only less than 1 percent of the trade between Europe and Asia to go through Central Asia. This illuminates the difficulties faced by any company venturing to initiate or expand their business in the region.

A company with long term goals in a region has to formulate/analyze a strategy considering many aspects of the environment they intend to enter. Thus our study is concerned among other things, with identification of aspects of these countries as business environments that will have significant strategic importance in any such strategy. In this sense the Central Asian region in general pose numerous challenges for business researchers, as the political and economic life of the states are rather young and in constant change, and transportation sector following these aspects is difficult to harness under definite terms for future strategic use.

1.3 Research Question and Purpose

CombiTrans' mission statement is to be the most experienced road haulage actor from and to central Asia, among other things. Thus one of the challenges facing the company is the further expansion in the above mentioned region. The identification of the strategic challenges of such expansion is our primary *research problem*. We analyze and discuss the research problem in the following section and break it down to further questions manageable for our study, and in line with the limitations inherent in a master thesis.

“Strategic challenges of expansion in Central Asian land transport market: a case of CombiTrans”

1.3.1 Research Purpose

Our main purpose as stated at the beginning of document is to identify main elements in an effective and sustainable strategy of expansion in transport market in Central Asia, and three countries in that region in particular: Kazakhstan, Azerbaijan and Georgia.

To further breakdown this study problem and the purpose into manageable smaller parts, we decided on three main parts to comprise this study:

Market Analysis – this part includes the dynamics of the market (land transportation from Sweden to focus countries) and facts and figures including

infrastructure, industries, customers and competitors that contribute directly to the subject of this study.

Environment Analysis – In this section we will focus on factors surrounding the market and industry which somehow have indirect but nonetheless substantial effect on the outcome of an economic venture; potential competitors and networks of related industries such as maritime and airlines and socio-political situation in the region studied are among the important ones.

Strategic Design – In this part the outcome of first two studies will be discussed: the success factors and the sustainable strategic advantages will be identified in order to enable the transport company to plan their long term, successful and sustainable expansion in the market.

1.3.2 Research Questions

The translation of above points in the form of research questions result in the following:

1: What is the land transportation market situation from Sweden to Central Asian region?

2: What is the surrounding situation for the above market and what are the trends that would challenge current state?

3: What are the most important challenges for a strategy of expanding the services in above mentioned markets and how to overcome them?

The answer to above questions should determine an effective and successful entry/expansion in the markets of Central Asia on generic terms and should form a basic framework to decide upon controllable determinants for a company that is already active on those countries but aims to further their engagement and profit in the long run.

1.4 Delimitation

Following is a list of points that are not included and shall not be in the scope of present study along with the reason behind such decision.

- Though Central Asia as the term goes covers a big expanse of land, we will focus only on Kazakhstan, Azerbaijan and Georgia. The reason for this is primarily the time constraint, but as we will discuss in the generalization later in this report, the outcome would enable the user of this study to apply the results to other countries in the region as well.

- As CombiTrans is already active in the mentioned market and is considered one of the leading forwarders providing service to the region from Sweden, the ultimate goal of this study will be to provide the company with the identification of contributing factors for a successful strategy in developing to the market of abovementioned countries rather than introduction of a new and fully formulated strategy.
- Although CombiTrans has recently been acquired by a leading foreign company active in the international transport industry, and this obviously will have very important implications on the strategic decisions of the company, we have considered CombiTrans as an independent entity for the sake of the simplicity of the research problem.

2 Methodology

This chapter is dedicated to the description of the methods used in collection of primary and secondary data, as well as the design of research method in general. First we will outline the design and execution of the research, and then we will provide the methods of data collection and the reason for such selection.

2.1 Research Strategy

2.1.1 Deductive or Inductive

In this study we have taken a deductive approach. We have reached the decision based on the academic work of similar nature and the nature of the work. The main aspect of deductive approach is to follow an existing theory as the guideline and to logically deduce in the end a result which is compatible with the predictions of scenarios based on that theory (Bryman & Bell 2007).

Although, on the other hand one can argue that we perform a part of the research through general observation of processes and information gathered through experts of the field. This approach in short is called an inductive approach. The gathering of data for the purpose of customer and competitor analysis in the study is solely an effort to gather knowledge about the current processes and practices in the industry. Thus, though these analyses follow a general guideline set out in the methods used in the industry, the analysis is basically an explanation of the observation and not a proof of an existing theory. In this regard one can consider this study to be a combination of deductive and inductive approaches.

2.1.2 Qualitative or Quantitative

It is also an explorative study, in that it is an effort to explore the dynamics of the market and environment, and to draw results from these explorations. In qualitative research, the researcher is not aware of the outcome from beforehand. The ultimate objective is to achieve a deeper understanding of relations and interactions present in the market and to be able to see the facts in the light of these relations. From this point of view our study is a qualitative (non-quantitative) approach. The study also has descriptive purpose as it reflects on how and why, rather than what or how much. (Bryman & Bell 2007)

2.2 Data Collection

We will use both secondary data available on the subject and primary data. The primary data is the result of various interviews with the actors in the industry.

2.2.1 Case study or Survey study

In survey study, research concerns numerous studies but a limited number of variables, while in case study the objects are few or only one, though the variables could be

numerous. In this regard this study is a survey study. Survey study is usually done in line with deductive approaches and involves selection (usually random) of part of population rather than whole (Saunders et al. 2007).

Furthermore we should mention that, though it is stated in the title “a case of CombiTrans”, this is not a case study. A case study involves a single entity or event and is an in depth study of that entity. In our study, though we focus on one company, the subject is actually the whole land transportation industry.

2.2.2 Elements of the survey

As this study is a survey, we set out to explore different parts of the industry and environment to acquire knowledge about the variables of interest.

The study in total is comprised of market study and environment study. The market study shall describe the dynamics of that market and has three subcategories of customer, competitor and industry study. The use of Porter’s five forces model is an important part of the industry study. It provides insights in the dynamics of competition in the market and a firm basis for the formation of the strategy. The study of Environment influences in the market is another segment of the study.

The next section describes the type of data gathered for each of these parts of study and the methods used for data gathering.

2.2.3 Primary Data

Primary data is the first hand data gathered by the researcher through various methods. The main method of primary data gathered here is the interview with the experts of the industry.

2.2.3.1 Expert Consulting

There are needed data which is not available as secondary data and thus we have tried to acquire such knowledge by a set of interviews with the experts of the industry.

Transport buyers

The first part of the primary data was the result of our interviews with companies that have exports to the focus countries or are potential exporters to the region. Most of these companies are manufacturing companies that are active in infrastructure and basic industries such as construction equipment, telecommunication and power generation.

The procedure to select these companies was followed by the strategic grouping of customers of transport industry which is described in detail in Segmentation section in empirical framework of the study.

The interviews were conducted by phone, due mainly to the distances involved. They were conducted in semi-structured format, since it was an explorative approach with a

theoretical framework in the background. The fact that interviews were done by phone also contributed to this approach. We believe that semi structured format of the expert consulting helped us to strike a balance between the informal nature of the conversation and the importance of information discussed.

Transport industry

We also conducted interviews with CombiTrans and some of the road transport authorities in the region to help us understand better the dynamics of the industry and competition and the regulations in a macro view.

These interviews were done in semi-structured way for the same reasons outlined above for transport buyers. They were however, conducted face to face.

2.2.4 Secondary Data

The secondary data we have gathered in this study comprise of information on environment and competitors, that we either could not reach to collect primary data, or better processed information was already available on the subject.

2.2.4.1 Literature

A main part of the literature used in this study consists of the works by the pioneers of strategic management. Of course we have also used many scientific articles in the course of this study, but the scarcity of studies on the land transportation market strategy limited the articles to those of generic nature which in most cases needed further analysis and discussion.

2.2.4.2 Online data

A significant part of secondary data used was based on online data and collected from electronic and internet resources.

Competitors

For the purpose of gathering data for competitor analysis we chose to use the online data about them as opposed to primary data which was beyond the time resources available for this study. The online data included the competitors' websites, annual reports and information in other online sources in the form of news, reports etc that we gathered in the form of a survey.

Reports from National and International bodies

A substantial part of the secondary data gathered during the study was the reports and analyses published by international organizations. The most important are the reports provided by United Nations (UN), European Union (EU), Asian Development Bank (ADB) among others.

Among the Swedish organizations, Sveriges Åkeriföretag (Swedish Association of Road Haulage Companies), Swedish chamber of commerce and Statistics Sweden were the prominent bodies with important and useful information.

2.3 Validity and Reliability

Reliability is a measure of the extent to which the result of a procedure would be the same in the same situation. In the case of qualitative research however it is more difficult to measure. One has to strike a balance between the effort to maximize reliability and the creativity incorporated in the research. (Bryman & Bell 2007)

We believe the result of this study would be the same under similar circumstances done by other researchers. The method chosen for the interviews along with the methods used for analysis of that information has been chosen with much care in order to minimize the bias inherent in such endeavors and to avoid any external errors to take part in the results.

Validity is the consistency of result with what is supposed to be measured. The validity is usually better in qualitative research methods, as the researchers are present during gathering of the data and can monitor the process so as to avoid any inconsistency with the intended approach. (Bryman & Bell 2007)

We believe that our research is satisfactorily valid as the primary data has been gathered through semi structured interviews, and we were able to change the questions in case there was any misunderstanding. In the collection of secondary data also, care was taken to gather the most reliable and valid information available. On the other hand the empirical data gathered for the customer and competitor analyses correspond to each other which as a form of triangulation validates the results.

2.4 Sources of Data

Four criteria related to the data gathered has to be satisfied in order for it to be called reliable source of information: being genuine, relevance, independence and freedom of tendency.

In application to the primary data we have gathered, the only questionable feature is the tendency of experts as to reveal all the information with all the accuracy. They might reserve some data based on competition or internal confidentiality considerations, etc. There is also the subjectivity inherent in qualitative research that has to be taken into account. This was one the reasons for us to refrain from interviewing competitors as the reliability of information would face the tendency criticism.

As concerns the secondary data, we have tried to gather as recent and as relevant information as was possible for us, and there is freedom of tendency for most of the secondary data, especially for academic literature and international reports. The independence of the online data about the competitors can be questioned as well as

their freedom of tendency, because they are of advertisement nature, but this is part of the research strategy in that area, and has been taken into account.

2.5 Generalization

We should mention that generalization of the results is not the intention of this study in general. But however, the results of this study can be generalized as it is a survey study of the market in generic terms. According to Gummesson (1991) the generalization can be made from a few in-depth, data-rich samples, though Bryman & Bell (2007) cast doubt on this issue in general.

3 Theoretical Framework

The following section is an introduction to the theoretical methods and models used in this study in order to analyze and report the strategic challenges of expansion in a market. Furthermore, the purpose of this section is to illuminate the relation and legitimacy of theoretical methods used in relation to the research questions at hand as well as the empirical data used.

3.1 Strategy

The Term strategy has been defined many times in many publications of strategic management. But defining a broad concept as this runs the risk of overlooking the significance of the broadness aspect itself. Arguably it concerns the future, and has elements of planning and preparation inherent in itself and has a high place in the business literature today. Thus instead of definition one has to identify the important aspects of strategy that are related to the business environment and market and base the knowledge on the facts surrounding those aspects.

Over the course of evolution of the science of strategic management, experts have called it long-range planning, strategic planning or strategic thinking. Some experts have favored business development while others have voted on the simple definition of strategy. Thus we would prefer not to tangle this study with the definition, and simply point out the important aspects of the science and its implication on this study.

The important aspect of strategic thinking is hardly the details and techniques though they play major role in it. The important thing is the knowledge of the business environment and the logic governing the dynamics of that environment. On the other hand the environment is changing rapidly with increasing global competition, which additional to its pace is ever harder to predict. Furthermore increased competition has resulted in decreased margins. The wave of mergers and acquisitions are a direct result of this point. Of course all this can be seen as either opportunity or threat, and it lies in the ability of the managing team to direct their vessels out of this turbulent sea. And such a manager will have better knowledge of environment and ability of anticipating the changes and adapt in time to absorb the shocks and use them as a boost for further progress. (The Logic of Strategic Thinking 2008)

The knowledge of the environment brings us to the methods used in this study and the reason behind the selection of such selection. A major part of scientific literature as well as in applied practices has focused on finding the right tool or method in managing and controlling the long term development.

3.2 The Positioning School

The publication of Competitive Strategy by Michael Porter marked the start of a new movement in Strategic management, which in the academic circles is called the

positioning school of strategic thinkers. The positioning school sees the strategy as the product of an analytical process (Mintzberg et al. 1998). The School was a continuation from design and planning school's way of thinking, but it forked from them in that it tried to identify a few key strategies suitable for the industry as opposed to the indefinite number of strategies those prior schools deemed possible in any given situation. The positioning way of strategic thinking, of which Porter's analytical methods are among the best known, introduce strategies as generic frameworks which one can in a competitive market find the more suitable positions based on analytical calculations (The Logic of Strategic Thinking 2008).

The positioning schools emergence coincided with the managers' frustration with detailed strategic plans that by the time of completion were quite obsolete or had lost their strength points. According to Porter "The need for strategic planning has never been greater. The solution is to improve strategic planning, not to throw it out. However, it is time to give up the hope of finding the "right" planning tool. The plain truth is that the long term development very seldom can be planned in detail. The right tool for managing the future doesn't exist!" One has to strike a balance between detail planning and processes and to use both intuitive thinking and systematic analysis in their decision making. In this regard processes are choosing the right direction and moving toward it by continuous adaptation to the changes in the environment. And in this context processes are guided by broad guidelines such as strategies and visions rather than quantitative plans and goals. (The Logic of Strategic Thinking 2008)

External factors contributing to the success or failure of any strategy is the most important aspect of an analysis prior to identification of strategic challenges inherent in any given situation. The ultimate purpose of such an analysis is of course to steer the strategy of the company in the right direction in accordance with the dynamics of external environment and with regard to internal strengths and weaknesses. Thus keeping in mind the change that will result of external analysis one should direct the study in such a route that will benefit the end purpose which in this case is the formation of a relevant strategy. This is important in that as Aaker (2008) suggests, without regard to end and the relevant aspects, in an effort for external analysis, "volumes of useless descriptive material can easily be generated". Thus our effort in this study will be to discern and identify the most relevant issues as much as to analyze them accurately and useful for the business user. This is a challenge in itself as the case of three Central Asian countries and the land transport industry are littered with endless subjects that lend themselves easily to open interpretation. And this in turn would make the use of them as a mean for the design of strategy very hard. To overcome such confusion we will use the model provided by Aaker (2008) which we have reconstructed in figure 1.

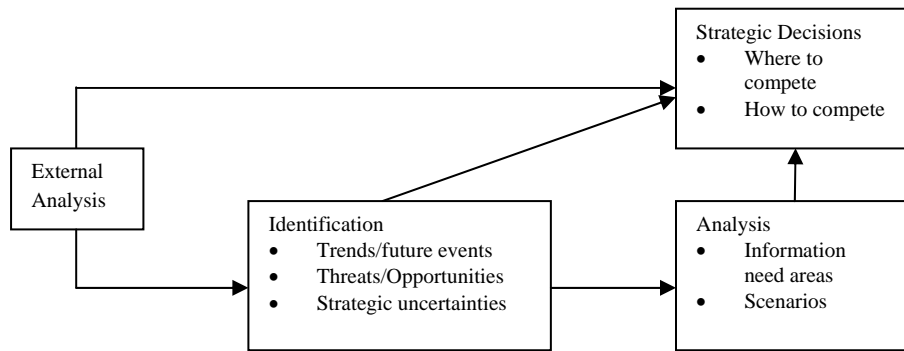


Figure 1: The Role of External Analysis (Aaker 2008)

3.3 Strategic Market Management

Following is a detailed account of different aspects of the method called here as strategic market management, which is generally based on works of Aaker and Porter, and other classics by pioneers of the field. We have overlooked some parts of their theory on the grounds that they generally concern production companies rather than service companies and instead have promoted use of other parts as the special circumstances of transport business dictates. We have tried, however, to overcome this incompatibility by applying the general knowledge and the course material in our master program.

Strategic market management can be roughly divided to external analysis, internal analysis and strategic design. Internal analysis is concerned with the identification of performance measures and strengths and weaknesses of the organization itself. It has a very important role in understanding strategically important aspects of organization. External analysis on the other hand is comprised of analysis of four main areas: customers, competitors, markets and environment. The first three parts are related to the industry and the last part is the context in which industry as a whole operates. We will call the first three parts Market study and the last section comes as the environment study. The strategic design section of strategic market management is concerned with identification of sustainable strategic advantages of the company, strengths and weaknesses of the company and industry and their relation to each other. This section is roughly compatible with what we will offer in the analysis section. (The Logic of Strategic Thinking 2008)

3.4 Market Study

We have divided market study into three sections comprising Customer study, Competitor study and industrial analysis. Following we will describe the theoretical foundation for each of these parts.

3.4.1 Customer Analysis

Of the factors concerning a company in relation to a certain market are the customers of the company. Thus in order to do a thorough market study, the main area and the first logical step is to study the customers and different groupings in their ranks. Customers are the drivers of profit for the companies that are active in the market and thus a thorough study of customers is essential for every study.

The study of the customers should include current and potential ones and should be an effort to find out their real needs, their values and alternative solutions. This should be done in two different steps, first identification of the current and potential customers, and then definition of a useful segmentation. Then the study of their motivations and needs in the light of the segmentation will yield ample cases to draw results as how to place our strategy. (Aaker 2008)

3.4.1.1 Segmentation

The segmentation is an effort to identify customer groups with similar response to competitive strategies taken by service provider. This is a means of achieving groupings in customers so in order to be able to appoint suitable strategies for each group in the future. Thus in some cases it may not be even necessary to identify segments of customers, especially when the number or diversity of customers is small. On the other hand there are as many ways of dividing the customers to groups as there are customers and in that sense it is a difficult task.

One has to assign a number of variables related to strategic decisions in order to find the most suitable grouping for customers. Aaker (2008) identifies two set of variables for general purposes based on Customer characteristics or Product they are after.

Variables related to customer characteristics include geographic location, organization type, size, lifestyle, sex, age and occupation. On the other hand product related approaches and variables are user type, usage, benefits, price sensitivity, competitor, application and brand loyalty. We will discuss the relevant variables to the current study and the implications in analysis section thoroughly.

Aaker (2008) defines two approaches toward segments, namely focus strategy or multiple segments. Obviously there is a tradeoff between these two approaches, and to determine which is more suitable one has to consider the circumstances faced by the individual company. The advantages of focus strategy is its simplicity in organization and ease of bringing decision to a result, while in the case of multiple segments, the whole market is served and one can benefit from synergies available among different segments. Another question to be asked is their decision criteria and what differences are there between segments, and finally if there is some aspects of the service that they don't receive or has accepted because no other options exist.

3.4.2 Competitor Analysis

Competitor analysis comes as a second stage with focus on threats and opportunities in the competitive environment. The first step is to identify the current and potential competitors.

One approach toward identification of the competitors is through the view point of customers, and the decision that has to be made by them as the criteria for the analysis. Another approach in identification of competitors is an approach similar to segmentation of customers with regard to their relative competitive strategy. Segmentation in this regard concerns the strategic groups which have similar competitive strategy over time, similar characteristics and similar assets and competencies. The main benefit of strategic grouping is to refine strategic investment decisions (Mintzberg et al. 1998).

After identification of competitors' strategic groups, one shall try to understand them and their strategies. Analysis of weaknesses and strengths of strategic groups of competitors and the evaluation of their assets and competencies are part of the steps to be taken. In understanding competitors one should consider different aspects which influence the competitors' actions. Eight of such factors according to Aaker (2008) is as follows:

- Size, Growth and Profitability
- Image and Positioning Strategy
- Objectives and Commitment
- Current and Past Strategies
- Organization and Culture
- Cost Structure
- Exit Barriers

By identification of these factors in each competitor, one then can identify their weaknesses and strengths. A grid of strengths and weaknesses of the firm compared to that of competitors is a good way to summarize these facts and to express the place of the company in the industry and thus the strategic necessities they should consider for future.

3.4.3 Industry Analysis

The most important part of the industry analysis is reflected on Michael Porter's market attractiveness, but not limited to it. The other important studies in relation to industry study are the Market trends and Success factors which will come next.

3.4.3.1 Market Attractiveness

Profitability or Market attractiveness is the intended result of Five Forces Model by Porter.

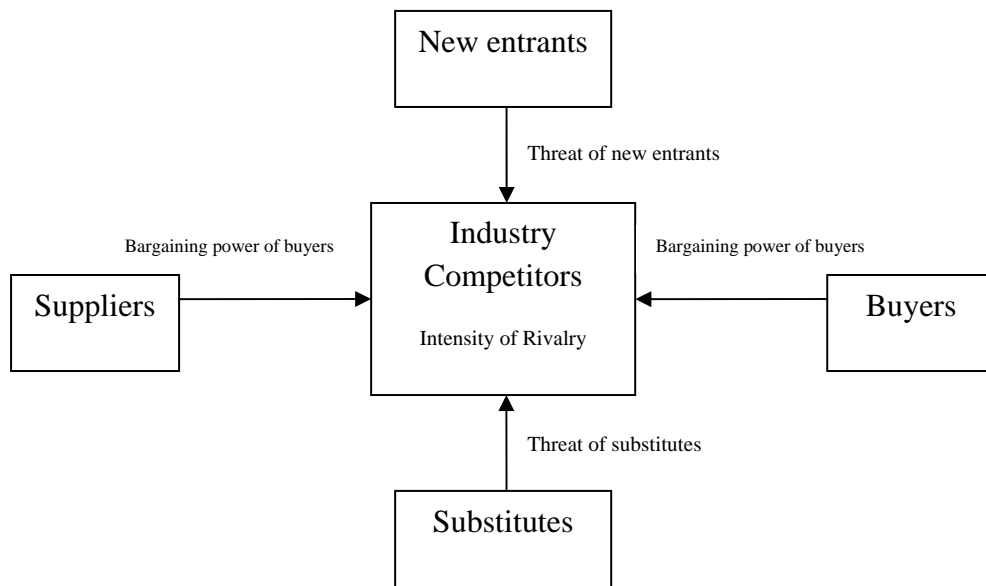


Figure 2: Porter’s Five Forces (Porter 1979)

Porter’s five forces model is applicable for all industries, but it could also be applied to an existing market or submarket within a certain industry (Aaker 2008). Following is an explanation of these five forces.

3.4.3.1.1 Rivalry among existing competitors

To understand the extent of rivalry in an industry there are a number of effective factors one has to consider. The number of competitors which have the same service in the market; the size and capacity of each competitor; their commitment; the amount of differentiation of product and service provided among the competitors; the existence of high fixed costs; exit barriers and Market growth rates all has to be considered in order to understand the level of rivalry among competitors.

3.4.3.1.2 Potential competitors

The expression “potential competitors” in literature usually refers to the threats from new entrant to the market (Porter 2008). One of the main driving forces behind companies entering a new competitive market is the return on investment. New entrants usually will bring new capacities to the competition; the existing players in the industry sometimes will be forced to make changes on their strategies, if the capacity of new entrants is high. Also the purpose of new entrants is to maximize their profit, the easiest way to achieve this is gaining bigger market share, and therefore it will bring pressure on prices, costs as well as the amount of investment needed to compete (Porter 2008). The factors that would lead to the eventual entering of new entrants, and the intensity and profitability in case of such entry are discussed as the

different aspects of entry barriers. The vital factor which influences the threat of entry is the height of barriers to entry. It can be categorized into several major aspects:

3.4.3.1.2.1 Supply side economies of scale

When a supplying company produces larger volumes, it enjoys lower unit costs due to the fact that whole production cost can be spread over more units (Porter 2008).

3.4.3.1.2.2 Demand side benefits of scale

Demand side economies of scale in most cases are known as network effects (Porter 2008), referring to the increase in a consumer's willingness to pay for a certain company's product when the number of other users of the same product increases. If the consumers within a certain market that values the network effects more than other types of elements, then this market can be seen as popularity sensitive market, that means the dominant player in the industry will hold bigger market share because users tend to select the most popular brand (Tellis et al. 2009).

3.4.3.1.2.3 Customer switching costs

Customer switching costs are another hindrance for newcomers entering the market. It refers to the fixed costs or investment that the buyers will have to bear when they change suppliers (Porter 2008). The investment might be purchase of manufacturing equipment, setting up a buyer – supplier relationship, teach the personnel the way of using a product, etc (Farrell & Klemperer 2007). For a manufacturing company, customer switching costs are fairly obvious once they switch to another supplier rather than the original one. The costs include rebuilding product specifications, re-designing their supply chain system, training employees to operate under the new system and use the new product. The switching cost also includes “follow on” goods, such as components and spare parts as well as the additional repair services (Farrell & Klemperer 2007). Once the company has adopted Enterprise Resource Planning System (ERP), the costs of switching to a new supplier are prodigious because of the embedded data and the nature of integration with the information and material flows.

3.4.3.1.2.4 Capital requirements

In some industries, large amount of capital investment are required for new starters, such as banking businesses. Immense amounts of financial resources need to be invested in fixed facilities, training personnel, marketing, build up inventories and customer credibility (Farrell & Klemperer 2007). High capital requirements needed for new starters in order to compete can prevent new entrants for those companies which have less financial support.

3.4.3.1.2.5 Incumbency advantages

Despite the size of the companies, incumbents in most cases enjoy certain advantages such as lower cost and better quality than the new comers (Porter 2008). From years of operating experiences, incumbents gain knowledge of the market which is hard to acquire for a new comer.

3.4.3.1.2.6 Unequal access to distribution channels

McCarthy (1996) has introduced the concept of the Marketing Mix long ago. He categorized the tools which firms use to influence the buyers' decisions, into four broad groups – the Marketing Mix 4 Ps: Product, Place, Price and Promotion (McCarthy 1996). The word Product can cover the manufacturing products as well as services which company can sell in order to maximize their profit; Price is the suggested market value of the product, it can categorize the same types of product into different classes; Promotion is the way company introduces their product to the market and the additional activities to maximize the sales; Place can be the location of bringing the products together with the buyers.

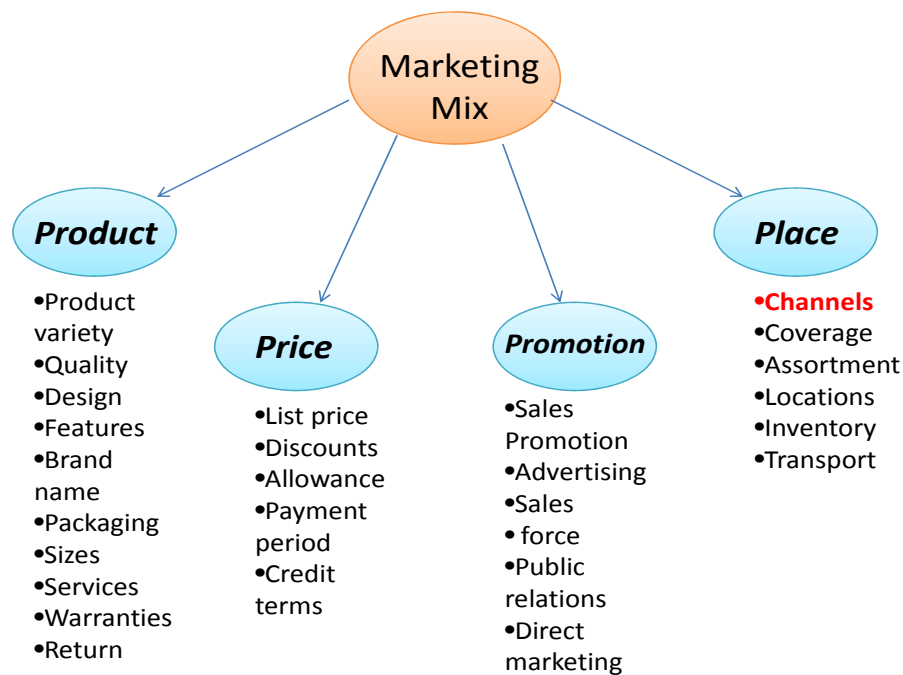


Figure 3: Market Mix (Kotler 2000)

From the Market Mix model we can see that Channels is one of the factors of Place. The access to distribution channels is the pathway that leads the company's product towards their end users. The concept of distribution channel for a manufacturing company tends to be more visible, for example the retail store of electronic products is the ideal distribution channel for computer whole sellers; the shelves in the supermarket is the ideal distribution channel for food manufacturers. The problems which new comers in a market will face is that managers of the distribution channels always favor their existing suppliers due to the long-term partnership and the profit derived from established market shares.

3.4.3.1.2.7 Restrictive government policy

This is one of the biggest hindrances of entry to a new market. Some nations introduce rules and regulations that aim in protection of local industries while other rules exist to force the use of standards to ensure the wellbeing of the society. Attention to these rules would be very important for a newcomer to the market and may well stop them from a successful entry.

3.4.3.1.3 Substitute products

Substitute products are the products on other industries which have the same or similar functionalities as the products on the selected industry (Grimm et al. 2005).

According to Porter (2008) the threat of a substitute product is high if:

1. It offers an attractive price- performance trade-off to the industry's product.
2. The buyer's cost of switching to the substitute is low.

In order to understand the price-performance trade-off of each substitute product, one has to look at each substitute product and discuss the substitutability of them.

3.4.3.1.4 Customer powers

Customer power is the bargaining power of the buyer, which can heavily influence profitability. When customers have more relative power they can force down the prices and affect the profitability. The relative power depends on the share of the customer from the sellers business, existence of alternative suppliers and the ability of the company to integrate backward or forward in order to change the cost structure.

3.4.3.1.4.1 Buyers' price sensitivity

Buyer's price sensitivity is a concept to describe the relation between the value of the goods and the loyalty of buyer. Buyers of a certain product tend to be price sensitive if the cost of the product accounts for a significant proportion of the buyers' total budget (Porter 2008). Further discussion of this concept will be presented in analysis section.

3.4.3.1.5 Supplier power

If in an industry suppliers are concentrated and have big customer base, they will have bigger relative power. The power of supplier is also high if the switching cost of the customer is high.

3.4.3.2 Market trends

Study of market trends is an important part of the external strategic analysis. The focus is on change in the marketplace and identification of the important ones from

fads. It is described by Aaker as a useful summary of customer, competitor and market analysis.

According to Zandl (2000) three points should be taken into account when identifying trends. First, trends have a solid driving force behind the move: demographics rather than pop culture; values rather than fashion or technology rather than media. Second to understand the accessibility possibility and probability in the mainstream movement rather than just a niche market and the resources needed to make this happen. Third if it is capable of crossing borders of nations, industries etc.

In short to identify trends that drive customers toward products can be a significant step in understanding the market. According to Drucker (2000) the leaders of today should not only find and react to trends, but also should move beyond innovation and be the change agents themselves.

3.4.3.3 Success factors

In any industry, there are only a few factors determining the success of a firm among others. They are usually named “key success factors of the industry”. Success factors vary from industry to industry. Large scale manufacturing industry often has the low costs as success factor, while in Aircraft industry research and development is the key factor of success. In department stores, purchasing and product assortment are important, while elevator companies have service as success factor.

The key success factors are the final result of a thorough analysis of market and investigation of the differences between successful companies against unsuccessful ones.

3.5 Environment Study

The most critical part of strategic thinking is the knowledge about the business environment and its dynamics. But most companies neglect this aspect of analysis simply because they don't see it as very important or think it is very expensive and demanding or see it as a very academic discipline and of no practical value. The importance of environmental analysis is furthermore asserted by the view that forecasting is an inexact science and according to Peter F. Drucker (1999) “forecasting is not a respectable human activity and not worthwhile beyond the shortest of periods”. Thus one should not see the environmental analysis as predicting future, but to provide understanding of current and potential changes in the environment. This enables the managers to be sensitive about the trends and important events and to be able to anticipate threats and opportunities just enough sooner than competitors to prepare a response action.

Generally, environmental analysis is comprised of identification of different scenarios and to assign probability and importance to each. The identification of threats and opportunities is part of this as well as assigning importance to each of them from the

start. Identification of opportunities is specially challenging as in many cases it is hard to discern among internal strengths and external opportunities.

The next step is to map the environment and identify the key areas, including areas that provide crucial resources to the firm and the areas that have the highest impact in case of change.

The sources of these changes are usually institutions, organizations and groups that may influence the company: Banks, owners, authorities, unions and the labor market. Furthermore, in the long run, forces in macro-environment changes the dynamics of business environment. These changes may affect Market growth, Industry boundaries, Competitive forces, Strategic Groups and key success factors.

Social changes, demographic forces or new styles of living, affect market growth. Deregulation as a political force has changed transportation industry along with telecommunication and financial services in many countries. It also has changed the competitive position of players in the industry, entry barriers and rivalry.

These forces are generally divided into four categories: Economic, Political, Social and Technological. In the coming section we describe these forces briefly as we have based our analysis of environment on this categorization and will discuss implications of each on land transport in more detail later (Environmental Scanning 2008).

3.5.1 Economic Forces

The most important among economic factors is the purchasing power of the target groups for the company. Since it is usually difficult to measure this, one has to study economic variables affecting the purchasing power. Economic forces thus refer to factors such as consumption, income, investments, labor and so on, which form the nature and direction of economy in whole. Many consider general information such as GNP, inflation and exchange rate sufficient for such analysis, but the real challenge lies in the ability of the managers to see and interpret these factors in the light of industry the company operates in. more important aspect is the relation between economy and the development of the industry. (Environmental Scanning 2008)

3.5.2 Political forces

The political changes that would affect the industry are usually accompanied with early signals. Opinions of social critics, politicians and experts or any sign of social unrest are almost always ahead of big political changes. Mass media, government bills and propositions in elections are closer reminders of big changes. In this regard political decisions and new regulations have the longest lead time among the environment factors. They also usually have the most direct effects on the industries. (Environmental Scanning 2008)

3.5.3 Social Forces

Social forces are the result of social structure and culture of a population in a geographical region. There are basically three type of social change that would affect the environment: Demographic changes, Life-Style, and Value changes.

Demographics is the most important and dynamic part of social changes. It is also the most easily measured factor. Life-style and value changes on the other hand are more subtle and needs more attention in part of the researchers in order to identify them. (Environmental Scanning 2008)

3.5.4 Technological Forces

New products, material, processed and services are brought about by technological changes to the society. It has two forms: Inventions and innovations. Invention is the generation of new knowledge and translation of it to new products and processes. Innovation is the incremental changes made in the products and processes. Major innovations are often introduced from outside the industry, either by new and small firms or leading firms from other industries. (Environmental Scanning 2008)

In the next section we will discuss these factors in more detail, as all the data in it are based on secondary data. In it we will set out to give an overview of situation in the region from different points of view that are important in relation to land transport.

4 Findings and Analysis

In this chapter we will present the empirical data we have collected and discuss the figures and implications in line with the theoretical framework set out in the previous chapter. The empirical data as the name suggests, comprise of the data and information gathered by the authors of this study, either in primary format or secondary.

We believe the current structure of the study increase the eligibility of the present format of contents. As Quinton & Smallbone (2006) suggest, “the findings and analysis parts belong together, as presentation of the findings should be the prerequisite for a discussion of their implications.”

Thus we will first present the empirical data for each section of the analysis and then offer the analysis and discussion of implications. Following the guidelines set in theoretical framework, the analysis includes four sections, three belonging to market analysis, and environment analysis. Thus we will present the analysis part in four sub categories: Customer analysis (4.1), Competitor analysis (4.2), Industry analysis (4.3) and Environment analysis (4.4).

4.1 Customer Analysis

Customers are the drivers of profit for the companies active in a market, and the chances of taking effective steps toward a successful business are related to the knowledge about the customers of the industry.

The main service commodity in transportation business is the place and time utility. Other added value features include safety and security, quality, reliability and sustainability, among others. The customers (of time and place utility in the case of transportation) define the dynamics of market by accounting for the demand side of equation. On the supply side various transport actors equipped with many different transport modes are competing. Forwarders, trucking companies, logistics service providers, Integrators, airlines and many other labels reflect the diversity of players in the industry. The many different aspects of transport service are also defined through the dynamics of the relations between the demand and supply side. Thus identification of each side’s motivations and actions is necessary to obtain a proper knowledge of the business environment.

The following sections are devoted to identification of existing or potential customers of CombiTrans. Then a method for segmentation or identification of strategic groups is suggested and used. We have gathered primary data from a selection of current and potential customers based on which a discussion of motivations and needs is offered.

One has to notice, however, that in case of international road transport, two sets of customers exist. Customers of immediate service and customers of end product which are transported by the service provided. Although there is a clear relation between these two set of customers, and dynamics of one affect the other, the customer study

in this section will be concerned with the immediate customers of transport service. The end customers are part of the context of industry in this case and are discussed indirectly in the environment study section.

4.1.1 Segmentation

The segmentation as an effort to identify similar customer groups is a means of choosing suitable strategies for each group. This is done by assigning a number of variables related to strategic decisions in order to find the most suitable grouping for customers. The product in our case is transportation solution and thus we will discuss only one set of variables related primarily to the customers or the company offering the service. We however, have based the identification of the suitable variables for segmentation primarily on the interview with the CombiTrans.

Variables

These variables are not specifically related to products or services offered to customers as suggested in theoretical framework. The combination, however, is an effort to group the customers based on their inherent characteristics. The following is selected in relation to the area of activity as well as applicability to certain markets the company operates in. Note that we will only discuss the variables with regard to transportation industry.

4.1.1.1 Geographic location

Geographic location can be an obvious segmentation variable, as different regions of customers would be an effective factor for the assignment of strategies to each group. The examples of such strategies would be offering of rail shuttles for areas with good rail network. This is actually the case in most instances, as more and more companies try to utilize rail solutions as much as possible. The Geographic dispersion thus is an important factor in grouping different customers, though it is not as decisive in case of service provider as is in case of transport buyer. Despite this, none of interviewees placed this factor as important on the role of transport provider. Furthermore, forwarding companies seem to place less importance as it is not very high in relation to other factors affecting the strategic moves toward customers.

4.1.1.2 Organization Type

Customers with a central logistics department would require different approach than customers, where in their organization every sub-unit has their own logistics administration. Other examples would be the inherent organizational differences between manufacturing companies as opposed to trade companies. This variable if taken into effect in segmentation would enable us to guide our strategy toward the values relevant to each segment as each organization type has different definitions of quality of service offered.

4.1.1.3 Size

Big companies as opposed to small ones will be less price sensitive, and will have more financial flexibility to support inconsistencies with the possible service quality issues. Small entities on the other hand have a big share of the business and can be very useful in the distribution of resources and in possible revenues by consolidation of shipments. Currently the CombiTrans executives refer to difference between companies in terms of this variable (along with the value of product they transport). Thus in this regard this variable seems of much importance. According to primary data, the majority of companies that currently have business with three focus countries are companies with substantial financial power to withstand shocks inherent in doing business with unstable markets. They also usually have extensive presence in international markets which also acts as a safeguard against the risks of investments. This is more relevant and important as the size of investments in infrastructure related projects that are the main trend in these countries call for big players.

4.1.1.4 Experience

There are obvious distinctions between companies who have been active in a certain market for a long period and those which have just started their business or only have sporadic transactions in the area. The experience of doing business in a geographical region, especially in international setting, would place the company in a different strategic point than a company with no prior experience. However, this variable loses importance as most of the western companies have started business in the focus region after the collapse of Soviet Union and mainly in recent years as these countries open up to the global markets. Thus most of the companies active in the region have had no or minimal historical presence in the region to suggest this variable as an effective segmentation factor.

4.1.1.5 Product Type

Different type of products transported by customers would suggest different strategic approaches. High value products offer higher profit margins but have substantial security complications while on the other hand low value products are less profitable with no security concerns. Big size products which calls for special transportation and handling equipment as well as procedures, offer high profits for the companies that can satisfy the quality of service demanded in transportation of this type of products. Dangerous goods are another type of products that change the strategic priorities of companies involved.

In interviews conducted by the transport buyers and providers, the main classification of the companies doing business in the region was the high value good providers against regular products. The strategic implications of this categorization are very high as most of the quality requirements and procedures depend on the category of product transported.

4.1.1.6 Brand Loyalty

Customers loyal to their transport company call for different strategic decisions compared to the ones with no loyalties beyond that of cost or service level. This, however, is extremely weak in case of transport service buyers. It, according to the customers, only affects the start of a relationship, and yet would not guarantee it. It is to some extent related to switching costs of customers, which in case of land transport and forwarders is almost nonexistent for transport buyers. They can easily change from one transportation company to another. Another factor contributing to this situation is the business to business nature of relations which primarily is based on *logos* rather than *pathos* (which is the case in most consumer products), and thus the loyalty decreases considerably relative to consumer goods and individual services, though is not completely absent from the equations.

4.1.1.7 Price Sensitivity

There are a number of customers who select their transport company only based on price considerations, while others will pay an extra price for higher service quality or special services. Although this can be said to be related to size or financial situation, the variable in itself draws a clear line among strategic differences of customers. It is also strongly dependant on product types transported; a relation that has been discussed in more detail in theoretical framework section.

4.1.1.8 Environmental concerns

More and more customers are aware of the environmental impact of their transport company's activities and will ask them to share their concerns on green thinking. Thus one can differentiate customers of transport service based on their demand of environmental issues and the priority they would attach to such concerns. However, as the governments and international bodies strive to instill the environmental awareness in the business today, rules and regulations also take a more strict role in the international scene, and thus the share of customer satisfaction of this concern on transport company's side is diminished. Furthermore, according to the expert consulting, the environmental concerns of transport buyers are not usually transferred to transport service providers, though all expect this to increase in the near future. In short, currently the implications of environmental and sustainability awareness of transport buyers are not present in business transactions of the industry. All in all, the variable is not as important as it would seem and compared to other industries.

4.1.2 The choice of variables

According to the discussion above and based on the expert consulting, the two variables of product type and size of the company are the most suitable variables. This choice is further supported by the fact that most of the companies active in the market at present are indeed of big size and transporting high value products. The further

evidence for this argument can be seen at table 1 (p 44) and in the discussion of “consumption trend” section in Environment Analysis.

We have decided to consider the product type as the strategic grouping of the transport buyers to the region, and the value of product as the differentiating factor of product type.

4.1.3 Interviews with customers

The interviews as the source of our primary data, was the main part of this study and on it we have based a substantial portion of our analysis.

The selection of customers was based on the meeting with the CombiTrans experts and through their contacts in the industry.

4.1.3.1 Questions asked from customers

The following is the list of question asked the experts in our interviews. Of course due to practical limitation and the fact that we had to perform majority of the interviews by phone the outcome is somehow different from the original list of questions, but we will include it as a starting point.

1. Size : how many employees/turnover/export import value
2. What is the share of transport in your costs...?
3. Does your company have your own logistics department?
4. Does your company handle all the logistics activities or it's been all or partly outsourced to a third party?
5. What is the organization of the department in your company that arranges transportation? Which department they belong? Whom they answer? What sub sections they have?
6. What is your primary export product? (to Central Asia)
7. How long have you been active in your current market?
8. Which markets you are planning to expand to? (Central Asia?)
9. Which transport modes do you prefer to use when you get an international order? (How about from Central Asia?)
10. Do you have any policy in promoting any mode of transport for your products?
11. What are your environmental policies? Does this influence your selection of road carrier?
12. Who usually pays for the international transport? Product buyers or sellers?
13. Who is your primary carrier/transporter/forwarder?
14. do you have a list of companies that you select from for any given consignment (what is the selection procedure)
15. Has there been any dispute between you and your transporter? (In what areas) has it resulted in changing of your carrier?
16. Is it easy to switch your customary road hauler into another?
17. Do you consider the switching cost little or huge? (monetary cost, cost on product quality, delivery time etc)

18. If you wanted to change your hauler, who would you choose? Based on what criteria?
19. How much the Brand of carrier is important for you?
20. What are the other important factors in choosing your road hauler? (i.e. costs, lead time, service level, ability to offer door to door, experience in the destination, place of operation, equipment and staff, financial stability...)
21. How do you make contact with the road hauler? Do you approach the haulage companies directly or through a third party such as freight forwarder?

4.1.4 Customers' Motivation

After the identification of an effective strategic grouping for transport buyers, we set out to find the motivation of the customers in buying the service from their preferred service provider. This was one of the main underlying themes in our questions from the customers, as to find out the reason for their preference of a forwarder to others and the reasons, if so, of changing from one to the other. The results were particularly remarkable since most the companies responded similar to each other and as expected. The main motivation for choosing a transport service provider over others is their ability to offer reliable and punctual lead times. Next motivation factor is the experience in the target market, and the next item is the ability to offer door to door service.

It is also important to mention that all the companies reflected upon the point that they have a range of basic preferences which include factors such as financial stability, service quality and being environmentally committed. Any company which cannot satisfy these basic preferences cannot attain a position in their business circle. However, if passed this first step they can be assessed through the above mentioned motivational attributes.

4.2 Competitor Analysis

The analysis of competitors as the second stage of our market study poses various challenges. The main among these challenges is however, the data needed about the factors outlined in theoretical section. One of the main approaches toward identification of the competition is through dividing them into strategic groups. For this we have studied the different groups in the land transport industry and the role of different operators in international freight scene which follows. Then we will present the data gathered about a selection of competitors through online survey in the form of strategic goals and strengths. Finally we will present the Competitive Strength Grid for different competitors studied as opposed to CombiTrans which is aimed at providing us with the identification of strengths and weaknesses and success factors.

4.2.1 Identification of Competitors

CombiTrans is a transport company that fits the criteria of forwarder. Though they own a number of trailers, it is only to increase the flexibility of their service. This

point is important in evaluating them among other competitors and in identifying the strategic groups with more clarity.

The different players in the transport industry can be roughly divided into two subcategories: haulers/carriers and forwarders. Any other category involves a combination of these roles.

A haulier is responsible for the actual transportation of the goods while a forwarder has the responsibility of negotiating between the shipper and carrier.

The structure of actors in the transport market is more complex in reality as there is not a clear distinction among many of companies that would fit in any of definitions above. A forwarder may own a range of trucks to increase their flexibility or a carrier may work with another carrier to even out the fluctuations. A more complex representation of the transport industry players is depicted in the graph below.

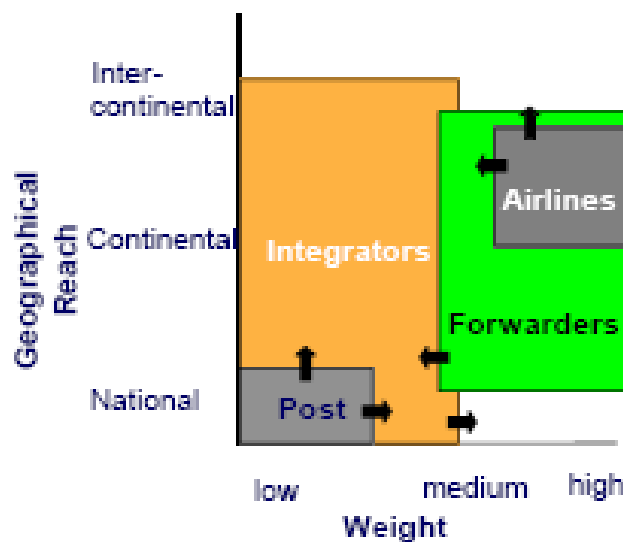


Figure 4: Role of different Players (Anderson 2007)

Though the image above is related to the airline industry, it signifies the changing nature of each player as the competition grows and they strive to get a bigger share of the market. Integrators are the carriers which take on the role of forwarder as well of which DHL is a prime example.

As we consider CombiTrans a forwarder the question arise as to which type of transport companies can be considered competitors to CombiTrans. The answer to this question would make the decision making on the situation of company in comparison to the competitors more useful. According to the experts of CombiTrans, the competitors belong to every rank of transport companies, but the real competition in the focus market area is posed by the big three (DHL, Schenker, DSV). The definition of these companies pose more difficulty in that they have more expansive service range and thus evade being categorized in only one definition. But from the customer expert consulting we gather that the major role they are after in these players is the

role of forwarder. One has to mention also that the cooperation between these forwarders also pose an analytical problem as there is implicit division of expertise in the industry. In case of a shipment that needs experience in a specific region, all the forwarders eventually refer to the one forwarder with the experience. For the sake of analysis however, we will overlook this aspect of industry.

4.2.2 Strategic groups

As stated in the theoretical framework, one has to divide the current and potential competitors into relevant strategic group so as to be able to identify the strategic necessities imposed through each to the industry, if such imposition is present. Otherwise there may be an opportunity present that the company can use in the future.

Following the discussion above, about the categorization of transport companies and its vagueness and considering the discussions about the important roles customers are after in the interviews, we decided on using the same segmentation as the customer groups. Thus the product range transported by the competitors is selected as the category factor and among those since the line between transporters is getting slimmer every day, we consider every forwarder active in the transportation of high value goods in the same strategic group as CombiTrans. We consider a company a forwarder if they have forwarding activity in the region among their activities.

4.2.3 Selected Competitors, an evaluation

Following is a presentation of our online survey of different forwarders active in the transport of high value goods from Europe to Central Asia. The selection was primarily based on the expert consultation and which companies CombiTrans considers as current or potential competitors. It is also the result of an effort to represent companies both big and small, with strong brands or unknown. We believe this small selection of companies is a good representation of competitors active in the field today. For each competitor we have compiled their vision and mission, strategic goals and their stated strengths, though they are based only on the information available in their websites and annual reports.

1- DHL

DHL is the world's largest logistics specialist (DHL 2009, A). DHL Logistics alone has more than 162,500 employees all over the world and serves more than 150 countries and territories which are far more than any of its competitors (DHL 2009, B). Contract logistics, overland transportation and freight forwarding services are their logistics expertise (DHL 2009, C).

DHL Logistics states its goal as *“To build strong, long-term partnerships with customers by providing world class services, across all our operations”*(DHL 2009, C)

The strategy that the company presented consists of six interrelated components (DHL 2009, D):

- To intensify their customer focus
- To deliver consistent service excellence, globally
- To extend their capabilities (creating local strength, globally and driving practical innovation)
- To attract, develop and retain talent, globally
- To relentlessly drive efficiency, year-to-year
- To be proactive in social responsibility

It is obvious that long-term partnership with their customers is the key of DHL’s development strategy. Their target group are those companies looking to outsource freight forwarding, distribution, warehousing, supply chain and transport management (DHL 2009, D). Transport service through air, ocean, road and rail are all available for choices. The competence DHL offers is their ability to provide customised road freight services including international groupage, part-load and full-load shipments by road and intermodal across Europe and some of the CIS countries including Kazakhstan (DHL 2009, E).

Strengths

- In-depth knowledge and experiences with all transport modes
- In-depth knowledge with the local markets
- Strong financial capability
- Worldwide geographical coverage (owns local branch in Kazakhstan)
- Established strong brand image
- Intermodal cooperation
- Long-term oriented, shoulder-to-shoulder partnership with customers
- Wide range of services
- Strong focus on selected industrial sectors

2. DB Schenker

DB Schenker is one of the leading globally integrated logistics service providers that employ over 91,000 staff on a global basis across more than 2000 locations in about 130 countries (DB Schenker 2009, A). According to the official data listed in their company homepage, Schenker has been ranked:

- No. 1 in Europe in rail freight
- No. 1 in Europe in combined transport
- No. 1 in Europe in land transportation
- No. 2 worldwide in air freight

- No. 3 worldwide in ocean freight
- No.6 in global contract logistics (DB Schenker 2009, A)

The land transport service provided by Schenker is primarily focused on Europe. A comprehensive transport network build by Schenker has directly linked over 30 European countries across the continent (DB Schenker 2009, A). Huge numbers of international subsidiaries around the globe and close partnership with local transport and logistics providers among countries without their subsidiaries is a part of their global strategy in retaining their leading position. Cross-border freight transport from EU countries to Kazakhstan has been coordinated between Schenker's EU local subsidiaries together with his partners ICS International Cargo Service and Globalink Transportation & Logistics Worldwide in Kazakhstan (DB Schenker 2009, B).

Schenker has also taken environment concern into their company's development strategy. It has taken step-by-step actions which are aiming to replace diesel and petrol with renewable energies (DB Schenker 2009, C). Further an environmental management system has been introduced in order to measure their environmental performances (DB Schenker 2009, C).

Strengths

- Worldwide transport network (partnership with Kazakh logistics companies)
- High network efficiency and transport frequency
- Strong financial capability
- Diversified services
- Established strong brand image
- Working towards environmental logistics
- Experiences with transport quality and safety control

3. DSV

DSV is a global transport and logistics services provider. It currently has offices in more than 55 countries and it offers services in more than 110 countries through partnership with agents and local logistics providers (DSV Annual Report, 2008). DSV employs over 25,000 people over the world with annual turnover of 37.435 billion DKK in 2008 (DSV Annual Report, 2008).

Internally DSV's activities are categorized into three business functions: the Road Division, the Air & Sea Division and the Solution Division (DSV 2009, A). The Road Division offers transport of full loads, part loads and mixed cargo all over Europe and the Air & Sea Division handles the air freight and sea freight between global destinations (DSV 2009, A).

The current strategy which DSV is pursuing is to strengthen their current competence and develop itself towards the leading position with primary focus on Europe (DSV 2009, B).

DSV has no branch established in Kazakhstan, and has chosen a local Kazakhstani company named Saima Caspian LLP at the city of Aktau as their operational partner in order to handle their overseas transactions between EU and Kazakhstan (DSV 2009, C). The services that Saima Caspian LLP covers are only air freight and sea freight which means no rail service was involved in their transport chain between these regions. The expected transport strategy is road-air-road and road-sea-road intermodal or combined transport towards Kazakhstan.

DSV has strong consciousness on the environment. It has identified that the main environmental externalities from their operations are derived from the road transport sector (DSV Annual Report, 2008). The subcontractors of DSV are the biggest source of pollution since DSV only owns a small percentage of the total fleet of trucks, as DSV has developed “carbon footprint” system. It has effectively reduced the total environmental impact caused by their subcontractors in the past few years (DSV Annual Report, 2008).

Strengths

- Specialisation within divisions and close cooperation between divisions
- Strong network through divestment and acquisition
- Well established partnerships (partner company in Kazakhstan)
- Remarkable financial achievements
- Effective environmental actions

4. LKW WALTER

LKW WALTER is an Austrian based family-owned company which established in 1924 (LKW –WALTER 2009, A). It has employs 1,198 persons in total and handles more than 880,000 full truck loads of transport each year (LKW –WALTER 2009, A). According to their official statistics, the annual turnover for year 2007/08 has reached 1.19 billion Euros (LKW –WALTER 2009, A).

LKW WALTER is a specialist in truck transportation; it has defined its core business “Full truck loads throughout the whole of Europe in one hand” (LKW –WALTER 2009, B). Despite the diversified locations of its customer groups, LKW WALTER is capable in providing services within EU (including Switzerland and Norway), arranging domestic transport within individual EU member countries as well as offering transport services from all EU countries to Eastern Europe, Balkans, CIS and Middle East and vice versa (LKW –WALTER 2009, B).

Except using Full-Truckloads -unimodal transport- intermodal transport also has been placed in its transport strategies. LKW WALTER operates more than 1,800 trailers

which can be handled by cranes and more than 800 swap bodies, together with the usage of intermodal block-trains and ferries, it can place freight transports to most European destinations on a daily basis (LKW –WALTER 2009, B).

Transport partners are usually small and medium-sized which were carefully selected by LKW WALTER through their sophisticated Quality Management System, parameters consists of quality, safety, health and environment (LKW –WALTER 2009, B).

Strengths

- High concentration on its Core Business
- In-depth knowledge within the European market
- Good quality control
- Close intermodal cooperation
- High environmental awareness

5. Jeuro Denmark

Jeuro Denmark is an independent, small-sized Danish freight forwarder (Shipping International, 2009). The company was established in 1994 with diversified transport services including sea freight, airfreight, multimodal transport, and rail transport which mainly engaged in shipments through the Trans Siberian Railway (Jeuro Denmark 2009, A).

The rail transport services which Jeuro Denmark provides are containerized and conventional from countries in Europe and some selected countries in Far East areas to Russia, Mongolia, and CIS counties (including Kazakhstan) (Jeuro Denmark 2009, B). The primary target destinations are Russia, Mongolia and CIS countries since it already has more than 30 year of experience in those countries and regions.

Jeuro Denmark has adopted a hub-and-spoke system which uses Berlin and Bekassovo as the transport hubs. Freight and goods are often loaded into 20' or 40' containers from a number of stations in Europe and transported to Berlin; from Berlin the containers are loaded onto the block train "Ostwind" which running on fixed schedules to the terminal of Bekassovo near Moscow; from there the containers are then distributed to more than 70 destinations in CIS (Jeuro Denmark 2009, C). All shipments are monitored through their access to the central computer of Russian Railway in Moscow.

Strengths

- Special knowledge with the local markets
- Over 30 year operational experience in that region
- Containerized transport

- High degree of transport security and reliability

6. Transgroup Forwarding Company

Transgroup Forwarding Company is an international freight forwarder which belongs to International Transport Logistics Holding BELSYS GROUP; Transgroup's Kazakhstani office in Almaty worked closely with other subsidiaries of the International Holding BELSYS GROUP in Russia, the Baltic States, Poland and Belarus, it performs road cargo transportation from Russia and all European countries to Kazakhstan and Central Asia and vice versa, all regions of Kazakhstan are covered by their transport services (Transgroup 2009, A).

Except road transportation, Transgroup Company also offers international railway transportation services from Europe to Kazakhstan in wagons and containers (Transgroup 2009, B). It has compact cooperation with its own subdivisions in Russia, Latvia, Poland and Belarus as well as partners from other countries who are experts in railway transportation (Transgroup 2009, B). One of their specialties is transportation of both new and used automobiles from all countries in Europe to all CIS countries via railway. It cooperates closely with ADAMPOL who's a well-known Polish forwarding company which specializes in transporting automobiles; it also directly cooperates with SEAT and Chrysler's European manufacturing plants (Transgroup 2009, C).

Strengths

- Well established partnerships and transport network
- Established relationships with local clients
- Native knowledge
- Great intra-and inter-organizational cooperation
- Special knowledge in automobiles transportation

7. SANNA-LITIER

SANNA-LITIER Group is a Russia based 3PL operator. It was founded in 2007 as the result of LITIER and SANNA Groups strategic partnership; the company itself consists of four departments which provide full range of logistics services on transportation and customs clearances, as well as warehouse logistics (SANNA-LITIER 2009, A). It has strong business relations with near-border customs; it has in-depth knowledge of the principles of customs administration and law-enforcement practice (SANNA-LITIER 2009, B).

The services provided by the international road haulage department covers all European countries, the Baltic States, CIS (includes Kazakhstan) and some Asian countries (SANNA-LITIER 2009, B). Multimodal cooperation between sea, rail and road has guaranteed the mobility of SANNA-LITIER's transportation.

Strengths

- Special knowledge in local policy and legislations
- Expertise in custom clearance
- Able to provide safe, quality deliveries

4.2.4 Strengths and weaknesses

To find out about strengths and weaknesses in the competitors, one has to identify assets and competencies as the former is based on the existence or lack of the latter. Thus we will talk about assets and competencies in general rather than strengths and weaknesses themselves. For this purpose one has to consider the relative success of the business, customer motivations discussed in the customer analysis and value added operations (Aaker 2008).

Considering all the above mentioned points, we have collected the competencies that are considered important in the industry. We have given each asset or competency a weight based on its role on their success and the importance customers place on such points. The outcome is shown in table 1. The competencies that nearly all competitors have cannot be considered as sustainable competitive advantages. On the other hand the more important competencies that few competitors possess and is effective in their success can be labelled as an SCA, and should be promoted or acquired if absent from the asset list.

		Importance	CombiTrans	DHL	Schenker	DSV	LKW Walter	Jeuro Denmark	Transgroup
Success Factors	Experience in CA	5							
	Service Quality	5							
	Partnerships	5							
	Financial Stability	4							
	Brand image	4							
	Specialization	4							
Secondary importance	Worldwide Services	3							
	Sustainability	3							
	Innovation	2							
	Intermodal capability	2							

Table 1: Competencies (Competitive Strength Grid)

Service Quality is the most important competency, but since most competitors have it, and since it is a basic requirement from the customers, it is not a SCA.

As can be seen, CombiTrans have all of the important success factors, but in the secondary competencies is not as successful. Sustainability and Intermodal capability are the competencies that should be further promoted in case of CombiTrans.

Financial Stability is an asset that is beneficial in every situation and among the basic requirements. Experience in the target market and Partnerships, however, are the most important factors and should be placed in the highest priority, and promoted even as they are the competitive advantages of CombiTrans to keep always abreast of other competitors.

4.3 Industry Analysis

This section aims to explore the target market, namely land transport market from Sweden to Central Asian countries, with primary focus on Kazakhstan, Azerbaijan and Georgia. We will start out this part by Size and Growth of the market, followed by a representation of Michael Porter's market attractiveness, and then we will discuss some other aspects of industry such as the market trends and success factors.

However, before we start the analysis of the market, we should point out a few considerations regarding the term "market" used in our study. At the introduction part of this study, a clear description of the purpose of our study has been presented: helping the Swedish freight forwarding company CombiTrans to explore the freight transport market in Central Asia. When we mention the freight transport market in Kazakhstan, Azerbaijan and Georgia, the domestic transport within each country and cross-trade transport between those countries have been excluded from our analysis. In our study we're only focusing on the freight transport market with one direction from Sweden to Kazakhstan, Azerbaijan and Georgia; the export and import activities between those selected countries and the rest of the world are irrelevant.

4.3.1 Size and Growth

Due to lack of relevant published information in English, we are unable to precisely present the size and growth of the freight transport market in all those three selected countries with facts and figures. The newest statistics available which belongs to years 2004/2005 shows that demand on freight transport in Azerbaijan was growing in a rapid pace with 35% on rail, 30% on sea, 7% on pipeline and 28% on road (ADB 2005). The same type of data regarding the growth rate in Georgia and Kazakhstan was unavailable. However, because of the interrelation between trade and transport, we believe that the situation of the freight transport market can be reflected indirectly through the study of situation on international and domestic trade, as well as other relevant financial factors.

Table 2 illustrates the export of goods by values from Sweden to all three selected countries from year 1998-2008. Except the decline caused by the global financial crisis in 2008, the export activities were mostly in a stable condition, especially for Kazakhstan, which has enjoyed a rapid growth rate since 2002, and the total export value in 2007 has reached 1,787,782,000 Swedish Crowns. Azerbaijan has taken the second place. The peak of export from Sweden to Azerbaijan in the eleven years duration has reached 568,221,000 Swedish Crowns in 2004, though the total value of import from Sweden differs each year and not continuously. Georgia has the lowest

import from Sweden within all three selected countries due to the size of its own national economy. The total import value was growing in a slow but steady speed since 2004, nevertheless the global economic crises doesn't seem to affect Georgia's import from Sweden which has reached 176,194,000 Swedish Crowns in 2008 (see Table 2).

Adjusted for non-response, 1000 SEK by period and trading partner.			
	Azerbaijan	Georgia	Kazakhstan
1998	73033	29702	147729
1999	138704	76682	227245
2000	184303	131235	259485
2001	96951	11632	361969
2002	99502	31027	356894
2003	281548	79617	520079
2004	568221	43189	943169
2005	481716	64265	1229790
2006	502315	150287	1609619
2007	287360	166112	1787782
2008	437064	176194	1517784

Table 2: Annual Exports from Sweden (Statistics Sweden 2009)

The statistics on total export value from Sweden to those three selected countries has shown a fairly positive result especially on Kazakhstan. However as the result of strategic group study in customer analysis shows and as the CombiTrans' core business, the emphasis should lie on transport of high-value products, while the statistics listed in table 2 has covered all types of product with every export value. Therefore we'll categorize the export into different product type and then make analysis accordingly.

The Swedish Trade Council have categorized Swedish export into 6 different big sectors including Food, Raw Material; Fuels, Chemical Products, Semi-Manufactures, Engineering Products, and Other Manufactured Goods (See Table 11). There is no clear guideline to distinguish high-value or low-value product out of those 6 product

sectors, especially in the case of Other Manufactured Goods which covers Furniture and Clothing. Thus it can be considered both high-value and also low-value goods in different cases. In order to avoid confusion, we have taken Engineering Products out of all 6 product sectors which mainly consist of manufactured, technologically sophisticated products as high-value products to conduct our analysis.

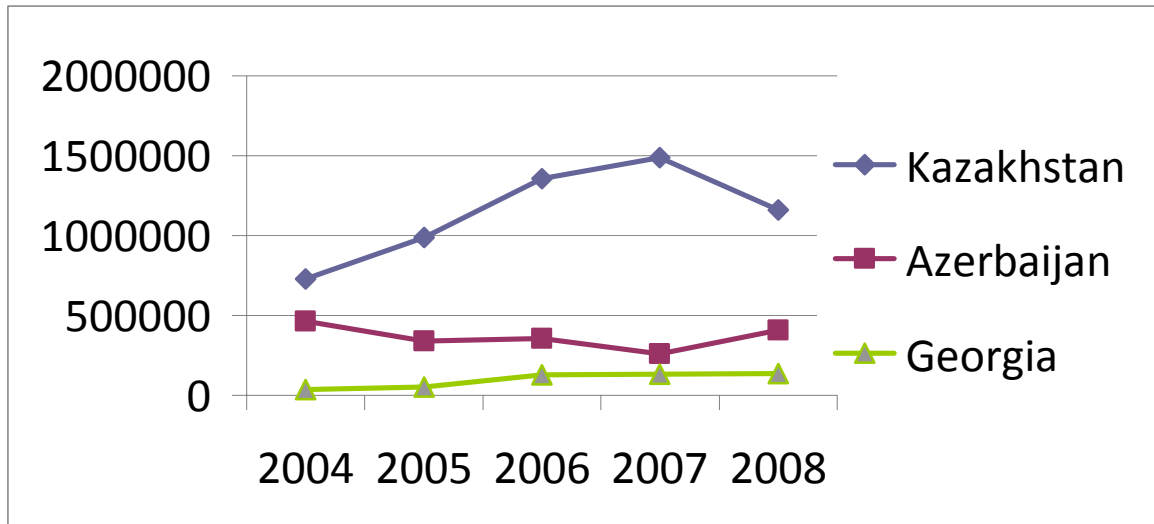


Figure 5: Import of Engineering Products from Sweden (SEK 1000)

Statistics regarding different product sectors is available from 2004 to 2008; therefore we have taken data of the five years duration into our analysis. The import of high-value engineering product of Georgia from Sweden have jumped up 250% between year 2005 and 2006; since then the amount is still growing but in a relatively low speed. The situation in Azerbaijan is very similar to its total import value from Sweden, as the imported value on engineering product differs from year to year and has reached 409,436,000 Swedish Crowns in 2008. The import of engineering product from Sweden to Kazakhstan is also similar to its total import value from Sweden. The peak was in 2007 when it reached 1,486,853,000 Swedish Crowns.

The proportion of engineering product accounts for a major part of total export value from Sweden to all three selected countries. The reason is fairly obvious; Sweden is an industrialized developed nation. It has a relatively big amount of multinationals that produces technologically sophisticated industrial products. Despite the fact that the manufacturing costs in Sweden are extremely high, the manufacturers still can manage to attract a lot of buyers from both developed and developing countries because of abovementioned technological advantage. These products also enjoy from strong brand images. On the other hand, all these three selected countries are currently underdeveloped, they share similar history by being part of the Former Soviet Union and suffered tragic economic decline since their independence. The recent boom on oil industry have improved the countries' economical situation, and made the governments realize the importance of trade facilitation by upgrading their currently poor infrastructures. The World Bank and Asian Development Bank have been

putting massive financial investment in those countries in order to assist their constructions projects. In the meantime regional corporation development programs such as CAREC, and Eurasia transport corridor development project, TRACECA program has been launched (The more detail on these agreement are given in environment analysis section). Big numbers of construction and developments projects has massively stimulated the demand on related industrial products. Most of the projects are still ongoing; the governments of these countries will need to keep upgrading their infrastructure from all sectors.

Based on the size of territory, size of the economy, and the strategic importance of each country by their participation in the international development projects, we believe that Kazakhstan will remain the biggest buyer of Swedish high-value products in the whole Central Asian Region, despite the interruption caused by the crises. Demand on Swedish high-value engineering products will continue to grow and therefore the freight transport market will also grow accordingly in order to cope with the speed of development. The sizes of Georgia and Azerbaijan and their economies are much smaller than Kazakhstan; thus the total demand of Swedish high-value product is also currently low in these countries. However, because of the ongoing construction projects and development calendar, we believe that the growth rate will be stimulated and start growing in a faster pace when the global economy returns to a better situation.

4.3.2 Market Attractiveness

In order to apply Profitability or Five Forces Model by Porter to current subject we identify road haulage service as one of the business sectors in the general transport market. The definition of “general transport market” mentioned here refers to the transport market which includes all types of transport modes (air, rail, road and sea).

4.3.2.1 Potential competitors

We studied the current competitors in the competitor study section. The threat of potential competitors as described in theoretical framework, involves a number of factors such as entry barriers the details of which based on relevance to the transportation industry will be discussed in the following lines.

4.3.2.1.1 Supply side economies of scale

The characteristics of road transport in general are relatively low fixed cost and higher variable cost. All road transport modes including road haulage which is mainly done by trucking have limited chance to achieve economies of scale (Rodrigue et al. 2006). This partly can be attributed to the limited vehicle carrying capacity, constrained by governmental policies due to safety and environmental concerns. The limited size of the vehicles as well as engine capacities are the results. For road transport, large amounts of consignment require more numbers of vehicles in order to fulfill the demand on carrying capacity. As we mentioned before, variable costs on road

transport is relatively high following the characteristics of road transport vehicles. Fuel consumption arises when more vehicles required, costs on tires, spares and lubricating oil also increase accordingly. Nevertheless fixed costs also will be affected: number of drivers and other types of labors need to be employed in order to make the whole transport chain operational; total depreciation and interest will rise according to the vehicles required.

In other words, the incumbents in road transport sector are not protected by economies of scale because cost of the product on each unit cannot be reduced by transporting large volumes. Thus, because of the nonexistence of supply side economies of scale, it can't be concluded to be one of the barriers which restrict new comers entering the road transport industry.

4.3.2.1.2 Demand side benefits of scale

In order to understand if Demand-side benefits of scale exist in road transport industry, we must first answer the question: “dose road transport industry has significant ‘network effects’?”

The definition of “network effects” has been presented in the Theoretical Framework section. The meaning of “network” here refers to the network formed by the users/buyers of a certain product of service. Porter have defined that a market that enjoys “network effects” is a popularity sensitive market (Porter 2008).

The most obvious market which fits this definition is the telecommunication service market, where the more customers choose to buy mobile phone card services from the same mobile service operator, the more values they create for each other since mobile service operators often offer an attractive discount rate or free-call service for phone calls between the users within their own company. Therefore, as more users choose to buy service from one company, the cheaper the rates will be, and the company who owns better market share will therefore become even more popular.

It seems the same concept of “network effects” can also be applied to road transport market since the road transport industry is dominated by several big players such as DHL, Schenker, and DSV, each company enjoys fine reputation and being the “first-choice” for a lot of transport buyers. To prove the hypothesis, we refer to conducted interviews with transport buyers, discussed earlier in Customers analysis section. All the companies were Sweden based industrial manufacturers of high-value goods who already have operations in Central Asia or are a potential exporter. Several factors have been presented on the interview questions regarding the importance of choosing a freight forwarder in order to get results from transport buyers’ perspective.

All factors listed are important for manufacturing companies when choosing a freight forwarder, and it's quite obvious that factors such as financial stability, lead time, and service level of a company often weigh more than brand and cost, which means the choice made by other transport buyers can only affect the new buyers’ decision in a

very limited extent, since each company is looking for a capable forwarder that can fit their requirements on those specific factors. Additionally, buyers from the same road freight forwarder are not creating values for each other with their buying decisions, therefore we believe that in road transport (road freight forwarding) market, the phenomena “network effects” doesn’t exist, and Demand-side Benefit of Scale doesn’t apply to this industry.

4.3.2.1.3 Customer switching costs

Customer switching costs are another hindrance for newcomers entering the market. It refers to the fixed costs or investment that the buyers will have to bear when they change suppliers. The buyers of international road transport services are rather diverse. It can be a manufacturing company which has outsourced their raw material to another country or it can be a trading company exporting their product to a foreign market. But in any case the nature of their needs remain the same which is to transport the goods from A to B. The product specification of road haulage services can be said to be lead time and service level among others.

On the road transport market, it is very common that smaller transport companies form strategic alliance or operate under the dominant players. Also sometimes a road haulage company buys transport services from another transport service provider under special circumstances. For example road hauler A doesn’t have enough trucks or trailers available to carry out the transport when an order had been placed, so in order to perform the contract with the transport buyer B, they have to purchase transport services from their strategic ally C. In this case, despite the road hauler, company A is company B’s contracting carrier, the party who performed the carriage is actually another non-contracting company C. From this we understand that in road transport industry, most service providers are offering homogeneous products that only differ slightly and in most cases the differentiation can be ignored. In the case mentioned above, buying transport from company A is exactly the same as buying transport directly from company C, as there is no extra training needed for the personnel, no additional “follow up” costs. Even though the road haulage company provides some types of additional services as CombiTrans, the customer switching cost can be still considered low, due to the fact that it is not expensive neither complicated to build-up contact with new warehousing and 3PL service providers.

For a manufacturing company, switching costs is usually high and obvious since they’re producing a physical product, minimum change on supplier of components will likely causing redesign of the product specification where lead to huge cost. Unlike the manufacturing industry, road transport/forwarding industry is only providing services which are more flexible than manufacturing industry; product specification can also be changed easily.

Through interviews with the Swedish manufacturing companies and through better understanding of their business procedures with regard to selection and cooperation

with freight forwarders we were able to confirm the above result. Each company which we have interviewed has a list of freight forwarders who fits their basic requirements; the number of nominated forwarders on the list differs slightly from company to company, but one can assign the average number of 5. The choice of freight forwarder for companies can be different depending on the several influencing factors such as the point of destination, modes of transport, etc. When it comes to switching cost, all companies which we have interviewed are quite certain that it is easy for them to change their current freight forwarder to another one. The procedure will take time for preparation but the cost for switching is remaining at a minimum level. The reasons for such low switching cost are:

1. Big manufacturing companies are often using more than one freight forwarder, the close cooperation with other forwarders have widened their options.
2. All nominated freight forwarders should fit the companies' requirements on transport and thus the outcome of choosing a different freight forwarder will not affect the operations of the transport buyer.
3. In road transport industry, the company who actually carry out the transport is often another trucking company than the freight forwarder, therefore buying transport from freight forwarder A is exactly the same as buying transport from freight forwarder B if they're supplied by the same trucking company as is usually the case.

Of course the preparation for switching will result in certain costs; however, the amount of cost is minimum, which can be ignored if the switching will achieve a cost-saving situation on their operation. Therefore we conclude that in road transport/forwarding industry, Customer Switching Cost would not be considered as an entry barrier.

4.3.2.1.4 Capital requirements

High capital requirements needed for new starters in order to compete can prevent new entrants for those companies which have less financial power. This criteria although is present in the transportation industry, is not as substantial as other industries such as major manufacturing industries. However in the service industry the capital intensiveness is quite substantial. The capital investment required to start a trucking company is fairly obvious including the investment on buying vehicles, trailers; and sometimes for big trucking companies the investment on leasing their own operation terminals is also required. CombiTrans has identified itself as a freight forwarder. Therefore we will look into the capital requirements in forwarding industry.

The business function for a trucking company is rather simple as it can be generally described as "carrying goods from A to B". Of course the operation is more complicated in real life than the description above, but it brings a clear picture about how a trucking company operates. Most of the trucking companies in the Swedish road transport market are small and medium sized, and most of them have concentrated their services on certain areas or regions. Freight forwarders on the other

hand play a very different role than road haulers. A freight forwarder is not obliged to own vehicles; they do not have to carry out the transport by themselves. When a freight forwarder gets an order from a customer, they will select one or more road haulers to carry out the transport, therefore the requirement of knowledge on the market and their network weighs more than other types of investment on hardware. As long as a person has the relevant knowledge and the right connection with other stakeholders in the supply chain, a forwarding company can be easily established with little investment needed on necessary administrative costs such as offices and computers.

4.3.2.1.5 Incumbency advantages

Despite the size of the companies, incumbents in most cases enjoy certain advantages such as lower cost and better quality than the new comers (Porter 2008). An incumbent within international road transport industry usually have an established brand identity. For transport buyers, buying services from a well-known transport company would logically be prior to selection of an unknown operator. From years of operating experiences, incumbents gain knowledge of the market and are familiar with real-life practice such as with the process of selecting and hiring experienced truck drivers; have a better view of the political situation and legislations in their destination countries; understand the vital factors in choosing their partners; knowing which country or region are more profitable than others; and most importantly, they have knowledge of how to operate efficiently under the lowest costs. This is more so in the international land transport as the regulations are more sporadic and trade barriers are higher and the existence of contact networks are essential in the effectiveness of operations.

Thus, incumbency advantages in freight forwarding business tend to be obvious: market knowledge and established connections. As we mentioned before, the capital investment on hardware in freight forwarding business is minimum, however the requirement on human capital is essential. Well connected employee with advanced knowledge on the transport market is the most valuable asset for a freight forwarder. Through hiring the right person to do the right job, an incumbent in freight forwarding business has gained knowledge on the transport market through years of experiences. They usually have access to the advanced knowledge by knowing which region of the market has higher returns than the others, which trucking company operates most efficiently, who are the best drivers, the local law and legislations related to their services.

Interviews with the manufacturing companies also indicate that nearly two third of the companies have chosen “the experiences on destination countries” as one of the most important factors in choosing a freight forwarder. Cultures from different countries are diversified, knowing the local language, culture and legislations is the biggest advantage that a freight forwarder can possibly acquire, while competitors know only

a little about the destination countries. Through the interview, we understand that transport buyers are willing to pay premium prices for the forwarders who already have experiences in the destination countries.

4.3.2.1.6 Unequal access to distribution channels

The concept of distribution channel has a different meaning when it comes to logistics and transport. In the air transport industry, the distribution channel for an airline could be the information platform from travel agencies, where the customers can choose the appropriate flight among the offers from different airlines (porter 2008). The travel agency is acting as intermediate agency here and has the same function as a supermarket for food manufacturers. However the story for road haulage industry is completely different, because there exists no such intermediate agency. There is always an association of road haulage companies in different countries and regions such as Sveriges Åkeriföretag (Swedish Road Hauler Association) in Sweden, where its functionalities are to provide information, advice, trainings and certificate of quality to their member companies. For the road haulers, there is no direct gaining of profit through the interaction with the association. Road haulers can only create their own distribution channel by making direct contact with the road consigners; therefore we assume that “unequal access to distribution channels” is not applicable in the road haulage industry.

4.3.2.1.7 Restrictive government policy

Transport creates time and space utility for the goods. While it generates value for the traders, it also creates certain externalities to the society. Emission is the most problematic part of transport externality. Emissions can stimulate the cause of greenhouse affects, which therefore damage the environment. It is also the main cause of health problems because the characteristics of some gases generated is damaging to the well being of our society. European Commission among other international bodies has introduced regulations and programs that intend to reduce these externalities. Following is a discussion of these regulations along with regulations concerning focus countries.

Due to limited amount of information on transport policies in the Central Asian Region and considering the purpose of our research is emphasized on the road transport market from Sweden to the selected Central Asian Republics, we focus on the transport policies of European Union toward those countries in our analysis.

Emission as the most problematic part of transport externality is attributed mainly to road transport, accounting for 84% of all emissions from transport sector as a whole (European Commission 2001). Regulations and programs introduced by European Commission intend to reduce congestions as well as improve the environmental situations. Marco Polo and Marco Polo II are the two most distinctive programs that with a common purpose initiate modal shift actions focusing on promoting railway, inland waterway and short sea shipping in order to minimize the usage of road

transport (Council of the European Union 2003). More practical measures are also taken such as the initiation of legislation on European emission standards which introduces the maximum limits of exhaust emissions of the automotive vehicles on the EU market. The new “Euro VI” standard which applies on heavy motor vehicles will be entering into force in 2013 in order to limit the generation of nitrogen oxides, particular matter, as well as other types of emissions (European Union 2007).

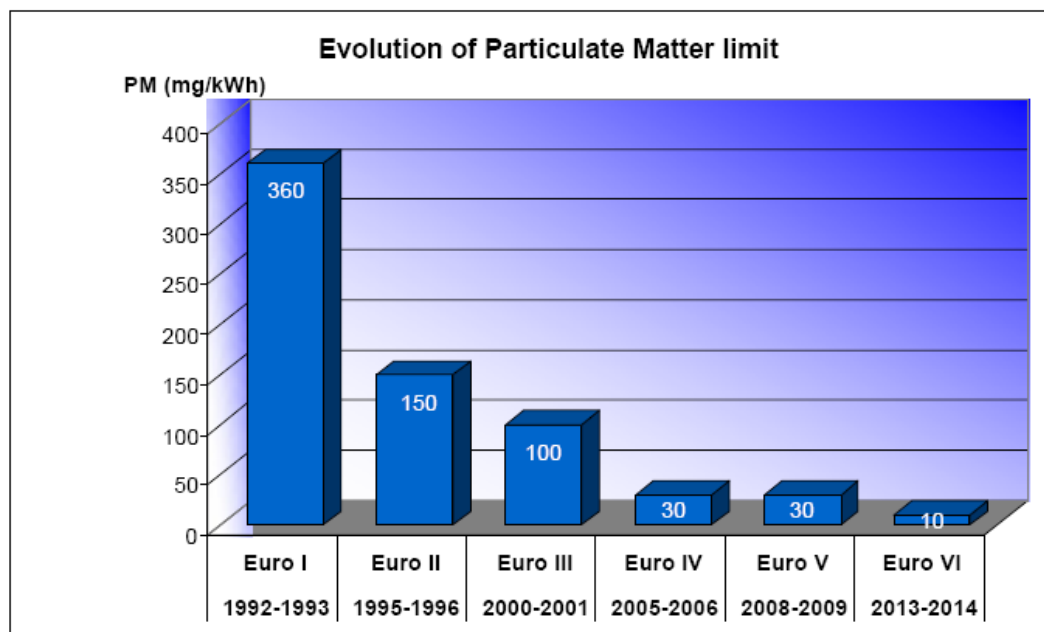
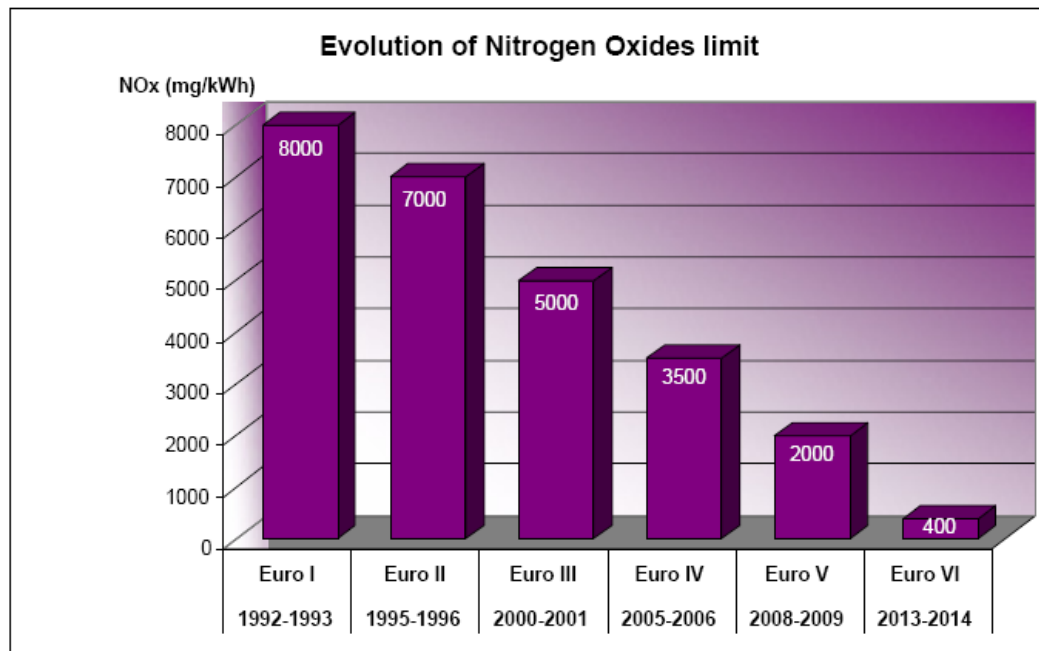


Figure 6: European Emissions Limits (European Union 2007)

Safety is another concern. In the year 2000, about 40000 people were killed by road accidents in the European Union; it could be described non-exaggeratingly as “death on a daily basis” (Commission of the European Communities 2001). In order to reduce the fatalities and minimize the social costs from the accidents, the European Commission introduced “European Road Safety Action Program” which aims on strengthening the regulations on road safety and halving the number of road accident victims in the EU by 2010 (Commission of the European Communities 2003). The sections of the program includes different acts which are the introduction of speed-limit devices for new vehicles; Directives that require seat belts; a proposal for a Directive on the initial and continuous training of commercial drivers; the legislation governing the technical conditions of the carriage of hazardous goods, etc (Commission of the European Communities 2003).

It’s not hard to see that road transport industry is highly regulated due to the demand from our society; however these governmental policies are generic and do not have significant influence to restrict newcomers entering the transport market. The only concern is the costs needed in order to purchase the equipments or vehicles that fulfill the requirements which are mandatory for both incumbents and new comers. The situation is less restrictive in the Central Asian countries, as the regulations are not as strict as European standards, but the instability should be taken into account. The European standards or similar/compatible regulations will come into force in the near future as globalization takes hold of these countries and the awareness about environmental concerns increase among policymakers, and the use of local trucking would pose some threats to the stability of business in general.

Cost component	Road	Rail	Barge	Short-sea
Accidents	5.4	1.5	0	0
Noise	2.1	3.5	0	0
Local emissions (air pollutions)	7.9	3.8	3.0	2.0
Climate change	0.8	0.5	Marginal	Marginal
Infrastructure	2.5	2.9	1.0	Less than 1.0
Congestion	5.5	0.2	Marginal	Marginal
Total	24.1	12.4	Max 5.0	Max 4.0
Cost difference with road traffic	–	–11.8	Ca. –19.0	Ca. –20.0
Saved external costs not moved by unimodal road transport	–	11.8	19.0	20.0
Saving of €1 by not transporting freight by unimodal road transport	–	85 t/km	52 t/km	50 t/km

Note: €100:US\$134.

Table 3: Marginal external cost per transport mode (European Commission 2002)

From the table above, we can see that the total external cost of road transport is twice that of rail transport, 5 times as much of the Barge and 6 times the Short Sea shipping. Which bring us to the question of substitute products? Which mode is more suitable?

4.3.2.2 Substitute products

Substitute products are the products on other industries which have the same or similar functionalities as the products on the selected industry (Grimm et al. 2005). The functionality of road transportation is defined as the activities which brings goods from the place of origin to where it has higher value and therefore creates both time and space utility. The substitute for road transport services is therefore according to the definition – services from other industries which can perform the same functions, which lead us to other types of transport alternatives which are rail, water, and air transport. However for long distance consignment, unimodal transport has been proved economically and environmentally inefficient due to the increased environmental pressure as well as various other types of demand, therefore intermodal transport has been used widely to complement the disadvantages of using unimodal transport. Here we list intermodal transport together with other unimodal transport modes as the substitute products of road transport services due to the fact that the functionality of intermodal transport is the same as road transport.

In order to understand the price-performance trade-off of each different transport mode, we will look briefly at each substitute model. We will discuss the substitutability of these modes later in analysis part.

4.3.2.2.1 Air transport

Today air transport has a significant market share which accounts for about 40% of global trade by value (Boeing 2001). The reason is due to the fact that companies tend to outsource their production to low cost regions, and the recent development trend on logistics and supply chains tend to achieve zero inventory and development of a just-in-time production and delivery system (Upham 2003). Air transport is capable to provide delivery at an extraordinarily short lead-time over great distances. Speed is its advantage compared with other transport modes. Air freight covers a wide range of products from all industries especially with high value. Demands on emergency deliveries are another source of air transport profits. The cost of air transport is the highest among all transport modes; it is hard to achieve economy of scale due to the limited carrying capacity of each flight. The accessibility to the infrastructure is low because most of the commercial airports are located outside the urban area; commercial airlines in most cases only fly with fixed routes among selected destinations, flexibility is therefore low. Most importantly, air transport is unable to provide door-to-door service; a consignment is unable to reach its final destination unless other types of transport modes are involved.

4.3.2.2.2 Rail transport

The cost structure of the usage of rail transport makes it the most economical mode on land. High transport capacity and low operational costs lead rail transport directly to economy of scale. The disadvantage for rail transport is the transit time. The speed of

rail is also fairly competitive, however, due to the relatively low accessibility to the transport infrastructure, a consignment in most of cases are unable to reach its destination directly without transit. The recent development on global transport market has reflected that the situation in each transport mode is heavily congested; waiting time during transit could be hard to control without proper planning and coordination from the authority. Also rail transport has the same drawback as air transport with its inability to provide door-to-door services and road transport is eventually needed to complete each service.

4.3.2.2.3 Water/sea transport

Water/sea transport covers seaborne shipping and transportation in inland waterways. Water/sea transport has the biggest carrying capacity among all transport modes which makes it easy to achieve economies of scale. In the European Union, goods transported through sea/water accounts for 70% of its trade worldwide (Commission of the European Communities 2001). The European Parliament is still taking environmental measures to promote seaborne/waterborne trade instead of air and road transport. The main disadvantage of sea/water transportation is its characteristics that require massive construction on infrastructure such as ports, terminals and ships.

Despite its low costs, the lead-time of water/sea transport tends to be long. Commercial ships usually will answer several port calls during one voyage in order to make their navigation profitable. Same as rail and air transport, the accessibility to sea/water transport facilities is relatively poor; also the nature of sea/water transport already defined by its limitation on functionalities, which it is not capable to provide door-to-door services.

4.3.2.2.4 Intermodal Transport

Intermodal freight transport refers to movement of goods in one and the same load unit through more than one transport mode during the carriage (European Conference of Ministers of Transport 1993). It has been heavily promoted in the past decades and is considered the future trend in the transport sector with special promotion in the European Union (Lowe 2002).

Intermodal transport appears in different combinations due to the geographical differences of the region served among other factors (i.e. road – rail, road – air – road, road – sea – rail- road, etc). The great strength of intermodal transport is that it combines more than one transport mode through the carriage. Considering the advantages and disadvantages we listed above, it's not hard to see that each transport mode has its drawbacks. The nature of intermodal transport is to use the strength of one or more transport modes to complement the drawbacks of the other through the transport chain. Intermodal transport has a significant influence in promoting containerization which maximizes the utilization of each vehicle involved, reduces the handling damage rates and facilitates the coordination between all transport modes.

One of the main benefits of adopting containerised intermodal transport strategy is a significant reduction on transport externalities (Macharis et al. 2007). Transportation itself is one of the value added activities within the whole supply chain. The economic performance of transport therefore is fairly important for both the company itself as well as the society as a whole.

4.3.2.3 Price- performance trade-off

Rail and water/sea transport modes have been promoted massively by governments around the globe due to the demand on sustainable development, plus compared with road transport they enjoy cost advantage. For price sensitive companies these two transport modes might be ideal solutions in the long-term plan. However, the drawback that they have has limited the attractiveness of such solutions because of inability to provide door-to-door services. Same conclusion can be applied on air transport because using unimodal air transport to carry goods seems unpractical and unrealistic.

The situation of intermodal transport, on the other hand tends to be very optimistic. It has absorbed all the advantages of other transport modes, reduced the lead-time to a great extent and minimized the environment externalities. For both manufacturing companies and transport companies, adopting intermodal transport is more rational compared to other unimodal transport modes in the long-term.

4.3.2.3.1 Switching Cost of the Buyer

The cost of switching transport mode is not the same as changing in the same mode e.g. changing the road haulage company. Different transport modes require different infrastructure, documentation and ordering process. For manufacturing companies which has adopted ERP system, changing of their customary transport mode will result in a rise of cost in re-designing their system in order to incorporate the change on lead times and costs. But generally the Transport industry has low switching costs and if there are any costs, they are not direct costs. The indirect cost of transport according to experts of the industry are the loss of benefits from losing the expertise one transport company gathers after being active in a market and the reestablishment effort necessary to build new networks and contacts.

4.3.2.4 Customer powers

To analyze the customer power one has to study the buyers' price sensitivity. This issue and related factors have been discussed by experts and the result is as follows.

4.3.2.4.1 Buyers' price sensitivity

Buyers of a certain product tend to be price sensitive if the cost of the product accounts for a significant proportion of the buyers' total budget. Even if the cost of road haul is expensive due to the length of the distance the transport buyers for the high value products are willing to pay premium prices for the transportation instead of

searching for the cheapest service provider or bargain with one. The reason is that this transport buyer is not price sensitive because the cost of transport only accounts for a relatively small percentage of the total procurement cost. The buyer would rather hire a higher quality of service from road hauler with higher charge instead of worrying about the probable cargo damage during transportation by a road hauler who's trying to minimize the transport costs by all means. Of course the charge has to be set at a reasonable range according to their service level and quality. On the other hand, the buyer of products such as full truckloads of potatoes will tend to be more price sensitive and willing to bargain or find the cheapest road hauler. The market value for these products is already low and transportation of such products are a value added activity which can take up a significant proportion of its total cost, and expensive transport service will affect the products' market price, therefore the buyers will have to bargain in order to minimize the extra cost of their product. Thus buyer's price sensitivity is a variable of the value of the products, and since CombiTrans is active in high value product market generally, the transport buyers attribute less importance to price than factors such as quality of service and safety.

4.3.2.5 Supplier power

Supplier in this instance is the transport service providers for the forwarding companies. In this context of transport industry suppliers of the physical transport (carriers) are not usually concentrated and they don't have big customer base as the customers are more versatile than usual industries. Suppliers also pose low switching cost. Of course the importance of partnerships and cooperative relationship with suppliers is very high, and any damage in that regard would be a substantial source of loss for the companies, as these relationships come with rather high cost. This is however irrelevant, as the switching would be done logically only when the costs of partnership is higher than benefits.

All this leads to the conclusion that there is no negotiation power among suppliers in the direct relationship with their customers.

4.3.3 Market trends

Important changes in the marketplace happen continuously in transport industry. But trends that drive customers toward our services comprise of the movements that concern values rather than fashion and are widespread enough to affect the industry thoroughly.

In this regard, green movements and environmental concerns have been criticized by some as a political fad in order to gain popularity and/or funds for research projects, and that the main importance of greenhouse effect is exaggerated. Despite this view, however, we came to believe that the environmental issue is a real market trend that according to the experts of the industry will be a necessity in a few years, though now is only considered a luxury in transport sector.

Another trend emerging in the last years is the intermodal transport. The support and promotion of the international organizations and especially EU from this trend is a sign of importance and role it will play in the future of the industry, and the ability to offer such a service, will be a success factor and SCA in the near future.

According to Caris et al (2008) geographical expansion of distribution networks and the increasing development of hub-and-spoke networks are market trends that along with intermodal freight transport systems necessitate strategic attention from the managers. Of these the importance of Intermodal transport is more apparent according to experts.

4.3.4 Success factors

The key success factors are the driving force and main reason of the differences between successful companies and unsuccessful ones. With this in mind and following the expert consulting, the candidates for the success factor in the transport industry we have identified include Lead Time, Cost and Service Quality. The relative significance of each factor is not known as it requires a much more exhaustive study to prioritize in a situation similar to one at hand. According to Aaker (2008) the most important key success factor would be the most obvious and simple one. Thus since the first item transport buyers usually said was Service Quality, we place it as the main driving force behind the success of any company in the transport industry. This as mentioned in the customer and competitor analysis is the most important factor as it is the competency nearly all the competitors have and all the customers demand as a basic commodity.

With lower importance and priority come the Lead Time and Cost factors among many other factors as the factors of the success in the transportation business. All the above factors thus have to be constantly measured internally and continuously in order to secure a growing and sustainable development in the industry. Of course industry the interaction in real life is more complex as the industry itself poses some of these factors to the companies, and the company will be more successful that can understand this complexity and can prioritize their efforts accordingly.

4.4 Environment Analysis

Following is an account of the surrounding environment of the transport industry. We have arranged the data here in accordance with the framework set in the theoretical section.

4.4.1 A Socio-political view of the region

Ian Bremmer (2006) with his “J Curve” theory provides a clear way of analysis and understanding of the social and political behaviour of the nations. He suggests that the stability of the nations are either product of closed, authoritarian and/or dictatorship governments (which he places in the left of the curve) or product of open, democratic

governments with transparent public institutions (and places them to the right of the curve). But the stability is of different nature between these two kinds of nations and governments.

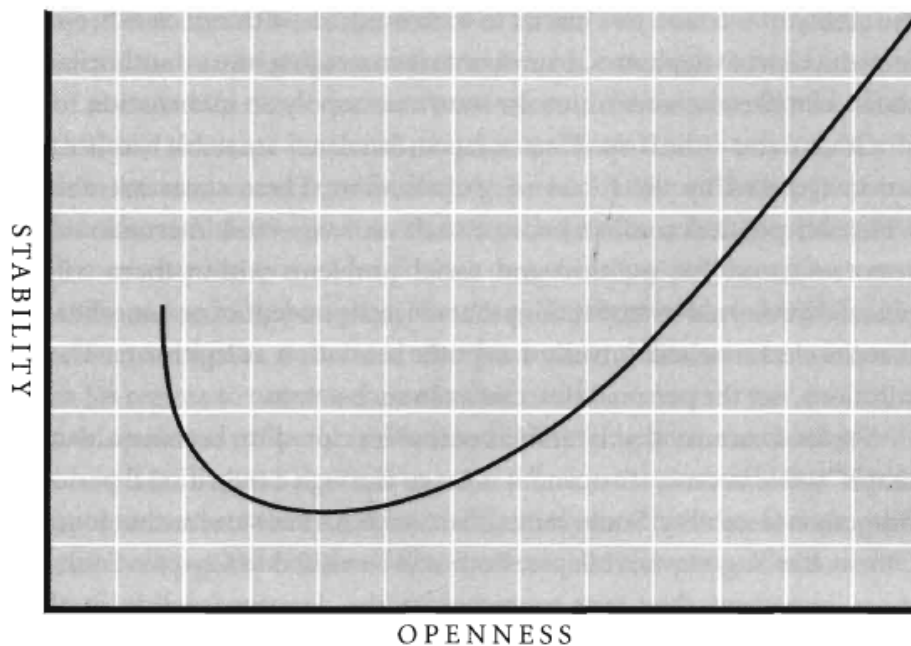


Figure 7: Stability and openness in J curve (Bremmer 2006)

If the leader in a left-hand nation dies or the regime changes, the country will rapidly go down in the “J Curve” following the line of instability and chaos. The process of recovery from such instability will take longer than that of loss of stability; climbing is a much trying effort than sliding down slopes as in real life.

Bremmer (2006) asserts that all the states in Central Asia are placed on the left side of the J curve due to corruption, inefficiency and being new to the concept of government as they are all experiencing young governments that try to achieve democracy. The three countries we focus in this study has slightly better situation than their neighbours such as Turkmenistan or Uzbekistan. They are not as high up the left side as countries such as North Korea or Cuba. Other examples of other countries on the left are India, China, and majority of Middle East countries. Despite this however, they face many challenges before enjoying a complete openness in their society, which in turn reflects the trying nature of the business scene in the coming years.

For Kazakhstan Bremmer (2006) states: “Kazakhstan’s capacity to withstand a major political earthquake is questionable but, over the course of its fifteen-year history as a sovereign state, it hasn’t created its own political crises. How Kazakhstan might withstand a near-term political shock, should one occur, is far more open to question ...”

According to Bremmer a nation’s J curve changes with its respective stability, and is related to resources and management of those resources. One typical example is the

oil rich countries, in which oil revenue is the source of military or police power which in turn enforces the system to remain loyal to the government. Although even in right hand nations revenues fall, the stability is not ruptured as in these states people and institutions will move in to help the State. (Kidd 2007) This is an acute threat to the Kazakhstan and Azerbaijan nations as they are basing their economy heavily on the oil revenues and since their governments are far from democratic, the risk of closeness is an important threat.

The implications of J curve are substantial in the assessment of situation in the focus countries. It encompasses political, economic and social circumstances in the country which affects the strategic view of any company operating in these states.

4.4.2 Political History

The Central Asian Regional Economic Community (CAREC) which started at 1997 redefined “Central Asia” as countries only to the east of the Caspian Sea and excluded the Caucasian states. They furthermore, incorporated Chinese province of Xinjiang, Mongolia, and parts of Iran and Afghanistan to this new definition. Historically, however, Central Asia comprises only of Turkic speaking regions. Nowadays the geographical meaning of Central Asia comprises five independent republics including Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan (Mandelbaum 1994). There is however, a more extensive definition of the term Central Asia which associates Azerbaijan, Armenia and Georgia together with the abovementioned five former Soviet Socialist Republics (SSRs) to be the Central Asia. The region is more than 6,000 kilometers (from Eastern Mongolia to Armenia) which is bigger than Europe (Kidd 2007).

Due to its distinctive geographic situation this region had a unique history; it has been the place of power struggle and competition between different empires as well as the frontline of conflicts. Geo-physics, migration, politics and decisions made in the last two centuries have changed the borders over and over.

Central Asian region has historically been, and still is to much extent, a difficult environment for habitation, as it does not benefit from sea and suffers from a high temperature range; it is also rather dry. Despite this, farming spread and the region became outpost for powerful Europe and the Middle East nations (Kidd 2007).

Despite abovementioned circumstances Central Asia has been a “land bridge” since the ancient times and has connected Asia and Europe for centuries, making trade and exchange of ideas possible, and therefore has brought the civilizations from both continents closer (Byrd et al. 2006). In the ancient times it was the link between the trade going from China to Europe and back, silk going West, and gold, amber and horses going to the east. The Silk Road, as is called historically, was a network of roads and not a single way as is believed and disputed among nations lying in its historic path (Kidd 2007).

After the October Revolution, the Central Asian region turned into part of USSR, and divided into Soviet republics at 1930s, which are the recognized dependent Central Asian countries after the dissolution of Soviet Union (Pomfret 2007).

None of the five Central Asian countries had performed any economic activities as an independent nation as they have been seen as a single economic unit during both the Tsarist and Soviet eras. Russia in the early 18 century expanded to the Baltic Sea, Caucasians, the Central Europe, east of the Caspian Sea, Mongolia and part of Xingjian. These parts were mostly liberated post World War II, joined to Russia again, and after the collapse of Soviet Union in 1991 were free again. The main struggle has stemmed from the clash of powers, namely Russian land power from north in its strife to reach warm water ports and from south by sea powers such as British Empire, US, Japan and Germany (Kidd 2007).

During the Soviet time, the Central Asian region had performed as the supplier of raw material to the rest of the Soviet Republics, and had closed down the external trade due to the Soviet economic policies (Pomfret 2007). The significant example is Kazakhstan, accounting to only 5.8 percent of the population in Soviet Union while it produced 18.7 percent of its coal, 10.1 percent of its iron ore, as well as various minerals at a significant share (Myant & Drahekoupil 2008). Kazakhstan had become an oil producer at the end of the soviet time with share of 4.5 percent of all USSR's output (Goskomstat SSSR 1991). Similar statistics can also be found for other three Central Asian countries.

After the dissolution of USSR in 1991, those five Central Asian soviet republics finally reached the day of independence. The customary central planning economic system collapsed, at the beginning of their independence, the unprepared change had brought a "transformation depression" to those Central Asian countries and the citizens who live in those countries suffered a dramatic decline in their living standards (De Melo & Gelb 1996).

Since then the newly independent nations are not yet in the track of prosperity. One reason may be that they have had no collective memory of "government". South Ossetia dispute between Georgia and Russia and Chechnya situation are examples of such heritage. Furthermore Nakhchivan province of Azerbaijan seeks independence and Nagorno-Karabakh dispute between Azerbaijan and Armenia has disrupted relations in the region for two decades. On the east side of region, China's Western province Xinjiang, hopes for independence.

The European Union which by probable entry of Turkey will reach the border with Caucasus has shown interest in aid provision to Central Asia. Apart from humanitarian and democratization issues this is partly in hope of easier access to regional oil and gas supplies. (Kidd 2007)

4.4.3 Economy

However, the current economic situation of Central Asian countries is promising. All the Countries of Central Asia have had positive but rather unstable development during last years. Average growth rate in Central Asia was 12.4% (ADB, 2007).

MEASURE	US Dollars at current prices in millions			
YEAR	2005	2006	2007	
Armenia	Flow	239.385	453.172	660.672
	Stock	1361	1774.37	2447.63
Azerbaijan	Flow	1679	-601	-4817
	Stock	11930.5	11346.5	6597.6
Georgia	Flow	452.7523	1059.761	1659.018
	Stock	2513.853	3600.029	5259.046
Kazakhstan	Flow	1971.218	6223.562	10259.42
	Stock	25607.42	32689.15	43381.31
Kyrgyzstan	Flow	42.56533	182.023	207.9195
	Stock	562.8036	630.3508	818.5475
Tajikistan	Flow	54.4793	338.6274	400.5845
	Stock	305.8002	645.2788	1045.863
Turkmenistan	Flow	418.2	730.9	804
	Stock	2393.12	3124.02	3928.02
Uzbekistan	Flow	87.7	194.5	262
	Stock	1191.9	1386.4	1648.4
Russian Federation	Flow	12885.81	32387.03	52475.41
	Stock	180313	271590	324065.4

Foreign Direct Investment database

UNCTAD

accessed 2009.04.08

Table 4: Major FDI Indicators (UNCTAD 2008)

A positive legacy of the Soviet era is the high literacy rates, though the meaning of literacy is open to interpretation. Unemployment is very high, and percentage of people living below poverty line is quite high as well. This seems contradictory at the first glance, but one can justify it by the reasoning that though oil and gas income is high, human resource in this sector is not as intensive as capital and equipment. (Kidd 2007)

	Azerbaijan	Georgia	Kazakhstan	Russia
GDP	\$73.65 billion	\$21.6	\$176.9	\$2.225 trillion
GDP/ Capita	\$9,000	\$4,700	\$11,500	\$15,800
population	8,238,672	4,615,807	15,399,437	140,041,247
unemployment	0.8%	13.6%	6.9%	6.2%
population below poverty line	24%	31%	13.8%	15.8%
gini index	36.5	40.8	30.4	41.5
literacy	male: 99.5%	male: 100%	male: 99.8%	male: 99.7%
	female: 98.2%	female: 100%	female: 99.3%	female: 99.2%

Table 5: Wealth Distribution and Literacy Data (kidd 2007)

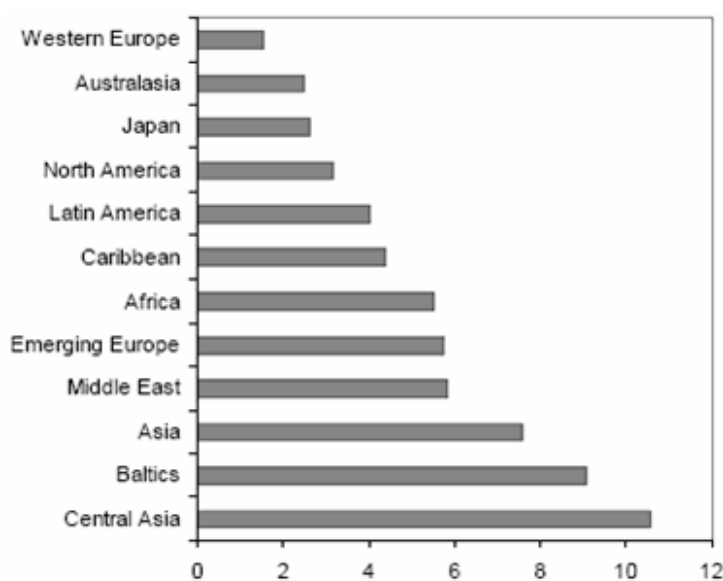


Figure 8: Regional Real GDP Growth (Emerging Markets Monitor 2007)

Kazakhstan is the fastest growing in the region and absorbed outside investment for gas and oil as soon as the Soviet regime collapsed (Kidd 2007).

	Oil (Billion Barrels)		Gas (Trillion Cubic Feet)	
	2008	2009	2008	2009
Eurasia	98.886	98.886	2014.8	1993.8
Azerbaijan	7	7	30	30
Georgia	0.035	0.035	0.3	0.3
Kazakhstan	30	30	100	85
Kyrgyzstan	0.04	0.04	0.2	0.2
Russia	60	60	1680	1680
Tajikistan	0.012	0.012	0.2	0.2
Turkmenistan	0.6	0.6	100	94
Uzbekistan	0.594	0.594	65	65

Table 6: Crude Oil and Natural Gas Proved Reserves
(Collected from Energy Information Administration, <http://www.eia.doe.gov>)

Azerbaijan is now the world’s fastest growing economy and has kept its leading position since 2005. The national economy of Azerbaijan expanded remarkably with average growth rate of 29.8 during 2005 to 2007 (PRS 2008). According to Emerging Market Monitor (12/2007, Vol. 13 Issue 30, p19) the driving forces for growth mainly relies on the revenue of oil and natural gas output, the price driven boom in their natural resource has contributed to a rise in their living standards, and at the same time has stimulated a rapid growth in non-oil sectors of their economy.

The economy of Georgia on the other hand, compared with Azerbaijan, is growing at a relatively slow however smooth speed. The annual growth rate has accounted 8.0 percent from 2004 to 2007 before the military conflict with Russia.

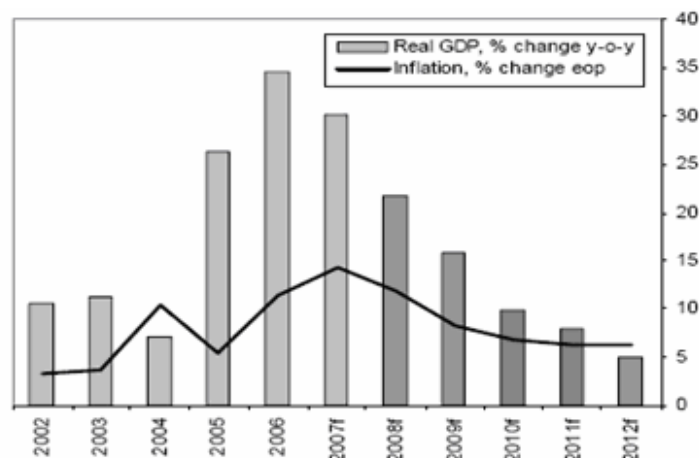


Figure 9: Azerbaijan, GDP growth/Inflation (Emerging Markets Monitor 2007).

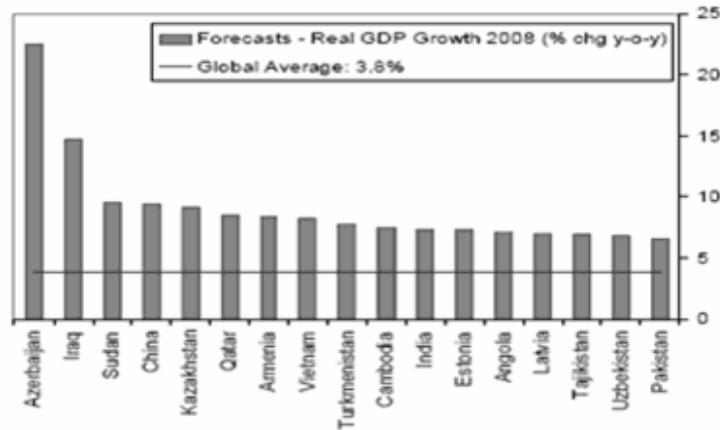


Figure 10: Real GDP growth 2008 (Emerging Markets Monitor 2007).

An important hindrance in the way of growth in the region may be the lack of cooperation, as the regional infrastructure established during Soviet era is generally abandoned. (Kidd 2007).

Despite all the above the economic situation in this three countries, especially Kazakhstan and Azerbaijan have bright vistas, and if accompanied by the wisdom from their people and governments, would flourish beyond the reach of many other developing countries.

4.4.4 Transportation industry

According to Kidd (2007), Central Asia needs to work on the reviving of its transport infrastructure as a step towards the wellbeing of their nations. The facilitation of remaining infrastructure from soviet era and adapting them to the needs and updating them to match the technology of the modern World is a complex and demanding project. EU has invested considerably to bring Central Asian railway network in line with the pan-European network and to connect with Asia. The geographic environment of region as well as political situation is the main obstacle in the process of linkage (fearing the use of network for military use by neighbouring countries has always been present). Another problem is the track gauges which despite Europe or China (standard gauge: 1,435 mm) is broad (1,520 mm) and though facilitates bigger loads and higher stability, but requires more land use around curves, bridges and elevations. 60 per cent of world's railways are of standard type gauge. And for this reason EU has suggested to the Central Asian states to build new tracks in standard to overcome the need to swap axles in the land traffic between Pacific and Atlantic oceans.

4.4.4.1 Kazakhstan

Kazakhstan has over 84,000 km of paved roads and over 15,000 km of 1.52-metre-gauge railway lines, only 4,100 km of which are electrified (EIU 2008).



Figure 11: Map of Transportation Network, Kazakhstan (United Nations, 2009)

Each individual city is covered by a local or regional railway terminal and the accessibility is relatively low compared with road transport, though transport flow is rather effective.

Kazakhstan now invests vastly in its transport infrastructure with the aim of becoming the bridge between east and west. The Horgos free trade zone and a \$30 billion strategy by end of 2015 are examples of this ambition. Of course the success in this regard depends on the cooperation with the neighboring countries, China being the most prominent among them in achieving the goal.

According to Foreign Affairs (2007, Vol. 86 Issue 1, p114) the new 190-mile railway line from Saryozek to Horgos will expand the capacity to over three times of current capacity. Furthermore as Civil Engineering Magazine (Jan 2009, p30) a road named Central Asian Regional Economic Cooperation Transport Corridor I has been planned to connect 2715 km of distance between Horgos and Russian border at west by 2015.

However most of the plans related to infrastructure is put on hold in 2008 because of recession in global trade (EIU 2008).

There are five major ports in Kazakhstan. Ports of Aqtau and Atyrau are responsible for the shipping activities within Caspian Sea, ports of Öskemen, Semey and Pavlodar

handles the traffics in the Irtys River (Library of Congress 2006). Over 4000 kilometers of navigable inland waterways cover through Kazakhstan's territory.

4.4.4.2 Azerbaijan

Azerbaijan is located on Caucasus region, beside the Caspian Sea. Its geographic location has made the Azerbaijan naturally one of the most important strategic transit links in Eurasia. It provides the West trade route between Europe and Asia, as well as the South – North trade route between Northern Europe, Russia and countries in the Middle East as well as a number of South Asian countries (Asian Development Bank, 2009). Azerbaijan is also one of the key members of both CAREC Corridor and TRACECA Corridor programs since it is the closest country to the open sea and also offers four attractive routes (Asian Development Bank, 2009).

Despite the fact that Azerbaijan enjoys a significant geographical advantage, the infrastructure within the country still remains underdeveloped and can hardly cope with the rapid economic development.

Road

Azerbaijan has 29,000 kilometers of highways across its territory, however most part of the road surface are disintegrated which implies lack of maintenance. Road signs such as destination direction signs, passing lanes and turn off lanes are practically non-existent which also implies lack of regulation and inefficient control from the authorities(Asian Development Bank, 2009).

Rail

The total rail network in Azerbaijan is around 2,100 kilometers. It has once operated effectively as part of the Soviet railway network. However, compared with the underdeveloped road infrastructure the rail infrastructure is even worse, such as the situation in the main east-west line, which over 24 percent of the track haven't reached the minimum operational requirements, and the average speed of trains are therefore restricted to 30 kilometers per hour (Asian Development Bank, 2009). Furthermore, over half of the rail locomotives in Azerbaijan are obsolete though still in use and there's a high possibility for technical failure to happen and therefore those locomotives have to operate nearby the reparation centers (Asian Development Bank, 2009).

Air

The air transport sector in Azerbaijan is comparatively developed. The national carrier Azerbaijan Airline is the dominating player who operates 39 planes on fixed routes between the Azerbaijan's capital city Baku and several major European and Middle Eastern cities (Asian Development Bank, 2009).

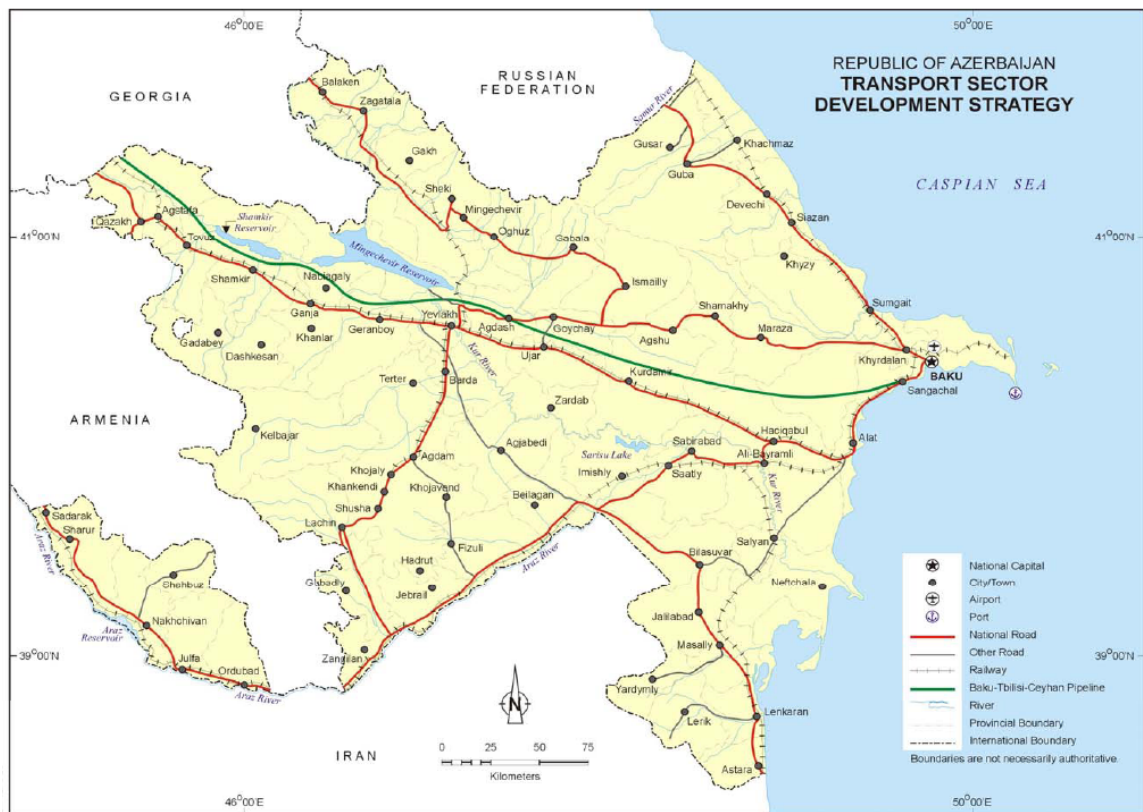


Figure 12: Map of Transportation Network, Azerbaijan (ADB, 2005)

Water/Sea

Caspian Shipping Company (CASPAR) which is owned by the Azerbaijani government is the market leader within the Caspian Sea region. It operates 86 vessels, of which 41 of them are oil tankers, the total deadweight of all vessels have reached 443.782 tons (Asian Development Bank, 2009). Except the Caspian Sea, the Caspian Shipping Company also navigates at the Black sea, Mediterranean Sea, and the Sea of Marmara with prevalence of petroleum and petroleum products (The Caspian Shipping Company , 2009). The only sea port in Azerbaijan –Baku International Sea Trade Port plays a vital role in Europe – Asia transit trade (Baku International Sea Trade Port, 2009).

Road freight market

The demand on freight transport is growing in a rapid pace with 35% on rail, 30% on sea, 7% on pipeline, and most importantly 28% on road (Asian Development Bank , 2005). Road transport is the dominating mode as it handles more than 50% of total cargo flow in Azerbaijan (Strategy for Azerbaijan , 2007). On the other hand, however, the road transport market is rather fragmented, only a few road haulers own 50 or more trucks. Most of the Azeri road carriers lack capital funds to purchase or lease new vehicles, they can only operate old model trucks, unable to meet the European emission standards (Asian Development Bank, 2009).

Intermodal cooperation

From the information listed above, we can see that the development on transport infrastructure in Azerbaijan is unbalanced between modes. Lack of practical experiences, lack of well-educated logistics personnel and shortage on advanced handling facilities has made the development of intermodal cooperation in Azerbaijan to be still at an early stage, especially for the current road-rail intermodal transport, the handling capacity is still far behind the standards of developed world.

4.4.4.3 Georgia

Georgia is a small country which is situated at the dividing line of Asia and Europe, at east of the black sea and south of the Caucasus Mountains (Asian Development Bank , 2007). It borders with Azerbaijan in the east, Armenia and Turkey in the South, and Russian Federation in the North (About Georgia 2009). The significance of its geographical location has made Georgia the pathway between the Black Sea, the Caucasus and the Caspian basin. It is also performing as a transport corridor and link between regions with the implicated importance far beyond its actual size (Foreign Relations , 2007).

Rail

The Georgian railway system is well constructed and the fully electrified railway network covers 1,583 kilometers of track across the country (The World Bank, 2009). The current Georgian railway operates independently, but it also has close cooperation with Armenian and Azerbaijani railway in order to facilitate the international transit traffic (The World Bank, 2009). The main route links Baku in Azerbaijan, the capital city Tbilisi, Samtredia, Batumi and Poti ports into Russia via Sukhumi (The World Bank, 2009).

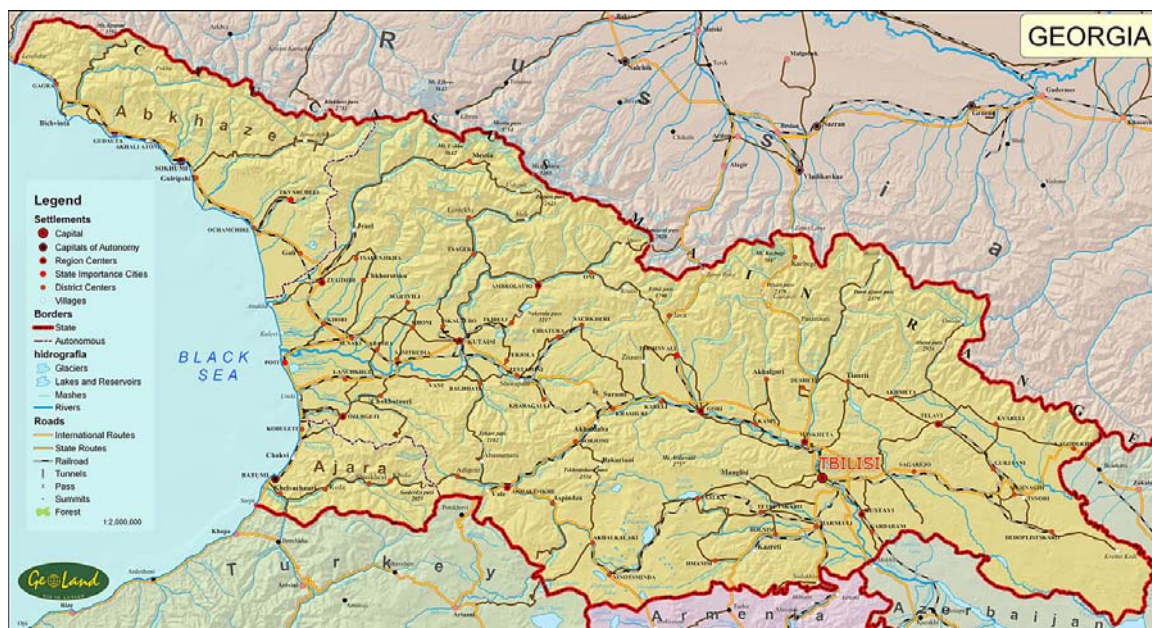


Figure 13: Map of Transportation Network, Georgia (Scouts 2009)

Road

Georgia has a sophisticated road network which has penetrated all parts of the country's territory. However the road infrastructure is unequally developed. There are 1,474 kilometers of primary roads over 70% of which has been well maintained and in a good condition. Another 3,392 kilometers of roads has been identified as secondary road with about 60% in a relatively poor condition because of lacking of maintenance. There are also 15,429 kilometers of local roads which most of them are in bad condition (The World Bank, 2009).

Water/Sea

There are two major ports in Georgia currently in use named Port of Batumi and Poti Sea Port. Currently Port of Batumi is operating by a private company named Batumi Sea Port Limited which owns all five terminals of the port, four of them freight terminals: one oil terminal, one container terminal, one railway ferry terminal and one dry cargo terminal. Each terminal is only responsible for handling one type of goods and beside those four there is also one passenger terminal (Batumi Sea Port, 2009 A). Poti Sea Port is state owed but all docks operations are currently managed by private operators under long-term leases (The World Bank, 2009). The port itself consists of one liquid cargo terminal, one ferry terminal, one container terminal, one RO-RO terminal, four bulk cargo berths, three general cargo berths and other two berths (Poti Sea Port 2009, A). Poti Sea Port also becomes a participating member of TRACECA project at May 16 2009 (Poti Sea Port 2009, B).

Air

The government of Georgia is currently working on liberalizing the air transport sector. There are certain numbers of international air transport carriers that have already started their operations in Georgia in the past few years (The World Bank, 2009). New fixed routes directly connected with European, Middle Eastern, Russian and Ukrainian cities have been established (The World Bank, 2009). A renovation project on Tbilisi airport was launched in late 1990s and since then the passenger handling capacity of Tbilisi airport has significantly improved. Nevertheless, a project including the construction of a new airport in Tbilisi was launched in 2005 and two years later in 2007 an overhaul project on Batumi airport was launched (The World Bank, 2009).

4.4.4.4 Agreements

The EU/TRACECA agreement began in 1993 and aims at the management of the transport system. Though this program has helped in transfer of know-how of international practices, there is suspicions about initiatives among individual nations.

The Asian Development Bank (ADB) on the other hand has initiated the Central Asia Regional Economic Cooperation (CAREC) program in 1997 focusing on the increase of trade, integration with external markets and reduction of transport costs among China, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

About road transport Sims suggests:

[participating countries] should adopt a single scale of weight bands (or lengths) and rates for road use charges, as maximum allowable charges. Discounts could be allowed, but no supplements over the maxima should be allowed. A fully equitable basis for regional transport would be non-discriminatory. This means that road use charges would be the same for all users, national and international, applied by tolls or vignette or other system. This requires a radical change of policy by CAREC countries, both in respect to internal and to external traffic. Drivers frequently complain that whatever the official charges, they are required to make multiple illicit payments to authorities once they are outside of their home country. These can double the official tariffs (Sims, 2005).

Also:

[. . .] a survey of approximate costs in time and money payments incurred by producers of Kazakhstan and Kyrgyzstan while transporting their goods in Kazakhstan shows that drivers from Kyrgyzstan are experiencing remarkable differences in comparison to Kazakh drivers, in required time and money payments at the various checkpoints, especially at the customs checkpoints. The reported times spent at customs were typically two to four hours at the low end, and 36 to 72 hours at the high end at every checkpoint – one person reported spending five days, another eight days.

However, the total time spent by Kyrgyz drivers at customs checkpoints varies from 46.5 to 139.5 hours, while Kazakh drivers spent only from one to three and a half hours. Taking into account the total time spent at the checkpoints for different inspections, Kazakh drivers are required to add from two to 13 hours to the duration of their trips, while Kyrgyz drivers must add an alarming two to seven days (ESCAP, 2003).

If successful, the CAREC and EU/TRACEA programmes will reduce travel times significantly for regional transport as well as Eurasian. Right now, the land (rail) time from the Pacific to the Atlantic takes more than 15 days, by sea through the Suez Canal 35 days and round the Cape 45 days. An obvious choice with disregard for any other factor, will be the land either completely by rail or a mix of sea routes to Iran at Bandar Abbas, by rail to the Caspian Sea, and then by ship to the Russian ports in the North and after that by rail toward Europe. (Kidd 2007)

The Infrastructure as stated in the lines above, poses the most serious problem in the transport industry of the focus countries. We believe that the Road transport remains the optimum solution for the transportation from Europe or China to the focus countries as destination mainly because of the infrastructure problem, and the inconsistencies involved in the Rail solution. However, the situation for the transportation from Europe to China and vice versa is of different nature, and requires further and another study of its own accord.

4.4.5 Consumption trends

This title relates in general to the trends in the local consumption of goods, and is an effort to find out what markets are more prone to future expansion or recession. Since in this study the market is transportation market and it is a direct result of the market of the products transported by road transportation, we have decided to take a closer look at three of the main products shipped today to the region. These are generally products related to infrastructures and though high value products, are of big sizes, and this makes them not suitable for air transport which is the main alternative for high value products.

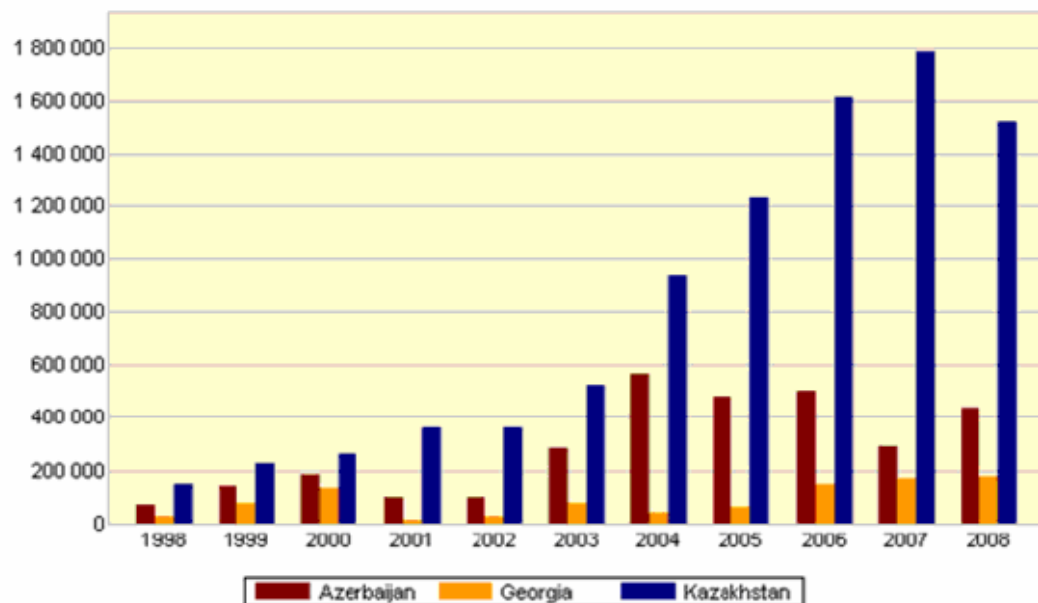


Figure 14: Exports from Sweden, SEK thousand (Statistics Sweden, 2009)

From the graphs above, we can see that the export of goods to Azerbaijan and Georgia have considerable fluctuations. On the other hand, the exports of goods from Sweden to Kazakhstan have a significant growth rate since 2003. In 2008, the amount of export has declined to the level below year 2006 because the unexpected financial crises hit the global economy badly. Our analysis has excluded the decline of export to Kazakhstan in 2008 because we emphasize in this study on a stabilized market

situation. This recession thus is considered insignificant as it was caused by other factors than a drop in real demand of Swedish goods in that region.

4.4.5.1 Kazakhstan

The statistics has shown that the product type had been exported the most from Sweden to Kazakhstan is high value engineering products accounting for more than 80 percent of total export value to Kazakhstan from 2005 till 2007(see Table 11). Telecommunications apparatus ranked number one in this product type which accounts for more than 50% of export in engineering products, followed by construction and mining machinery, and “machines for spec industries N.E. S” (see Table 11).

4.4.5.1.1 Telecommunication

Telecommunications is one of the fastest growing industries in Kazakhstan. The fixed-line telecommunication system in Kazakhstan is currently underdeveloped, the official statistics which published in November 2003 shows that there're only about 14 lines among 100 inhabitants in average (Kazakhstan: Market Profile, 2004). Low income, comparatively high price of ownership and dispersed population are the main reasons that have caused the current situation (Kazakhstan: Market Profile, 2004). However this leaves a gap which for telecommunication operators is a potential opportunity for future development in this market.

Kazakhtelecom as Kazakhstan's state owned telecommunications provider had once enjoyed monopoly position in the fixed-line market (Kilner 2004). Until 2004, the government has announced a statement that to sell 50% stake in the company as one of the innovative strategies which has to be taken in order to fulfill the requirement for entering the World Trade Organization (Kazakhstan: Forecast, 2004). The liberalization act for telecommunications market have stimulated the competition among all five licensed telecommunications operators which are Transtelecom, Kaztranscom, Arna and Astel together with the former monopoly power Kazaktelecom (Country file of Kazakhstan, 2009) . There is also a synchronized modernization program that initialed by the Kazakh government. The purpose of this program is to upgrade the obsolete telecommunication equipments and infrastructures that had been put in use since the soviet era (Kazakhstan – Industry Forecast, 2006). In the meantime the modernization program has opened the gate of opportunity for foreign telecommunications equipment manufacturers since the domestic manufacturers only hold 3% of the market share and the rest 97% are imported with value of 200 million USD annually (Kazakhstan – Industry Forecast, 2006).

There are eight main foreign technology focused companies active in the market of telecommunication equipment in Kazakhstan. Motorola, Lucent Technologies, Cisco Systems from the United States; Siemens from Germany; Alcatel from France; Nokia from Finland; Nortel from Canada; and most importantly for our study, Ericsson from Sweden(Kazakhstan: Market Profile, 2004).

Kazakhstan: telecoms and technology, key indicators						
	2006	2007	2008	2009	2010	2011
Telephone main lines ('000)	2,910	2,968	3,561	3,739	3,851	3,967
Telephone main lines (per 100 population)	19.0	19.2	23.0	23.9	24.5	24.9
Mobile subscribers ('000)	5,800	8,200	11,480	13,776	15,154	16,669
Mobile subscribers (per 100 population)	37.8	53.2	74.1	88.0	96.3	104.8

Sources: Pyramid Research; Economist Intelligence Unit.

Table 7: Kazakhstan Telecommunication (Kazakhstan: Industry Forecast, 2006)

The number of mobile subscriber in Kazakhstan has grown rapidly since the Global System for Mobile Communications (GSM) was introduced in 1999 (Kazakhstan: Forecast, 2005). According to the official statistics published by Economic Intelligence Unit, the actual number of mobile subscribers was 11,000 at the end of 1997; there were only 1 mobile subscriber among 1000 of the populations (Kazakhstan: Market Profile, 2004). 10 year later in 2007, that number of mobile subscriber has grown into 8,200,000, and there are 53.2 subscribers among 100 populations (Kazakhstan – Industry Forecast, 2006). This tremendous growth rate has implied a raising demand on mobile phones and telecommunications equipments.

Kazakhstan has a relatively small though fast growing population of internet users among the urban area (Kazakhstan – Industry Forecast, 2006). The government is planning to introduce e-commerce facilities in order to cope with the trend of globalization, however the disposable income level for most people in Kazakhstan are still comparatively low and obtaining personal computer is currently considered a luxury consumption. Therefore in short-term it will restrict the development of internet (Kazakhstan – Industry Forecast, 2007).

4.4.5.1.2 Automotive

The automotive market in Kazakhstan has been developed in a steady speed since the break-up of Soviet Union. Fortunes has been accumulated through the boom in oil trade with the outside world and right now the market itself can be ranked the third largest among all CSI countries right next to Russia and Ukraine (Industry Forecast: Rapid Growth, 2006). The productivity of the domestic automotive manufacturer is surprisingly low considering Kazakhstan has only one automotive plant located in Oskemen (Ust-Kamenogorsk) with capacity of only 40,000 cars (Kazakhstan, Automotive Forecast World, 2005). The plant itself doesn't produce any car parts or components (all of which are imported from foreign manufacturers) and its only function is merely assembling them into final product (Kazakhstan, Automotive Forecast World, 2005).

	1998 ^a	1999 ^a	2000 ^a	2001 ^a	2002 ^a	2003 ^b
New passenger car registrations ('000)	–	–	175	193	212	224
Stock of passenger cars (per 1,000 population)	62	66	67	117	150	190

^a Actual. ^b Economist Intelligence Unit estimates.

Source: Economist Intelligence Unit.

Table 8: Kazakhstan: Passenger Cars (Kazakhstan: Market Profile, 2005)

The Kazakhstani car market is unquestionably dominated by imports which can be categorized into three different sectors: imports of brand new car, newly imported used cars and also second-hand cars (Kazakhstan, Automotive Forecast World, 2005). From the demand side's view point, low-cost Russian car models own the largest market share and will remain in the dominate position according to their cost-performance ratio; from the supply side, German and American car manufacturers also own competitive market shares along with the Russian manufacturers through their established distribution channels (Kazakhstan, Automotive Forecast World, 2005). On the other hand, Japanese car makers have made rapid progress in gaining market share in the past few years through the high tariff rates set for their European rivals (Industry Forecast: Racing Ahead, 2007).

Traditionally, cars were usually purchased in Russia and driven into Kazakhstan by the buyers themselves. But now due to heavy transit duty that has to be paid for each single unit the way of import of cars has become considerably complicated and uneconomical for individual buyers (Kazakhstan: Market Profile, 2005). Such complicated procurement procedure has strengthened the cost advantages of official automotive importers who enjoy economies of scales. Purchasing from official importers will soon replace the old way of buying automobiles completely (Kazakhstan: Market Profile, 2005).

The growth on Kazakhstani automotive market is further accelerated by the reformation of their banking system. In 2002, banks in Kazakhstan have started personal loan services towards individual consumers, which made loans available for buying durable goods such as automobiles for individuals with stable income (Kazakhstan: Market Profile, 2005). The current loan services are mainly focusing on serving urban inhabitants; however the falling interest rates on car loan will further extend their service towards consumers in the rural area which will affect the total demand on passenger cars positively in the near future (Industry Forecast: Rapid Growth, 2006).

Kazakhstan: automotive, key indicators						
	2005	2006	2007	2008	2009	2010
Stock of passenger cars ('000)	1,808	2,712	3,796	5,694	8,257	10,321
Stock of passenger cars (per 1,000 pop)	120	178	248	369	533	659

Source: Economist Intelligence Unit.

Table 9: Kazakhstan: Automotive (Industry Forecast: Rapid Growth, 2006)

The infrastructure for road transport sector in Kazakhstan is poorly constructed which could restrain the development on passenger car market (Kazakhstan: Market Profile, 2005). The Kazakhstan government has launched several projects such as Road Transport Restructuring Project (The World Bank 2009, B) and Western Europe – Western China International Transit Corridor Project (The World Bank 2009, C) with the help from The World Bank and other financial institutions. The purpose is to improve the current situation on road transport infrastructure and develop a sophisticated road transport network in order to cope with the future demand on road transport. Those projects will lead to a massive construction boom and therefore create a huge demand on medium and heavy commercial vehicles in order to carry the necessary construction material and equipments (Industry Forecast: Rapid Growth, 2006).

4.4.5.1.3 Health care & Pharmaceutical

The healthcare sector in Kazakhstan remains backward especially for rural areas since the dissolution of the Soviet Union (Kazakhstan: Forecast 2005, B). the system is badly maintained because of the lack of investment and inefficient system reform. Almost one-third of the population has no access to essential drugs (Kazakhstan: Forecast 2005, B). Most of the medical machineries were inherited from the Soviet era and over 80% are currently obsolete (Industry Forecast: Slow Recovery, 2007). The government has realized that building up an advanced health care system is essential for people's living standard; foreign investors also has marked the market as a potential for reforming such a system in Kazakhstan and therefore heavily invested in the health care sector. Import is the main channel of obtaining medical equipments which occupies 98% of the market share (Kazakhstan: Forecast 2005, B). Healthcare equipment related services are needed because of lack of properly educated healthcare personnel, those imported medical equipment often requires to be maintained and repaired by the manufacturers where implies a great opportunity for the related service industry (Kazakhstan: Forecast 2005, B). The demands on technical sophisticated medical equipment are high, especially for therapy equipment and electro-medical equipment; dental equipment; diagnosis imaging equipment; and last but not least laboratory testing equipment (Kazakhstan: Forecast 2005, B). The market opens widely towards foreign manufacturers which are able to produce advanced medical equipments.

The pharmaceutical market in Kazakhstan is worth nearly 350 million USD annually which mainly relies on import from foreign manufacturers. Only in 2004 import accounted for 95% of the total market value (Kazakhstan: Market Profile, 2005). There are 10 major foreign suppliers: United States, Russia, Germany, France, India, Hungary, Lithuania, Slovenia, Ukraine and Belgium. There are also a number of small

suppliers with very little market share active in Kazakhstan (Kazakhstan: Market Profile, 2005).

Kazakhstan: healthcare and pharmaceuticals, key indicators						
	2006	2007	2008	2009	2010	2011
Life expectancy (years; av)	66.6	66.7	66.8	67.0	67.1	67.3
Infant mortality rate (per 1,000 live births)	13.9	14.5	14.3	14.4	14.3	14.1
Healthcare spending (US\$ bn)	2.2	2.8	3.8	5.0	6.6	8.4
Healthcare spending (US\$ per head)	140	179	241	318	415	529
Healthcare spending (% of GDP)	2.8	2.9	3.1	3.3	3.5	3.7

Source: Economist Intelligence Unit.

Table 10: Kazakhstan: Healthcare (Industry Forecast: Slow Recovery 2007)

Nazmi Sari’s research has considered health care as a normal good which means: “*as income increases, spending for health care increases*” (Sari 2004), this model can apply on countries with all types of income level (Schieber & Maeda 1998). The market on medical care and pharmaceutical products will keep growing according to the demand as well as the increasing in income level of Kazakhstani people.

KAZAKHSTAN

	2004	2005	2006	2007	2008	Change 2008/20
SWEDISH EXPORTS (SEK 1000)	943 169	1 229 790	1 609 619	1 787 782	1 517 784	
SHARE OF TOTAL SWEDISH EXPORTS (%)	0,11	0,13	0,15	0,2	0,13	
FOOD	4 077	279	0	3 940	928	
RAW MATERIALS; FUELS	35 481	43 178	2 663	2 345	3 634	
WOOD	389	183	0	0	0,42	
ORES	34 356	42 641	0	0	0	
FUELS	580	4,43	2 126	1 906	2 903	
CHEMICAL PRODUCTS	63 758	71 225	123 777	144 685	215 890	
PHARMACEUTICALS	4 350	7 204	3 632	256	210	
SEMI-MANUFACTURES	106 788	121 547	100 766	136 478	125 136	
PAPER AND BOARD	74 684	90 843	89 484	108 328	86 645	
WOOD MANUFACTURES	1 040	383	67	707	239	
PREFAB BUILDINGS	56	0	0	0	0	
IRON AND STEEL	29 209	23 205	8 421	21 813	29 731	
NON-FERROUS METALS	92	3 593	849	1 144	206	
ENGINEERING PRODUCTS	729 629	987 878	1 356 460	1 486 853	1 159 108	
TOOLS	1 253	4 224	14 246	14 595	11 288	
MANUFACTURES OF METALS N.E.S	27 621	49 099	11 612	9 911	14 298	
POWER GENERATING MACHINERY	1 906	7 347	271 026	20 802	13 156	
AGRICULTURAL MACHINERY	4 055	13 641	5 734	9 707	4 517	
CONSTRUCTION AND MINING MACHINERY	18 437	66 182	94 053	208 298	179 077	
PAPER AND PULP MILL MACHINERY	568	122	89	981	316	
MACHINES FOR SPEC INDUSTRIES N.E.S	34 278	87 171	36 997	120 825	55 443	
METAL-WORKING MACHINERY	1 770	1 778	1 029	6 221	22 987	
HEATING AND COOLING EQUIPMENT	18 132	35 188	4 801	26 506	19 051	
PUMPS AND CENTRIFUGES	21 709	51 922	45 394	50 239	50 780	
MECHANICAL HANDLING EQUIPMENT	23 630	18 819	39 518	24 563	22 646	
PNEUMATIC ETC HAND TOOLS	119	133	113	3 734	24	
BALL OR ROLLER BEARINGS	29	39	78	251	180	
NON-ELECTRICAL MACHINERY N.E.S	23 995	19 261	19 467	27 670	16 756	
OFFICE MACHINES, ADP EQUIPMENT	2 705	3 923	2 895	9 967	7 790	
TELECOMMUNICATIONS APPARATUS	502 426	488 588	681 272	770 523	558 407	
EQUIPMENT FOR DISTR ELECTRICITY	9 149	96 698	51 861	79 126	70 563	
APPARATUS FOR DOMESTIC USE	2 541	4 996	2 045	4 841	1 712	
MEDICAL INSTRUMENTS, APPARATUS	55	801	296	5 370	1 753	
ELECTRICAL MACHINERY N.E.S	560	2 035	7 355	12 087	40 346	
PASSENGER CARS	11 648	11 375	27 519	20 517	15 945	
LORRIES, TRUCKS AND BUSES	14 450	7 521	23 155	25 201	24 620	
PARTS FOR MOTOR VEHICLES	1 907	2 323	709	1 356	1 484	
TRANSPORT EQUIPMENT N.E.S	1 336	4 287	3 171	2 137	16 780	
SANITARY ETC. AND LIGHTING EQUIPMENT	142	199	944	385	158	
SCIENTIFIC ETC. INSTRUMENTS	5 198	9 839	10 983	30 912	9 008	
OTHER MANUFACTURED GOODS	3 436	5 683	25 953	13 481	13 089	
FURNITURE	539	167	853	2 114	3 622	
CLOTHING	92	1 222	618	985	642	
SWEDISH IMPORTS (SEK 1000)	356 484	865 927	1 052 930	1 403 956	1 895 392	
SHARE OF TOTAL SWEDISH IMPORTS (%)	0,05	0,11	0,12	0,1	0,18	
FOOD	9 163	6 629	0,48	6 283	19 959	
RAW MATERIALS	0,1	0	23 634	65 816	159 583	
FUELS	16 895	410 829	565 681	692 811	427 939	
CHEMICAL PRODUCTS	75 023	123 163	62 984	139 589	247 139	
SEM-MANUFACTURES	235 871	324 716	396 652	498 880	1 039 148	
ENGINEERING PRODUCTS	19 532	589	3 503	382	1 429	
OTHER MANUFACTURED GOODS	0,36	1,62	477	193	195	

NB. Import figures refer to country of origin.

Table 11: Export from Sweden to Kazakhstan (Swedish Trade Council, 2009)

4.4.5.2 Azerbaijan

4.4.5.2.1 Automotive Industry

The consumption of automotives in Azerbaijan is developing in a very slow speed. Even though Azerbaijan has made remarkably high growth rate on real GDP in the past few years, the average monthly wages for Azerbaijani people are only about 115 US Dollars (Azerbaijan, Automotive Forecast World, 2005). Azerbaijan's banking system is also poorly developed, especially the income level of majority of people remains at a low level and it makes it difficult for consumers to access banking credit, and the nominal borrowing rates for bank loans are about 20% annually (Azerbaijan, Automotive Forecast World, 2005).

	2004	2005	2006	2007	2008	2009
Stock of passenger cars (per 1,000 population)	48	52	62	67	71	72

Table 12: Azerbaijan, Automotive (Forecast World, 2005)

The average income level in Azerbaijan will keep growing at a relatively high speed in the next few years due to the boom in oil trade; however the purchasing power for most Azeri families is still not high enough to obtain a car. Nevertheless, unlike Kazakhstan, there is no automotive manufacturing plant in Azerbaijan, the whole automotive market purely depends on import (Azerbaijan, Automotive Forecast World, 2005). Used Russian cars are the most popular kinds among all automotive buyers with over 40% of the total market share because the price level is more affordable compared to other European cars (Azerbaijan, Automotive Forecast World, 2005).

4.4.5.2.2 Healthcare & pharmaceuticals

Same as Kazakhstan, the healthcare sector in Azerbaijan is poorly developed due to the historical reason with the failure of the former Soviet healthcare system. Qualified medical personnel and doctors are tending to work in the urban area where an employment can be easily found, and therefore leave a big labor shortage in the rural areas (Azerbaijan. Healthcare & Pharmaceuticals Forecast World, 2005).

The current medical equipments in use is mostly obsolete and almost all new demand are met though import where Germany supplies most advanced high-tech medical equipment and Russia supplies low-cost, basic equipments (Azerbaijan. Healthcare & Pharmaceuticals Forecast World, 2005).

There are two pharmaceutical plants in Azerbaijan but only one is currently functional, the demands on pharmaceutical products worth approximately 200 million USD annually where 95% of the demand are met by import in 2004 (Azerbaijan. Healthcare & Pharmaceuticals Forecast World, 2005). The main suppliers on the

Azeri pharmaceutical market are the US, Germany, France, Turkey, Russia, Ukraine, India and Iran (Azerbaijan. Healthcare & Pharmaceuticals Forecast World, 2005).

4.4.5.2.3 Telecommunication

The infrastructure from the telecommunication sector in Azerbaijan is still underdeveloped even though it is one of the fastest developing non-oil sectors in the past few years (Azerbaijan. Telecoms & Technology Forecast World, 2005).

	2006	2007	2008	2009	2010	2011
Telephone main lines ('000)	1,150	1,300	1,450	1,600	1,700	1,800
Telephone main lines (per 100 population)	13.5	15.1	16.7	18.2	19.1	20.1
Mobile subscribers ('000)	3,000	3,500	3,800	4,000	4,200	4,500
Mobile subscribers (per 100 population)	35.2	40.6	43.7	45.5	47.3	50.2
Internet users ('000)	750	830	880	920	960	1,000
Internet users (per 100 population)	8.8	9.6	10.1	10.5	10.8	11.2

Table 13: Azerbaijan. Telecoms & Technology (Forecast World, 2005)

The Azeri Ministry of Communications and Information Technology provides the regulatory framework for the telecommunication sector. It also owns majority shares in most of the joint-ventures (Azerbaijan. Telecoms & Technology Forecast World, 2005). Until mid-2007, there were four joint ventures who offer fixed line telephone services and another three which offer mobile phone services (Industry Forecast: Growing demand, 2007).

Mobile telephony is the fastest growing part in the telecommunication sector. In 2008, the total mobile phone subscribers in Azerbaijan have reached 4 million which accounts for almost half of Azerbaijan's population. Compared with 0 subscribers in 1993, the development speed in this industry is surprisingly fast (Azerbaijan. Telecoms & Technology Forecast World, 2005).

The penetration of internet is currently low however the estimated growth in the next five years is fairly positive. In 2006 the total number of internet users in Azerbaijan was about 750,000 but will reach 1 million in 2011 (Industry Forecast: Growing demand, 2007).

In order to cope with the demand and gaining profit from the fast growing telecommunication sector, most of the major international technology providers have established partnership with the local service providers in Azerbaijan. Such companies are Microsoft, Hewlett-Packard, IBM and Motorola from the United States, Siemens from Germany, Nokia from Finland, Panasonic from Japan, and Ericsson from Sweden (Azerbaijan. Telecoms & Technology Forecast World, 2005).

5 Conclusion and Recommendation

In conclusion of the study, we will try to answer the three research sub questions we set at the introduction of this report. The first two questions as stated in introduction part are concerned with the market and environment analysis. The result of these two questions will be in the form of strategic challenges and advantages inherent in either market or environment. The answers to these questions, however, include the answer to question three and we will try to formulate a conclusion based on the outcome from earlier questions. Then we will draw some recommendation from our analysis for CombiTrans and further studies in this field.

5.1 General Conclusions

5.1.1 Market

1. “What is the land transportation market situation from Sweden to Central Asian region?” the first question concerned the customer and competitor situation as well as economic potential of the transport market from Sweden to Central Asia.

There are a few important points we shall consider in finding an answer to the above question. Sweden is a highly industrialized and developed country which its industrial and engineering products boast technological advantages and reputation among many users all over the world. Engineering products account for a major segment of Swedish export to Central Asia. On the other hand, Swedish engineering products have only a small market share in Central Asian countries due to the fact that most of the Central Asian Republics have Russia as their biggest trading partner and Russian products have the benefit of a cost advantage since the purchasing power of Central Asian Republics are comparatively low. Nevertheless, substitute products from other EU member countries and other part of the world such as the U.S. and China are also competitive.

The land transport market from Sweden to Central Asian region is rather fragmented though mainly concentrated on the transport of high value products. In Sweden there are 10,800 road haulers but none of them operate directly into Central Asia. Among the freight forwarders active in the region one can name the three big: DHL, Schenker and DSV which dominate the main share of the market for traffics towards Central Asia. Other international freight forwarders such as the Austrian forwarder LKW-WALTER and Danish forwarder Jeuro Denmark are also active in transporting Swedish goods into Central Asia. Modes of transport offered by the players differ slightly, but it is mainly comprised of road, rail and rail-road intermodal transport. We also found a Russian 3PL provider SANNA-LITIER and a Kazakhstani freight forwarder Transgroup Forwarding Company who claimed capable of arranging transport from all European countries to Central Asia, but in reality they are cooperating with the freight forwarders listed above when they have an order from Sweden to Central Asia.

Considering all the above points, one can argue that the market situation from Sweden to Central Asia is in a stable state in high value product segment, and will steadily grow through years ahead. The experts from transport buyers interviewed during this study also were positive in this regard. Other product types that would justify use of other modes of transport have not been considered in this report, but the growth in trade will follow the infrastructural goods as the GDP growth of the three nations decelerates toward a stable growth. The competition on the other hand does not seem as intensive as other regions, which to some extent follows the sporadic nature of the trade, but also is a signification of the experience on the part of transport company.

5.1.2 Environment

2. “What is the surrounding situation for the above market and what are the trends that would challenge the current state?” In this question the factors in the business environment that indirectly affect the industry comes into focus. One has to consider all the social, political, economic and technological trends in the market, to be able to see the big picture in its entirety.

Central Asia is an emerging market. Its current underdeveloped status and high economical growth rates indicate that there’s tremendous space for future development. Most of the Central Asian Republics have an oil based economy where export of oil and gas are the main sources of income. Even though there are numbers of ongoing development projects such as TRACECA and CAREC which require massive investment on the equipments and machines, the productivity of the related industrial sectors still remain backward which to a great extent relies on import especially for technologically sophisticated engineering product. It again implies the market potential for transportation on these products is huge.

The stability of the Georgian political situation had been questioned since its military conflict with Russia. Certain amount of infrastructures is heavily damaged that has compromised the transport capacity. The ongoing dispute of Nagorno-Karabakh between Armenia and Azerbaijan also pose various political problems in the region. Despite these disputes most of the Central Asian republics have a comparatively stable political situation, though according to Bremmer (2006) the stability is based on closed governments. Even though most of the countries have more or less inherited a central control system from the Soviet era, the governments especially in Kazakhstan are now having a positive attitude towards reforming a market economy by promoting privatization and encouraging competition in order to integrate with the rest of the world.

Revenues derived from oil trade have increased the income level of the people in Central Asia, though maybe not to the extent of developed countries, but enough to have influenced their consumption trends. Such example can be found in Kazakhstan where the government have reformed their banking system in 2002 enabling the consumers to have access to personal loan. After this reform consumers can afford to

purchase durable goods such as automobiles. The telecommunication sector has also been stimulated by the raise in income.

Despite the optimistic consumption trend and the massive projects going on in all three countries, the poor infrastructure situation still persists. The cooperation problems, regulations disparity and administrative issues have made the transport infrastructure the bottleneck restricting the speed of development.

5.1.3 Strategic Implications

3. “What are the most important challenges for a strategy of expanding the services in above mentioned markets and how to overcome them?” is the third and final study question aimed at the identification of strategic advantages and success factors of the industry. To this we would like the readers’ attention on the following items and observations that are the inherent issues of the industry.

Intermodal transportation: The current transport strategy from the EU side is to promote intermodal transport and minimize the usage of road transport in order to achieve sustainable and safer transport. Central Asian countries are not covered by the EU transport policies, however the their transport policies in the long-term will be possibly to a great extent influenced by the EU strategies since the EU plays a very important role in financing the development projects in Central Asia. In transport from Sweden to Kazakhstan, about 20-30 percent of total travel distance is actually across the EU territory, therefore adopting an efficient intermodal transport strategy by involving rail transport to minimize the use of road and following the trend of containerisation will be very beneficial for the purpose of future expansion.

Environmental sustainability: Transport is the major contributor of the “Greenhouse Effect” especially for road, if in the future the when most companies start taking environmental impact as one of the parameters when selecting a transport forwarder, then the companies which taken unimodal road transport as their solution will lose their competitiveness towards their competitors who already adopted intermodal strategy.

Thus, the competencies of Sustainability and Intermodal capability should be further promoted as these are the main trend in the market as well as the driving force and motivations of the customers in choosing their preferred transport agents.

The value of partnerships in the industry is so much that should be placed in the highest priority of strategic decisions and promoted. This also represents the challenge of selection procedure and evaluation of the suitable partners that should be in line with strategic plan of the company.

To consider the question from point of view of customers and competitors one can argue that any competitive strategy that would guarantee success over competitors in the transport service industry should be able to offer reliable and punctual lead times and door to door service.

The experience in the target market is another competitive advantage that should be promoted and kept abreast of the competitors at all times. The experience of the agents, drivers, partners and staff is thus the most valuable commodity in the forwarding business.

5.2 Recommendations

Following is a number of recommendations that we suggest based on the results of the study and the implications they have on the strategic success in the industry.

1. To promote intermodal transportation capability. The intermodal is the trend of the industry, and in the near future will be requested by many customers as the basic ability of any transport provider.
2. To increase the environmental awareness, and to promote sustainability management as another trend, more omnipresent than the above, that will be the base of the standards and regulations of tomorrow.
3. To establish and execute a supplier selection procedure with clear implications of strategic plan and vision and mission, and also an evaluation process to continuously monitor and revise the partnerships. The partnership issue is clearly one of the main points in the success of any forwarder in the international business.
4. The door to door service can be further advanced through promotion of intermodal transport or incorporation of rail and sea transport in the long routes that are capable of such use. This however needs a level of financial power that may be challenging for a newcomer.
5. The Hub and Spoke system is also one of the main trends of last few years which is gaining momentum in the international logistics scene. The use of a hub and spoke system with Kazakhstan as the hub of the system is an option that seems interesting at a first glance through the findings of this study. However this should be studied in detail before any definite argument can be stated.

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