



Business Plan Makro Transport Group

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External Version

*Traceca Improvement of Road
Transport Services*

European Commission Tacis

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1 INTRODUCTION

As the basis for drawing the business plan for the company Makro Trans Terminal the set-up of Tacis called "How to draw up a business plan" has been used.

The main points for this plan are:

- Historical background
- Company structure, ownership, management and operations
- The market of Makro
- Marketing analysis and especially the SWOT analysis for the different activities of Makro Trans
- Financial statements, especially for profit and loss
- Risk factors will be considered in the SWOT analysis

2 HISTORICAL BACKGROUND

In 1992 the present owner of Makro Trans Group Mr. Rovshan Housseinov started transport, forwarding and trade activities after finishing the Automobile University in Moscow. With trade activities to all the former Soviet countries he earned a lot of cash. Since the war in Chechnya there have been no proper backing transactions between the Russian Federation and CIS countries. On a garbage site near the harbour of Baku Mr. Housseinov developed a TIR Carnet terminal especially for vehicles and drivers from Iran, Turkey the former Eastern Europe countries and incidentally drivers from Western Europe. The firm could finance this basic activity by the profit it made by trading and transporting sugar from Ukraine to Central Asia.

In 1995 the terminal was built at the present situation. After this Makro Trans started a Cafe and Restaurant and in 1996 a building was rented for setting up a hotel. In the meantime the TIR Carnet was completed with custom clearance and forwarding activities, especially for the drivers without a back load.

In 1997 a container terminal will be started, with opportunities to expand and possibilities to start a warehouse for the storage of goods and internal customs clearance. This new activity will be somewhere outside the city of Baku.

3 COMPANY STRUCTURE, OWNERSHIP, MANAGEMENT AND OPERATIONS

The Makro Trans Terminal group has one limited and several independent working divisions and or companies under this group. At the top of Makro is the owner and president Mr. Rovshan Housseinov.

The different divisions with, at the top of every division, an own manager are:

- TIR Park
- terminal
- construction and minor maintenance for vehicles
- forwarding/transport/trade
- hotel, cafe and restaurants
- container activities

The president, along with the managing directors of the different companies together form the management team

The president of the firm is a graduate engineer of the Automobile Transport University of Moscow and is nearly 30 years old. He has expansive knowledge in the field of transport, forwarding, trading and customs activities.

The operations of Makro Trans Group are mostly located in the so-called "Black City" of Baku. The parking capacity of the terminal is around 40 for the typical Turkish standard vehicles and for the other vehicles, from e.g. Iran, 150 places.

The new terminal will be about the same size, but will have a warehouse for commercial activities and customer stock of about 1000 m².

The transport ,as part of the forwarding activities, has two heavy cargo vehicles. The forwarding firm is located at the present terminal and has few employees. The trade activity is carried out by the president himself.

The terminal activities are operated by 20 people. Customs clearance is located at the same terminal. 27 customs employees work here. Further, 5 people of the customs section also carry out declaration activities.

Construction and minor maintenance for vehicles is operated by a number of employees. The lorries which require large repairs are sent to Sovtransavto Baku. This activity will be sufficient to make a small profit in the future.

The hotel capacity is currently 57 beds on the third floor. The second floor is under construction and will contain 12 rooms with two beds and an own bathroom and toilet. A restaurant will be built on the second floor. A special room for table tennis and video will be built on the third floor. Just outside the hotel there is a fully equipped restaurant and cafe next to the present terminal.

4 MAKRO'S MARKET

The market for the core business is still growing. Many drivers, companies and the police authority on the road permit drivers to go to Makro Terminal by specific identification card. The minimum amount of lorries parked on the terminal is around 25, even in the worst political situation. The normal average daily capacity is 100 lorries. The market is growing every month.

The new activity as a concentrator and integrator of fewer container loads for the directions to and from Dubai will be started before the end of this year. During the first half year this activity will concern one container every two weeks. The second half year 4 full loaded containers with a variety of goods will arrive every month. In the second year the activity will grow to 10 containers a month. Other directions will be in progress simultaneously.

The market for rather cheap hotel accommodation is perfect in Baku. Currently the 57 beds on the third floor of Makro's Hotel are utilised the whole year. Customers are eagerly awaiting the new accommodation on the second floor. The market for the restaurant, cafe and bar are sufficient to break even. This restaurant is more an extra service to drivers and hotel guests.

The market for transport is growing extremely for this firm. It is not particularly an activity for the own trucks, but more as an attraction point for clients who want to make use of the terminals. Moreover, this is a profitable as well as prospective sign for the near future. Most of the transports of food in and round Baku are handled by the forwarding firm. To create fast cash flow the president deals with the profitable trade activities himself.

The customs clearance activity is always under pressure from ambitious and political ideas of the government. Presently the government wants to withdraw this activity to the own customs clearance house. With pressure from the president and the managers of customs itself this idea was cancelled.

5 SWOT ANALYSIS

5.1 Introduction

The SWOT analysis is a tool used to investigate a company and/or the different divisions in a short period. SWOT means:

S (Strengths)
W (Weaknesses)
O (Opportunities) and
T (Threats).

The first two elements concern the internal aspects of the firm, the last two refer to the environment of a firm.

In the Makro case all the activities are linked to each others and you can't approach one particular point whilst avoiding the influence of the other. The firm exists only a few years and all the activities are building up from one main activity. At a later stage the management team will be ready to prepare their own SWOT analyses for the strategy of their own divisions. All these separate plans can be combined to a annually prepared SWOT analyses for the whole Makro group. On the basis of these analyses financial budgets could be approved and acknowledged.

5.2 Strengths

- location in the centre of Baku and in future in the places in the suburbs of Baku
- integrated and concentrated logistics approach to the policy of Makro Trans Group
- young and ambitious president and cohesive corporate structure
- financial independence
- create the cash flow first before starting any activity
- private company with a president/owner, who is in the position to make risky decisions immediately
- well educated and developed personnel
- good connections with the police, customs and government authorities
- experts in customs clearance activities
- good contacts in the entire transport, forwarding and trading branch
- in principle no tip policy for authorities
- satisfied customers, who are willing to give this firm their own network
- high competence of the firm
- well disciplined personnel, which guarantees the safety of transport and the storage of the goods
- just in time is really just in time
- the turn around time for a lorry can be 12 hours including customs clearance
- trade and forwarding activities can be based on the knowledge of the price setting of the transport firms, which have parked their vehicles on the terminal
- a price is stable during the contract period; no short term changes
- drivers wait for return loads, the prices for return loads are normally to everyone's satisfaction

- customers and drivers trust this company, it usually pays 50% of the transport fees in advance
- fast cash payment system by the customers; especially for the activities in the hotel, restaurant etc., forwarding, parking and container terminal activities
- no problem in the price-setting of the different activities
- nowadays and in the near future this firm will have a lot of connections with international freight and transport companies
- significant capital investment earned by own cash flow; profit and cash flow in one division will be used for the development of other divisions
- independent construction ability
- good knowledge of the movement of goods in and out of Azerbaijan on short and long term basis
- management wants to give employees a chance to develop themselves
- construction of new warehouses in the short term
- sufficient space at the present premises
- perfect knowledge of the documents used in transport
- possibility to obtain TIR Carnet from the company's network

5.3 Weaknesses

- location near the centre of Baku with can be influences by the municipal authorities of Baku City
- lack of experience and practical knowledge due to the short period of the company's existence
- cash flow is sometimes insufficient to build up new activities in a short time
- the staff is not very experienced in the field of modern marketing and management ideas
- lack of knowledge of the Western European languages
- the president is the only decision-maker, because he is the entrepreneur
- knowledge of data of goods flows practically belongs only to the president
- middle management needs a lot of training
- poor policy on networking and advertising approach
- lack of good communication
- lack of good management from central office
- lack of modern information system
- lack of a good cost price and budget system
- lack of knowledge of taxation problems in Western Europe

5.4 Opportunities

- the market must know that the turn around time for vehicles is only 12 hours
- dispatching local activities might be created in the near future to complete all services in the field of LSL basis
- many new markets for forwarding activities
- growth of the economy of Azerbaijan will be to the benefit of transport and forwarding firm
- new possibilities to develop hotel and restaurant activities
- new possibilities for the trade company, especially to Central Asia
- new foreign freight and transport firms are willing to co-operate
- if borders are opened to Russia and Crimus transport will be improved
- the monopolistic possibilities of some activities gives new opportunities for the

development of Makro

- possible co-operation with an insurance company
- good communication system in Azerbaijan gives new possibilities for the development of business activities
- good standard information and a good statistical system kept up to date by the government will be for the benefit of Makro, also, well-developed western standard system for EDI (electronic data interchange) can be implemented in the future. This will be an excellent selling point
- subsidy from the EU can help to develop JV possibilities for Makro.

5.5 Threats

- the lack of a good banking system, especially in the area of bank transactions and getting loans on reasonable terms and conditions
- governmental policy in terms of taxation, possibilities of private companies, the "protection" system for the employees of the state authorities and state owned firms and companies
- a lot of changes have taken place in a short term in management of police and customs authorities
- confidence of foreign partners for investment and co-operation in Azerbaijan is still low
- poor insurance system
- the collapse of the previous Soviet economic structure is still a problem
- no local dispatching activities can be carried out at the present time, because it will cost the people who are monitoring the public sector extra money
- environmental problems will occur in this country
- no long term possibilities for the government to use the present TIR park
- competitors will enter the different markets of Makro.

6 FINANCIAL STATEMENTS, PROFIT AND LOSS

6.1 Confidentiality

The financial figures of the Makro Transport Group are confidential and hence not for publication in this external version. Upon request the management of Makro Transport Group can provide interested parties with this information.