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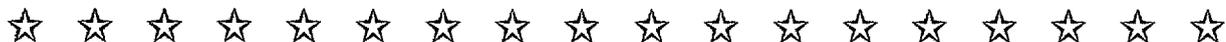
FINAL PROGRAM EVALUATION EXPORT ENHANCEMENT PROGRAM/HUNGARY

AID TO ARTISANS, INC.

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EXECUTIVE SUMMARY

This document represents the Final Program Evaluation for a 4-year AID/PVO initiative, "Export Enhancement Program/Hungary" carried out by Aid to Artisans, Inc., under Cooperative Agreement EUR-0032-A-00-1022-00 which covered the time period from April 9, 1991- April 30, 1995.

FINDINGS: The evaluation finds that the project achieved or exceeded the goals which were set forth in the project proposal. These included the following:

- Demonstrated strategies for micro and small enterprise development;
- Promoted entrepreneurial ventures, particularly in export;
- Focused on high-need recipients (rural women);
- Addressed the quality of life and social safety net issues through job retention;
- Actively promoted the maintenance of income-generating capacity through cottage industry;
- Offered AID a visible presence in Hungary

PROGRAM ACHIEVEMENTS: The project achieved remarkable successes in terms of generating new business opportunities for a broad cross-section of artisan enterprises, most of which employed women in rural regions.

- Generated over \$1 million dollars in direct revenues to small and micro-enterprises in Hungary
- Provided business training programs for 30 small businesses, 28 micro-enterprises, and 5 foreign trade companies and independent export agents
- Assisted participating enterprises to stay in business and stabilize their employment levels;
- Strengthened a local NGO, the Hungarian Folkart Association
- Fostered long-term, committed business relationships between U.S. and Hungarian companies which contribute to sustainable development

PROGRAM CONSTRAINTS: The project encountered many constraints which impacted the pace of programming and its rate of success. These included

- 1) A highly-changeable legal and regulatory environment which created general confusion among project participants whose businesses were under constant stress and financial uncertainty;
- 2) Language constraints which reduced program participants' ability to take maximum advantage of opportunities to interact directly with representatives from U.S. businesses;
- 3) Differences in cultural attitudes and values which created misunderstandings and a general lack of experience with market concepts, American business styles, and gender roles.

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EXECUTIVE SUMMARY

cont.

In addition, macro-economic conditions had a massive impact on the program: inflation, lack of credit, a legacy of top-heavy management and low productivity all contributed to painful down-sizing trends throughout businesses in Hungary.

CONCLUSIONS: The evaluation team observed that clusters of traits characterized the relative levels of success of the enterprises which participated in the project. **Successful enterprises** were characterized by management which is willing to take high levels of risk, have a positive, pro-active approach, and who have seized every possible opportunity to implement program recommendations related to product design, marketing, and customer relations. **Break-even enterprises** should be recognized for their achievements in staying afloat, despite overwhelming debt burdens. Their main weakness has been their reluctance to trim costs and to reduce their workforce. They have only partially availed themselves of program resources, and some have stubbornly refused to make price concessions to would-be buyers. **Failed enterprises** were those who took a passive attitude towards marketing; they tended to be highly negative in their outlook, and have not taken steps to participate in the mainstream marketplace.

LESSONS LEARNED: Managing growth and opportunities which a project such as this can generate is difficult. Early successes can be misleading, and slow market response may discourage participants. Unrealistic expectations abound, and the best antidote to this is a feedback loop which fosters open communication among all participants and program management. Fostering new business opportunities and working with the private sector raises sensitive issues related to fairness, access, and conflict of interest, and much of this former-Communist society is still not clear on what constitutes good business practices. It will take more time for the lessons offered by this project to truly be absorbed, as the legacy of 40 years of a centrally-planned and controlled economy still influence attitudes and assumptions.

PURPOSE OF THE EVALUATION

This evaluation assesses the progress made during the third year of Aid to Artisans' Export Enhancement Program/Hungary as well as the overall impact of the entire project on the lives of program participants, in terms of achieving program goals.

The evaluation addresses a series of questions outlined by the Scope of Work; highlights include the following:

1. How successful was the project in achieving the goals set out in the project proposal?
 2. To what extent did Year 3 of the project follow its predicted course as outlined in program planning documents?
 3. To what extent did ATA incorporate recommendations made in the Evaluation Report 1992 into Year 3 of the project? How appropriate were these recommendations?
 4. To what extent has ATA's marketing structure been effective?
- The evaluation examines the traits, attitudes, and behaviors of
 - Successful artisan enterprises
 - Break-Even surviving artisan enterprises
 - Floundering/Failed artisan enterprises
 - The evaluation identifies the constraints encountered by the project and examines how these affected the program and its participants.
 - The evaluation examines unintended side effects which were triggered by the project.
 - The evaluation identifies the remaining challenges for Hungarian folk art businesses as they confront the future, and notes ways in which program participants are dealing with these challenges.

THE SOCIAL, ECONOMIC, & POLITICAL CONTEXT

During the four-year tenure of this project, Hungary has undergone dramatic changes which have impacted the lives of ordinary people in extraordinary ways. The transition to democracy and a free market economy have unsettled the economic security of average people, thrusting them into bewildering situations for which they are ill-prepared. Thousands of workers reeled from the sudden loss of jobs; the high unemployment produced stresses on families which was further heightened by the disintegration of the social safety net. This translated into a level of uncertainty and pessimism which politically culminated in the election results of spring 1994 when a strong socialist mood prevailed at the polls. The economic repercussions of the new government programs, which reinstate many old subsidies and social programs, are unknown; in the meantime, average people cope as they can.

Early in the project, it was very difficult for would-be entrepreneurs and those in management positions of newly-privatized cooperatives to find answers within the legal system, which was a confusing tangle of old and new laws. Gradually, as the legal system defined itself, and as expertise became available, paths were slowly cleared. However, soaring inflation, steep interest rates of 40%, and a dearth of credit resources for small businesses exacerbate the challenges to fledgling small enterprises.

Socio-cultural factors also influence this evolving society, and greatly impact the Hungarian business climate. As risk-takers make their own successes, resentment breeds; this is normal to an extent in any society, but in Eastern Europe, people are quick to assume that someone's success was gained at the expense of others. Initiative, ambition, hustle, and drive are not necessarily defined as positive traits, but are gradually gaining respect.

FINDINGS RELATED TO EVALUATION SCOPE OF WORK: "Purpose of the Evaluation"

1. How successful was the project in achieving the goals set out in the project proposal?

➤ **GOAL:** Demonstrate strategies for micro and small enterprise development.

The project achieved this goal in several ways, first by facilitating contact and exchange between Hungarian and American businesses. Participants were exposed to a range of American businesses, from small family ventures to large, sophisticated corporations. Representatives of U.S. businesses explained their approach to business in the context of training seminars and during the process of conducting business with Hungarians. Secondly, Aid to Artisans directly assisted Hungarian enterprises to implement strategies to meet the market demands of their export customers, through pro-active product development, researching the marketplace, identifying competitive advantages, analyzing production costs, and increasing customer services. Thirdly, the project facilitated opportunities for Hungarians to network and pool their expertise, and to undertake cooperative business dealings with one another in order to be able to respond to export market demands. Those enterprises which had the greatest turnaround (ex., Heves and Gyula) demonstrated a sense of community and assumed a leadership role through the Folkart Association and within the context of project activities such as training seminars.

➤ **GOAL:** Promote entrepreneurial ventures, especially in export. The project generated new business opportunities between approximately 50 Hungarian artisan enterprises and 20 American importers. By Year 3 and 4, the momentum had increased, and the several years of planning were yielding significant results; new relationships promise further yields in two years. The levels of export within a given company did not necessarily follow a steady increase; some began with sample orders and progressed to large-scale orders, while others began auspiciously but cut back. However, the overall trend was an increase in export orders, with higher profit margins associated with export.

Two major new ventures between U.S. companies (Mesa International and EEE Group, Inc.) and three Hungarian companies (Qualitas Import-Export Company, Sarospatak Ceramic Company, and Kaposvar Ceramic Coop) stimulated significant business. In many cases, the export orders placed by U.S. firms made the difference between a Hungarian business collapsing or staying afloat (ex., Debrecen Textile Coop). Only one coop which the project actively worked with (Kalosca) went under in 1994. Afterwards, The Sandor Collection encouraged several former employees to start new enterprises, and adjusted their orders to encourage them.

FINDINGS RELATED TO EVALUATION SOW: "Purpose of the Evaluation"

The project also fostered business opportunities for small entrepreneurs, particularly export agents, family businesses, and designers. There was a need for competitive services of export agents, and two new micro-enterprises, facilitated and trained by the project, evolved to fill the gap.

► **GOAL:** Focus on high-need recipients such as rural women. The majority of program beneficiaries are rural women, although not exclusively. Most of the project's program clients are employee-owned businesses located in provincial areas which have significant numbers of home-based workers, the majority of which are women. In addition, these regions are characterized by high unemployment and an aging population, making them especially vulnerable. The project has contributed to the sustainment of business and jobs in these regions. In addition, the project provided models of women as entrepreneurs and professionals: the majority of American businesses who visited Hungary were either woman-owned or represented by women in decision-making capacities, and the majority of project consultants were also women.

► **GOAL:** Address the quality of life and the social safety net issues. By facilitating and encouraging job retention and helping to prevent the collapse of most newly-privatized cooperatives, the project contributed to the realization of this goal. The majority of cooperatives survived the privatization process in ways which avoided direct layoffs of workers; declines in employees were largely attributed to natural attrition as people sought better pay or alternative work. The macro-economic conditions in Hungary coupled with a legacy of top-heavy management and low productivity translated into major employment displacement between 1991 and 1993. The privatization process and general re-structuring of the economy translated into wide-spread trends of 'down-sizing' in order for businesses to become competitive and increase their productivity. However, once this transformation took place, the job hemorrhaging abated, and employment levels stabilized in 1993.

The evaluation team's survey of nine folkart businesses in November 1994 revealed that employment had remained stable or had actually increased slightly between 1993 and 1994 for half of the enterprises surveyed. Three enterprises had average employment growth of 14%; three enterprises were stable and had no net employment change; five enterprises had employee losses averaging 22% reduction; and one enterprise went bankrupt. Some managers reported that without the ATA buyer connections and new business, they would have gone under; others noted that although their key customers did not come via ATA connections, their exposure to training and ideas through ATA enabled them to anticipate the new buyers' expectations and to maximize the opportunity. Finally, by also working with family-owned, micro-enterprises, the project demonstrated how individuals

FINDINGS RELATED TO EVALUATION SOW: "Purpose of the Evaluation"

can take the initiative and build their own financial security and safety nets.

► **GOAL:** Actively promote the maintenance of income capacity through cottage industry. The project actively promoted the maintenance of income capacity through home-based work. In fact, the project generated significant amount of cottage industry, but did not have the wherewithal to track and document it thoroughly. Hungarian export agents and trading companies developed a network of well over 500 individual home-based artisans; in the spirit of protecting their sources, they did not openly share the specifics with outsiders. A similarly protective attitude was adopted by many U.S. importers, both large and small, whose business success depends on maintaining the confidentiality of their sources.

Observation and anecdotal evidence strongly suggests that artisans had to expand their production capacity to meet export demand, and many hired family members and associates to fill orders. Issues of reportable income played a major role in reluctance to provide specific information to the project evaluators, despite assurances of discretion and privacy. The evaluation team noted several family enterprises which had undertaken major renovations and expansions-- but no one was able to expand smoothly without interruptions in income. A 'feast or famine' syndrome characterized some of the conditions, whereas other families achieved a steady improvement in income and were able to maintain stability.

FINDINGS RELATED TO EVALUATION SOW: "Purpose of the Evaluation"

► **GOAL: Offer A.I.D. a visible presence in Hungary.** The project generated international coverage of AID program activity in Hungary, including a positive article in the *Christian Science Monitor*. The special exhibition of ceramics by Hungarian Master Potters achieved not only its primary goal of promotion and marketing, but also resulted in AID receiving credit and recognition for the program through a widely-distributed full-color poster. A corollary exhibit and sale at the Ambassador's residence further emphasized the role of USAID. In general, the project appears to have generated good will among Hungarians by recognizing the special quality of traditional Hungarian folkart and by paying respect to Hungarian culture. The project penetrated well beyond Budapest; people in the out-lying regions expressed appreciation to the evaluation team for USAID's concern for their well-being and its commitment to producing meaningful results.

2. What constraints did the project encounter that affected project results?

Legal and Regulatory Environment The changes in the tax structure and laws regulating business have been confusing and changeable, due to political shifts. During the first half of the program (1991-1993), the program functioned in an atmosphere of confusion followed by frustration, as the folkart sector lost its special tax-relief status and was treated like any other manufacturing sector. This translated into periods of time when Hungarian enterprises were unable to focus on or respond adequately to the program inputs offered by ATA, due to the distractions of larger issues.

Language Constraints The project found that some capable Hungarian managers and designers were handicapped by their lack of English language ability, which restricted their understanding of the American market and consumer mentality, as well as buyers' ways of doing business. Of course this constraint was surmounted, but it remained nonetheless. All training materials and seminar presentations were translated but nevertheless, the reality is that much is lost in translation, and professional translators were not always available to travel with the buyers.

Cultural Values and Attitudes The program encountered a surprising amount of cultural differences, which, over the course of the project, had to be first recognized and then accommodated. These issues ranged from business meeting etiquette and seminar protocol to concepts about the role and character of middlemen, the nature of volunteerism, and gender roles for women in particular. Space does not allow an in-depth discussion of these differences, but they definitely affected the process. Recognizing these differences in cultural values and attitudes required time and alertness, and sometimes distracted energies from the immediate objectives until they were resolved.

FINDINGS RELATED TO EVALUATION SOW: "Purpose of the Evaluation"

3. What unanticipated results occurred as a result of the project?

U.S. Business Creation and Expansion:

This USAID/PVO initiative has produced some special dividends for American micro-enterprises and small businesses. The project provided product development assistance, marketing advice and opportunities, and generally helped to advance a number of fledgling enterprises. Thanks to their participation as private sector partners in the program, several have significantly expanded their business operations. These small home-based enterprises have grown dramatically.

To summarize: 6 new businesses were developed or significantly expanded which together generated over \$ 2.6 million dollars in wholesale revenues between 1991 and the first quarter of 1995. This business activity contributed to the U.S. local economy and generated some new employment, mainly for women, in rural regions where unemployment is chronic.

[Please see " U.S. Small Business Growth" in the Appendix for more details.]

FINDINGS RELATED TO EVALUATION SOW: "Purpose of the Evaluation"

4. What challenges do Hungarian folk art businesses assisted by the project now face as they continue work independently in the export industry?

Maintaining Customer Relations & On-Going Business A major challenge for Hungarian folk art businesses is to maintain a good working relationship with the export customers they have met through this project. In most cases, this will depend on three factors:

- 1) Generating interesting product lines which have market appeal, and responding to product development directions provided by their customers;
- 2) Keeping production costs low and quality high so that their goods are both distinctive and competitive;
- 3) Providing outstanding customer service, and protecting their customers' exclusivity.

Independent Marketing The Hungarians cannot assume that existing customers will provide adequate business or continue their relationship. A large company such as Associated Merchandising Corporation expects to move from region to region, searching for lower costs combined with unique products and little-known sources. Once the field fills up with other manufacturers who encroach on their sources, they begin to look elsewhere. The Hungarian artisan enterprises must apply what they have learned about proactive marketing to find new customers. This means continuing marketing activities, i.e., participating in selected trade shows. ATA has encouraged the Hungarians to become more active in the Western European markets such as Germany, where demands for high quality goods and skilled labor are strong, and where price points are less an issue.

Regional Competition The regional competition for Hungarian artisan goods will only increase, as products from other Central and Eastern European countries as well as Russia and the NIS begin to appear in the western markets. However, most medium and small importers are interested in building and maintaining long-term relationships, as the process of finding and developing new producers is expensive and time-consuming. The Hungarian Folkart Association will play a key role in the professional development of its members, providing market information through its new resource library, and maintaining an affiliation with Aid to Artisans.

Banking Resources The situation in Hungary for reliable banking services can create some major headaches. A recent bank scandal resulted in all assets being frozen; one U.S. importer's deposit of \$4,000 was frozen, and another importer narrowly avoided losing or tying up \$15,000, thanks to an alert agent. Transferring funds between banks remains excessively slow, but there are no alternatives.

FINDINGS RELATED TO EVALUATION SCOPE OF WORK: "Statement of Work"

1. To what extent did Year 3 of the project follow its predicted course as outlined in program planning documents? What are the reasons for any program deviations?

A primary feature of the program plan for Year 3 was an expanded marketing and market training program; program resources were allocated towards off-setting some of the costs incurred by buyers' trips to Hungary. The partial buyer subsidies allowed the project to entice more buyers to visit, and also facilitated existing buyers to spend more time in country trouble-shooting, expanding their business, and cementing business relationships. This appears to have been a critical factor in persuading some businesses to "hang in there" while major issues were resolved.

The project placed less emphasis on augmenting ATA's direct product development inputs than originally planned. Based on advice from ATA's main product development consultant, the project has relied instead on new product initiatives undertaken by buyers in the private sector. This strategy seems to work well from a program delivery and training perspective, with importers taking the responsibility to initiate and follow through on complete product lines.

The project was extended until December 30, 1994, based on ATA's request to prepare a final market report, continue order fulfillment after a busy trade show, distribute the Buyers' Guide, and finalize a technical export manual. ATA has proceeded to carry out these activities, but needs additional time to complete these and new activities. Several factors have caused the project time line to be extended until April 30, 1995: During the fall of 1994, ATA's headquarters staff experienced major turnover with the departure of three key people (the marketing manager and two projects coordinators). This caused a slow-down in the preparation of the export manual and in formal project reporting. However, a no-cost extension coupled with a shift in budget line items has combined to provide vital time in which to respond to new program opportunities, and has been exceptionally productive.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

2. To what extent did ATA incorporate recommendations made in the Final Evaluation Report into Year 3 of the project? How effective were these recommendations?

➤ COMPLIANCE WITH TRAINING RECOMMENDATIONS

"Provide short-term/intense workshops."

Since the term 'workshop' is not yet well-understood, the program organized instead what it termed 'business training seminars'. Three formal business training seminars were conducted which were well-organized and which drew on the expertise of practicing professionals from a cross-section of business, law, and design. These seminars were well-received and evaluated as highly useful by the program participants.

"Prepare instructional materials in Hungarian."

This proved to be more time-consuming and expensive than expected, but was nonetheless implemented. Where feasible, seminar materials were translated; however, many of the presentations were done *pro bono* by professionals, and it was not practical to expect them to prepare comprehensive written instructional materials. The final training seminar was a mixture of Hungarian language presentations and English language (with simultaneous translation) and this was the most successful one. Finally, ATA has completed the production of an Export Manual which is a practical guide to the ins and outs of exporting procedures; it will be translated into Hungarian to insure its practical use as a reference book.

"Expand business training in strategic planning, management, marketing, promotion, advertising, product merchandising, and showroom display."

The 1993 evaluation recommendation noted that "some of these topics can be addressed through existing training programs, but most need to be tailored to artisan industries." This recommendation was interpreted as meaning the program should work with other agencies involved in business training programs, and develop special artisan-oriented training programs. Such was not implemented, as ATA felt it demanded resources and time beyond the scope of the project.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

► COMPLIANCE WITH MARKETING RECOMMENDATIONS

"Selected top management from coops and foreign trade organizations should participate in the New York International Gift Show."

Top management from coops and foreign trade organizations were brought to the U.S. where they received training in and exposure to U.S. approaches to marketing. The number of trainees exceeded the original plan, with six participants instead of three. Following their U.S. training, the Hungarians organized a meeting to share what they had learned and observed; they also provided detailed market feedback to producers regarding their products.

"Marketing activities should continue, with strategies for more participation by the Hungarian clients. ATA needs to continue the Buyers to Hungary program."

The marketing program was expanded through a significant increase in the number of buyers recruited to visit Hungary. The target number for buyers during the final year was 5-15, and this was exceeded: a total of 18 buyers actually visited. Of these, 9 buyers were new during the past year. [See Appendix for List of Buyers.] This was made possible by the no-cost extension phase of the project when ATA actively recruited and subsidized buyer visits.

"A Buyers Guide to Hungary would be a useful marketing resource to broaden the range of potential buyers and increase awareness of production capabilities."

In 1994, Aid to Artisans published the *ATA Buyers' Guide to Hungarian Crafts* which has been extremely well-received by both visiting buyers and program clients. So far, 1,000 copies have been distributed, and the final 500 copies will be distributed through the Hungarian-American Chamber of Commerce and the Hungarian American Foundation. The Hungarian Folkart Association is planning to translate the guide into German and Hungarian, and expand its coverage as well. ATA's grant to the Folkart Association provides a publishing subsidy. So far, the guide has been a very useful tool for buyers, including several new buyers who arranged to visit Hungary under their own initiative during the winter of 1994-95.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

► COMPLIANCE WITH MARKETING RECOMMENDATIONS cont.:

"Continue to help foreign trade organizations such as Folk Art Trading to deal with the American market."

The project continued to include this well-managed company; their buyer participated in the New York trade show, and they were included in all buyer visits arranged through the project. However, the project was continually criticized for including Folkart Trading, as some smaller companies resented their size and advantages. It was the judgement of ATA that it was vital to include them, since most of the larger U.S. importers would not have undertaken to import large-scale orders without the resources of such a trading company. In all cases, the inclusion of Folk Art Trading company did not preclude or exclude the participation of independent exporters; often, large importers used a combination of sources, both small and medium-sized. Therefore, the evaluation team concludes that the practice was not only appropriate, but facilitated significant export business.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

► COMPLIANCE WITH PRODUCT DEVELOPMENT RECOMMENDATIONS:

"The Buyers to Hungary component should be continued, as it combines real customers with specific product development needs."

The program not only continued but expanded the scope of this component. By shifting the focus to product development for specific companies, the project hoped to reduce some of the pressures to provide general product development inputs. This was not really the case. The producers' felt needs and requests for product development assistance did not abate, and the product development specialist felt continued pressure to flood the producers with dozens if not hundreds of product ideas. Questions arose about the ownership of product ideas, and some issues on exclusivity ensued. In addition, ATA management began to have second thoughts about the wisdom of providing such specific services to the American companies. The focus of energies threatened to shift to meeting the importers' needs, and required constant reappraisal of who the project was indeed serving. However, viewed strictly from a business results perspective, the approach generated business, and certainly kept buyers interested in participating.

"The program should continue to actively involve Hungarian designers, to build in self-sufficiency and sustainability."

This recommendation was followed to the extent that in-house designers continued to be deeply involved in the project, and participated in most project activities including training seminars and product development workshops with ATA's consultant plus working sessions with visiting buyers. Several producers worked with Hungarian designers, but a gap existed between the external Hungarian designers (some are academy-trained) and the in-house, vocational-trained designers and production staff. These employee relations concerns reflected a combination of old social stratification as well as personality issues which were beyond the scope of this project to address. ATA's proposal in 1994 for an additional year of program funding would have allocated significantly more time and resources to this objective; however, without the funding, it was not feasible to expand this component.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

3. Given the added perspective of Year 3, were any of the assumptions of the original proposal found to be false? How has that knowledge affected the course of the project?

The program evaluation prepared by Kerr & Clark in 1993 pointed out that "... ATA determined early, within the first 6 months, that original assumptions were off-base regarding the viability of *creating* new jobs. The shift [of the project] to *job retention* reflects the reality of the situation in Hungary where virtually all sectors of the economy are struggling."

This project has operated from the premise that finding new markets for Hungarian artisan products represents the key to sustaining Hungarian artisan enterprises. This is absolutely true; however, the evaluation team observed the on-going need for comprehensive, long-term business counseling which would insure that Hungarian enterprises are capable of meeting new market opportunities. After the 1993 evaluation, ATA gained new insights into the gaps in Hungarians' business management expertise and the demand for formal seminar format for training. This prompted the project to provide three business seminars which were well-received by the program clients. Business managers have limited time to attend seminars, and it is doubtful that more than three seminars would have been well-attended had they been offered. The answer lies in intensive, on-site management consulting, which was beyond the capacity of this project.

4. To what extent has ATA's marketing structure been effective?

Aid to Artisans' marketing structure has been highly effective. The structure was based on a 3-point strategy:

- 1) Develop new products for showcasing at the New York Gift Fair to attract importers and manufacturers;
- 2) Stimulate interest in Hungarian culture through special exhibits and publicity in selected trade publications and consumer periodicals;
- 3) Facilitate visits to Hungarian producers by U.S. buyers who will in turn undertake comprehensive marketing activities on their own.

The commercial relationships cultivated by the project have extended the market penetration for Hungarian artisan products. All of the U.S. importers have undertaken extensive marketing initiatives to secure wholesale customers for their product lines. This shows that ATA's strategy of targeting importers is an efficient method of catalyzing a cycle of market expansion, and puts the private sector in command of doing what it does best-- pursuing business and profits.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

On an implementation level: Which markets has ATA accessed?

There are a number of ways to answer this question, but in each case, the project and its implementing partners have produced impressive results:

Market Categories:

The Hungarian artisan products were successfully marketed in the following market categories:

- Giftware market
- Women & Children's Fashions
- Dinnerware and Tabletop Market
- Boutique Market
- Linens and Domestics Market
- Home Furnishings Accents Market
- Collectibles Market

Geographic Markets:

Through the combination of ATA direct trade showings and the marketing activities undertaken by the private sector partners, a broad geographic market was reached both nationally and regionally. The products were shown multiple times at trade fairs in

- | | | | |
|---------------|-------------|----------------|---------|
| New York | Dallas | Boston | Seattle |
| Atlanta | Las Vegas | Dallas | Toronto |
| Chicago | Florida | Los Angeles | |
| San Francisco | Minneapolis | High Point, NC | |

Consumer Markets:

The products were placed in a wide cross-section of the U.S. consumer market through a variety of high-end outlets including:

- | | | |
|---------------------|-------------------|--------------------------|
| Department Stores | Fashion Designers | Museum Shops |
| Mail-Order Catalogs | Boutiques | Collectors' Markets |
| Galleries | Retail Shops | Design & Trade Showrooms |

It is impossible for the project to keep track of the plethora of outlets, since even one small company such as Samii/Lanya has placed its products in over 150 stores throughout the U.S., Austria, and France. Please see Appendix for a partial listing.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

To what extent has each contact led to real orders for artisans?

Most of the contacts have led to real and significant orders for artisans. More than \$1 million dollars of increased revenues for approximately 30 Hungarian enterprises was generated by this project between 1991 and the first quarter of 1995. According to experts, it is estimated that for each dollar spent on export products, an additional 23% is spent in-country on shipping, plus 7% customs and handling, resulting in an additional 30% spent in-country. This brings the total direct revenues into the Hungarian economy to an estimated \$1.3 million dollars. Interviews with several U.S. importers indicate strong market demand for Hungarian products, and all three companies interviewed (Sandor, Lanya, and EEE Group, Inc.) were very optimistic about the growth of their business which depend on Hungarian products.

Even short-lived business has been worthwhile, as it gave participants the opportunity to work with a customer, develop market-oriented product lines, and face market realities. All producers met more than one buyer through the program, so that if one particular buyer did not ultimately undertake a production order, the lesson was useful: price points must be met, and buyers will shop around until they find a good working relationship with a producer who provides excellent customer service, reliable quality, timely delivery, and price stability.

What effect, if any, will these buyers have on sustainability of business?

The evaluation team was impressed by the level of commitment demonstrated by the private sector businesses which have sought to conduct business in Hungary. It is clear that these small and medium-sized companies are planning on, indeed, counting on, long-term business relationships with their supplier and producers. A review of the major buyers' activities since the inception of the project shows that out of 20 companies which sent buyers, 14 companies or 70% are still presently active in importing artisan products from Hungary. [See Appendix] As their businesses grow, the U.S. companies continue to seek out new producers.

For example, EEE Group, Inc. established an excellent working relationship with the Qualitas Import Export Company in Hodmezovasarhely, and is now expanding its production to the Kaposvar Ceramic Coop. Samii/Lanya has a symbiotic relationship with two textile coops which specialize in the cut-felt techniques, and make components for Lanya's distinctive line of outerwear. The Sandor Collection, Inc. is growing rapidly, and intends to increase and broaden its product line. The company deals with a large number of suppliers, and is committed to doing business in Hungary, thanks to the mission of its emigre founder and his dedicated wife and business partner.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

5. What steps has ATA taken to assess and meet artisans' business training needs?

Business Analysis

Aid to Artisans arranged for teams from Yale School of Management to conduct two analyses of the project. The first took place during Year 1 of the project, and contributed greatly to the project's ability to identify appropriate program participants. A second follow-up analysis at the end of Year 2, appraised changes and noted the relative business health of the enterprises. The Yale team analyzed a cross-section of businesses, not just those who were actively participating in the program (i.e., receiving active program inputs.) This helped ATA to understand the overall business climate and put the project into a more meaningful context. Such analysis was neither academic nor controlled, but provided useful feedback to identify micro-level management problems and macro-level economic factors affecting all businesses.

Needs Assessment:

During Year 2, ATA cooperated with SUNY to carry out a Needs Assessment to help the project identify business training needs and develop a more focused approach to its business training component. The assessment made recommendations for a full-scale business training program; these were only partially implemented, due to 1) the nature of ATA's program focus which relied heavily on creating linkages to the market place to spur business and 2) the limited funding and resources of this project. However, the assessment and the annual evaluations contributed to an evolution of the program towards a more structured business training, reflecting the demands of program clients.

Business Training Seminars:

In Year 3 and during the half-year Extension, ATA conducted 3 Business Training Seminars which were favorably reviewed by the participants. The effectiveness of ATA's seminars was due to three key approaches:

- Using buyers and business principals as program presenters;
- Including Hungarian experts in the program;
- Scheduling product review sessions as a supplementary activity

The seminars were presented in cooperation with the Hungarian Folkart Association, which greatly facilitated attendance. By the final seminar, the association played a major role in program planning; this augurs well for the NGO's future role as a resource for the professional development of its members.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

5. Cont.: Steps ATA has taken to assess and meet artisans' business training needs...

Basic Business Counseling:

Throughout the project, ATA consultants as well as many private sector partners provided basic guidance and how-to instructions on a variety of business topics. Frequently, the informality of these sessions disguised the fact that real information and know-how was being shared, and clients tended to overlook this one-on-one counseling. Never-the-less, it was a valuable aspect of ATA's training; it demonstrated the well-rounded expertise of ATA consultants, and is also evidence of the commitment of private sector partners such as The Sandor Collection Inc., Mesa International, Samii/Lanya, and EEE Group, Inc.

ATA Export Manual:

ATA has prepared a comprehensive and practical manual, *The ATA Export Manual: A Guide to Exporting Crafts From Hungary*. This is being published in both English and Hungarian, and covers all practical matters related to the exporting process. It is expected that this will be of great value, and will be formatted for periodic up-dating.

Resource Center:

ATA is setting up a resource center in collaboration with the Hungarian Folkart Association; the project has purchased a core of reference materials which represent a useful resource for all of its members. The small library will contain marketing and management textbooks, export-import references, U.S. Customs regulations, consumer magazines, trade/industry periodicals, a market forecasting publication, sample catalogs, and a collection of business-related videos.

FINDINGS RELATED TO EVALUATION SOW: "Statement of Work" Continued

6. What macro-economic factors have affected ATA's ability to meet project goals? Specifically, what macro-economic factors affect the Hungarian business climate?

Lack of Credit Access A major constraint which affected Hungarian program clients was the general lack of access to credit. Most small companies were unable to obtain loans with which to finance their production, and this stymied some business opportunities. The sustained high real interest rates of 35%-40% throughout the life of the project rendered available credit a rather meaningless option.

Inflation The inflation rate in Hungary has been a significant factor in the ability of Hungarian artisan enterprises to offer competitively-priced goods and services, particularly in terms of maintaining prices and avoiding damaging price increases. The rate of inflation declined steadily each year of the program until 1994, when it rose 1%. Inflation had stabilized in mid-1994 at an annual rate of 17%; however, in early 1995, there are strong indications that inflation is beginning to escalate; the unofficial rate is now 24 to 30 percent. This is due in part to the government spending programs by the socialist party which won election in May 1994.

| <u>Year</u> | <u>Inflation Rate</u> |
|-------------|-----------------------|
| 1991 | 35% |
| 1992 | 23% |
| 1993 | 16% |
| 1994 | 17% |
| 1995 | 24-30 % (Unofficial) |

Rising Energy Costs Ceramic producers were especially affected by the adjustments from protected, subsidized energy costs to the new, market-based energy prices which reflect real costs. This significantly affected not only their overhead and production costs, but influenced their decisions when up-grading or replacing old equipment such as kilns.

How do these factors impact the production and export of crafts?

Inflation continues to eat into the slim profit margins of producers, who must usually wait between 30 and 90 days or longer to be paid after their goods have been received. Factoring in shipping time, this means that from the time an order leaves the producer, it is likely 4 to 6 months before payment will be received. In addition to creating cash flow headaches, this also leaves time for inflation and currency fluctuations to erode the profit margin. Some Hungarian producers tried to anticipate these factors and raised their prices frequently, which only scared away their customers. Therefore, in order to keep customers, enterprises have had to absorb rising production costs.

CONCLUSIONS

CHARACTERISTICS OF SUCCESSFUL ENTERPRISES

Successful enterprises have several management traits which distinguish them from the rest:

- 1) They are willing to undertake higher levels of risk, in comparison not only with their contemporaries, but in contrast to most western businesses;
- 2) They have a can-do attitude which actively responds to the demands of the marketplace;
- 3) They have gained a knowledge of the market which they apply to their entire business operation, from pro-active marketing efforts, to initiating new product designs, and to customer relations.

The top management of these successful enterprises have relished the challenge of turning around their businesses, and take personal pride in effective leadership. They did not shrink from difficult decisions, and have identified those things which they can do well, and those areas which they must forgo, despite sentimentality, tradition, and personal feelings. This is difficult for someone committed to the preservation of folkart tradition but necessary for the preservation of a business.

A type of sensitive pragmatism colors decision-making: the management recognizes the need to take on commercial business and produce a healthy percentage of non-traditional products as a tradeoff to stay in business, preserve artisan jobs, and continue hand-crafting.

CHARACTERISTICS OF BREAK-EVEN ENTERPRISES

Break-Even Enterprises have been able to weather the upheavals of the transition period to date, which is an enormous achievement considering the business climate. However, many still have not developed a coherent strategy for moving ahead; they lack a cushion of protection, and continue to operate within a narrow profit margin. They now understand their present costs of operating, but have learned this at great expense. Most have had to absorb significant losses due to unrealistic price quotes, which were based on faulty assumptions about energy costs and up-front costs of procuring raw materials, paying wages and general overhead. The rate of inflation has also taken a toll on profits.

A major stumbling block for many break-even enterprises is an unwillingness to seriously confront how to cut their operating costs so that prices can be lowered to meet the price points of major American customers. A stolid stubbornness by some managers to do this was rather remarkable. Aid to Artisans recruited several large U.S. manufacturer/importers who negotiated excellent business with some ceramic producers, but were unable to come to terms with others when they sought to expand their operations. This was very frustrating for the project, because logically, if one company can do it, others should be able to as well. It has not been within the purview of this project to delve into the operations of each participating business and identify inefficiency, but it is obvious that steps should be taken to streamline production.

The typical manager of break-even groups knows change is needed, but often admitted a lack of knowledge about how to proceed beyond their 'treading water' condition. Many of these Break-Even enterprises appeared not to have availed themselves of business advisory services. They seem to hunker down and cope as best as they can, feeling perpetually strained and somewhat beleaguered.

CHARACTERISTICS OF FAILED ENTERPRISES:

Floundering or failed enterprises have several shortcomings in common:

- 1) They have a passive attitude toward marketing;
- 2) They do not venture to take the initiative on problem-solving; instead, they adopt a 'wait and see' stance which leaves them on the sidelines;
- 3) They tend to blame others for their own internal failures and problems.

Failing enterprises have not sought to actively integrate themselves into the business mainstream; they are intimidated by the prospect of business training, learning a foreign language, even travelling. Many failed or failing enterprises do not feel equipped to venture into the unknown, and rationalize their inaction by over-estimating the resources needed to take small but significant marketing steps. A typical argument for marketing inaction: they need much more financial resources and wherewithal to attempt anything. The managers and leadership prefer to talk about the old days, and haven't really come to terms with the crisis circumstances confronting their business.

RECOMMENDATIONS

Project Design:

Program clients and participants need to be involved from the very beginning in developing the project. This fundamental rule for good program design is too often ignored, rationalized by attitudes of "we know best" and "no time or money" to undertake meaningful surveys and needs assessments. This does not change the need for mutual goal-setting and program development, in order that project participants and clients are all on board, understand the goals and objectives, and have an opportunity for inputs and critiques. This is not to assume that program clients always understand the tasks which lie ahead, or the complexities which characterize the challenges. However, it is essential for the project and funding agency to invite participation as early in the project as possible, and adapt the objectives and methodology as appropriate and feasible.

Project Management:

The PVO needs to spend time and energy fostering communication and awareness of its plans, activities, and results. This may appear to take time away from program implementation, but it usually pays off well in terms of increased receptivity and understanding by the clients, and fosters an atmosphere of greater trust. Improving project management can be facilitated by these three basic practices:

1. Establish a regular feedback loop from the PVO to project participants regarding all project initiatives undertaken both in-country and in the U.S.; include updates about macro-economic trends and market conditions;
2. Practice transparency in project implementation, including information about program funding changes, opportunities, and constraints;
3. Develop a partnership relationship with a local NGO. This takes time, and the PVO needs to move carefully in order to affiliate with a reputable and well-managed organization which is respected by program clients.

Business Counseling: A Requirement

Business counseling linkages need to be actively facilitated, rather than left up to the discretion or initiative of the enterprise. Program management should consider making a counseling component be a condition for participation, and be actively involved in making referrals. If so, the program would also need to evaluate the 'fit' or appropriateness of the counseling partner, to insure that the relationship is constructive and productive.

Conflict of Interest Projects which involve private sector partners and which focus on generating business have to be especially careful and sensitive regarding conflict of interest among project participants and salaried project staff. A project participant who is involved in a business in any capacity should not be permitted to hold a salaried position. The project should strive to rely on in-country

resource people who understand professional standards of conduct. Visiting buyers' itineraries should be planned with input from participants, and buyers' schedules should be a matter of open record. Written job descriptions should have a clause which addresses conflict of interest, and the project should adopt general guidelines (which are translated and shared with all participants) which define conflict of interest.

Contracts & Agreements Issues of contracts and agreements should be reviewed with program participants, both in-country as well as businesses recruited by the NGO/PVO. Program participants should be encouraged to seek legal advice outside of the project, through resources such as the Peace Corps Business Volunteers and any other legal and business resource.

Business Ethics & Standards

American businesses should be gently warned about the scrutiny which their business dealings will be subjected to, not only by the project, but by people in influential positions in government and the press. A project cannot afford to be associated with businesses which do not adhere to the highest standards of business ethics and practices.

LESSONS LEARNED

Managing Growth and Opportunities

The new market opportunities may encourage a small enterprise to over-expand its production capacity, threatening the core of the business. Participating enterprises should be linked to a business development program which can provide on-going counseling on how to manage their growth. Many small factories unaccustomed to juggling customers need assistance with planning realistic production schedules. They also need advice on estimating start-up time and costs for new customers with new products.

Raising Expectations & Unrealistic Expectations

The project needs to guard against assumptions by participants that sales at one market will mean automatic sales at the following market. From the beginning, artisan producers should be warned that customers may lose interest, change directions, find new producers, or go out of business; project advisors need to continually remind enterprises that in the free market, *there are no guarantees*.

It is imperative to emphasize that producers are operating in a highly-competitive world market where buyers have the advantage. New enterprises need constant reminders that buyers shop the world for the best prices, and therefore all producers are in competition with India, the Philippines, China-- and each other. This has been a bitter lesson for many producers, who still seem to think that a project can guarantee that a buyer will indeed buy.

It can be frustrating from a programming standpoint to achieve major market successes which are unrecognized as such by program clients. This indicates that expectations are out of line with reality, and it can damage working relationships between the development organization and the program participants. There is a compelling need to prepare project participants for the likelihood of small initial orders, unpredictability, and a long pipeline of investment by both sides before any significant business is transacted. And then, 'significant business' should be defined. One cooperative sneered at a \$30,000 order, while ATA felt the order was substantial.

Risk Levels It is difficult to explain to outsiders the high level of risk and uncertainty which confront Hungarian businesses. The fact is, most U.S. companies or investors would not consider operating under the conditions in which most Hungarian entrepreneurs began their export ventures. Businesses are extremely vulnerable, lacking cash reserves to absorb any set-backs, order cancellations, payment failures, etc. Thus the levels of stress are extremely high, and this affects working relationships among programmers and the private sector.

Risks for U.S. Businesses: U.S. businesses face many unknowns and take additional risks when they enter into business relationships with a foreign producer with limited exporting experience. Importers needs and perspective should be outlined to producers as early as possible, to sensitize them to the protective steps which many importers will take to reduce their risks. In order to recruit buyers, the project needs to provide information about producers as accurately as possible, yet couched with disclaimers for protection.

The Role of the Development PVO: The role of the development organization needs to be clearly defined and continually refined and clarified during the life of the project. Aid to Artisans saw its role as 1) A neutral facilitator who puts buyers in contact with artisan producers and 2) Counsels artisan producers on how best to meet the market's demands. ATA believed that it should try to insure that all parties are reputable, that is, have a record of operating responsibly and in good faith. Beyond this, ATA avoided taking sides on issues between buyers and sellers. This appears to be a sound position, although not always an understood position. The PVO needs to stress that it cannot and will not be put in the middle of any business negotiations, and that market forces should exert the most influence, all other things being equal. The PVO performs a service for both producers and importers, but one which is impossible to quantify.

The Role of USAID: It has been a distinct program advantage to work with a project officer who understands the need to adapt the program to meet new challenges and opportunities. Throughout the duration of this project, the various USAID/Washington project officers have all demonstrated an open and accommodating attitude which facilitated vitally-needed program changes. This is especially essential for a program which had to interface with the private sector and respond to changing markets, the shifting organizational structure of Hungarian businesses/program clients, and the evolving macro-economic conditions within Eastern Europe.

When to End a Program AID has to be sensitive to this issue, as programs raise expectations, and program assistance is often curtailed prematurely. AID needs to have a moral commitment out in the field, listening respectfully to clients' needs and set-backs, and open to the reality that real change occurs in real time. Although no one really knows when is the best time to pull out assistance, by having good participant feedback and realistic time lines to begin with, resentment and disappointment can be reduced. The political vicissitudes which de-stabilize and which render long-term program commitments impossible are very destructive, and ways need to be found to provide more insulation between the decisions and judgements of development experts and these political forces. This is not to be naive; it is simply to go on record.

One of the advantages of working through PVOs is that they generally do form deep commitments to their clients and to their mission, and will go to great lengths to provide services and follow-up support long after a program is 'finished' in terms of direct AID funding support. AID needs to recognize and support this process.

Report Appendix

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- Table 1:** Tracking the Employment Picture: 1991-1995
Table 2: Export Orders Generated Through Project
Table 3: Summary of Major Buyer Activity
- List:** Market Penetration: International Companies Buying
Hungarian Artisan Products

U.S. Small Business Growth: A Welcome Side Effect

Article Reprint: "A U.S. Foreign Aid Project That Has a Hungarian Accent"; *Christian Science Monitor* January 11, 1995

Scope of Work for Final Evaluation

Tracking the Employment Picture: 1991 - 1995

Table 1

| | Employees 1991 | Employees 1993 | Employees 1994 | Percent Change 1993-95 | Level of Program Inputs | Current Status of Business |
|------------------------------|-------------------|-------------------|-------------------|------------------------------|-------------------------------|----------------------------------|
| ARTISAN COOPERATIVE | | | | | | |
| Csaba Carpet Coop | 378 FT | 120 | 120 | 0 % | Medium | Fair |
| Bekesszentandras Carpet Coop | | 160 FT | 130 | -19 % | Medium | Fair |
| Budapest (Mixed) | 656 FT & PT | | 0 | -100 % | None | Bankrupt |
| Debrecen Handicrafts | 180 FT/80PT | 115 FT/96 PT | 130 FT/30 PT | + 13 % | High | Surviving |
| Enci Factory | | 172 FT | No Data | No Data | Low | No Info |
| Gobelin Embroidery Coop | 551 | | | No Data | None | No Info |
| Gyula Folkart & Handicrafts | 340 | 225 FT | 100 | - 45 % | Medium | Fair |
| Heves Folkart & Handicraft | 415 | 246 FT/154 Pt | 290 | + 17 % | High | Excellent |
| Hodmezovasarhely Ceramic | 130 | 135 FT | 100 | - 16 % | High | Good |
| Hodmezovasarhely Embroidery | 285 | 160 FT | Re-forming | N/A | Low-Med | Re-building |
| Jaszarokszallas Embroidery | 407 | | | No Data | None | No Data |
| Kalosca Textile | 900 FT & PT | 76 FT/352 PT | 0 | - 100 % | High | Bankrupt |
| Kaposvar Ceramic Coop | 70 FT | 100 FT | 80 | - 20 % | Med-Hi | Good |
| Karcag Ceramic | 45 FT | 29 FT | No Data | No Data | Low-Med | Poor |
| Karcag Embroidery Coop | 140FT/10PT | 120 FT/10PT | 120 FT/10 PT | 0 % | High | No Info |
| Kiskunhalas | 153 FT & PT | | No Data | No Data | None | Bankrupt |
| Mako Coop of Folk Art | 85 | 69 FT | 69 | 0 % | High | Fair |
| Matyo Textile, Mezokovesd | 1,100 FT & PT | 193 FT/64 PT | 170 | - 12 % | High | Fair |
| Mezobereny | 71 | 69 FT | No Data | No Data | Low | No Info |
| Mezotur Ceramic Coop | 136 FT | 67 FT | 76 | + 13 % | Low | Excellent |
| Oscod | 52 FT | No Data | No Data | No Data | None | No Info |
| Paloc Textile Coop | 288 FT & PT | | No Data | No Data | None | No Info |
| Pecs Textile | 127 FT & PT | 125 FT | | No Data | Low | Poor |
| Sarkoz Folk Art Coop, Decs | 215 FT & PT | | | No Data | Low | No Info |
| Sarospatak Ceramic Company | | | 150 | No Data | None | Excellent |
| Siofok Embroidery Coop | 200 FT & PT | 190 FT | | No Data | Low | No Info |
| Szeged Union | | | | No Data | Low | No Info |
| Szeged Weaving Coop | No Data | | | No Data | Low | No Info |
| Szeksard | No Data | | | No Data | Low | No Info |
| Turi Carpet KFT | No Data | | 80 | No Data | Low | Good |

**EXPORT ORDERS GENERATED THROUGH AID TO ARTISANS'
EXPORT ENHANCEMENT PROGRAM/HUNGARY**

Table 2

| U.S. IMPORTER | ORDERS 1991 FOB Hungary | ORDERS 1992 FOB Hungary | ORDERS 1993 FOB Hungary | ORDERS 1994 FOB Hungary | ORDERS 1995 1st Qtr. FOB | Cumulative Orders |
|--------------------------------|--|--|--|--|---|------------------------------|
| Samii Clothes/Lanya | N/A | Samples | \$27,525.00 | \$34,328.69 | \$30,142.00 | \$91,995.69 |
| The Sandor Collection | \$11,270.00 | \$17,927.00 | \$68,700.00 | \$100,000.00 | \$25,000.00 | \$222,897.00 |
| Associated Merchandising Corp. | | \$15,000.00 | \$46,500.00 | \$75,000.00 | No Report | \$136,500.00 |
| EEE Group, Inc. | N/A | \$18,000.00 | \$31,400.00 | \$18,340.00 | \$13,500.00 | \$81,240.00 |
| Chandler Four Corners | | \$52,255.00 | \$3,635.00 | \$3,335.00 | No Report | \$59,225.00 |
| Mesa International | N/A | No Report | \$52,000.00 | \$200,000.00 | \$50,000.00 | \$302,000.00 |
| Aid to Artisans, Inc. | \$2,500.00 | \$2,500.00 | N/A | \$1,750.00 | N/A | \$6,750.00 |
| Agent: Bujnyik es Tarsa | N/A | | \$7,500.00 | \$15,000.00 | No Report | \$22,500.00 |
| Agent: Todorne Export | N/A | | \$4,128.00 | \$20,149.00 | \$4,521.00 | \$28,798.00 |
| Mariska | N/A | | \$17,000.00 | \$14,600.00 | No Report | \$31,600.00 |
| The Hemmeter Collection | Samples | \$14,000.00 | No Report | Out of Business | N/A | \$14,000.00 |
| Dayton-Hudson | N/A | No Report | \$30,000.00 | \$15,000.00 | No Report | \$45,000.00 |
| Boston Museum Fine Arts | N/A | \$6,400.00 | Now orders through importers | | N/A | \$6,400.00 |
| Ceramica | N/A | \$2,000.00 | No Report | \$0.00 | \$0.00 | \$2,000.00 |
| Midwest of Cannon Falls | N/A | N/A | | N/A | Samples | |
| Kinga Szabo Designer/Salary | N/A | N/A | \$10,000.00 | No Info | No Info | \$10,000.00 |
| AMS Imports | N/A | N/A | \$500.00 | \$0.00 | \$0.00 | \$500.00 |
| Other Miscellaneous Companies | N/A | No Info | \$7,500.00 | \$10,000.00 | \$3,500.00 | \$21,000.00 |
| TOTALS | \$13,770.00 | \$128,082.00 | \$306,388.00 | \$507,502.69 | \$126,663.00 | \$1,082,405.69 |

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SUMMARY OF MAJOR BUYER ACTIVITY DURING THE LIFE OF THE PROJECT

| COMPANY | BUYING CONTACTS | PRESENT STATUS |
|--------------------------------------|---|----------------|
| AMS Imports | 1 Buyer Visit 1993 | Inactive |
| Associated Merchandising Corporation | 6 Buyers Initial Visit; 2-3 Buyers x 4 Years | Active |
| Chandler Four Corners | 2 Buyers Visit annually | Active |
| Dayton-Hudson | 1 Buyer Visit Annually since 1992 | Active |
| EEE Group, Inc. | 2 Buyers multiple visits each year since 1992 | Active |
| Esprit | 1 Buyer Visit 1994 | Inactive |
| Expo Arts | 1 Buyer Visit 1994 | Active |
| Macy's | 2 Buyers Visit 1994 | Active |
| Marian Clayden | 1 Buyer Visit 1992 | Inactive |
| Mariska | 1 Buyer Visit annually | Active |
| Mesa International | 2 Buyers Visit Annually x 5 Years | Active |
| Midwest of Cannon Falls | 2 Buyers Visited 1995 | Active |
| Nitza Etra-Dagan | 1 Buyer Visit 1993 | Inactive |
| Potscape | 1 Buyer Visit 1995 | Active |
| Samii/Lanya | 1 Buyer Annually x 4 Years | Active |
| Sundance Catalog | 1 Buyer Visit 1994 | Active |
| The Sandor Collection | 2 Buyers Annually x 5 years | Active |
| The Intex Group, Inc. | 1 Buyer Visit 1995 | Active |
| The Hemmeter Collection | 1 Buyer Visit 1993 | Inactive |
| The Gap | 1 Buyer Visit 1994 | Inactive |

Table 3
Report Appendix

U.S. Small Business Growth: A Welcome Side Effect

SAMII CLOTHES/LANYA

This is a small Vermont-based company owned by Gay Ellis. At the beginning of the project, Samii's product line was children's outerwear fashions. Because of the special manufacturing potential of the Hungarian felt artisans, Ms. Ellis designed an entire new product line of mother-daughter coats and accessories called "Lanya". The company buys U.S.-manufactured felt and ships it to Hungary, where it is handmade into cut-and-sewn felt trims which are then imported into the United States. American women workers in rural Vermont sew the garments.

No. Employees 1991: 1 FT, 1 PT, 12 Home-Based

No. Employees 1994: 3 FT, 1 PT, 39 Home-Based

Sales Volume 1991: \$300,000

Sales Volume 1992: \$327,000

Sales Volume 1993: \$578,000

Sales Volume 1994: Over \$1 million

THE SANDOR COLLECTION

This is a small family business located in Connecticut. It specializes in Hungarian artisan products, and has grown from a part-time, home-based business to a full-time, growing business. Sandor uses independent contractors --cottage-industry women and handicapped workers in Connecticut and West Virginia--to sew and assemble some of its components imported from Hungary.

No. Employees 1991: 1 PT

No. Employees 1995: 3 FT; 12 PT

Sales Volume 1991: \$12,000

Sales Volume 1995: \$600,000

EEE GROUP, INC.

In 1991, this small company operated two retail shops, one in Oregon, one in New Mexico. In 1992, the owner, Judith Espinar, travelled to Hungary at her own expense, where, with project guidance, she toured ceramic production sites and decided to undertake a manufacturing business, called EEE Group, Inc. Ms. Espinar collaborated with a Hungarian designer, Kinga Szabo, to produce a 'signature line' of ceramics which was made at the Hodmezovasarhely cooperative. After two years of planning and development, the new line was introduced at the January 1994 New York International Gift Fair, and was a big success. Initial orders were approximately \$25,000, and EEE Group immediately placed a large order with the Qualitas Import-Export Company, the former Hodmezovasarhely coop. Although many production and legal problems plagued the venture during 1994, these have been resolved, and

U.S. Small Business Growth: A Welcome Side Effect

Cont.

EEE GROUP, INC. (cont.)

the market demand for the new dinnerware products has been overwhelming.

The company has expanded to become a major importer and wholesaler. In late 1994, Ms. Espinar took on a full partner, Maggie Nugent, who works full-time marketing and overseeing production. The company has also expanded its staff to include warehousing, shipping, and sales.

Company formed in 1992: No revenues
Sales Volume in 1993: No sales revenues yet
Orders 1994: \$25,000
Projected Sales for 1995: \$150,000

No. Employees 1992: 2
No. Employees 1993: 2 PT
No. Employees 1994: 2 FT, 2 PT
No. Employees 1995: 2 FT, 3 PT

CHANDLER FOUR CORNERS

A Vermont-based mail-order company, Chandler began manufacturing high-quality tapestry products in Hungary in 1992, thanks to the AID/ATA program. Chandler sold both retail and wholesale, but because the Hungarian products are expensive and high-end, Chandler decided in 1993 to expand its operation by opening its own retail store in New Hampshire. Chandler imports the tapestries, which are then sewn into finished pillows, initially at the Watermark Craft Cooperative in North Carolina, and presently by independent contractor in Vermont.

Sales Volume 1992: \$20,000
Sales Volume 1993: \$45,000

No. Employees 1992: 1 FT, 15 PT Home-Based
No. Employees 1995: 2 FT, 2 PT

MARISKA

A New York-based company which started in 1991 as a result of business opportunities in Hungary and the ATA project. The company initially specialized in importing Hungarian crafts, but in 1993-94, it has expanded its product line to include American made crafts. From a 2-person operation, it now is a family business with American designers and a growing list of wholesale accounts.

ESTIMATED Sales Volume 1991: \$30,000
ESTIMATED Sales Volume 1993: \$50,000

No. Employees 1991: 1.5 FT
No. Employees 1993: 2 FT, 3 PT

A US Foreign Aid Project That Has a Hungarian Accent

By Margaret Powell

A VISIT to Budapest overwhelms the foreign tourist with contrasts between romantic tradition and the new, businesslike Hungary. Yes, the Danube sweeps majestically through the city, at once dividing and uniting Buda and Pest, its banks exquisitely decorated by ornate buildings and bridges. Just moments away, however, one winces at capitalism and the invasive American culture. Banners and signs for Burger King, Pizza Hut, and such adorn the city streets and the famous promenade, Vaci Utca.

But what is not apparent in this country is an American presence of a different sort: a four-year, \$729,000 project helping Hungarian artisans. Funded by the Agency for International Development, the Connecticut organization Aid to Artisans (ATA) has helped skilled but struggling workers in the folk-art crafts to blossom in a world market.

Because craft cooperatives were state supported for over 40 years, the artisans had little experience in modern technology and product design. They didn't understand the importance in business of initiative, assertiveness, or competition. The dismantling of communism led to soaring inflation, which greatly diminished the domestic market for folk art; Hungarians who could buy wanted to spend their money at last outside the Eastern bloc. The artisans' future looked bleak.

ATA moved quickly to help - not to give cash, but to rescue the artisans from an information vacuum by holding seminars on exporting, product design, and marketing. American buyers were invited to see the high-quality, low-cost products. Enthusiasm

was high, but much had to be done to serve the new markets: redesigning of folk art to accommodate American taste, providing more color, eliminating lead glazes, and guaranteeing exclusivity of product lines.

Today, elegant feltwork hats, jackets, and mittens by Hungarian artisans appear in top catalogues such as those of the Smithsonian and the Museum of Fine Arts in Boston, through importer and designer Gay Ellis of Sheffield, Vermont. Ms. Ellis, charmed by Hungarian items in ATA's booth in the 1991 New York Gift Show, designed clothing based on the shepherd's *szur* or cloak, and worked directly with Ica Iodorne, the export agent for her textile cooperative in the eastern Hungarian town of Debrecen.

Ellis's company, LANYA (meaning daughter) employs local American workers to finish and assemble each garment. Her brochure depicts her interpretation of the folk art tradition handed down from mother to daughter over the centuries.

JEFF DANZIGER - STAFF



ter) employs local American workers to finish and assemble each garment. Her brochure depicts her interpretation of the folk art tradition handed down from mother to daughter over the centuries.

She typifies the small but real success stories of our increasingly domestic market resulting from this American foreign aid project. Many obstacles still exist on

both sides. But already the double payoff is the rescue of artisans and their unique skills from oblivion, and real economic benefits to buyers and workers in our country.

Tourists won't find street banners advertising this foreign aid project, but here's something good that America is doing in the former Eastern bloc, and it's good for Americans, too. We need to know about it and be proud of the people that put it together.

■ Margaret Powell recently joined the team for an evaluation tour of Hungarian craft and folk-art cooperatives and artisans being aided by USAID through Aid to Artisans.

3. Background

The Export Enhancement Program/Hungary was designed by Aid to Artisans, Inc., a U.S. PVO dedicated to helping disadvantaged artisans increase incomes through the development of sustainable craft businesses. The project's goal was to provide artisans and artisan cooperatives with product development assistance, business training, and direct access to key markets that would enable businesses to function independently in Hungary's new free market system. The project targeted primarily rural artisans, 90% of whom are women.

The project addressed the following problems:

- Growing unemployment in Hungary, especially among women, and a lack of business skills necessary to run a competitive business in the free market system
- National economic problems, including declining employment opportunities, unconvertible currency, and fear of privatization
- A human resource deficit, specifically a lack of business and export experience
- The need for high quality, market-sensitive products and an effective export marketing vehicle
- The gradual decline and loss of traditional craft production skills
- The need to address ecological concerns in craft production processes
- A lack of support of craft cooperatives in Hungary, leading to the disbanding of many once-active craft groups.

Since beginning this project in 1991, ATA has accomplished the following activities:

- Conducted a business analysis of all major artisan cooperatives in Hungary
- Conducted Product Development Workshops at 30 sites throughout Hungary
- Conducted Basic Business Workshops at 30 sites throughout Hungary
- Implemented an effective U.S. and Buyers to Hungary marketing campaign that has resulted in orders for Hungarian crafts from such notable buyers as: Esprit, the Boston Museum of Fine Arts, Marian Clayden Designs, the Hemmeter Collection, Mesa International, EEE Group, Jack Lenor Larsen, Chandler Four Corners, Mariska, Samii Clothes, and The

- Sandor Collection.
- Achieved export sales of approximately \$530,000 for artisan products, a figure that should continue to climb dramatically now that businesses have reliable market contacts, established product lines, and basic business skills.

Export Enhancement Program/Hungary beneficiaries include approximately 2,000 artisans, with another 6,000 individuals indirectly affected.

4. Statement of Work

In addition to answering the questions outlined on page 1 of this document, the Final Evaluation of ATA's Export Enhancement Program/Hungary will answer the following questions:

1) To what extent did Year 3 of the project follow its predicted course, as outlined in the original proposal and the Cooperating Agreement itself? What are the reasons for any deviations?

2) To what extent did ATA incorporate recommendations made in the Final Evaluation Report into Year 3 of the project? How effective were these recommendations?

3) Given the added perspective of Year 3, were any of the assumptions of the original proposal found to be false? How has that knowledge affected the course of the project?

4) To what extent has ATA's marketing structure been effective? On an implementation level:

- Which markets has ATA accessed?
- To what extent has each contact led to real orders for artisans?
- What effect, if any, will these buyers have on sustainability of businesses?

5) What steps has ATA taken to assess and meet artisans' business training needs? What further steps could have been taken?

6) What macroeconomic factors have affected ATA's ability to meet project goals? Specifically:

- What macroeconomic factors affect the Hungarian business climate?
- How do these factors impact the production

and export of crafts?

The final evaluation report will provide empirical findings to answer these questions, draw conclusions based on the findings, and offer recommendations for the future course of the project.

5. Methods and Procedures

The evaluation will be conducted using the following methods:

- Thorough critical review of all project documents, including:
 - Original proposal
 - Implementation Plan
 - Cooperating Agreement
 - Consultants' Journals
 - Consultants' Reports
 - Quarterly Reports to USAID
 - Correspondence with USAID
 - Year 2 Final Evaluation
 - All Other ATA Hungary Files
- Interviews with ATA project personnel, for the following purposes:
 - Project Manager and ATA President Clare Smith: To gain ATA management's opinion of overall project strengths and weaknesses and to hear preliminary plans for Year 3
 - Field Consultants: For information on original technical objectives, field conditions, changes in original product development plans, and the factors that inhibit improved design and production.
 - Open-ended key informant interviews with representatives of selected cooperatives and individual artisans. These interviews will focus on gathering both quantitative and qualitative data, including:
 - attitudes toward ATA and ATA methods of assistance
 - recommendations for improved assistance should an extension be funded
 - cooperatives' assessment of their own needs in design, marketing, and business

- training
 - broad plans for future cooperative development
- Open-ended interviews with staff of selected foreign trading companies, including Folk Art Trading and Kelimart, to gain insight into status of large-scale commercial crafts exports and the companies' assessment of the overall ATA program (Year 2 perspective).
- Meeting with Zoltan Varkonyi (USAID/Hungary Mission Representative) to discuss USAID's current goals for development in Hungary and Eastern Europe and how the ATA project has helped to meet these goals.

Evaluation work has already begun by both the ATA evaluator and the independent evaluator, in that both team members are familiar with project history and current achievements. The internal evaluator participated in both the mid-term and final evaluations in 1992 and 1993. The in-country portion of the evaluation will occur during two weeks between November 1 and November 30, 1994.

Success in gathering most of the data outlined above may be impacted by the following factors:

- Unavailability of key informants: Every effort has been made to secure in advance appointments with coop administrators. Should top administrators prove to be unavailable at the time of the evaluation team's visit, the team will talk to other key personnel who are available.
- Unwillingness of informants to provide information: Coop staff and administrators and individual artisans support the ATA project and should be willing to offer ideas and opinions without reservation. They may be reluctant to criticize the program, however, or to provide data that would reveal the poor economic condition of a coop or any lack of self confidence in their abilities to meet orders created by ATA activities.

6. Evaluation Team Composition

The evaluation team will include:

- Kate Kerr, ATA Development Specialist and Hungary Project Liaison, will be the ATA evaluator.

- Mary Lee McIntyre, ENI/HR/EHA will be the independent evaluator.

Other USAID staff from the Hungary Mission office may accompany the evaluation team as their schedules allow.

7. Reporting Requirements

The ATA evaluator and independent evaluator will prepare a report outlining:

- the purpose of the evaluation
- the social, economic, and political context of the project (including a brief macro-economic review of current conditions in Hungary)
- team composition and study methods
- questions asked during the evaluation
- findings of the evaluation
- conclusions and recommendations for the future of the project.

The report will also include an Executive Summary, a Project Identification Data Sheet, and Appendices, which will include a copy of this Scope of Work document, a list of documents studied, and an annotated list of cooperatives and individuals contacted.

The report will be due within 30 days of the team's return to the U.S. from Hungary.

8. Funding

This evaluation will be funded through funds obligated and already paid to the project under the terms of the Cooperating Agreement. Additional funding may be provided by USAID for the external evaluator in keeping with USAID staff evaluator regulations.

Findings Appendix

**FINDINGS APPENDIX:
PROFILES OF PARTICIPATING ENTERPRISES**

| | |
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HEVES TEXTILE COOPERATIVE

HEVES

The U.S. is only 5% of Heves' export market at the moment, but the profit is greater in the American market than in others. The coop is in good financial condition, but they couldn't give an exact profit margin; at this time they are recycling their earnings back into new product prototypes. They believe their investment in new product designs and marketing will pay off in two to three years, and would like to double their exports to the U.S. in 1995.

| | | |
|------------|---------------------------|--------------|
| SALES DATA | Total Sales 1994 to date: | \$1, 200,000 |
| | 70% of that is export: | \$ 840,000 |
| | U.S. Export Sales: | \$ 50,000 |

The coop's new designs clearly demonstrate that their designer is tuning into the American consumer's taste. Applying what she has learned by working with ATA's product designer, and what she observed in the U.S. market training trip, she has developed wonderful new items including a line of new Christmas ornaments.

Note: the coop has an order from the U.S. Navy for their PX Stores worth \$50,000. The order was placed via Folkart Centrum who made the contact at the Frankfurt Fair.

The president was very positive about the ATA program, including her trip to the New York International Gift Fair and the ATA business training seminar. Their major problem will be to exhibit continually. They made 21 new customer contacts at the NYGF, and realize they must aggressively follow up in order to continue the momentum. Midwest of Canon Falls and Sylvestri are major new clients which they are wooing.

HEVES TEXTILE COOP

(cont.)

The keys to their success:

- 1) Flexible workforce: Heves is training their workers to be proficient in several media and techniques. They have been able to avoid worker layoffs by shifting worker assignments in response to varied production orders.
- 2) Cooperation: Heves has cooperated extensively with other cooperatives during the past two years in an effort to broaden their product line; this enables them to produce more complex products. For example, they work with Matyo Embroidery Coop.
- 3) New product designs: The coop president predicted that this year will be very successful allowing them to increase wages by 25%. However, they also expect that inflation will eat up the increase, so it will really amount to a cost of living raise. When compared with the performance of other cooperatives, and factoring in the macro-economic realities, this is a real achievement.
- 4) Political Clout: The Hungarian Ministry of Trade sponsored their participation in a trade show in Japan, and funded the production of a new full-color catalog for all of the cooperatives in the Association which cost \$30,000. It is a glossy production, but of questionable value to each cooperative beyond the Japanese distribution. However, it prominently features the Heves Cooperative.
- 5) Initiative and Cost-Sharing: The coop paid the expenses of their designer, Margeaux, to join the ATA-sponsored trip to the U.S. for marketing training. This kind of initiative and team spirit certainly contributes to their overall success.

DECS TEXTILE AND EGG PAINTING COOPERATIVE

Background

Founded in 1952, the coop flourished during the 1970's but floundered during the general economic decline of the 1980's. The government's policy was to buy up unsalable merchandise for barter with other COMECON members; even with the 'guaranteed customer', the coop would have failed had it not diversified into contract sewing. After the coop privatized, the members advertised for a top manager with demonstrated experience. The new president is a chemist and economist, with experience working for a ceramic and chemical company in Germany; he took on the job two years ago, relishing the challenge.

Employment Data

The cooperative has actually increased its workforce during the past year, adding 5 full-time positions and 10 part-time workers. Their workforce is flexible and skilled, with many workers able to do a variety of jobs.

Production

The coop has 16 hand-looms and 8 power looms in use, with the capacity to produce 150,000 meters of cloth per year. Under the management of the new president, the coop invested in quality used equipment to upgrade their production capacity. The president sees the coop's future in the power looms rather than the hand-looms, citing the low labor cost advantages which their competitors in China and India hold in the hand-loom goods market.

Financial Condition

The president described the coop as a very profitable operation with a steadily-expanding customer base. They are investing in staff, marketing, design, and equipment.

Sales Data

| | <u>1993</u> | <u>1994 (Jan.-Sept.)</u> |
|-----------------------|-------------|--------------------------|
| GROSS SALES | \$ 362,000 | \$ 470,000 |
| EXPORT SALES | \$ 22,000 | \$ 0* |
| EXPORT TO U.S./Canada | \$ 5,500 | \$ 5,000 |

* Originally included \$70,000 order for Togo being readied for shipment but later canceled.

Marketing Activities

The coop has undertaken modest but effective promotional activities; by sending out letters to the trade representatives at diplomatic missions world-wide, and by answering newspaper ads, the coop has landed some surprising business, including an order worth \$70,000 of cloth and finished textile products for Togo.

Unfortunately, just before this order was to be shipped, it was canceled. Now, it is uncertain as to what the implications and outcome will be.

Interestingly, this coop perceives the domestic market as rebounding; during the second half of 1994, they have had steady sales growth in this market. However, they see the export market as their main growth area.

Product Development

The designer explained that they are "always trying to develop a new line." The coop has sent its designer to Italy and Austria to visit trade fairs; they feel they know the European market, but need to know more about the American market. The coop designer has produced 10 to 12 new lines in the past two years which were very successful in the domestic market. However, the base price of linen has skyrocketed to five times its old cost, and therefore is impossible to sell in Hungary. In July, the coop shipped a small order of linen goods to a buyer in France. Their most profitable products are table linens and curtain textiles; their contract sewing division is also profitable.

Assessment of ATA Program

This cooperative is perceived by the management as only recently actively included in the ATA program, although in 1991 they were visited twice (by a product development team and once by a business analysis team). This was before the current president was hired. However, The Sandor Collection (an ATA-referral) and Mr. Bujnyik, export agent, have both been working with the coop. Mr. Bujnyik has taken several samples of products for presentation to U.S. buyers; The Sandor Collection has made modest purchases, and is planning new orders. The president said that it was very useful to work with Ms. Karvazy of The Sandor Collection, and that the business training seminars were useful for its contacts with American buyers. A few samples were presented at the New York International Gift Fair, and caught the attention of a high-end company, Anachini; this may lead to further orders. The president expressed regret that they had not been more involved with the ATA program earlier.

TURI FAZEKAS KFT, MEZOTUR

This company represents the most sophisticated enterprise with which the ATA program has worked. They've had their export license for over 5 years, and are proud of the fact that they can claim credit for securing most of their connections.

Currently, they are selling to major U.S. retail catalogs, including Pottery Barn, Williams Sonoma, and Gardener's Eden. Their exports now account for approximately 85% of their annual gross sales, and they have determined that the American market represents the most area of growth.

They market by participating in the Frankfurt fair; in addition, they have an aggressive domestic advertising campaign, and network through international and regional information banks, Chambers of Commerce, trade councils, and Hungarian embassies. They attribute their success partly to the fact that 70% of their workers are highly-motivated shareholders who understand that their performance affects the health of the company and their profit-sharing.

Employment Data

The company has been able to maintain its number of employees at 76 full-time workers for the past two years (1993 and 1994). They do not have any part-time workers.

Sales Data

| | | |
|------|----------------|----------------------|
| 1992 | Gross Sales | \$ 120,000 |
| 1993 | Gross Sales | \$ 560,000 |
| 1993 | Export Sales | \$ 481,000 (86%) |
| 1993 | Export to U.S. | \$ 65,000 |
| 1994 | Gross Sales | Figures not supplied |
| 1994 | Export to U.S. | \$ 150,000* |

Production The factory makes a wide range of ceramic products: over 300 different products annually; counting the different colors and sizes, this translates into over 4,000 stock-keeping units. This means they have a highly-sophisticated production capacity, and have good production management methods in place. All of their products are low-temperature terra cotta wares, most of them glazed. They combine various hand-crafting techniques to produce high-quality items which are a cut above their competition in developing countries.

TURI FAZEKAS KFT, MEZOTUR (Cont.)

Value of ATA Program

Their one 'big prospect' through ATA was EEE Group, Inc.; however, they couldn't come to terms on pricing with Ms. Espinar, and the deal fell through. (Ms. Espinar compared ceramic producers, making them compete for her business; this soured some people, who were not accustomed to this practice.)

They attended the ATA business training seminar, where they checked out their competition. They felt comfortable, realizing that they already had a grasp of the American market's demands, relative to the others.

Summary of Needs: This company is doing quite well, and has demonstrated its ability to function independently in the export market. They do not need further assistance, and it is doubtful that they ever needed ATA. They had a head start on the other coops at the beginning of the project, having functioned in the export market so many years earlier, evidence of savvy management. They could be an excellent model for other companies, but would they would be willing to teach their competitors?

KINGA SZABO, Designer

Budapest

Kinga Szabo is a multi-talented designer with an zest for life. She comes from a respected Hungarian family long recognized for their artistic talent. She is both a skilled potter, having trained at the Mezotur Ceramics Coop, as well as a gifted sculptor in ceramics.

Business Activities

Kinga's career has bloomed during the ATA project period. In addition to her contracts with several U.S. companies, she designed a line of formal dinnerware for the prestigious Zsolnay Porcelain company. Kinga is under contract with EEE Group, Inc., a manufacturing venture of Judy Espinar, owner of three galleries. Ms. Espinar invested in a line of dinnerware, and hired Kinga to design it. This was a major career opportunity for Kinga-- her own signature collection. She has earned significant design fees, and all of her expenses have been paid. She will earn a royalty on the sale of the line, which is expected to be considerable.

This period has not been without its difficulties; the process of negotiating a formal agreement with EEE Group, Inc. seriously strained Kinga's relations with the company. Most of the problem arose due to zealous legal advice from a Peace Corps volunteer attorney, who encouraged unrealistic expectations and fostered an adversarial relationship with the company which nearly scuttled the relationship. Now Kinga is working with The Sandor Collection, designing a line of tabletop ceramics and linens. The Sandor Collection is small, and is not able to pay the design fees which Kinga managed to command from EEE Group, Inc. She may now realize how exceptional her deal with EEE Group actually is.

Kinga has lived long enough to know that nothing comes without hard work and sacrifice, and has enthusiastically embraced the challenges and opportunities which the new era in Hungary have opened up. She is learning to put her business experiences into perspective; this is a process of learning to trust her instincts, and to recognize that the American way of doing business is a blend of both formal and informal agreements which together create a business relationship.

QUALITAS EXPORT IMPORT COOP

Hodmezovasarhely

The former Hodmezovasarhely Ceramic Coop has reorganized into several separate cooperatives during the past year. Whereas before they were a conglomeration of industrial products and pottery, now there are *two* pottery cooperatives and one industrial products cooperative. This was a strategy to avoid genuine bankruptcy and to save their cooperative from financial ruin caused by bad debts.

Sales Data Estimates

| | 1993 | 1994 (Jan.- Sept) |
|-----------------|----------------|-------------------|
| GROSS SALES | \$ 418,000 | \$ 630,000 |
| EXPORT SALES | \$ 275,000 | \$ 360,000 |
| EXPORTS TO U.S. | \$ 15 - 20,000 | \$ 50,000 |

It can be noted from the figures shown above that the coop has had steady increases in its sales, including its export sales. Sales to the U.S. market have more than doubled in the past year; these sales are directly the result of the coop's business with ATA-recruited companies, EEE Group, Inc. and Mesa International.

Employment Situation

The coop has been able to keep a stable workforce employed during the past two years, even during restructuring of the company. The coop has had to reshuffle workers into different positions in order to keep them; this flexibility is a definite asset. The coop employs about 100 people.

Production Issues

The coop has struggled to change its production processes to meet the demands of EEE Group, Inc. The major challenge was to find new glaze materials which would meet the dinnerware standards in the U.S.; ultimately, the coop had to switch from underglaze painting (too much lead and other heavy metals) to overglaze painting. Shifting production methods translated into significant time invested in testing new materials and processes, and training workers to use the new technology.

There was confusion and a lack of information about the food-safe glaze standards required by the U.S.; although the coop asked ATA for assistance in obtaining this information, none was forthcoming. The coop first had to rely on incomplete information from EEE Group; later, Mesa International provided complete technical information *in Hungarian*. Without this, it is doubtful that they could have complied in time for the EEE Group order.

The coop's next challenge will be to replace their current kiln with a new model. The kiln in use has reached the end of its life span and debris from the deteriorating kiln is contaminating the wares. The coop needs to switch to a gas-fueled kiln, to avoid the excessive expenses of firing by electricity. They want to buy a kiln with more sophisticated electronic temperature controls to further increase their quality control. The coop president revealed that he has fired most of EEE Group's production order at his own home kiln, since the large kiln at the factory is so inadequate and unreliable. The general kiln specifications were noted, and ATA will provide information to assist with the identification of a replacement.

Marketing Activities by the Coop

The coop has undertaken a modest amount of marketing activity. They exhibited at the Frankfurt Fair in 1993 but had to forgo in 1994, due to lack of money. However, they participated in some domestic trade shows.

Product Development

The coop does not have its own designer; most of their products are made using designs provided by the customer. In the beginning phase of the project, they did not work with ATA's designer because the previous president did not want to work with U.S. buyers! The current coop president is rueful about the missed opportunity.

Kinga Szabo, an independent designer based in Budapest and under contract to EEE Group, Inc., is currently working at the coop, overseeing the production of EEE Group's new dinnerware which she designed, and developing the next season's additions to the line. At the time of the evaluation visit, she had assumed a large role: training workers, developing methods to assure quality, and creating new designs. Although she appeared to have a good working relationship with the coop, and they are appreciative of her abilities, nevertheless it was determined that in fact many workers resent her close supervision.

Assessment of ATA's Program

The coop president was positive about the ATA program, citing the following benefits to his business:

- ATA brought buyers to Hungary such as Judy Espinar
- ATA put exhibited their products at the New York Gift Fair
- ATA's business training seminar in Matrahaza was useful

Major Challenges:

The long lead time to develop a new product line on behalf of a new customer presents its own problems; the coop must continue to function and solve problems, pay its bills, etc.

Observations:

The businesses which ATA has linked the coop to have provided their own product design assistance; Judy Espinar (principal of EEE Group) came to the coop for 3 weeks and worked closely with the Hungarian designer and the coop management. Jerry Barnes, president of Mesa International, also came to help with production issues. This is clear evidence of the responsible attitude of these ATA-recruited companies; without this type of commitment, it would not be possible for the coop to fulfill the demands of and compete in the U.S. market.

It is to the coop's credit that they have managed to afford the research and development phase necessary in order to respond to new market opportunities. The pro-active management style and willingness to undertake major changes in its operations and way of doing business, to work on speculation for a foreign customer-- which is to take an enormous risk-- all indicate the ideal blend of ingredients necessary for eventual success.

GYULA RUG COOPERATIVE

GYULA

Description of Cooperative

The Gyula Cooperative is 40 years old and was privatized in 1991. Their original objective was to continue the traditional style of their region. Today, however, they are committed to adapting their products to the modern market while maintaining their tradition of high quality. They make two basic types of rugs: 1) wool rugs of all styles; 2) cotton rag rugs produced on home looms. Years ago, the cooperative employed over 1,000 people. Today, it employs only about 100 workers.

Estimated Sales Data

| | | |
|------|---------------------------------|------------|
| 1993 | Gross Sales | \$ 645,000 |
| 1993 | Export Sales | \$ 215,000 |
| 1993 | U.S. Export Sales | \$ 53,000 |
| 1994 | Gross Sales (Jan.- Sept.) | \$ 450,000 |
| 1994 | Export sales (Jan.- Sept.) | \$ 180,000 |
| 1994 | U.S. Export Sales (Jan.- Sept.) | \$ 50,000 |

The cooperative predicts that their gross income will be about \$50,000 less than last year.

Marketing Activities

Their export sales have grown dramatically in the last ten years. They've been in the U.S. market for about 15 years, originally via Artex Trading Company. Since they didn't work directly with the U.S. market, they realize now that they don't know much about it. They now have a limited relationship with Concepts International, which shows a small portion of their product line; Concepts has undertaken major marketing activities, including representation at U.S. trade fairs in 1995.

Anna Schewe of AMS Carpets (an ATA referral) has expressed an interest in becoming their agent; they are currently evaluating her offer. ATA advised them to seek legal advice on the contract agreement, which should 1) specify the geographic territory in which Ms. Schewe would represent them; 2) define marketing performance minimums.

They are registered in the EuroPages and are interested in listing in an American market directory. They attend the Hanover Carpet Fair in Germany annually, and maintain personal contacts with all of their buyers. They travel throughout Hungary, showing samples, visiting customers, looking for new business.

FINAL EVALUATION
FINDINGS/APPENDIX

Product Development and Strategies for Competition

The coop is conscious of its history and tradition; they feel their high degree of skilled artisnry and use of high quality raw materials makes their product superior products from the Far East. They have made an effort to increase their competitiveness through the use of academy-trained designers. ATA worked with several designers, trying to attune them to market trends in America, where lifestyles and tastes are very different from those of Western Europe. Presently, most of their rugs appeal more to European tastes. This is a dated look as far as the U.S. market is concerned, and the designers have a lot to learn about the American market. Yet they believe that the U.S. market is their future, and some of their biggest buyers are American. A major obstacle is the high cost of shipping to the U.S.

Assessment of ATA Program

The management was very positive about the ATA program; they cited the access to market information, buyers, and market feedback as the most valuable aspects of the program. They attended both ATA seminars, and were active in arrangements for the second one. They have met a number of American companies through the ATA program, including AMS Imports, The Sandor Collection, Associated Merchandise Corporation, and Sundance Catalog. They consider this to a valuable direct connection to the U.S. market, and are eager for more. They believe that to realize concrete results, they need one more year with the program. To quote: "When we arrive at the door, ATA lets go of our hand."

KLARA KOSA, Master Potter

SZENTENDRE

The small studio of Klara Kosa is located in an 1830's candle-making workshop which Klara and her husband are restoring. Their hamlet of Tahi is located close to Szentendre, an historic village on the Danube which attracts many visitors.

Klara is a Master Potter of great talent; she shares her studio with her niece, who also trained at a coop school in the traditional manner.

Business & Marketing Activities

Klara was refreshingly frank about her old bias about commercializing her work; because of negative assumptions about the nature of the export market, she was initially unreceptive to prospective buyers. She presumed they would want huge orders for identical items-- an anathema to an artist-crafts person. However, thanks to the persistence Pal Bujnyik, who now acts as her agent, she has discovered that the market values her individual work, and she is eager for new business opportunities.

Klara's current customers include the Associated Merchandising Corporation, Expo-Art, both brought to her by ATA and Pal Bujnyik. Klara's products have been marketed at the New York Gift Fair, and through a special Master Potters exhibition tour organized by ATA.

Business Development Plans

Ms. Kosa plans to expand her family business to include other master crafters such as weavers, wood workers, etc. The idea is to create a historic setting which will appeal to visitors during the tourist season (May through October). Each artisan will demonstrate and sell their crafts; some will wear and sell period costumes, and they will schedule folk dancers and music to enhance the atmosphere. In addition, they will sell home-made traditional foods. They plan to promote their 'mini cultural festival' through hotels, tour companies, and tourist publications.

One naive aspect of the plan is the deliberate omission of written agreements and rental fees or commissions among the artisans. Although idealistic, the lack of business approach will inevitably result in some problems, as there will be certain overhead costs which must be borne. This reluctance to confront the facts of enterprise-- of making money-- and to build in simple but formal business arrangements among colleagues, is a symptom of a pervasive distaste among many independent artisans for the business side of their profession.

Attitude Change

When asked how her contact with ATA changed her, Klara readily cited her old resistance to advice. During the communist era, she was indirectly penalized for her individual style; only works which were approved by the Folk Art Council were considered legitimate, and could be sold through the state stores with the advantage of being tax-exempt. She was used to asserting her own style under difficult conditions, and has only lately thawed in her receptivity towards suggestions. She sees that she has ample room to be herself, and can adjust to market opportunities, without being threatened by outside recommendations.

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The evaluation team found ample evidence of Annamarie's enterprising nature, her commitment to her work, and ability not only to survive but to dream and plan for the best. Her work is solidly good, and she continues to win awards and recognition for it. She recently won the Pomegranate Award in a national invitational of "Living Folk Artists" exhibition at the Ethnographic Museum.

Anamarie discussed her selling venues and options; the economics of the situation are fairly straightforward, but she is not sure whether she is making any money. Many crafts people work on a cyclical basis, selling enough to pay their bills and carry on their business, but not really gaining any ground. Annamarie is smart and well-educated and she obviously has a handle on the need to create a comprehensive line of products. She could use help with analyzing her costs and doing her pricing, and a little bit of counseling on promotional materials.

She owns a prime piece of land near a main interchange and has plans to build a house with a studio and a little shop which would catch the tourists who pass through. She has a permit to build, but unless she starts building (excavation and foundation started) by May '95, she will lose the permit. However, she doesn't have the capital to start-- she supports two elderly parents, and her mother has a serious illness. It would cost about \$10,000 roughly to build it, but only \$500 to do the initial foundation since she has already purchased the bricks. Plans were made to find private donors to facilitate ATA making an individual grant to Ms. Biro so that this window of opportunity would not be missed.

KAPOSVAR CERAMIC COOP

KAPOSVAR

Background:

The coop was founded in 1955; originally it made stove tiles. In 1960, when Hungary switched to natural gas heating, the stove market declined. Thereafter, they switched to other products, working in the Haban style. During the 1970's, they opted to produce only the traditional Hungarian folkart style, and avoided commercial orders. The market demand for traditional was strong at that time, and students were recruited to expand their workforce to 170 workers. Many of these students went on to become independent potters which are now competing with the coop.

Their glazes have changed to meet the export market requirements; they claim they can make glaze according to whatever the market demands (although ATA's ceramic designer's experience weighs in with a different opinion, particularly on quality control issues). As their glaze never had lead, this is not a problem.

The president is outraged by the independent potters who trained at the coop, then set up independent businesses; he charged that they do not pay social security taxes and do not report their full income-- thus they compete unfairly, the coop president asserts. The factory is large and well-equipped, but is an expensive plant to operate; small independents with their leaner operations can out-price them. The coop has to figure out where in the marketplace they can compete: large volume customers should be targeted.

EXPORT CUSTOMERS:

In 1993, Folkart Trading brought a buyer from the U.S. Army, who placed a large order worth \$30,000. This was a *huge* business for them. The buyer informed them how to pack the shipment, which was subjected to strict quality control standards. The coop president expressed pride in the coop's ability to meet the standards. The president stressed that in the last few years they have had to function independently and try to find their own buyers; this has made them very flexible.

EEE Group, Inc. The coop had a misunderstanding which resulted in the loss of a significant contract two years ago. The coop shipped samples for testing at the FDA in an effort to meet the California standards. Unfortunately, the samples failed the tests, which was unexpected since lead-free glazes were used. The error: some wares had been fired in kilns normally reserved for lead glazes; this contaminated the wares. The coop believes the problem has been cleared up, and hope to regain business with EEE Group during the coming year.

SUMMARY OF BUSINESS ACTIVITIES

EXPORT MARKET: Through Folkart Trading, the coop participated in the Frankfurt Fair and attracted 2 Japanese buyers, plus accounts in Norway and Austria, exporting \$31,000 worth of goods.

U.S. MARKET: Mariska (ATA connection): \$10,000 in 1992-93.
 EEE Group, Inc (ATA connection): \$20,000 in 1992.

ANNUAL SALES & EMPLOYMENT SUMMARY:

| | <u>1993</u> | <u>1994 (3 Quarters)</u> |
|------------------|----------------|--------------------------|
| GROSS SALES | 37 Million Ft. | 24-25 Million Ft. |
| EXPORT SALES | 15 Million Ft. | 18 Million Ft. |
| EXPORTS to U.S. | 5 Million Ft. | 2 Million Ft. |
| No. of Employees | 100 | 60 |

Reason for decline in employees: Not enough orders; domestic market declined significantly.

CURRENT MARKETING ACTIVITIES:

Domestic Market: They actively work the phone and fax to advertise.
Export Market: Rely mainly on Folkart Trading Co.; participate twice a year in the Frankfurt fair via Folkart. They ship sample collections to many prospective accounts-- a minimum of 50 different places.

Note RE Production and Workforce: They produce 500,000 pieces per year which brings in about 30 million HFT, equal to about 60 HFT per piece. Thus, they have a very small profit margin.

Biggest Problems: Worker compensation laws, social security taxes, sick leave policies. Currently, the coop is required to pay the first ten days of a sick employee's salary; starting in January 1995, all employers must pay the first 25 days of the employee's salary when illness strikes. This is expected to be crippling.

Critique of ATA program: There is confusion about who is who. They've had visits from many ATA representatives (evaluation teams, business assessment teams) and buyers referred as well. They do not have a clear idea of roles, responsibilities, how it all fits together. They said there is no follow-up from many of these visitors.

MATYO EMBROIDERY COOPERATIVE

MEZOKOVESD

The new president, Fugedi Istvanne, was not familiar with the ATA program. However, ATA has worked with the Matyo coop, and several ATA-introduced companies (Samii Clothes and Sandor Collection) are presently doing business with the coop.

Production

The coop produces a regional style of embroidered textiles characterized by intense colors and heavily-embellished designs. The challenge now is to design items which are market-oriented, and competitively priced-- which means reducing the amount of labor-intensive hand embroidery. Their product line includes clothing, household linens, home furnishing fabrics and accessories, dolls and other gift items geared for the tourist market. Their ready-to-wear division which sews on contract is their primary revenue producer; this is a typical arrangement at many artisan cooperatives now.

Employment Situation

The Matyo Coop recently qualified for a new federal assistance program which subsidizes the wages of companies located in regions of high unemployment. The theory is that these regions are depressed and presently unable to attract new investment; by providing relief to employers (by covering 80% of the social insurance coverage normally paid by the employer in Year 1) the government figures to avoid the higher tax burden of unemployment compensation. The coop received a grant of \$100,000 (Ft. 10 million) one month ago which enables them to keep their present employees and to pay part of the interest on their mortgage; next year they expect to receive a grant of \$820,000 (Ft. 8.23 million) equal to the minimum wage salaries for 70 employees for one year.

Employee Data

| | | | | |
|------|---------------------|------|---------------------|--------------|
| 1993 | Full Time Employees | 264* | Part-time Employees | Not reported |
| 1994 | Full Time Employees | 180 | Part-time Employees | 60-70 |

* Calculation based on coop's report that they have experienced about a 30% decline in their workforce due to natural attrition.

Sales & Marketing

They have experienced a significant decline in sales during 1994; this is attributed to the deterioration of the domestic market and the decline in disposable income of the average Hungarian.

The coop noted that they have a negative relationship with Folkart Centrum, the largest company in Hungary which deals in artisan products. The strain originates from a change in the ordering system; instead of long, advance lead times for orders, Folkart now places large orders with a very short production time. (This is largely a result of Folkart operating in a market economy, and is demanded by their buyers.) The Matyo Coop, meanwhile, has not solved the production time challenge-- it is hard to say whether it is workable or not without analysis.

Sales Data: No sales data was collected.

Marketing Plans: The coop recognizes that it needs to recruit a sales representative or work with an agent, and say they are working on a strategy. They realize that their domestic market is not going to readily rebound, and that they must find export buyers. However, they did not appear to have any concrete plans or to have the kind of attitude that engenders confidence that they can resolve their problems on their own.

Coop Relationship to ATA Program

The previous leadership did attend the ATA-sponsored business training seminars; however, they failed to share the information and knowledge gained with the rest of the coop. This is especially disappointing, and underlines the need for the program to establish guidelines and recommendations on how to effectively disseminate information to small businesses so that new concepts can be implemented more effectively and so that there is institutional memory.

An ATA attempt to link hand-embroidery with manufacturing for a large clothing company failed, due to lack of the right raw materials and a limited window of opportunity. However, there is a prospect with Samii Clothes, which is a realistic scale on which the coop could work.

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KARCAG TEXTILE COOPERATIVE

KARCAG

The coop produces traditional wool embroidery products. Since working with ATA, they have slowly moved into new products, guided by Docey Lewis and American buyers who bring their own product ideas needs.

Employment Data:

| | FULL-TIME EMPLOYEES | PART-TIME EMPLOYEES |
|------|---------------------|---------------------|
| 1993 | 120 | 10 |
| 1994 | 120 | 10 |

The number of employees has fluctuated only slightly during the past two years; when someone retired, the coop has been able to hire a new person. This is a hopeful sign, since many cooperatives have sought streamlining through natural attrition, choosing not to hire new workers.

Sales Data

| | 1993 | 1994 |
|--------------|-----------|---------------|
| TOTAL SALES | \$460,000 | Not Available |
| EXPORT SALES | \$370,000 | Not Available |

Most of the export sales are earned by their contract sewing for German clothing manufacturers. The export sales for the U.S. were estimated at \$2,000 to \$3,000.

Product Design & Attitude Changes

The coop was originally quite resistant to design changes; the previous president was an ethnographer, and very protective of the cultural integrity of the coop's output. During previous evaluations, it was clear that she was skeptical of ATA concepts i.e., market-oriented designs. They approached innovation warily, which reduced their competitiveness. Now, however, they appear to be more open to new designs, and are proud of their ability to generate some of their own. This is due to the change in leadership, and to real pressures to keep the business alive. They realize they can't sell strictly traditional Hungarian products, but by adapting, are producing Hungarian crafts and preserving traditional skills.

The coop's ability to compete in the market place is greatly diminished by their high pricing. Although the manager's explanation was that the products were wool, made by hand, and time-consuming to produce, the high prices did not make sense when compared to similar products made at Debrecen and Matyo Cooperatives. The coop needs to analyze their production methods and to get more efficient in order to compete.

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Assessment of ATA Assistance

The product design and development assistance was considered very helpful; however, they commented on how brief the visits of the consultants were, sometimes only a few hours. This is obviously an inadequate amount of time, but considering the attitude of the previous president, perhaps the atmosphere wasn't as conducive to collaboration.

The ATA marketing assistance was useful, particularly the representation at the New York International Gift Fair. Their current customers are consistent, a hallmark of small companies such as Sandor and Samii Clothes. They have also sold to Associated Merchandising Corporation, through Folkart Trading. All three of these companies were recruited by Aid to Artisans.

The ATA business training program was perceived as useful because

- they were able to network with other coops and see what the others were producing;
- they benefitted from access to the various consultants
- the product critique was very useful and practical
- meeting U.S. buyers *directly* was a valuable, first-time experience

The coop did not send a representative to the second ATA training seminar due to a change in the leadership and lack of adequate advance notice.

Changes in Business Approach

When asked if they have changed the way in which they do business, the coop was firmly convinced that it had, and said that without intervention from the ATA program, they would never have changed. These changes include:

- Adapting traditional designs for the market;
- Producing new products altogether for specific customers;
- Cooperating with other coops in marketing ;
- Addressing marketing needs by participating in trade fairs;
- Seeking to build its market by strengthening its relationship with a middleman, namely Folkart Centrum;

Management Outlook

The coop appears to have a good grasp of the challenges which lie ahead, and to be taking steps to meet them. They realize that the export market is their future, but need to take more concrete steps to get more first-hand information about it.

EVA HORVATH, MASTER POTTER

KAPOSVAR

Background

Eva Horvath is a studio potter who started her study of ceramics in 1972 at the Kaposvar Ceramics Coop after completing high school. Accepting a job at the Kiskunhalas Ceramic Coop gave her the opportunity to study further with old masters. Two years later, she set up her own studio in Kaposvar, supplementing her earnings for five years with part-time work at the Kaposvar Coop. In 1978 she earned the Master Potter award, and has since won many juried exhibition awards in Hungary.

Eva has been an independent potter now for a decade. In the past, she has operated her own retail shop, where she sold her pottery and other goods to tourists in the Lake Balaton region. The decline in tourism since the transition to democracy and a free market economy has disrupted her family's hard-earned financial security. Her husband, Lajos Posar, has taken a job during the past year within a federal training program where he is teaching ceramic stove tile-making skills.

Business Activity

Eva now works solo in her own studio; she is currently working on production for sale during the coming year's tourist season.

SALES DATA

| | <u>1992</u> | <u>1993</u> | <u>1994 Year to Date</u> |
|-------------|-------------|-------------|--------------------------|
| Gross Sales | Ft. 800,000 | Ft. 800,000 | Ft. 700,000 |

She has had no export sales since 1992, when she sold to some American buyers through ATA. The income figures listed above should be interpreted to allow for the lower cost of living back in 1992, plus the lower cost of raw materials and electricity. Thus, the decline in real earnings is more severe than a casual look might indicate.

DEBRECEN TEXTILE COOPERATIVE

DEBRECEN

Business Climate and Attitude of Management:

The mood at the Debrecen Cooperative was very gloomy. There is an undercurrent of strain between the coop president and its business manager, due in part to the independent agent role (which the manager has been encouraged to assume by ATA and American importers).

According to Ica Todorne, Business Manager, the domestic market has evaporated: "It is nothing." Three coops have collapsed during 1994, including the Kalosca Coop and a Budapest coop. All cooperatives are in financial difficulty, and this is both intimidating and depressing for them.

Specific Challenges to the Cooperative:

- Each department of the coop has its own particular problems; they do not have adequate orders to keep everyone occupied. The hand-weaving section is the most idle and vulnerable. They find it impossible to compete with China, India, and Mexico.
- The financial condition of the coop at this time is 'very difficult'. They are owed significant amounts by other businesses: the glove company can't pay them on time, and have owed them Ft. 5 million since early 1994; another company owes them Ft. 1 million, which will never be repaid.
- They aren't able to pay their taxes on time, and are being pressured by the government.
- Although they do have some real estate and other building properties, it is difficult to find a buyer or renter; plus, with the depressed market, the rental income would be minimal. Another dilemma: dismantling a small rural sub-coop which employs 7 weavers-- they simply don't want to pull the rug out from under them. Even if they did sell the property, it wouldn't enable them to pay off debts, since they'd have to pay the shareholder/workers their shares plus the taxes due.

COMPARATIVE EMPLOYMENT DATA:

| | | |
|------|----------------------|-------|
| 1993 | 180-190 FT Employees | 80 PT |
| 1994 | 130 FT Employees | 30 PT |

The reduction in employees is the result of natural attrition-- retirees, people starting their own companies. They have not hired replacements. They do collaborate with other cooperatives, mainly for contract sewing work.

FINAL EVALUATION
FINDINGS/APPENDIX

Critique of the ATA Program and Current Needs:

1. The U.S. training segment "was too short...it was a lot to absorb in a small amount of time."
2. The Matrahaza and Gyula business training seminars were very helpful for the future. It was especially useful to learn about the U.S. market and about pricing procedures.
3. They stressed the need to have continued buyer contacts, as well as product design/development guidance and inputs.
4. They also need to have continued access to the New York Gift Fair: they have made some contacts, and realize that they have to keep their products 'out there' in order to sustain orders.
5. The coop would like to have an arrangement with ATA to have a small space, even card table size, at the NYGF; they said they could cover some of the costs of course.
6. Result of New York Gift Fair/U.S. Marketing Program: In addition to valuable market exposure, they made important new contacts, in particular, Anachini (a Vermont high-end linens and home textiles company. They were introduced to the owner, by Gay Ellis.) Anachini placed a sample order for Debrecen and Decs cooperatives worth \$ 1,400.

Ica Todorne's Private Agent Business:

Ica represents The Sandor Collection and Samii Clothes; she works with about 30 different producers, including individual entrepreneurs and cooperatives. The coops which she works with include Decs, Matyo, Heves, Hodmezovasarhely, Pecs, and Karcag, plus others.

EDITORIAL COMMENTS:

Ica didn't seem to realize that the next move is theirs vis-a-vis Anachini; since she showed Anachini only two kinds of textile samples, and both were sampled, it seems logical to send her other samples of their work if only to demonstrate production capabilities. They need to be more pro-active with the contacts which ATA has arranged.

DEBRECEN TEXTILE COOPERATIVE

(Cont.)

LESSONS LEARNED:

When asked, "What have they learned from their work with Aid to Artisans, and does this help them to compete for other export business in Europe?", they responded: Yes, they are able to apply what they have learned in all other market situations. They learned that they have to

- 1) produce the *best quality*;
- 2) fulfill the requests of the marketplace;
- 3) continually produce new products and new designs.

SALES DATA FOR DEBRECEN TEXTILE COOPERATIVE:

| | | | |
|------|--|-------------------|-----------|
| 1993 | Gross Sales | Ft. 27 Million = | \$260,000 |
| 1993 | Export Sales to U.S. | | \$ 70,000 |
| 1994 | Jan-Sept Gross Sales: | Ft. 17 Million = | \$170,000 |
| 1994 | Jan-Sept. Export Sales to U.S. | Ft. 4.5 Million = | \$ 45,000 |
| 1994 | 4th Quarter Sales Forecast: | Ft. 9 Million = | \$ 90,000 |
| 1994 | 4th Quarter Export/U.S. Sales Forecast | | \$ 5,000 |

These figures are less than 1993 due to reduced orders from Associated Merchandising Corporation (AMC) and reduced orders from Samii Clothes.

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IMRE SZUCHS and Family, Potters

Tiszafured

The cooperative in Budapest to which Imre, and his wife and daughter belonged to has gone kaput. This is the only cooperative he's ever worked with-- for 30 years. He has a 'very bad feeling' about the situation, saying "... and this is democracy!" He is bewildered, and feels betrayed. They, along with the other 29 workers, own shares in the cooperative; they don't know whether they'll be repaid/reimbursed after all of the coop's debts are paid-- they said they might even have to pay something, but that would be unlikely if the coop went into bankruptcy.

Now the Szuchs have to grope for a different business setup, since the coop paid for the majority of their social security insurance; they were responsible for only 10%. A worker must be officially registered somewhere in order to be in the social security system... now, they must pay all of the social security tax. They are also outraged that the coop school, which always used to be free of charge, now charges tuition fees. They are in shock, and have applied for unemployment benefits.

Two years ago, Pal Bujnyik, export agent, tried to convince Mr. Szuchs that he could do better by organizing his own enterprise and writing off the business expenses. He didn't want to venture into new territory, believing it was easier to stay with the coop as umbrella.

Imre is not exporting *anything* to the U.S.-- all because of the lead content of his glazes and his refusal to pursue alternatives. ATA did not provide a ceramics expert who could have helped with substitute glazes, and the limited experiments which Imre did on his own did not yield acceptable results, so he abandoned the effort. This translates into a major missed opportunity.

Re activities: They recently exhibited in Kaposvar, and Imre won first prize with a new chicken teapot design. (His first version attracted many buyers at the New York Gift Fair who wanted to put it into production.)

BELA AND EVA FALUSCI STUDIO

KAPOSVAR

The Falusci family studio has moved into a new house and studio which they built after the windfall from a large order in 1992 order placed by Judy Espinar for her galleries. They are financially strapped, and to say they have a 'cash flow problem' is to grossly understate their crisis.

They have not had an export order since 1992. The 'feast-or-famine' nature of their experience has not made them negative, but they are floundering. They have not taken the initiative to find domestic buyers, and don't seem to know where to begin. They once sold steadily to tourists, but since that market has declined, they don't have an alternative strategy. There may be some prospects for them in the corporate art market realm, and in interior design market.

The Faluscis do know how to run a business; they have been independent since 1980, and have achieved the rank of Master Potter partly as a strategy to increase the value of their work. They know how to organize production and to create a line lead-free products; and they have creative ideas which blend the practical with design.

What the Faluscis lack is the mind-set and role models for effective marketing of the limited-edition and one-of-a-kind items which they produce. Although they have buyers, they do not initiate contact with them, indicating an aversion to the marketing aspect of their business.

Summary of Falusci's Business Activity

| | | | | |
|------|---------------------|----------|---------------------------|----------|
| 1992 | Gross Sales | \$10,000 | 1992 Export Sales to U.S. | \$ 5,000 |
| 1993 | Gross Sales | \$ 5,500 | 1993 Export Sales to U.S. | \$ 0 |
| 1994 | Gross Sales to Date | \$ 3,000 | 1994 Export Sales to U.S. | \$ 0 |

At this point, the Faluscis are facing a crisis: due to their cash-poor situation, they lack the money to purchase raw materials to produce inventory for the coming season. We recommend they consult with a Small Business Development Center. ATA should make an effort to identify a new buyer or agent who could represent them in the U.S. market. This is not an easily-remedied situation, as this is niche marketing at its smallest scale, and would be time-intensive.