

HANDICRAFT DEVELOPMENT IN CROATIA:

Product Development and Marketing of Women's Handcrafted Items in Economically Distressed Regions

STTA Report for Activities Held from May 3 – 19, 2007



Prepared for Croatia Enhancing Small and Medium
Enterprise Performance Project
by Siiri Morley

Development Alternatives, Inc.

May 20, 2007

EXECUTIVE SUMMARY

In January 2007, a need for short-term technical assistance was identified within the Croatian handicraft sector to strengthen the sales and marketability of handmade products within the tourism sector. In May 2007, Siiri Morley spent two and a half weeks in Croatia to conduct an assessment of the strengths and weaknesses of the sector, to analyze overall potential for increased sales of handcrafted products within the tourism sector and to give recommendations on future technical support. It was found that Croatia, and Slavonia in particular, has a wealth of high quality traditional handcrafted products that could have great potential in a tourist market. Like most handcrafted products around the world, current sales are limited by a lack of market linkages, minimal design and product development innovations, poor marketing materials, little access to finance, inadequate contact with the products' target market, overall weak business management skills and registration constraints.

These challenges, however, are not insurmountable and with the right mix of future workshops and technical assistance to improve designs and strengthen business skills, these products could be quite successful in the Croatian tourist market. These increased sales, in turn, could lead to improved business models that would allow craft microenterprises to hire more employees – thus leading to increased job creation in Croatia. This sector is particularly important in Croatia due to the fact that the vast majority of producers are unemployed women in rural areas that were heavily affected by the war with Serbia.

It is recommended that, in order to bolster employment in this sector, Croatia ESP hire an employee to work in the Osijek office who can provide long-term support to producer associations in Slavonia. In addition, the project should bring in handicraft development and design consultants to provide hands-on workshops in design and general business development skills. These workshops should occur in Slavonia with assisted producer associations as well as with the members of the National Souvenir Association. The products that result from these workshops should then be presented to new distribution channels – such as the Small Family Hotel Association, Eco-Villages and souvenir shops along the coast. In addition, there are possibilities for future technical assistance with the Made in Croatia campaign, the Innovators Association and Pag Island product development with wool and/or lace.¹

INTRODUCTION

In order to assess the potential for increased job creation and income generation for Slavonian craft producers, Siiri Morley was invited to analyze the marketability of Slavonian products. She was also asked to advise associations on marketing strategies, design modifications and labeling materials. She spent one week in Slavonia with the Senior Advisor to the Tourism and Hospitality Industries, Andrea Chartock, and the Regional Development Specialist in Osijek, Gordana Ditko, to meet with seven women-run nonprofit craft associations and two registered businesses to assess the potential of their work, identify market-ready products and give recommendations on further technical assistance. The week culminated in a Souvenir Marketing and Product Development Roundtable event for all assisted handicraft producer associations.

In addition to her work in Slavonia, she spent time with Andrea Chartock interviewing members of the small family hotel association and souvenir shops to assess the potential of new distribution

¹ See Annex VII with a detailed flowchart of recommended continued technical assistance.

channels for Slavonian handicrafts. Visits were made to various successful handicraft businesses that can be used as models for Slavonian handicraft development.

While in Zagreb, meetings were held with the National Souvenir Association and the Innovators Association. Visits were also made to centrally located souvenir shops and a festival of handmade cultural products (Sajam Starih Zanata) in order to assess the general situation of souvenir and handicraft products in Croatia.²

THE CROATIAN HANDICRAFT SECTOR

Croatia is a country with a wide range of diverse cultural heritages. Drawing on a cultural foundation influenced by a range of ancient civilizations and a diverse mix of neighboring countries, Croatia has a unique blend of traditions and customs. This richness of culture and history has a wide range of artistic manifestations – including golden embroidery, crochet and šlinga work (intricate traditional embroidery, traditionally white thread on white fabric with cut out pieces), as well as a number of intricate lace traditions. However, like most parts of the world, the local market for these products is diminishing as people turn to mass-produced items. Clothing made in China or Mexico is cheap and trendy, and, as such, the local interest in traditional clothing items tends to die out. Many who make the traditional handicrafts are old women, and there is an ongoing struggle to keep their knowledge in the community before they pass away .

Yet, there is another market to which these products are of interest – the tourist market. Croatia is lucky enough to have a healthy influx of tourists and this demographic is seeking out products that they can bring back as gifts or use in their own homes. Unfortunately, most tourists leave with the impression that there is little to buy in the way of handicrafts, particularly at reasonable prices compared to other tourist destinations. Many purchase specialty food items, and although a limited amount of people will buy traditional handicraft items, many leave with little besides small kitschy souvenirs.

In a country where there are hundreds of people producing high quality traditional products and crowds of tourists visiting every year, there is great potential for developing the market for handicraft products – especially if there were an introduction of new marketable product lines supplied by well-coordinated, legally registered craft companies at affordable price points. Like so many countries in the world, the producers of these beautiful products are tucked into small villages far from the classic tourist destinations and are, for the most part, isolated from market information and linkages. This makes it nearly impossible for them to understand what the market is looking for and how to reach it when working independently.

HANDICRAFTS IN SLAVONIA

Slavonia is a region with very rich artistic traditions. This region abounds in incredibly intricate golden embroidery, šlinga and toleda work – all created on high quality linen and cloth for use as clothing, bedding, and as home decoration. Many of these products are traditionally made years in advance in preparation for a daughter's wedding to serve as part of a dowry. Although the

² Annex I contains a visual overview of the work undertaken during this STTA assignment and images from the various producers that were involved.

number of producers seems to be decreasing, there are still hundreds of unemployed women creating these products in their homes.

Slavonia also happens to be a region of Croatia with great economic need due to the recent devastation during the war with Serbia. Female producers working throughout Slavonia continue to produce their products out of a love for their work and a desire to preserve their cultural heritage. They are now also trying to take these products and make a livelihood of it and there are others who are learning how to create new products (such as ceramics, corn husk products, leather work, weaving, knitting) with the hope of finding a market for their creations.

Unfortunately, despite the great warmth of the Slavonian people, Slavonia is not a tourist hotspot. The tourist-rich coast is flooded with visitors during the summer who have money to burn, but Slavonia rarely sees these types of visitors. There is a limited amount of tourist influx on the Danube, but even those producers with centrally located shops (such as Vukovar, near the Danube port) are having trouble attracting customers and selling their traditional handicrafts. In order to get their products into the right hands, they need to modify their products to meet market trends and must explore new distribution channels to get the products out, both on the coast and through inclusion in the ESP regional tourism activity.

CHALLENGES FOR CRAFT ASSOCIATIONS/COMPANIES

The handicraft team's week in Slavonia consisted of individual meetings with members of each craft association (and member companies) to review business challenges, product quality and design, production capacity and product packaging and labeling. The week culminated in a Handicraft Marketing and Product Development Roundtable for all assisted associations.

All nine groups communicated very similar challenges and there were many common observations made during the individual consultations.³ Analysis is based on first-hand qualitative research conducted by Siiri Morley during May 2007 visit.

A. LEGAL REGISTRATION

Nearly every craft association/company expressed challenges with legal registration issues. For small levels of production, registration costs are significant and many do not perceive it to be within their financial means. When a company is registered, it is obligated to pay its employees a minimum amount, as well as all social costs and taxes. For a small company just starting out, this is a large financial risk. Furthermore, they must pay regular fees to either the chamber of crafts or the chamber of economy.

The majority of groups were registered as non-profit associations, which have a cap on the amount of revenue that they can generate per year (approximately 80-85,000 kuna). Beyond that amount, any sales are illegal, which means that some associations have incentives to limit their sales. A few of the groups have formally registered their businesses -- sometimes under a general company registration that allows a family to pursue several business activities under one company registration.

³ For more details on the strengths and weaknesses of each association/company and their current product lines, see Annex II for detailed product assessment forms for each of the nine handicraft producer associations/companies. Specific suggestions for marketing, training and product development follow-up are contained within each document.

One company has gone through the process of getting eleven product designs copyrighted. This was a lengthy and expensive process (approximately 20,000 kuna to protect 11 designs) which, thus far, has not been recuperated by the entrepreneur although they did receive several governmental grants to help defray the costs (latest published grant was for 20,000 kuna)⁴. Many producers are concerned about copyright issues as products are being copied in places as distant as China and then being sent back to Croatia and sold at cheaper prices. It remains to be seen how one would actually take action against a copyright violation and whether or not this is a worthy pursuit for a handicraft micro-enterprise.

One possible avenue for legal handicraft sales is to pursue registration as a cooperative. There is a ministry program that we received some information about where there is an opportunity to recoup registration fees (approximately 20,000 kuna) in the first year after registration. One firm in Split that we spoke with did this successfully (Vendi Borovic). Ms. Borovic also mentioned how after joining the cooperative she had the incentive to register her own business in order to expand her work. The cooperative had to approve all decisions to spend money unanimously and she didn't want to be tied down if she wanted to invest in a new truck for transport, a kiln, etc. Therefore, she remained a member of the cooperative and also registered her own company. This may be a replicable path for other businesses—first to register as a cooperative and begin to see the legal commercial benefit of doing so—and then in order to grow the business, to register their own company.

B. MARKET LINKAGES

Most of the handicraft producers complained, to varying degrees, of isolation and a lack of market linkages. A few of the producers have noticed a slight revival in the local market for traditional products due to the fact that many Slavonians lost their family heirlooms during the war and are just now finding the economic ability to begin purchasing these luxury goods, but for the most part people are looking outwards for sales. Some tourists come to the region on boat cruises down the Danube, but they find difficulty in connecting with them directly.

One producer company sells throughout the country in a few souvenir shops and is a member of the National Souvenir Association. Yet even she is looking for new market linkages as she feels that she has reached a plateau in her sales. One NGO also sells a unique product targeted for Croatians in several large cities including Split and Zagreb.

C. DESIGN & PRODUCT DEVELOPMENT

A handful of the producer associations/companies have begun to innovate and experiment with slightly different styles and production techniques, such as embroidered Christmas cards, crocheted ornaments and golden embroidered boxes and shoes. Beyond these few exceptions, the majority of products are still strongly based in traditional colors, designs and function. Many of the innovative attempts have resulted in products that are not appropriate for the tourist market.

Producer associations expressed frustration at not understanding what a souvenir was and not knowing how they could produce things that would be purchased. Many of the groups explained that there is great appreciation for their work, but often little sales. When given a few design suggestions and input on new product innovations, the majority of associations were quite receptive to the new ideas.

⁴ <http://www.mmtpr.hr/UserDocsImages/WWW.SUVENIRI.pdf>

D. MARKETING MATERIALS

About half of the producers have taken steps to create some type of label that gives the story of their product and enhances the visual perception of their work. Most of these labels are quite well done, giving historical and/or cultural information about the product and some information about the producer. Improvements upon these labels or creation of them were common discussion topics with producers and all realized the importance of investing in this type of product enhancement. Improvements could include translations into English, adding information about the producer, some history about the product, as well as adding contact information.

Some of the producers who have invested significant amounts in creating labels explained that the packaging is sometimes just as expensive as some of the key raw materials in the product. If able to buy labels in bulk, they could secure cheaper prices.

Few have any type of brochure or catalog, about half have some type of business card and only two have websites. The most successful company, Šokočki Jastuk, has a short DVD which is played at trade fairs and attached to the pillows as well as color marketing materials.

E. ACCESS TO FINANCE

Start-up financing for raw materials, marketing and other costs is also a common challenge for handicraft producers in Slavonia. Producers who are registered as companies indicated that it is often difficult to secure a grant as a company, as grants are solely given to associations. Yet associations also indicated that it is sometimes hard to find financial support. Several nonprofit associations have had success with various donors and explained the importance of networking and explaining the importance of their work to receive financial support.

VUKOVAR ROUNDTABLE

The Souvenir Marketing and Product Development Roundtable was held on May 12, 2007 at the Vukovar Chamber of Commerce. Siiri Morley presented on Tourism Trends in Croatia, Product Development for Traditional Handicraft Products, and Marketing Handicrafts to Tourists. Stefica Kojic of Udruga Šokočki Jastuk spoke to the group about her experiences registering as a legal business and protecting her designs. She also shared her promotional DVD with the group. Afterwards, Vedrana Perkovic Hadl of ESP presented to the group on finance options for small handicraft businesses. The session ended with informal discussions between Siiri Morley and the Slavonian producers where they were able to receive specific suggestions for product adjustments.

23 individuals from a variety of backgrounds participated in the Roundtable. Perhaps more significant than the presentations were the networking opportunities available to attendees as there were individuals from the tourism industry, owners of retail shops, handicraft producers and others involved in community development initiatives.⁵

⁵ See Annexes III and IV for copies of Siiri Morley's presentations, as well as Annex V for a list of Roundtable participants. The Croatia ESP project has copies of these presentations in Croatian.

IMMEDIATE NEXT STEPS

Currently, Slavonian producers assisted during the initial assessment stage are working on creating prototypes of products based on suggested designs and product modifications. The producer associations will contact Gordana Djitko in the Croatia ESP Osijek office with these samples once they are ready. Andrea Chartock will then work on coordinating them for ultimate presentation to shops and hotels. Siiri Morley will continue to be available long-distance to provide feedback on product designs and modifications.

The few market-ready products are currently being prepared as samples for the small family hotel association (amongst others) and will also be presented to Gordana Djitko. Croatia ESP staff will continue working to collect high quality samples for presentation to potential distribution channels.⁶

RECOMMENDATIONS FOR CONTINUED TECHNICAL ASSISTANCE

A. LONG-TERM LOCAL SUPPORT FOR SLAVONIAN CRAFT ASSOCIATIONS

To ensure continuity with this initiative and to avoid disillusionment on the part of the producers, ESP should hire a Croatian to work with the team in Osijek to support the Slavonian producers in pursuing formal registration as cooperatives, craft and/or companies. This employee could also support the associations in building their general business capacity and could facilitate continued workshops.

This individual could also work closely with Gordana Djitko to collect and give feedback on product samples from producer associations. They would then coordinate the submission of these samples to the small family hotel association and other distribution channels.

B. WORKSHOPS ON DESIGN, BUSINESS MANAGEMENT & MARKETING FOR SLAVONIAN CRAFT ASSOCIATIONS

Building upon the progress made during the individual association/company consultations and the Vukovar Roundtable, ESP should coordinate an intensive workshop for the assisted Slavonian craft associations to support them in learning more about product design and development, general business management – including accounting, costing, pricing and marketing. These trainings would be most effective if they occurred in tandem, so that the same producers were able to attend business development workshops in the morning and design workshops in the afternoon. Follow-up sessions should be organized in the following months in order to ensure sustainability.

Ideally, the product design and development component would be facilitated over the course of this same week with all of the Slavonian producers in a hands-on training venue where prototypes can be created. I recommend that an international handicraft designer come for the duration of this workshop to lead the activities. This designer should be assisted by a local Croatian designer/artist who has worked through product design and development issues on a personal basis and can contribute to ideas. A local designer would have an intimate knowledge of local

⁶ Refer to Annex VI to see a complete list of assisted Associations in Slavonia.

value chain constraints and would be invaluable in this regard. Vendi Borovic from Split is a strong candidate for this position due to her design, product development and business management skills. She is a professional instructor as well.

C. FACILITATION OF DESIGN WORKSHOPS FOR PRODUCERS AND HOTEL STYLISTS AND OWNERS

During informational interviews with members of the small family hotel association, a few hotels expressed interest in coordinating directly with handicraft producers to receive custom-made souvenirs and interior décor items for each hotel. There is a small contingent of hotels that have custom-made décor and would be interested in creating a unique line of handmade products to decorate their rooms, lobby and restaurants. There is also interest in a high quality line of souvenir items that are handmade in Croatia.

For example, the owner of Hotel Boskinac, on Pag Island, expressed willingness to somehow connecting his hotel stylist with producers to develop a custommade product line. Like others, he is very interested in working to support producers, yet doesn't have the time to seek them out. There could be potential to facilitate these types of gatherings between stylists, hotel owners and producers to develop Slavonian products. Training could also be given to the Slavonian producers in developing their ability to provide these types of services long-term to hotels. There is definitely room on the market for one handicraft consultancy company (who could also serve as an agent to other producers) to be formed.

D. DEVELOPMENT OF SLAVONIAN TOURISM OFFERINGS

In tandem with the suggested capacity-building activities for Slavonian producers, ESP should continue exploring options on how to increase the tourist flow into Slavonia so that customers are able to have direct contact with producers and their work. There is room for the handicraft producers to take part in and benefit from the regional tourism development initiative. The tourism team should be sure to liaison information from this effort to Qlab. In close coordination with these efforts, capacity-building efforts for producer associations should work to create spaces that would be of interest to tourist groups. For example, the Slavonia House initiative that is being planned by the National Croatian Women's Association in Vukovar could be an interesting tourist destination and sales venue, as could the historic community center that the producer association in Vrbanja is looking to restore.

RELATED AREAS FOR HANDICRAFT TECHNICAL ASSISTANCE IN OTHER REGIONS OF CROATIA

A. SUPPORT TO MEMBERS OF THE NATIONAL SOUVENIR ASSOCIATION

The National Souvenir Association, based in Zagreb, currently has 120 producer members and the number is expanding as the association becomes more active and visible. The President of the Association is interested in seeing the association become stronger with a wider range of capabilities.

To this end, Croatia ESP could support the National Souvenir Association in a number of ways. One of their challenges is the lack of excellent retail space in which to sell handmade Croatian souvenirs and need for better marketing. Many shops are taking on Chinese-made products and undercutting the local prices. Thus, they would like to find their own retail space in which to sell members' work. An international expert with experience in retail marketing of handcrafted products could be employed short-term to assist the National Souvenir Association in strategizing

and planning for such an activity as well as carrying out a cost benefit analysis of remaining as an association vs. registering as a cooperative.

National Souvenir Association members are, like the Slavonian producers, for the most part very isolated and without much formal support. Thus, with 120 producer members (many of which are registered companies) it would be beneficial to create a handicraft product development and design, marketing and business management workshop for members. This way, members could improve upon their product line to meet new market demands, advertise their products more effectively and ensure that they are managing their businesses sustainably. This workshop could mirror the workshop for Slavonian producers, but should be specifically tailored to the slightly more advanced business, marketing and design skills of the National Souvenir Association members. Again, bringing in an international expert in handicraft product development, marketing and business management would be ideal. A local Croatian designer/company owner could also supplement this training program with a local Croatian perspective on the issues and challenges.

With a strengthened knowledge of markets, product design and development, and general business management skills, members of the association should then be able to expand their sales and generate more jobs to meet increased sales and production.

B. MADE IN CROATIA CAMPAIGN

In response to the increased incidence of Chinese-made products posing as Croatian souvenirs, the National Souvenir Association is considering the creation of a Made in Croatia campaign for souvenirs. This is another potential area for collaboration with the National Souvenir Association that would help boost the sales of souvenir producers, which would then increase their ability to employ more people and generate more income. Slavonian producers who go through the process of forming commercial entities will be able to join the National Souvenir Association when they become sustainable. ESP can also help the National Souvenir Association with distribution of their brochure alongside other promotions of Slavonian producers.

C. INNOVATOR'S ASSOCIATION

The Croatian Innovator's Association is planning to coordinate a national competition to select some of the best representative Croatian souvenirs to share with tourist agencies and other venues. While the details of this initiative are still not clear, there may be possibilities for future collaboration as this type of project could enhance visibility for producers significantly.

D. DUBROVNIK SHOP CONNECTIONS

During visits to Dubrovnik, it was discovered that while the majority of souvenir shops carry mass-produced Chinese-made souvenirs, that there is an interest by a few shops in expanding their product line to include other handmade high quality products. One of these shops, Ars Longa Dubrovnik, d.o.o., would like to see photos of product samples. This store, situated next to the marina in the old city, is only interested in very special high quality products and they only source Croatian-made items. This contact, as well as the other shop with which Andrea Chartock communicated (Casa Croatia, Mucjela Souvenir Shop), should be maintained as new product lines are developed. Other possible sales venues in the tourist-rich regions of Croatia should continue to be explored.

E. PAG LACE/WOOL POSSIBILITIES

While visiting Pag Island it was discovered that there may be great potential for job creation and income generation within the handicraft sector. There are many lace producers in Pag who are

generally unorganized and working in their homes. They have started producing a crocheted style lace product that is significantly cheaper than the traditional lace items. Croatia ESP is still in communication with the Lace Producers' Association President and is assessing the situation, but there may be possibilities of working with these producers to innovate with the lace products to reach more customers.

In addition, it was discovered that there may be employment possibilities for people on Pag Island to be trained in spinning and knitting wool products with local sheep wool. According to one hotel owner in Pag, the wool is currently thrown away and not used. There is also a large olive tree forest that may have potential for supplying raw material for handicraft items made out of olive wood.

These possibilities should be assessed in greater detail and, if appropriate, could necessitate technical training in production techniques, marketing and general business management. Pag has an advantage with handicraft production due to the high influx of tourists during the summer months.

SUSTAINABILITY OF HANDICRAFT INITIATIVES

One issue of great concern, of course, is the long-term sustainability of these initiatives. While Croatia ESP staff and consultants can work, in a short-term capacity, to develop new market linkages, the project must assure that these connections are sustainable and that producers have the capability to sustain business relationships.

Ideally, some type of reliable and skilled intermediary will be able to step in and act as a representative for the wealth of hand-crafted items in the country and help get them into the stores and hotels of the tourist-rich coast. This issue should be kept in mind as the project continues and should be analyzed in further detail.

The National Souvenir Association has indicated that they are working to find a retail space to sell their work, so perhaps they might be an appropriate intermediary in the future.

CONCLUSIONS

Despite the lack of awareness of the rich cultural heritage of Croatia and all of the associated material wealth and rich artistic traditions, there is much potential in Croatian handcrafted work. The souvenir market now is known as a market for cheap, mass-produced items that display the word "Croatia" across them – on t-shirts, mugs and key chains. Yet handcrafted products have a deeper meaning in many senses. They can meet a need of a tourist who is looking for an interesting gift or something that reminds them of their visit. And these products can also convey and celebrate a country's unique cultural traditions while giving the customer a beautiful, high quality product. Most importantly, however, the sale of handicrafts can build communities by strengthening micro-enterprises and cooperatives that are managed by women in regions with great economic need. This is certainly the case in Slavonia, as well as other regions of the country. Handicraft development initiatives can play an important role in increasing job creation and income generation in Croatia.

LIST OF ANNEXES

Annex I	Croatia Handicraft Visual Tour
Annex II	Product Assessment Forms – template developed by Docey Lewis and Aid to Artisans
Annex III	Tourism Presentation
Annex IV	Product Development and Marketing Presentation
Annex V	List of Vukovar Roundtable Attendees
Annex VI	Contact Details for Slavonian Associations
Annex VII	Handicraft Development Initiative Flowchart