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# PROGRAM EVALUATION YEAR TWO

## EXPORT ENHANCEMENT PROGRAM/HUNGARY AID TO ARTISANS, INC.

JUNE 1993

PREPARED BY

KATE KERR, CONSULTANT  
MARI CLARK, WID/AID



Cooperative Agreement	:	EUR-0032-A-00-1022-00
PIO/T No.	:	180-0032-3-1183692
Appropriation No.	:	72-11X1010
Budget Plan Code	:	QAIX-91-33180-IG-12
Total Estimated Amount	:	\$400,000
Total Obligated Amount	:	\$400,000
Technical Office	:	ENE/EUR, J. McEnaney V. Meenan
Funding Source	:	AID/FM/CMP
DUNS No.	:	19-679-9894
TIN	:	04-2577837

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# EXECUTIVE SUMMARY

## PROGRAM EVALUATION EXPORT ENHANCEMENT PROGRAM/HUNGARY PVO HUMANITARIAN/DEVELOPMENT INITIATIVES PROGRAM ENE/EUR

The Export Enhancement Program/Hungary provides technical assistance and support to artisan enterprises, a sector of the Hungarian economy which in 1989 employed over 80,000 workers, the majority of whom are women in rural areas. The collapse of the centrally-planned economy has impacted this sector enormously, generating unemployment and reduced earnings in thousands of households. Aid to Artisans analyzed the business strengths of production centers, identified those with potential to survive, and delivered practical inputs which strengthen their ability to compete in a market economy.

The program goals include the following:

- Generate export sales of Hungarian artisan products
- Foster export trade opportunities
- Stimulate private enterprise in the artisan sector
- Assist in product design and development
- Retain employment opportunities for women and artisans
- Provide practical strategies for participating in a market economy

The Aid to Artisans strategy involves a 3-prong approach:

1. Product Development: Provide technical assistance in the design and development of new market-oriented products
2. Marketing & Promotion: Introduce products into the U.S. market; recruit buyers to visit Hungarian production sites and undertake artisan manufacturing; promote interest in Hungarian artisan skills and products
3. Business Training: Informal workshops and technical assistance in exporting, marketing, and management

a

**EXECUTIVE SUMMARY**

Program Evaluation  
Export Enhancement Program/Hungary

The program presently works directly with a diverse range of artisan enterprises:

- 19 COOPS & SMALL BUSINESSES	3,850 Employees
- 28 MICRO-ENTERPRISES	100 Employees
- 5 FOREIGN TRADE COMPANIES	<u>155 Employees</u>
<b>TOTAL</b>	<b>4,105 EMPLOYEES</b>

At the completion of two program years, the evaluation team finds that this program is meeting and exceeding its objectives; it has accomplished the following:

- Generated over \$ 298,000 FOB/HUNGARY worth of export orders; the original goal was \$200,000
- Provided technical assistance in exporting to over 52 small businesses, coops and micro-enterprises
- Assisted in the development of new export business accounts with 9 major foreign importers representing approximately 1,500 U.S. commercial businesses
- Provided program assistance to over 4,000 Hungarian artisans, twice the number originally projected
- Conducted over 70 product development workshop sessions, exceeding the original goal of 20 workshops
- Actively interfaced with other AID-supported programs including SUNY's Center for Private Enterprise Development and IESC.

The program delivers exceptional results on a minimal budget; this is attributed to ATA's well-established marketing program, use of short-term consultants, and significant in-kind contributions from the private sector.

b

## **EXECUTIVE SUMMARY**

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**Program Evaluation**

**Export Enhancement Program/Hungary**

The evaluation team endorses the extension of the program and recommends the following:

1. Increased emphasis on the business training component through a more structured yet pragmatic program
2. Continuation of the Buyers to Hungry program and related product development
3. Sponsoring selected key executives to the U.S. for short-term, intensive marketing training
4. Strengthening self-sufficiency and sustainability through use of Hungarian resources in product design and export marketing
5. Strengthened support to Folk Art Trading including assistance with direct participation in the New York International Gift Show
6. Institutional support to Hungarian artisan organizations

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## **FINDINGS AND RECOMMENDATIONS**

## **SUMMARY OF FINDINGS**

- Δ All of the micro-enterprises and most of the cooperatives/small businesses felt that they had benefitted from working with ATA because they had learned to modify existing designs, product forms and colors to suit the tastes of the American market which they previously had known nothing about.**
- Δ ATA marketing assistance via the New York International Gift Show and the Master Potters Exhibition has made a significant contribution in terms of exports, income and employment. However, some artisans have not received adequate feedback from ATA on market response to their products.**
- Δ The "Buyers to Hungary" component of the program has been highly effective. A number of micro-enterprises and cooperatives credited ATA for making the contact with buyers that provided a significant amount of their export sales. The Hodmezovasarhely coop and micro-enterprises in Kaposvar significantly increased their export sales because of ATA-assisted sales.**
- Δ Now cooperatives and micro-enterprises are expressing a need for help in institutionalizing the marketing process within the Coop Managers' Association and artisan organizations to ensure the sustainability of the project. They also want assistance in business management, particularly in export marketing.**
- Δ The foreign trade company, Folk Art Centrum, while sophisticated in dealing with the European market, expressed the need to learn a great deal more about the American market.**
- Δ Many cooperatives and micro-enterprises welcomed additional information about the services provided by ATA and how they could access them.**

## **SUMMARY OF FINDINGS (Cont.)**

- Δ The previous business skills 'workshops' were too informal and did not reach a large enough group; many people whom ATA assisted are not aware that they have indeed had training.**
  
- Δ The project has done an excellent job of networking with other programs and coordinating its activities with other A.I.D. projects. The joint effort between ATA and SUNY to conduct a needs assessment on behalf of artisans and the sponsoring of two Hungarians in the SUNY Fellows program were highly-productive activities.**
  
- Δ The policy obstacles identified in 1992 have not changed. Artisan products are now subject to VAT, despite lobbying efforts by the cooperatives and recommendations from ATA to reinstate the previous tax-exempt status. Other taxes such as unemployment and social security have simply been added into the cost, eroding the Hungarian crafts' pricing competitiveness. The question remains whether the gain to the government (in additional tax returns from artisans) is great enough to merit the cost to the overall industry. Artisan industries have experienced a dramatic shift from governmental protection policies to virtually no support.**
  
- Δ The transitional state of the economic environment continues to pose serious problems for the livelihood of the artisan. Domestic demand for artisan products is down because of unemployment and inflation; tourism, once a prime market for Hungarian crafts, has declined significantly. However, many cooperatives are diversifying with ready-made clothing for European and Japanese markets, and are using artisan skills to embellish these fashion products.**

## **FINDINGS RELATED TO EVALUATION SCOPE OF WORK OBJECTIVES**

1. To what extent did the program conform to its original design? To what extent did Year Two of the project follow its predicted course, as outlined in the original proposal, the Implementation Plan, and the Cooperating Agreement itself? What are the reasons for any deviations?

In January 1992, ATA re-assessed its program goals in light of 1) new insights gained from direct experience in the field; 2) in-depth analysis provided by the Yale School of Management team; 3) macro-economic factors related to the shift to a market economy which were generating unprecedented layoffs, business failures, shrinking domestic consumer demand, and declines in tourism. In close consultation with the AID Project Officer, an interim report (1/6/92) was issued which detailed the new context within which ATA found itself functioning. Original program goals and implementation strategies were re-evaluated and more realistic ones set; these included:

- Shifting from job generation to job retention
- De-linking the ATA program from Hungarocoop, which had proven uncooperative
- Adjusting product development goals from preservation of Hungarian ethnic traditions to products geared for the American export market

With Hungarocoop's resources no longer available, the program had to identify other appropriate foreign trade organizations and devise alternative means of networking among a diverse group of artisan producers. This has been an enormous task given the budget constraints, and ATA has produced impressive results with minimal institutional infrastructure from the Hungarian side.

The program has been consistent in implementing its revised goals, and has constantly up-dated and refined its mission within the parameters of the original program.

**2. How successful was the project in achieving the goals set out in the project proposal? How significantly did the project actually impact the lives of beneficiaries?**

The program has been highly successful in accomplishing its goals. These include the following:

- **Generating export opportunities:** The original project goal was to generate \$200,000 in export sales by the end of Year 2; in fact, the program has generated almost \$300,000 in export sales (\$298,000). This is an extraordinary accomplishment given the macro-economic conditions, the recession in the U.S., and other constraints beyond the control of the program.
- **Impacting beneficiaries:** The original project goal was to directly involve 400 active artisans and to indirectly affect 2,000 artisans who would share in knowledge. The program has actually directly affected more artisans-- over 4,000, and in more substantive ways than originally forecast. By working with a larger number of cooperatives and by generating such large amounts of export orders, more jobs have been retained. Several coops pointed out to the evaluation team that ATA has been their major source of export sales. Others noted that the large-scale orders generated by ATA's marketing efforts have made the difference in staying in business and climbing out of deep fiscal crisis caused by wide-spread bankruptcies and resultant bad debts.
- **Stimulating business enterprise:** The program has successfully stimulated business enterprise in Hungary, and, significantly, in the U.S. as well. Three Hungarian export agencies have been formed; 28 micro-enterprises have expanded their business volume and generated new employment opportunities for other artisans; 3 U.S. companies have been formed to manufacture and import Hungarian products; and 10 U.S. importers/manufacturers have expanded their production line based on Hungarian artisan products.
- **Assist in product design and development:** The program originally planned to conduct a minimum of 10 product development workshops

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

during each program year. In fact, the program has conducted far more: 71 product development sessions were held with 23 different cooperatives; 10 micro-enterprises were assisted; and Folk Art Trading, a foreign trade organization, was also assisted. Thus the program has far exceeded its original objectives.

- Provide practical strategies for participating in a market economy:

The program has provided varied strategies including 1) creating marketing opportunities by representing Hungarian artisan producers and products at the New York International Gift Show and other major trade shows in the U.S.; 2) advising on marketing tools such as brochures and promotional materials; 3) encouraging participation in European trade shows through Folk Art Centrum and independent initiatives; 4) exposing cooperatives to the realities of competition through contact with real buyers who seek out the lowest price points and insist on high quality and timely delivery; 5) assisting producers to be competitive through analysis of their production methods, raw materials sources, and advocacy of streamlined operations.

- Raise the consciousness in the American marketplace about Hungarian culture, crafts and artisan skills: The program has admirably accomplished this goal with great style. ATA mounted a notable exhibition and sale of works by Hungarian Master Potters which garnered attention and stimulated cultural and commercial interest. The exhibition was presented in 2 strategic trend-setting venues: New York City and Santa Fe, in addition to others (Washington, D.C. and Oregon). ATA also arranged for media coverage of Hungarian crafts in major print media including Modern Bride, House & Garden, Elle, and Better Homes and Gardens. The best indication of growing awareness and interest is increasing buyer interest; ATA has succeeded in catching the attention of major retailers.

## FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)

- Provide income generation for Hungarian women who comprise a large percentage of the crafts sector: This is being accomplished as indicated by the level of export sales generated. It is important to note that the program does not have a means of monitoring the domestic sales generated by ATA's new product development. The coops and micro-enterprises have informally reported to ATA and the evaluation team that they have had good responses to the new products in domestic retail shops. However, there are no sales figures available. Women comprise a significant percentage of all of the artisan enterprises with which the program works. Their roles range from skilled artisan work such as hand-painting ceramics and embroidery to general labor such as loading kilns and stocking shelves, to administrative and managerial positions.

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

ATA has been very responsive to many of the recommendations put forth in the mid-term evaluation. These include the following specific actions and program emphases:

- Continued business analysis: The Yale SOM team was re-activated in spring 1993 to provide a re-assessment of business conditions, policy climate, and macro-economic context within which the Hungarian artisans and the program must function. They carried out a quick low-cost, intensive field study which was remarkably thorough, providing useful comparative data and general business analysis of artisan producers.

- Continued informal export training: ATA provided informal expertise to foreign trade organizations, new export agents, and cooperatives who handled their own exporting. ATA also provided extensive, detailed liaison service between U.S. importers and exporters to insure timely, accurate, and legal compliance.

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

- Undertake a course of action to facilitate formal business training: ATA has worked hard to bring about a formalized business training program which would meet the needs of artisans. Working in cooperation with SUNY's Center for Private Enterprise Development, ATA's project liaison, Ildiko Polony, conducted a Needs Assessment which identified and prioritized the major business training needs of Hungarian artisans. ATA has initiated a well-conceived plan to present intensive workshops in marketing and practical management strategies which will bring leading U.S. experts to Hungary. The workshop series will be presented in cooperation with the Hungarian Coop Managers' Organization, which will a) insure the participation of many coops and b) facilitate coordination.
  
- Continue integrated product development and marketing, with increased emphasis on the Buyers to Hungary component: ATA has significantly increased the number of buyers who have undertaken to travel to Hungary (at their expense) and investigate export business opportunities with Hungarian artisan producers. During Year 2, ATA successfully recruited 9 major buyers representing a wide variety of importers and manufacturers. These included a buying team from Associated Merchandising Corporation, a buying consortium representing over 700 U.S. department stores. Other buyers are being cultivated, including large clothing manufacturers.
  
- Continue cultivation of a broad and sustainable market base, through sales at many market venues, including import firms, manufacturers, retail stores and chains, and mail order catalogs: ATA has excelled in its marketing activities as proven by the large number of export orders and large number of companies carrying Hungarian products. The 13 U.S. importers recruited by ATA represent the tip of the marketing iceberg: they in turn have developed accounts with virtually hundreds of large-scale commercial businesses including national retail chain stores, large

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

regional department stores, national retail mail order catalogs, and hundreds of smaller stores. Further, ATA has expanded its marketing activities through new agreements with a national telemarketing company, QVC, Inc. which should have a major impact on sales in Year 3.

- Improve communications with AID offices in Washington and Budapest: ATA has made a concerted effort to expand and upgrade its program reporting methods using a new reporting format, increased visits to AID/Washington to keep the project officer updated, and regular contact between AID/Budapest and ATA field consultants and program liaison. ATA also has maintained excellent relations with the American Ambassador. Feedback from AID has been positive.

4. Given the added perspective of Year 2, were any of the assumptions of the original proposal found to be false? How has that knowledge affected the course of the project?

As noted in the response to question one, ATA determined early, within the first 6 months, that original assumptions were off-base regarding the viability of creating new jobs. The shift to job retention reflects the reality of the situation in Hungary where virtually all sectors of the economy are struggling. ATA strives to keep informed of all macro-economic conditions and to understand how these impact on artisans. Further, ATA has been attuned to policy issues which directly affect artisans such as the loss of VAT exemption for hand-crafts. ATA has networked with a variety of banking and financial institutions, acting as an advocate for artisan interests and raising the consciousness of these institutions for meaningful, direct resources which need to become available to new enterprises.

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

**5. To what extent has ATA's marketing structure been effective? On an implementation level, a) Which markets has ATA accessed?; b) To what extent has each contact led to real orders for artisans?; c) What effect, if any, will these buyers have on sustainability of businesses?**

**Marketing structure effectiveness:** The ATA strategy in marketing is obviously effective; export orders are almost double the projected goals, and sales in the U.S. market are excellent, according to the importers and wholesalers interviewed by the evaluation team.

**Markets accessed:** ATA has accessed a wide range of the U.S. marketplace through a diversified marketing strategy which includes major trade fairs, direct mail, promotional events, and recently, telemarketing. The scope of markets reached includes the home furnishings market, the gift market, the tabletop market, and fashion clothing and accessories market. Each of these sectors of the market is reached through manufacturers, wholesalers, and retailers which include department stores, specialty shops, galleries, boutiques, and national mail order catalogs.

**Real orders:** The program has generated \$298,000 FOB/Hungary orders; this means that \$298,000 is the figure paid directly to Hungarian producers and foreign trade companies. The forecast looks excellent; all of the importers, manufacturers and wholesalers are placing significantly large-scale orders and are predicting substantial orders in 1993. For example, Samii Clothes is gearing up to do \$60,000 - \$70,000 in business volume in its Hungarian line in 1993; Mesa International is projecting FOB/Hungary orders from Hodmezovasarhely Coop at \$100,000 in 1993; Sandor Collection originally expected to do \$125,000 in 1993, and already has a \$72,000 wholesale order to be shipped in the next 2 months.

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

Buyers' effects on sustainability of business: Through the Buyers to Hungary program component, ATA cultivates meaningful connections between artisan producers/agents/export trading companies and the importers. These face-to-face contacts foster committed relationships which lead to long-term associations. While some of the larger companies will not base decisions on human factors-- the bottom line is cost control and sales generated-- the medium-sized companies certainly do function on a different basis. The importers/manufacturers such as EEE Group, Sandor, Mariska, Mesa International, Chandler Four Corners, and Samii Clothes all have direct, vested interests in maintaining good working relationships and building up their businesses based on the Hungarian artisans and their particular special skills. This is what enables these companies to produce distinctive, competitive products.

6. What steps has ATA taken to assess and meet artisans' business training needs? What further steps should be taken in Year 3 of this project?

Assessment: Early in the program, ATA fielded a team of Yale School of Management graduate students who spent three months in Hungary conducting a survey of the artisan sector and its needs. The team visited 20 artisan coops and several micro-enterprises; they compiled profiles on cooperatives in terms of size, products, management structure, marketing activities, and distribution channels. Financial data collected included annual sales, salaries, overhead, raw materials, and profit or loss position. Coop management provided detailed feedback on current issues related to the changes in the Hungarian economic system. Data on artisans in terms of ages, work activities, earnings, and training were collected to form a comprehensive overview of working conditions. The information was analyzed and put into a macro-economic context, providing ATA program planners with a valuable 'road map' for the project. The Yale SOM team has returned to the field twice more for a total of 3 field surveys, providing business monitoring and feedback on changing conditions.

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

**Meeting artisans business training needs:** The program has provided informal training and technical assistance to the artisan coops, micro-enterprises, export agents and companies. ATA resource people in marketing and product development provided practical advice and information on the following topics: sourcing raw materials, cost-cutting, costing analysis, record-keeping, invoicing and billing, methods of international payment, export procedures, labeling and shipping. Buyers and product development experts provided valuable feedback on market preferences. The evaluation team found that the artisan needs and expectations exceeded the projects' performance. The informal nature of the delivery of information is not a familiar means of 'being instructed', and many people failed to realize they have actually had workshops or training. This is a reflection of several factors: 1) the needs are great, and do require a more comprehensive program; 2) the culture requires more formality and structure.

The program interfaced well with the SUNY Center for Private Enterprise Development in Budapest; a Needs Assessment was carried out which has been very useful in planning a broader business training component.

ATA cooperated with the SUNY Fellows Program in 1992-93 to sponsor three Hungarians for short-term, intensive training in the U.S. in small business management and marketing. Two artisans and one chamber of commerce executive who is developing a regional crafts center spent 6 weeks in the U.S. They found their experience extremely useful and valuable.

**Steps for Year 3:** The evaluation team recommends a more comprehensive business training component for Year 3 which would include the following:

- Structured, intensive workshops for coop managers and small/micro-enterprises focused on management and marketing topics

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

- Provide written materials in English and Hungarian
- Sponsor 3-4 Hungarians in key positions ( e.g., Folk Art Trading export manager, Coop Managers' Association officer, artisan entrepreneur) for U.S. short-term, intensive marketing training
- Assist Hungarians in preparation for and direct participation in the New York International Gift Show

**7. What macro-economic factors have affected ATA's ability to meet project goals? Specifically, a) What macro-economic factors affect the Hungarian business climate; b) How do these factors impact the production and export of crafts?**

ATA has been able to produce results despite working within extremely challenging macro-economic and social conditions.

**Macro-economic factors affecting business climate:** The following economy-wide factors are affecting the business climate:

- rising levels of unemployment (14% national average)
- high rates of inflation (23% in 1992)
- high real interest rates (35% - 40%)
- declining household incomes and living standards
- declining domestic output
- declining domestic consumer demand

**Business climate:** Credit is scarce, and a growing number of businesses have declared bankruptcies ( 6,800 bankruptcies and 11,000 liquidations in 1992). The high level of frustration affects Hungarians' attitudes and this can cause counter-productive negativity which is not conducive to winning new accounts and fostering new business. Uncertainty pervades the climate, and businesses struggle to project costs in the face of inflation and unrealistic exchange rates.

## **FINDINGS RELATED TO EVALUATION S.O.W. (Cont.)**

Impact on production and export of crafts: Artisan producers are greatly impacted by all of these macro-economic factors. The coops are faced with rising costs, declining sales, declining profits, and lack of credit resources. They have severe cash flow problems, which limits their ability to undertake new production orders: they cannot purchase raw materials or pay worker wages. Even when credit can be obtained, most cannot afford the absurd finance rates. Many cooperatives and small businesses have been burned badly by large, uncollectable debts owed to them by now-bankrupt companies. They are not able to reliably check the credit-worthiness of their prospective customers, and worry about being paid for orders shipped. The shrinking domestic demand for crafts has cut into their sales, and they are now trying to reach domestic consumers by making more practical products. They are turning to the export market, yet are not prepared to function in this terra incognita, where long distance represents increased risks.

## **RECOMMENDATIONS**

### **TRAINING:**

- Δ **Marketing and business skills now seem to be much more important to the continued survival of the cooperatives and small businesses. Most coop managers have requested highly pragmatic, short-term/intense workshops which are tailored to the specific needs of artisans, ever mindful of their limited time and human resources.**
- Δ **Instructional materials need to be developed in both English and Hungarian; general information and how-to material on aspects of product line development, marketing, etc. needs to be distributed widely.**
- Δ **There is a need for training in strategic business planning, business management skills, marketing, promotion, and advertising, product merchandising and display for showrooms and retail outlets; this has been expressed by many coop managers. Some of these topics can be addressed through existing training programs, but most need to be tailored to artisan industries.**

### **MARKETING:**

- Δ **Selected top management from coops and foreign trade organizations should participate in the New York International Gift Show. They will need to have help in editing their product line and preparing for this trade show; this should take the form of a training-of-trainers that will lead to a training event in Hungary.**
- Δ **Because some cooperatives are not necessarily aware of what ATA has done for them in the New York International Gift Show and other marketing activities, ATA needs to provide regular updates on its U.S. activities on behalf of clients, as well as feedback on its marketing initiatives.**

## **RECOMMENDATIONS (Cont.)**

- Δ Marketing activities should continue, with strategies for more participation by the Hungarian clients. ATA needs to continue the Buyers to Hungary program, as this has generated significant business partner-ships between U.S. manufacturers and Hungarian artisan producers.**
- Δ A Buyers Guide to Hungary would be a useful marketing resource to broaden the range of potential buyers and increase awareness of production capabilities. There is also a need for some complementary guidelines for Hungarians to respond to any joint venture options.**
- Δ It is important to continue to help foreign trade organizations such as Folk Art Trading to deal with the American market. Folk Art Centrum is a well-run company specializing in a wide spectrum of artisan products; it fills a major need in the export chain between artisan producers and foreign importers. Most large U.S. importers will not consider importing unless they can rely on such a company to handle the hundreds of details related to production and consolidation of orders.**

### **PRODUCT DEVELOPMENT:**

- Δ The Buyers to Hungary component should be continued, as it combines real customers with specific product development needs. The program has demonstrated its effectiveness, and Year 3 should seek to sustain the same levels of activity in order to generate future orders.**
- Δ The program should continue to actively involve Hungarian designers; in this way, the program is building in self-sufficiency and sustainability.**

## **RECOMMENDATIONS (Cont.)**

### **INTERFACING WITH OTHER A.I.D. PROJECTS IN HUNGARY:**

- Δ Develop a plan for continued collaboration with the SUNY program.**
- Δ Explore future collaboration with the CIPE program regarding policy constraints to the artisan industry.**

**OVERVIEW OF PROGRAM & CLIENTS**

## SCOPE OF PROGRAM

The Export Enhancement Program/Hungary provides direct technical assistance in product development, marketing, and business training and counseling to a diverse range of Hungarian artisan enterprises including:

- 1) Large privatized cooperatives with full-time employees and hand-processing, factory-like conditions;
- 2) Small coops with cottage industry workers;
- 3) Private companies (formed from old coops)
- 4) Micro-enterprises of 2-10 employees

The working conditions range from full-time to part-time, factory to home-based. The coop/small business production centers vary in scale from 25 to 650 workers, with an average size workforce of 200 employees; the majority of workers are women.

The program has worked with a total of 28 artisan cooperatives and companies; 28 micro-enterprises, and 5 foreign trade companies. Of this group, 19 have received in-depth program inputs including product development workshops, buyer visits, marketing assistance, and business analysis.

### SUMMARY OF PROGRAM CLIENTS

19 Coops/companies	3,850 Employees
28 Micro-enterprises	100 Employees
5 Foreign trade companies	<u>155 Employees</u>
<b>TOTAL CLIENTS:</b>	<b>4, 105 EMPLOYEES</b>

**MAJOR  
ARTISAN COOPERATIVES PARTICIPATING IN PROGRAM**

<b>ARTISAN COOPS</b>	<b>Number Employees FT/PT</b>	<b>Number of Management</b>	<b>Total Number of Employees</b>
BEKESSZENTAN- DRAS TEXTILE	155	5 *	160
DEBRECEN	95/96	20	211
HEVES TEXTILE	226/154	20	380
HODMEZOVASAR- HELY CERAMIC	130	5	135
KALOSCA TEXTILE	58/352	18	428
KAPOSVAR	90	10	100
KARCAG CERAMIC	26	3	29
KARCAG TEXTILE	130/6	10	146
MAKO TEXTILE	67	2	69
MEZOKOVESD	186/64	7	257
MEZOTUR CERAMIC	55	12	67
GYULA TEXTILE	220	5	225
ENCI FACTORY	167	5 *	172
BESESCASABA	368	10 *	378
SIOFOK TEXTILE	180	10 *	190
BUDAPEST (MIX)	646	10 *	656
PECS TEXTILE	120	5	125
MEZOBERENY	66	3 *	69
OSOOD	50 *	2 *	52
		<b>TOTAL EMPLOYEES</b>	<b>3,849</b>

\* Estimated

## **COOPERATIVES AND SMALL BUSINESSES**

The program works closely with 19 small businesses; some are organized as worker-owned cooperatives, others are KFT's or privately-owned companies. When the program began in 1991, all were state-owned; now the majority (if not all) are privatized. This period of transition has been a challenging environment in which to carry out a program of assistance: many of the businesses were so absorbed in internal re-structuring they initially were limited in their ability to see their critical needs related to product development and marketing.

Many of the cooperatives have been forced to scale back their workforce in order to cope with the depressed economy and restructuring woes. Too many of the cooperatives were slow to cut down on administrative overhead; those which privatized quickly and streamlined operations are out in front and doing a healthy amount of business.

Many of the artisan cooperatives are a mix of hand-process and factory production methods. The majority are coping with old machinery and need infusions of capital to upgrade and repair equipment. A few have successfully negotiated private loans and attracted private investment, but the majority have not and are in critical need of meaningful finance assistance. ATA has been a consistent voice of advocacy on behalf of artisan enterprises, representing artisan needs and concerns to the Hungarian Enterprise Fund, Women's World Banking, and related potential resources.

ATA works directly with management and design staff to address issues of production, raw materials sourcing and quality control, development of new product lines, customer relations, and marketing.

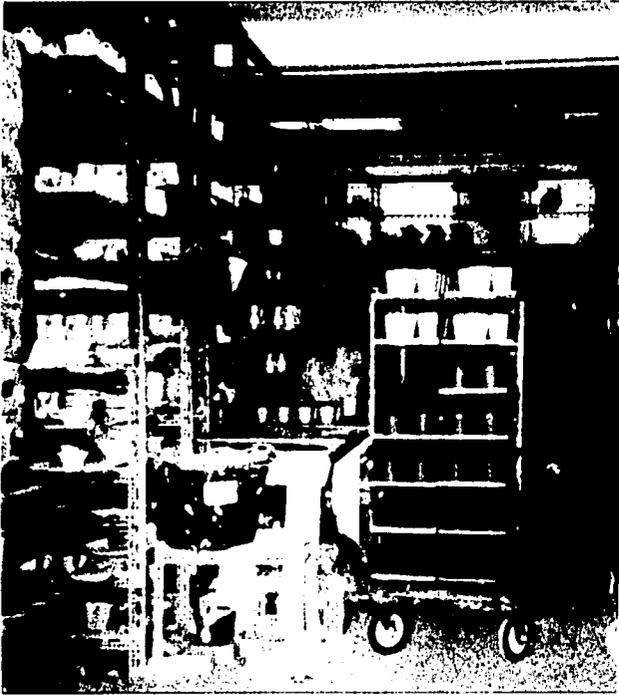
A complete description of program inputs is covered in the following sections on Product Development, Marketing and Promotion, and Business Training.

## SUMMARY OF ATA PROGRAM INPUTS TO COOPS: 1991 - 1993

COOPERATIVE	ATA PRODUCT DEVELOPMENT	BUYERS VISITS	BUSINESS ANALYSIS	TOTAL PROGRAM INPUTS
Budapest	2 Visits 1991		1 Visit 1991	3 Visits
Debrecen	6 Visits 91,92,93	YES	2 Visits 1991/93	8 Visits
Heves	6 Visits 91,92,93	YES	3 Visits 1991,92/93	9 Visits
Karcag Textile	4 Visits 1992, 1993	YES	3 Visits 1991,92/93	7 Visits
Karcag Ceramics	2 Visits 1992	YES	3 Visits 1991,92/93	5 Visits
Szeksard			1 Visit 1991	1 Visit
Decs	1 Visit 1991		1 Visit 1991	2 Visits
Mezotur	6 Visits 1991/92/93	YES	3 Visits 1991/92/93	9 Visits
Siofok	3 Visits 1991/92/93	YES		3 + Visits
Bekeszantandras	3 Visits 1992/93	YES		3 Visits
Mezobereny	2 Visits 1991/92		2 Visits 1991/92	4 Visits
Kalosca	5 Visits 1991/92/93	YES	2 Visits 1992/93	7 Visits
Szeged	1 Visit 1992			1 Visit
Hodmezovasarhely	6 Visits 1991/92/93	YES	2 Visits 1991/93	8 Visits
Kaposvar	2 Visits 1991/92	YES	3 Visits 1991/91/92	5 Visits
Tizafured	1 Visit 1992			1 Visit
Mezokovesd	6 Visits 1991/92/93	YES	2 Visits 1992/93	8 Visits
Jaszarokszallas			1 Visit 1991	1 Visit
Gobelin			1 Visit 1991	1 Visit
Kiskunhalas	1 Visit 1991		1 Visit 1991	2 Visits
Mako	4 Visits 1991/92/93	YES	3 Visits 1991/92/93	7 Visits
Gyula & Sarkad	2 Visits 1992/93	YES		2 + Visits

<b>COOPERATIVE</b>	<b>ATA PRODUCT DEVELOPMENT</b>	<b>BUYERS VISITS</b>	<b>BUSINESS ANALYSIS</b>	<b>TOTAL PROGRAM INPUTS</b>
Oscod	2 Visits 1992/93	YES		2 Visits
Pecs	3 Visits 1991/92	YES		3 Visits
Paloc			1 Visit 1991	1 Visit
Besescaba	2 Visits 1991/93	YES		2 Visits
Szentendre	1 Visit 1992	YES		1 Visit

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Most cooperatives have between 100 and 200 full-time employees, the majority of whom are women. The production facilities combine up-dated traditional hand processes with modern production systems. This Mezotur coop has become a private company.

## **MICRO-ENTERPRISES**

Small family artisan enterprises represent a growing trend as cooperatives re-organize and cope with the challenges of the market economy. Aid to Artisans has identified a number of exceptional micro-enterprises and provided individualized assistance and advice to over 28 small companies, representing approximately 100 employees.

### **ATA PROGRAM ASSISTANCE:**

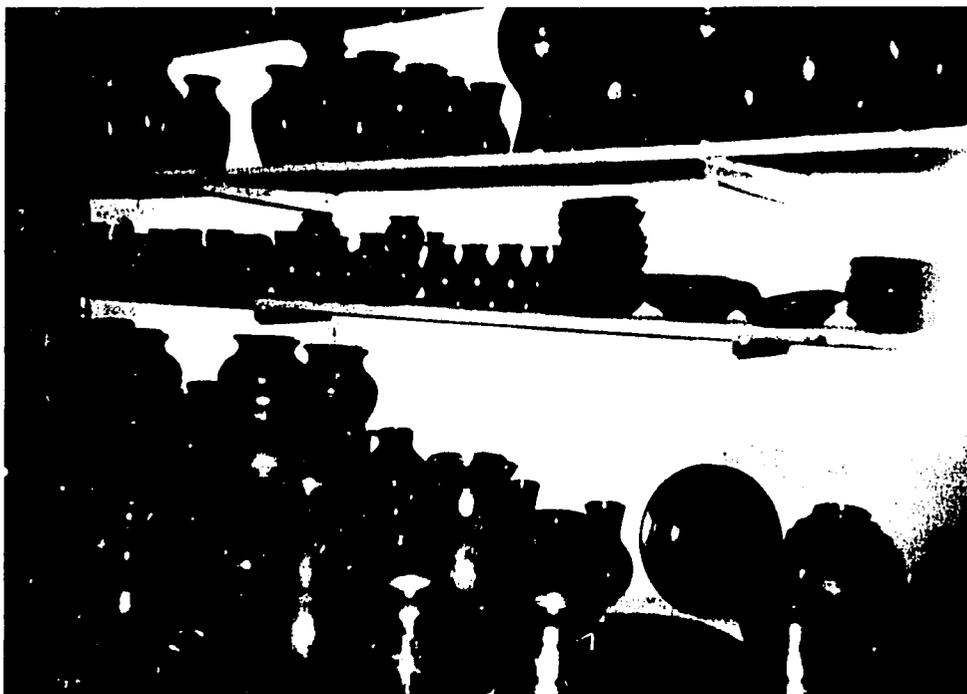
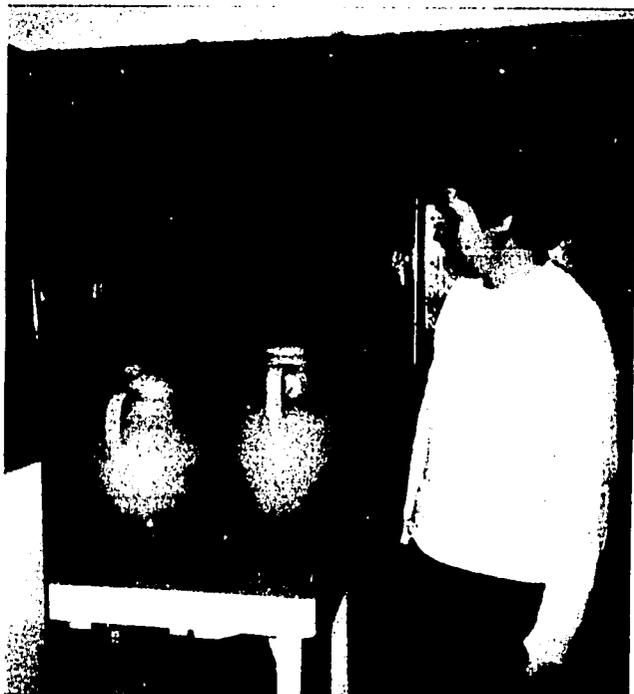
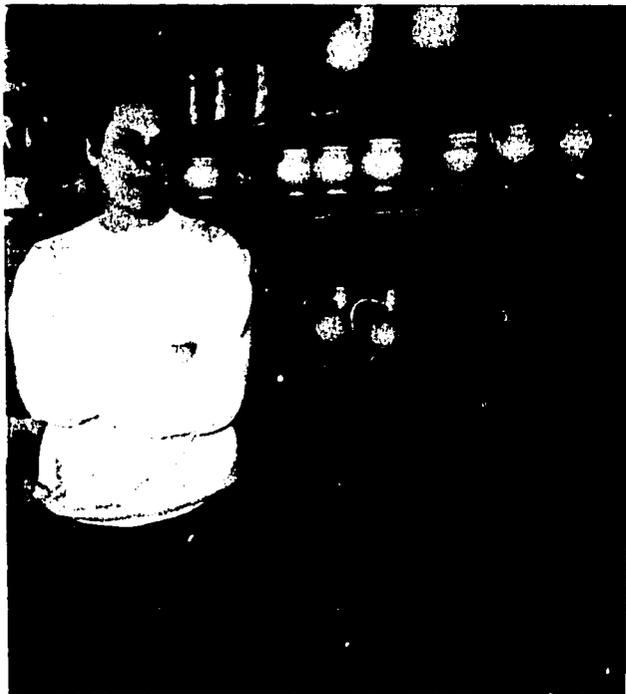
- Provide direct contact with visiting buyers
- Marketing of products in the U.S.
- Exhibitions in the U.S. and Hungary
- Promotional events and publicity
- Business management counseling
- Technical advice
- Contact with export agents

### **RESULTS OBSERVED:**

1. Increased volume of export sales
2. Increase in size of business in terms of employees
3. Increased investment in business (equipment/facilities)
4. Broadened product line
5. Fostered relations with U.S. importers
6. Interest in further business training
7. Interest in developing independent artisan organizations

**SUMMARY OF ATA PROGRAM INPUTS:  
MICRO-ENTERPRISES**

<b>NAME</b>	<b>TYPE OF ENTERPRISE</b>	<b>ATA PRODUCT DEVELOPMENT ASSISTANCE</b>	<b>MARKETING ASSISTANCE &amp; BUYERS VISITS</b>	<b>BUSINESS ANALYSIS</b>
Iren Beka	Micro-enterprise	YES	YES/1992/93	
Tamas Studio	Micro-enterprise		YES/1991/92/93	YES
Istvan Rusoi	Micro-enterprise		YES/1991/92/93	
Annamaria Biro	Micro-enterprise		YES/1991/92/93	
Falusi Studio	Micro-enterprise	YES	YES/1991/92/93	YES
Szucs Imre Studio	Micro-enterprise	YES	YES/1991/92/93	YES
Horvath & Lajos	Micro-enterprise		YES/1991/92/93	YES
Busi Lajos	Micro-enterprise		YES/1991/92/93	
Kovats Studio	Micro-enterprise	YES	YES/1991/92/93	YES
Zsilinski Andras	Micro-enterprise		YES/1991/92/93	
Gonda Istvan	Micro-enterprise		YES/1991/92/93	
Kinga Szabo	Micro-enterprise	YES	YES/1991/92/93	YES
Szabolcs Kovacs	Micro-enterprise		YES/1991/92/93	
Kati Zsidenk	Micro-enterprise		YES/1992/93	
Luca	Micro-enterprise	YES	YES/1992/93	
Judit Karsay	Micro-enterprise	YES	YES/1992/93	
Eva Novak	Micro-enterprise	YES	YES/1992/93	
Steven Palinkas	Micro-enterprise	YES	YES/1991/92/93	
Laszlo Hollo	Micro-enterprise	YES	YES/1991/92/93	YES



The Kovats operate a small family enterprise which employs 9 people; they presently export their hand-made pottery to the U.S. through ATA-generated contacts.

## FOREIGN TRADE ORGANIZATIONS

The program has worked closely with foreign trade organizations from the beginning. The initial contact, Hungarocoop, did not work out; they were too large-scale, and undergoing internal structural transformation.

Folk Art Trading is a well-organized foreign trade company which specializes in the export of Hungarian crafts. They provide selected coops and micro-enterprises with export contacts and services, represent producers in European trade shows, and are the leading contact source for importers interested in Hungarian artisan products. They have been very cooperative with the Export Enhancement Program, and have worked closely with large-scale exporters such as the Associated Merchandising Corporation. ATA feels strongly that this company represents a professional reservoir of critical resources for Hungarian artisan producers which should be reinforced and developed through marketing assistance and training in the U.S. market. Many of the artisan producers are too inexperienced in marketing to fully appreciate the role of Folk Art, and have tried to be independent. In doing so, they jeopardized their business relationships with the U.S. importers, and ATA had to provide extremely-detailed follow-up to salvage orders. As the business and marketing training program expands, the valuable services which a company like Folkart can provide will become more understandable to the coops.

ATA has fostered the formation of two small export agent ventures, Pal Bujnyik and Ica Todorne. These two companies have demonstrated excellent entrepreneurial talent, and are filling a niche in the exporting chain. ATA has also provided assistance to Baló Karvazy, who began his export agent role early in the program. The agents have special ties to micro-enterprises, and are building close working relationships to those they represent. They have earned the respect and trust of their clients, both producers and U.S. importers.

Kelimart is an export company which specializes in textiles, specifically rugs, carpets, and floor-coverings. They have close ties with several cooperatives and have demonstrated exceptional initiative in travelling to New York on a marketing trip organized by ATA.

**SUMMARY OF ATA PROGRAM INPUTS: FOREIGN TRADE ORGANIZATIONS**

<b>NAME</b>	<b>TYPE BUSINESS</b>	<b>MARKETING ASSISTANCE</b>	<b>BUYERS TO HUNGARY VISITS</b>	<b>BUSINESS ANALYSIS</b>
Hungarocoop	General Export Company	YES/1991 only		YES
Folk Art Trading	Craft Export Company	YES/1991/92/93	YES/1991/92/93	YES
Kelimart	Textile Craft Exporter	YES/1992/93	YES/1992/93	
Balo Karvazy	Export Agent	YES/1991/92/93	YES/1991/92/93	YES
Pal Bujynik	Export Agent	YES/1991/92/93	YES/1991/92/93	
Ica Todorne	Export Agent	YES/1992/93	YES/1992/93	

**PRODUCT DEVELOPMENT**

## **OVERVIEW OF PRODUCT DEVELOPMENT PROGRAM**

The Product Development component is an integral part of the program which is inextricably tied to the marketing component. A wide range of crafts is covered, with the major focus on textiles and ceramics; these products represent the majority of enterprises employing the most workers.

In the early phase of the program, ATA provided product development experts to work with the coops to design new products appropriate for the U. S. market. As the program evolved and the coop designers began to understand the process of developing market-oriented products, ATA developed a successful program component merging marketing with product development called "Buyers to Hungary". Through this initiative, the emphasis shifted to producing goods for specific buyers/importers; this reduces the risk to some extent, and makes product development keyed into real customers with real markets to satisfy.

Through the product development component, new products have been designed which are completely new to the Hungarian producers; these include a comprehensive line of Christmas theme products. Selected items from the standard lines of Hungarian artisan products have been updated and modified to appeal to American consumers. This process involves new sizes, fashion colors, design editing, and so forth. Many of the new products are based on traditional Hungarian design motifs which ATA designers researched in Hungarian museums. In this way the Hungarian folk-culture continues to be re-vitalized and encouraged.

As the program enters its third year, the Product Development component is actively involving independent Hungarian designers; in this way the program seeks to develop self-sufficiency.

## **PRODUCT DEVELOPMENT FINDINGS**

**Observations:** Aid to Artisans has been able to develop excellent working relations with a large number of cooperatives and companies. In the beginning of the program many Hungarians in administrative positions were not attuned to the scope of the crisis confronting them; as the demands of the new market-based economy and the re-organization of the government unfold, many tough challenges confront the cooperatives. As reality sinks in, attitudes towards the program have shifted from one of reserved interest to eager, at times desperate calls for assistance.

Some cooperatives were slow to recognize that their products are not competitive in a world market, and that they need to hustle to learn about the export market in order to survive. One lesson yet to be fully grasped is that product development is an on-going process, a requisite for competitiveness. After investing time, energy, and resources in new lines, they are a bit amazed that they have to do it all over again for the same buyers looking for next year's line.

**Problems/Issues:** A number of practical problems illustrate the system-wide constraints which many small enterprises confront:

- **Raw Materials:** Suppliers often require large minimum orders; unable to buy small quantities, coops can be thwarted from producing sample orders for serious potential customers which ATA recruits
- **Product Development Costs:** The time/labor costs of producing samples for potential large customers is a risk and a drain, one which coops now recognize they must incur. Many find that they have not charged adequately for these expenses, even with the project covering a portion and providing free design inputs.
- **Cash Flow:** This tends to be extremely tight, constraining the ability to purchase raw materials in quantity until an order is secured.



Ica Todorne, Assistant Manager of the Debrecen Coop, shows off two examples of the new line of Christmas theme products developed by Aid to Artisans. Orders for the stockings have been good.



The sewing production at many textile cooperatives enable these small businesses to manufacture a broad line of finished products which combine handwork with machinework

**MARKETING & PROMOTIONAL ACTIVITIES**

## **AID TO ARTISANS DIRECT MARKETING ACTIVITIES**

New York International Gift Show: Twice annually (February and August), ATA leased booth space at this international trade show held at the Jacob Javits Center. Thousands of buyers from across the U.S. visited the show and viewed the products; ATA staff answered questions about production capabilities, delivery schedules, and custom orders, etc. Orders were placed, and valuable contacts made which ATA followed up post-show.

ATA Trade Network: ATA's network of member companies is a valuable core resource for the marketing program. Members in the ATA Trade Network represent commercial enterprises who demonstrate interest in ATA's programs and a commitment to the ethical treatment of artisans. ATA fosters a special relationship through close communication, cooperation, and efforts to tailor products to potential buyers' needs. Members contribute to ATA programs through dues and in-kind services. ATA hosted special events at its Connecticut headquarters which were attended by buyers, principals, and designers from some of America's leading consumer products companies.

Product Presentations: ATA marketing staff met with buyers of selected companies to present Hungarian product samples and promote artisan production capabilities. This involved meetings at these company's offices as well as at ATA offices. ATA also arranged product presentation opportunities in New York for Hungarian trade organizations such as Kelimart (who travelled to the U.S. at their own expense).

## **ATA DIRECT MARKETING ACTIVITIES (cont.)**

Buyers to Hungary Component: ATA organized a series of escorted tours of Hungarian artisan coops and producers for U.S. buyers; this has been a very successful approach which accomplished the following:

- Brought real customers to Hungarian artisan producers
- Promoted highly-skilled Hungarian artisan producers to a wide variety of importers and manufacturers
- Provided a guided atmosphere for Hungarian artisan producers to experience market-based business practices
- Exposed Hungarian artisan producers to market challenges and demanding customers
- Provided Hungarian artisan producers with product line feedback
- Fostered new business relationships expected to develop into long-term relationships
- Increased export orders

### **BUYERS-TO-HUNGARY PARTICIPANTS**

AMC [Associated Merchandising Corp.]  
EEE Group  
Macy's  
AMS Imports

Mesa International  
Chandler Four Corners  
Marian Clayden  
Ferrari Luciano  
Nitza Etra-Dagan

ATA's role involved the following services:

- Recruited buyers who travelled to Hungary at their own expense
- Provided product development experts familiar with the Hungarian artisans and their capabilities
- Provided interpreters
- Provided liason and follow-up

## **ATA DIRECT MARKETING ACTIVITIES (cont.)**

**U.S. Exhibitions:** ATA organized an exhibition of traditional ceramics by Hungarian Master Potters which was presented at several retail gallery sites:

- New York City: CERAMICA
- Santa Fe, New Mexico: THE CLAY ANGEL
- Ashland, Oregon: THE CLAY ANGEL
- Washington, D.C.: MISSION IMPORTS [Scheduled]

The events garnered media attention, were well-attended, and resulted in sales. In Santa Fe, the exhibition was enhanced by a public lecture by ATA's Clare Smith.

**Hungary Exhibition & Sale:** With the cooperation of the Ambassador of the United States of America and Mrs. Charles H. Thomas, ATA organized a special showing of works by Hungarian master potters which was presented at the Ambassador's residence on May 5, 1993. This was well-attended, and resulted in significant sales of over \$5,000 for the Hungarian artisans who participated. ATA encouraged the Hungarian artisans to attend, assisted with their travel and lodging arrangements, and subsidized expenses.

**Promotional Materials:** ATA prepared and the program funded the following:

- **Point-of-Purchase Materials:** These explain and promote the Hungary program and are used at trade shows, showrooms, and retail stores.
- **Product Hang Tags:** These are attached to selected items and promote the artisan makers and credit the program.
- **Posters:** A full-color poster promoting the "MAGYAR KERAMIEK- Master Potters of Hungary" exhibition was published and distributed.
- **Postcards:** Full-color postcards announcing the schedule of the "Magyar Keramiek - Master Potters of Hungary" exhibition were printed and distributed.

## **ATA DIRECT MARKETING ACTIVITIES (cont.)**

**Telemarketing:** ATA has developed contacts with two giants of telemarketing:

- 1) Fujisankei Communications International, Inc., of Japan
- 2) QVC, Inc., an American company based in West Chester, PA. QVC has 44 million viewers nationwide, and buys products wholesale. They are especially interested in marketing the Hungarian pottery, and have invited ATA to prepare a 1-hour presentation. A total of ten or twelve products from various ATA projects worldwide will be sold, and retails sales are projected to hit \$150,000. (It is too early to forecast what percentage of sales will be Hungarian products, but they will be well-represented.)

## **INDIRECT MARKETING ACTIVITIES: ATA & PRIVATE SECTOR**

Private sector partners of the program invested in a variety of marketing/promotional activities and materials; ATA provided advice, design input, and referrals. The following were under-taken by private businesses to specifically promote and market the Hungarian crafts:

Trade Shows: Importers and manufacturers handling Hungarian artisan products initiated their own trade show participation which included the following:

- ATLANTA GIFT SHOW
- HIGH POINT FURNITURE SHOW
- NEW YORK TABLETOP SHOW
- CHICAGO GIFT SHOW
- ATLANTA CARPET SHOW
- NEW YORK SPRING HOME TEXTILE SHOW
- PACIFIC SPRING HOME TEXTILE SHOW [San Francisco]

Catalog pages: Full-color product pages (2) by The Sandor Collection; AMS Imports; products are also advertised in 10 national retail mail order catalogs.

Catalog-brochures: Some companies produced their own catalog-brochures; examples include Mariska, Samii Clothes, and Chandler Four Corners.

## **ASSESSMENT OF ATA MARKETING PROGRAM**

The marketing program set into motion by Aid to Artisans has developed into a comprehensive program which is proving to be strong and diversified. Much of this can be directly traced to ATA's strategy of involving the private sector as extensively as possible. By defining their role as catalyst and by providing support services to importers, ATA creates opportunities for entrepreneurs at different levels in the import-wholesale-retail chain to start their own ventures; they in turn have aggressively marketed in ways which protect their investments in product development and marketing. Each importer has their own strategy-- and timing-- which is crucial to the successful marketing of their products. The result is a well-balanced mix of enterprises which operate under market conditions both in the U.S. and in Hungary.

**AID TO ARTISANS MARKETING PROGRAM:  
HUNGARY**

**NEW YORK  
INTER-NATIONAL  
GIFT SHOW**

**NATIONAL  
TELE-  
MARKETING**

**RECRUITING  
BUYERS TO  
HUNGARY**

**IMPORTER**

**IMPORTER**

**IMPORTER  
&  
MANUFACTURER**

**IMPORTER  
&  
MANUFACTURER**

**TRADE  
SHOWS**

**TRADE  
SHOWS**

**TRADE  
SHOWS**

**TRADE  
SHOWS**

**WHOLESALEERS &  
DISTRIBUTORS**

**WHOLESALEERS &  
DISTRIBUTORS**

**RETAIL  
SHOPS**

**DEPARTMENT  
STORES**

**RETAIL  
SHOPS**

**BOUTIQUES**

**DEPARTMENT  
STORES**

**RETAIL  
SHOPS**

**RETAIL  
SHOPS**

**MAIL ORDER CATALOGS**

**GALLERIES**

**RETAIL  
SHOPS**

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# **EXPORT MARKET: INTERNATIONAL COMPANIES BUYING HUNGARIAN ARTISAN PRODUCTS**

**THE FOLLOWING COMPANIES ARE BUYING HUNGARIAN EXPORTS AS A RESULT OF THE EXPORT  
ENHANCEMENT PROGRAM**

## **MAIL ORDER CATALOGS**

Art & Artifact  
Daily Planet/Russian Dressing  
Gardener's Eden  
Museum of Fine Art, Boston  
Smithsonian  
J. Peterman  
Sturbridge Yankee Workshop

The Hemmeter Collection  
What on Earth  
Williams and Sonoma  
Wireless (National Public Radio)  
Garnet Hill  
CAPE

## **DEPARTMENT STORES**

Dayton-Hudson  
I. Magnin  
Macy's

Strawbridge & Clothier

## **OTHER RETAIL STORES**

Ad Lib  
Copenhagen Imports (Chain)  
Country Curtains (Chain)  
Crate and Barrel (Chain)

Handblock  
San Carlo Dal, Italy  
This End Up (Chain)  
River Town Trading  
\* Plus 100 small shops

## **IMPORTERS & MANUFACTURERS**

AMS Imports  
AMC Corporation  
Ceramica  
Chandler Four Corners  
EEE Group  
Esprit

Samii Clothes  
Ferrari Luciano  
Mariska  
Nitza Etra-Dagan  
The Sandor Collection  
Marian Clayden  
Mesa International

\* The number of companies now buying Hungarian crafts has grown dramatically; this list represents only a sample.

## SUMMARY OF EXPORT ORDERS: 1991 - 1993

IMPORT COMPANY	TYPES OF PRODUCTS	HUNGARIAN PRODUCERS	EXPORT AGENT	TOTAL ORDERS FOB/HUNGARY
CHANDLER FOUR CORNERS	Tapestry pillows	Bekeszentendras Coop	Kelim Art, Budapest	\$ 54,600
MARISKA	Ceramics/Tableware Linens	Individual artisans Various Coops	None	\$ 31,600
EEE GROUP, INC.	Ceramics/Tableware	Hodmezovasarhely Coop, individual artisans	Direct export from coop; Pal Bujnyik	\$ 21,400
SANDOR COLLECTION	Diversified: textiles, ceramics, wood, etc.	Many cooperatives and individual artisans	Balo Karvazy, Budapest Ica Todorne, Debrecen	\$ 68,100
SAMII CLOTHES	Outerwear garments	Debrecen Coop	Ica Todorne, Debrecen	\$ 12,000
FERRARI LUCIANO	Home furnishings textiles & ceramics	Debrecen Coop, Heves Coop	Pal Bujnyik, Budapest	Samples
AMS IMPORTS	Rugs and carpets	Bekesszentandras Coop	Kelim Art, Budapest	Samples
MESA INTERNATIONAL	Ceramics	Hodmezovasarhely Coop	Handled by coop	\$ 12,000
ASSOCIATED MERCHAN- DISING CORPORATION	Christmas ornaments	Heves Coop and individual artisans	Folkart Trading; Pal Bujnyik	\$ 46,500
DAYTON-HUDSON	Christmas ornaments	Heves Cooperative and individual artisans	Pal Bujnyik	\$ 30,000
CERAMICA	Ceramics/Tableware	Individual artisans	Pal Bujnyik	\$ 2,000
THE HEMMETER COLLECTION	Christmas products	Heves & Debrecen Coops	Pal Bujnyik	\$ 14,000
BOSTON MUSEUM FINE ARTS	Christmas items	Debrecen Coop	Pal Bujnyik	\$ 6,400
			<b>TOTAL ORDERS FOB HUNGARY</b>	<b>\$ 298,600</b>

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## **SUMMARY OF IMPORTERS' BUSINESS ACTIVITY**

EEE Group, Inc. : Judy Espinar, owner, reports that EEE Group's business venture in Hungary is going well. EEE Group's two retail gallery-stores received their shipment of the first container of Hungarian ceramics in February, and have already sold 15% of the many thousands of items. This is considered an excellent market response, and has led the company to plan on 1) importing another container of ceramics made by individual artisans and geared for the retail gallery market; 2) continuing to develop a manufacturing and wholesale business based on a line designed by Hungarian designer Kinga Szabo and produced by the Hodmezovasarhely Coop. The Kinga Szabo line is targeted for its market debut at the February 1994 New York International Gift Fair. The major concerns for this importer are 1) keeping prices down so they are competitive and 2) achieving quality control.

Chandler Four Corners: This small import business manufactures its own line of tapestry pillows which are hand-loomed at the Bekezentendras Coop in Hungary and sewn/fabricated at Watermark, a North Carolina cooperative. Henry Chandler, owner, reports that his business is growing - well enough that he plans to open a retail store in Manchester, Vermont on July 4th weekend. Most of the growth is through retail mail order, which gives the maximum profit margin. He has successfully marketed his products to several major retailers including Crate and Barrel Catalog. Plans are underway to expand the product line to include rugs. Chandler reports that his major concerns are reducing production costs through strategies such as using Hungarian yarns (rather than Swedish). He continues to explore ways to accomplish this, and believes that if he can lower the price points, he can greatly expand the volume of his business.

Samii Clothes: This Vermont-based company has created a whole new Hungarian line called Lanya, featuring mother and daughter outerwear. The owner, Gay Ellis, is a gifted designer who has generated attention from leading fashion publications such as *The New York Times* and *Elle Magazine*. Samii is carving out a unique market niche through sales to mail order catalogs, boutiques and specialty stores. Hungarian artisans create decorative components which are imported to Vermont where they

## **SUMMARY OF IMPORTERS' BUSINESS ACTIVITY (Cont.)**

are sewn into garments by women on a cottage industry basis.

**Mariska:** This small company began as a ceramics importer dealing in a wide range of table wares produced by individual artisans as well as ceramic coops. Mariska now has its own design team, and has expanded its product line to include table linens and other products associated with the tabletop market, plus home furnishings and gift items. It has expanded its marketing activities, and has steadily increased its U.S. accounts. In May they placed orders in Hungary totalling \$12,000 FOB/Hungary.

**AMS Imports:** This rug manufacturer/wholesaler is developing a line of rugs designed by ATA's Docey Lewis which are produced at the Bekeszentendras Textile Coop in Hungary; with the help of ATA's product development specialist, other production sites were also explored in Gyula, Besescaba, Ocsod, and Sarkad during May. The company initiated business discussions with an exceptional Hungarian textile designer, Klara Katona; this is an important step toward a totally-Hungarian controlled process from design through export. AMS' product line is placed with a number of prominent showrooms throughout the U.S.; the ATA evaluator visited one showroom at the High Point Furniture Market in North Carolina where the display was outstanding. At this point the company is still in the product development and marketing phase; the actual orders are anticipated in the coming year.

**Mesa International:** This large ceramics manufacturer already had operations in Hungary apart from this development project. However, they turned to ATA and this project for guidance in selecting a new production site for their expanded business. Since ATA's product development and business analysis teams had done thorough assessments of various coops and businesses, they were able to refer Mesa to a program client, the Hodmezovasarhely Ceramic Coop. The referral resulted in a good match, and Mesa has ordered and shipped one large container of goods worth \$12,000 during the past quarter. Mesa's president predicts that it will export \$100,000 FOB/Hungary worth of products in the coming year from Hodmezovasarhely.

## **SUMMARY OF IMPORTERS' BUSINESS ACTIVITY (Cont.)**

**Sandor Collection:** This small family business was the original sole private enterprise partner of the Hungary Export Enhancement Program. It has grown remarkably, and continues to demonstrate a deep commitment to the Hungarian artisans. Sandor has expanded from an importer and wholesaler to a small manufacturer, as its owner ventures into designing new products made by a diverse range of Hungarian artisans. Some of Sandor's products are completely made in Hungary; others are partially made in Hungary and assembled or finished in Connecticut or North Carolina using cottage industry workers. Sandor has initiated its own marketing campaign, and regularly presents its products in trade shows in New York, Atlanta and Chicago; the company is scheduled to participate in the Dallas Market in 1994. Sandor has developed a large number of wholesale accounts, from large department stores to mail order catalogs to tiny retail shops.

**BUSINESS ANALYSIS  
&  
BUSINESS TRAINING ASSISTANCE**

## **BUSINESS ANALYSIS**

ATA has been able to successfully identify and target program participants which were the most likely to benefit from assistance; this has been a valuable component of the program, particularly in the beginning. A team of graduate students from the Yale School of Management has been fielded three times during the past two years. They have collected and interpreted pertinent data on artisan coops, small businesses, micro-enterprises, and foreign trade companies.

The following has been accomplished:

- Initial survey, analysis, and ranking of artisan producers
- Re-assessment (end of Year 1 and end of Year 2) of producers in terms of management changes, business activities, and projected performance
- Analysis of macro-economic conditions and their impact on the artisan segment of the economy

The evaluation team notes that the input of the Yale SOM team has enabled ATA to direct its energies toward the most likely-to-succeed enterprises; this has been invaluable. It must be noted, however, that as management has changed, the competitive edge of enterprises once dismissed is beginning to blossom. As the program progressed, the Yale SOM team's limited field experience in developing economies/conditions and its lack of socio-cultural expertise was reflected in its pessimistic outlook for these struggling companies. The Yale team was perceived by some coop managers as young and inexperienced (fresh out of school), not fully able to understand the specific needs and constraints of the various artisan sectors. Newly-privatized enterprises should be appraised within the context of economic re-structuring stresses and socio-cultural factors.

## **SUNY/ATA FELLOWSHIP**

In January 1993, ATA collaborated with the SUNY Center for Private Enterprise Development's Fellows Program to bring 3 Hungarians to visit the U.S. for business training. This was a direct result of the Needs Assessment conducted by Ildiko Polony, ATA Project Liason, on behalf of SUNY. The program sponsored

1) Gabor Fulop, Director, Northern Hungarian Regional Chambers of Commerce, Eger; he has demonstrated keen interest in artisans, and is interested in co-sponsoring artisan industry business programs and services.

2) Agnes and Lajos Kovats, university-trained engineers turned potters who now operate a family business specializing in Hungarian black pottery. Mr. Kovats paid his own expenses.

### **PROGRAM HIGHLIGHTS**

The 6-week program involved the following:

1. SUNY/Buffalo: 4-Week Business Training Program. The format balanced classes in the mornings with visits to small businesses in the afternoons.
2. SUNY/Fred's College of Ceramics: Visited facilities and met students and faculty; gave presentation on Hungarian pottery.
- \* 3. Vermont: Visited craft centers and businesses including International Trade representative for Vermont; Frog Hollow Vermont Crafts Center; University of Vermont Export Assistance Center; Bennington Potters, Inc.
- \* 4. Connecticut: Visited ATA headquarters; toured Farmington Valley Art Center.
- \* 5. New York: Visited NY International Gift Show; toured commercial districts; met with administrators at Fashion Institute of Technology; visited import companies; toured museums.

\* ATA-coordinated part of program

## FEEDBACK ON SUNY/ATA FELLOWSHIP PROGRAM:

The Kovats were very enthusiastic and emphatically positive about their fellowship in the U.S. They described it as a "very useful" experience. Although the SUNY business program was not specifically focused on crafts, they still found the program full of very practical and appropriate information which was applicable to their business.

They felt the ATA portion of the program was well-designed, and suited their needs and interests quite well: the visits to the craft studios and businesses in Vermont and Connecticut were especially helpful and provided many insights to typical problems encountered by craftspeople working within the marketplace. In Connecticut, the visit to the Farmington Valley Arts Center was of particular interest. This center offers studio space to approximately 20 artists (for rent) as well as a gallery/shop and a showroom; most studios are open to the public. They met two top managers and discussed the financial and membership structure, fund-raising techniques, promotional strategies, etc.

The visit to the NY International Gift Show was another particularly valuable experience and they emphasized that without seeing the scope of the U.S. marketplace, they could never have imagined its vastness and diversity.

### Artisans' Observations and Lessons Learned:

- The U.S. market is wider/broadened than expected
- America is "more open" to doing business
- Discovered "business is hard everywhere"
- Found out they can compete
- Understand the need for a business plan

### Artisans' Plans as a Result of Trip:

- Will broaden their product line
- Will expand their production capacity
- Interested in starting a crafts center

## **INFORMAL BUSINESS TRAINING**

Aid to Artisans has used an informal approach to business training, providing practical assistance on an individual basis: practical how-to topics were addressed as the needs arose. Small, informal sessions addressed the following:

- Pricing analysis
- Materials sourcing
- Production schedules and timelines
- Minimum order requirements
- Preparation of samples
- Invoicing procedures
- Export document preparation
- Terms of Sale

The evaluation team found a consistent demand for more in-depth, formal business training. Program clients emphasize their need for practical how-to information specifically keyed to artisan-business conditions. They did not seem to be fully aware that ATA had in fact provided business assistance due to a) the informal nature of the delivery; b) the need for more in-depth and more comprehensive information. The demands center on three primary areas:

- 1) Marketing of artisan products
- 2) Export procedures
- 3) Management

ATA has been aware of this growing demand; in a cooperative effort with the SUNY Center for Private Enterprise Development in Budapest, a Needs Assessment was conducted during Year 2. Needs were identified and analyzed, and specific recommendations on implementation strategies were made. [One outcome was the inclusion of artisans in the SUNY Fellows program described above.]

### BUSINESS TRAINING WORKSHOP PLANS: YEAR 3

ATA is presently organizing a workshops series for Year 3 which will focus on marketing, exporting, and basic management; the workshops will be run in cooperation with the Coop Managers' Association. Two preliminary planning meetings were held in Hungary in May; a 3-day workshop is now scheduled for September.

An outstanding roster of presenters is being organized which will include prominent authorities on marketing, representatives from the New York International Gift Show, currently-active buyers from U.S. businesses, and other resource people as appropriate.

#### **POTENTIAL WORKSHOP PRESENTERS**

- Carol Sedestrom Ross, Craft Marketing Director, George Little Management [company which produces the NY International Gift Show]
  
- Charles Schewe, Ph.D., Professor of Marketing, University of Massachusetts, Amherst; author of *The Portable MBA in Marketing*.
  
- Edward Millet, Oxfam, author of *Export Marketing for a Small Handicraft Business*.
  
- Buyers from the following companies:
  - Macy's
  - Associated Merchandising Corporation
  - Sundance Catalog
  - Mesa International
  - Garnet Hill Catalog

**PROGRAM CLIENT PROFILES**

## **MATYO TEXTILE COOPERATIVE, MEZOKOVESD**

The evaluation team met with two employees involved with product design and buyer relations: Dorogi Istvanne and Szabo Fozschfue.

**Employee Profile:** This coop presently employs 186 full-time workers in its sewing division and 64 local cottage industry embroidery workers on a part-time basis. The actual coop membership of part-time cottage workers is 30. The coop extension program used to cover a wider region but escalating travel costs, shrinking resources for overhead, and decreased sales have required cutbacks. The cottage industry workers are primarily women, including mothers and retired people.

**Products:** The famous Matyo embroidery of this region gives the coop products their distinctive identity. Hand-embroidered goods include a broad range of home textiles, a line of clothing, and various gift items including dolls. The coop has done 'piecework', or contract sewing, for European customers for many years; for example, Austrian companies have been customers for 15 years. The piecework contracts often involve hand-embroidered decoration; this part of the business thus represents significant employment for the cottage industry workers.

**Product Development:** ATA's product designer has worked closely with this coop since the beginning of the project. A diverse range of products has been developed; coop designers worked closely with ATA, producing over 70 designs to present to the Associated Merchandising Corporation's buying team. ATA initiated contact with Esprit, a large U.S. clothing manufacturer, to explore potential linkages between artisan-embellished components and industrial manufacturing processes. Products in development include embroidered uppers for shoes and slippers, (also to be manufactured in Hungary), belts, and other fashion accessories. This represents tremendous potential, and it is still too early to predict the outcome. The coop has also initiated product development on its own.

## **MATYO TEXTILE COOPERATIVE, MEZOKOVESD (Cont.)**

**Assessment of ATA Product Development Inputs:** The coop staff described their relationship with ATA as good, saying that the ATA consultants are effective, practical, and easy to work with. They feel they have a good partnership in the designing process, and have seen their ideas implemented. They also commented that they are open to ideas and changes in designs, and are willing to adapt.

### **Exporters Introduced by ATA:**

Associated Merchandising Corporation  
Dayton-Hudson  
Nitza Etra-Dagan

Esprit  
Pamela Ferrari  
Sandor Collection

**Observed Needs:** The design staff are indeed receptive to advice and willing to try new approaches. However, a general lack of awareness of the export market limits their concepts of design and quality, particularly in products such as dolls and clothing. They are thus dependent on information they can glean from their customers, and are often naively mystified when a sample fails to generate an order. Their caution on taking on new product ventures may be more a reflection of their limited financial resources and uncertainty over what is being asked than reluctance to try new things per se.

The retail shop operated by the coop features beautiful traditional decor such as painted woodwork and furniture. However, the merchandise is inaccessible: inside glass cases, behind counters, often folded and stacked. Retail merchandising and display training would be very appropriate.

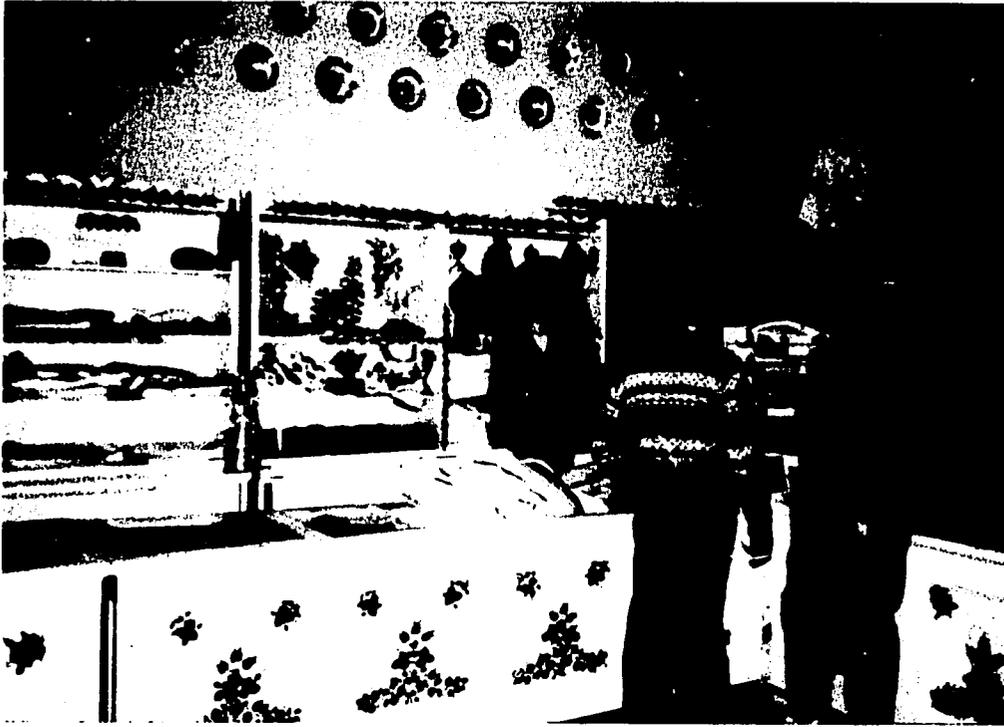
**Stated Needs:** The coop expressed the need for marketing training and business training; they would like to participate in whatever workshops are offered in the future. They also expressed the hope that their efforts and work will produce results-- new orders and sales.

**Productivity and Financial Condition:** Productivity has slightly increased as a result of dramatic layoffs which reduced the workforce to 250 in 1992 down from 1100 in 1991. The coop was

## **MATYO TEXTILE COOPERATIVE (Cont.)**

### **Productivity and Financial Condition**

slow to reduce its administrative overload, waiting until 1992 to reduce its 59 administrators to a lean 7. The coop gross sales for 1992 were HUF 72 million, almost one third of its sales in 1991. It posted a loss of HUF 12 million for 1992, which it attributed to decreased demand and required writing off of bad debts. The ATA business analysts noted that profits are being squeezed by rising inputs costs which are not being passed on to the consumer, and characterized the coop financial condition as "crisis".



Top: The Matyo Coop in Mezokovesd has a retail shop with excellent potential; however, help with merchandising and display are needed. Bottom: the factory showroom.

## **DEBRECEN TEXTILE COOPERATIVE**

The evaluation team interviewed Ica Todorne, Assistant manager, and Kati Azidor, Designer.

Employee Profile: This coop has managed to retain the number of its employees through shifting to part-time workers and reducing administrators in 1993. Although worker salaries have increased, workers are now earning only minimum wages.

Products: The coop produces a wide range of textile products including cut and applique felt goods, 100% linen yardage, and cotton/linen goods. The end-use products range from household linens to clothing, fashion accessories, and Christmas ornaments.

Product Development: ATA's product development specialist has worked extensively with this coop and with individual artisans and entrepreneurs originally associated with it. ATA helped to develop many new product applications for the feltwork including Christmas stockings, tree skirts, and ornaments (over 29 designs for the AMC buyers alone); most of these were totally new concepts for the Hungarians. Several American and one Italian fashion designer have ordered decorative trim and components for their individual lines of high fashion garments.

Assessment of ATA Product Development Inputs: The coop staff expressed a very positive attitude toward ATA design assistance; they have a deep respect for Docey Lewis, and a very close working relationship with her. One clear indication of the success of Ms. Lewis' training: the felt designer, Kati Szidor, initiated some of her own designs which have been picked up by the American importer, Sandor Collecion.

### Exporters Introduced by ATA:

Associated Merchandising Corporation  
Samii Clothes  
Sandor Collecion

Boston Museum of Fine Arts  
Nitza Etra-Dagen  
Luciano Ferrari

## **DEBRECEN TEXTILE COOP (Cont.)**

**Other Assistance:** ATA provided very basic information on exporting procedures so that the coop and its fledgling entrepreneur, Ica Todorne, could maximize earnings by handling the export process themselves. This included assistance with export sales terms, translation, and help with other procedural matters.

**Stated Needs:** The coop representatives expressed the desire to continue to receive product development and marketing assistance through the ATA/AID program. They recognize the need for management training, and said that marketing training would be "very, very useful". They feel they do not have enough money for marketing even in Europe, which is a serious limitation. They also expressed a need for better feedback from ATA regarding buyers, samples, and pending orders.

**Observed Needs:** The recent business analysis conducted by ATA confirmed the evaluation team's observation that the coop lacks qualified, determined leadership at the very top level. Although the assistant manager is very aware and entrepreneurial, her authority is limited. The coop needs to be more pro-active in its marketing, taking the initiative despite limited resources.

**Productivity and Financial Condition:** Productivity has increased as employment levels have dropped. The coop's gross sales in 1992 were HUF 26 million. Old debts totalling HUF 6 million were required by a new law to be written down in 1992; this caused a deficit of HUF 2 million (\$24,400) which they were obliged to borrow from a bank. (The coop actually expects to recoup all but 1.5 million forints.) The coop plans to sell of some equipment (looms) from its satellite sites to pay off the bank loan. The ATA business analysis team was very concerned about this coop's ability to survive, as it has only \$4,800 in retained earnings; continuing a large deficit in 1993 could result in bankruptcy. The ATA business analysis team characterized the coop's financial condition as "crisis".

## **HODMEZOVASARHELY CERAMICS COOP**

The evaluation team met with the company president, Sandor Torok.

Employee Profile: The coop employs 130 full-time workers at 3 sites; the majority (80) work at the factory site visited. Approximately 40% of the workers are women.

Products: The coop produces a broad mix of goods including decorative and table-top ceramics, and some industrial items as well. The decorative and tabletop wares feature handwork in all phases of production from forming (wheel-thrown, jiggered, and slip-cast) to decorative techniques. The coop has a sophisticated kiln system which maximized production efficiency.

Product Development: ATA has provided significant design and product-development expertise. The most valuable inputs have been the direct contacts with buyers brought by ATA. They are working with Mesa International, (referred to them by ATA) which is a big customer now; they are doing the training of workers in how to paint/finish their designs. The product development undertaken with EEE Group is very promising; the relationship with Hungarian designer Kinga Szabo, who is developing a line on behalf of EEE Group, is excellent; she is training their workers in her techniques.

Assessment of ATA Product Development Inputs: The coop is very responsive to new product ideas and design inputs; they stated that they have learned a lot from the program. They have an excellent relationship with ATA and have been able to capitalize on opportunities which ATA has presented. This coop has experienced a major turnaround in attitude since the re-organization of management. The ATA approach has been very practical and realistic, matching production capabilities with buyers. As a result, the company is working its way out of a large deficit and is experiencing a profound turnaround.

Exporters Introduced by ATA: Mesa International  
EEE Group, Inc.

## **HODMEZOVASARHELY COOP (Cont.)**

**Observed Needs:** If the cooperative continues its policy of hustling to please customers, it appears it will thrive. However, it needs to upgrade its marketing and promotional activities, and not count on customers as a given; it does not have an active marketing program or plan, and does not seem to think it needs one at this time, which can be fatal.

**Stated Needs:** The coop management is highly interested in practical business training workshops; it cannot afford to send its managers to long-term programs, as they are critical to everyday operation. They are interested in cooperating with other coops to participate in European trade fairs, but so far have not been able to work out affordable terms.

**Productivity and Financial Condition:** Total sales in 1992 were 46 million Hungarian forints; of this, pottery accounted for HUF 34-35 million. The coop had a deficit last year of approximately HUF 20 million; the bank loan is up for re-negotiation, and they expect to be able to extend the loan based on the excellent amount of new orders generated through the project. In addition, they expect to conclude a contract with IKEA to produce a line of products worth about HUF 40 million. Unfortunately, this coop was not visited or evaluated by the Yale/SOM business evaluation team in 1993.



The Hodmezovasarhely Coop combines many artisan processes such as hand-painted decorations (top) and hand-dipped glazing (bottom). This is a key to its ability to produce unique products.

## **KOVATS' STUDIO, BUDAPEST**

**Profile:** Agnes and Lajos Kovats operate a family pottery business in Budapest. Engineers by training, they have excellent organizational and technical expertise. They produce traditional Hungarian black terra cotta wares, a once-secret process, using special equipment which they developed. Though most of the wares have the same black finish, they have a wide range of products and are open to new designs which fit their product line. The business has grown in the last two years from 4 employees to a total of 9, and continues to expand. The Kovats are leaders within the artisan community.

### **Update on Business Activities:**

- First quarter of 1993 was good; in January they had a big German order, and a re-order is anticipated. They also filled a French order; both orders were obtained through a trade fair. Spring is the usual time for Hungarian orders and they expect some.
- Results from the New York Gift Show in February: ATA sold HUF 70,000; Mariska also placed an order.
- Marketing: They are participating in a commercial wholesale and retail exhibition in Bayreuth, Germany April 30 - May 10. It is expensive to participate (DM 3,000 per 15 sq. meters); their space was secured through an acquaintance.

### **Business Expansion:**

- A new kiln was purchased last year, but is not yet operable.
- A new home-made clay-processing machine will allow them to re-process clay and cut costs.
- They expect to hire technically-skilled workers for mold-making; this will increase their production capacity.

## **KINGA SZABO STUDIO, BUDAPEST**

Profile: Kinga began her work in ceramics at age 23, training at the Mezotur Ceramics Coop school, where she later taught. She has operated her own studio for many years, which has been difficult as she is a free spirit and her work did not always meet the strict guidelines imposed by the Folk Art Council. a prolific, gifted, and dedicated artist in the prime of her career, her highly-original work incorporates sculptural elements with classic vessel forms (vases, cachepots) and superbly-painted majolica wall plates. She also has a production wholesale line of pottery which is sold through Folk Art Centrum.

### Design work for EEE Group at Hodmezovasarhely Ceramics Coop:

Kinga is designing a line of products for the American company, EEE Group, which has selected the Hodmezovasarhely coop as its main production partner (after unsuccessful negotiations with Mezotur coop). Kinga is working with the coop's engineer on developing the colors and glazes for the new line; she is also involved in training their staff to produce the new line. The number of people who will be working with her include:

- 12 painters (women)
- 9 wheel-throwing potters (men & women)
- 2 mold-makers
- 3 kiln technicians
- 1 engineer
- 1 technical assistant (woman)

Kinga reports a substantive change in Hodmez coop's attitude, a result of new management and improved leadership. The workers are very open and positive about working with her.

Kinga's career is being enhanced by her contacts with Aid to Artisans and subsequent business opportunities with American ceramic companies such as EEE Group. She is also very excited about her latest career development: designing for Zsolnay, Hungary's premier porcelain manufacturers.

**COOP MANAGERS' ASSOCIATION [Haziipari Szovetkezetek Orszabos Szovetskge]**

The evaluation team met with the following officers:

- Mr. Gyula Berencsi, President
- Mrs. Miklosne Bader, Vice President
- Mr. Janos Toth, Secretary

**ORGANIZATION PROFILE:**

Goals:                   - Marketing of artisans products  
                              - Improving product design  
                              - Marketing training

Membership:           24 Artisan Cooperatives

Dues:                    HUF 30,000 per year for a cooperative

Recent Activities:

- Lobbying efforts on behalf of artisans
- Marketing training program planning (5/24/93)

**FEEDBACK:** Officers expressed some dissatisfaction with the ATA program in terms of its "lack of coordination between ATA and the various cooperatives and individual organizations" and suggested that it could play a significant role in providing such coordination.

**NEEDS:** Increased opportunities for public exhibition of crafts is a major immediate concern of membership. The city government has disallowed the practice of the open air markets which once took place at key sites in the centrum, along the river, and on Buda Hill-- all tourist traffic localitons with good sales potential.

**RECOMMENDATIONS:**

- ATA should work with this organization to implement the business training program
- Assistance with lobbying efforts should be provided

**FOLKART ASSOCIATION FOR THE PROTECTION OF ARTISANS**  
[Nepi Iparművészeti Társulat]

**Major Purpose:** to assist artisans with business development

**Membership:** 100 + artisans in all media

**President:** Lajos Kovats, Potter

**Dues:** 200 Forints/month

**Services:** Legal and accounting resources

**Organization Plans:** The group hopes to work with the SUNY Center for Private Enterprise Development to obtain assistance with the development of a business plan. They will need staff including a manager and an accountant. Long-term goals include:

- Crafts center
- Gallery
- Export business

**Problems:** Mr. Kovats is a highly-capable entrepreneur who is busy running his family business; he frankly states that he does not have enough time to devote to the association, which could be a full-time administrative job. The association therefore presently lacks adequate management.

**Relationship with the Folk Art Council:** The Kovats represent many artisans who have re-appraised their views of the Folk Art Council. In the past it was felt that it didn't serve the artisan's interests well, and there was a lack of trust. However, due to its reorganization and new faces, the Kovats believe it will be productive for their organization to re-establish a connection. They think that the council's gallery does not meet artisans needs as its location is poor, it does not advertise, and only sells on consignment.

**ECONOMIC & POLITICAL CONTEXT**

## **THE ECONOMIC AND POLITICAL CONTEXT OF THE PROGRAM**

In assessing the accomplishments of the various components of the ATA program, it is important to keep in mind the major and ever changing economic and political constraints under which the implementation has been taking place and over which ATA has no control. These economic and political factors constitute part of the conditions addressed by the U.S. Country Strategy for Hungary. Some of the forces specifically affecting the folkart industry are beyond the scope and manageable interest of the ATA program but within those of the U.S. program in Hungary. This section highlights the conditions and offers specific recommendations related to the legal regulatory environment and financial system that are currently threatening the sustainability of the effort. Most of these conditions were also noted in the mid-term evaluation and have worsened since that time.

### **Economic Transformation**

Hungarians today are facing rising unemployment (averaging 14% nationwide, and over 20% in the eastern counties, but only 2% in Budapest), high but subsiding inflation rates (35% in 1991, 23% in 1992, 16% projected in 1993), high real interest rates (35% - 40%), declining business profits (2/5ths of all firms lost money in 1991) and growing numbers of bankruptcies and liquidations (over 6,800 bankruptcies and 11,000 liquidations in 1992). Domestic output declined 10% in 1991 and another 5% in 1992. Wages have not kept up with the pace of inflation. Household incomes and living standards have declined, reducing consumer demand. Personal consumption dropped 10% in 1991 and another 5% in 1992. An estimated one fourth of the population is at or below the poverty level. Only four years ago employment was a legal right and obligation. By the end of 1993, as many as a million workers may be unemployed.

On the positive side, Hungarian business management is moving to more economic rather than political rationale for hiring and laying off employees, and now pays attention to consumer demand. Individuals and families have more opportunities to establish small businesses. The self-employed sector doubled from 1989 to 1991. The economic environment is

## **ECONOMIC & POLITICAL CONTEXT (Cont.)**

competitive and open to innovation.

### **Transformation of the Folkart Industry**

In the context of this difficult economic transformation combined with new entrepreneurial opportunities, the Hungarian folkart industry has had to deal with additional industry-specific challenges and problems. For forty years, folkart production was concentrated in cooperatives. The state set the production specifications, amounts, and prices of goods to be produced. Traditional folkart motifs dictated design. Folkart items that qualified through the Folkart Council jury system were exempt from taxes. Exporting was handled by state owned trading companies. Thus, on the eve of the transformation to a free market economy, most folkart cooperative leaders and artisans had minimal experience with buyers, marketing, pricing, product development, delivery, sourcing for materials, efficient production, export regulations, taxes and many other new areas with which they must now deal in order to compete globally.

As the standard of living in Hungary has declined so has the aggregate demand for folk art in the domestic market; this has been exacerbated by the dramatic decline in tourism. Total domestic folk art sales have fallen from over 450 million forints in 1990 to slightly over 200 million forints in 1992; tourist purchases constituted 80% of the total each year.

With the loss of the former Soviet market, the current export market consists of the European market (Germany, Austria, Italy, France, and Scandinavia) and the rest of the world (U.S., Canada, Japan, and Australia). Given the drop in demand for folkart, the fight for market share is intensifying and folkart prices are rising more slowly than the inflation rate. This puts pressure on cooperatives' profits which impacts employment and wage levels.

The total revenue for 19 cooperatives reporting to the Folkart and Handicraft Association was 521.8 million forints in 1991 and 478.2 million forints in 1992. Only half of the cooperatives operating were

## **ECONOMIC & POLITICAL CONTEXT (Cont.)**

profitable. The rest face bankruptcy and possible liquidation.

The Yale SOM study of 8 folkart cooperatives showed that total sales (adjusted for inflation) had dropped dramatically. Exports of folkart by these coops dropped from 15% of sales in 1990 to 11% of sales in 1992. Aggregate profitability based on percentage of sales fell from 6% of sales in 1990 to 4% in 1991, to a loss of 1% in 1992. Employment figures have dropped as well. In 1991 there was an estimated 22% drop in full time workers and a 32% decrease in part-time workers. Most of those dropped were women who worked in their homes. A large percentage of the workforce in the folkart industry is female, particularly in the textile areas. The Yale study of 8 coops found that the aggregate number of artisans employed dropped significantly in 1992 from over 3,000 to under 2,000 in 1992 and had continued to drop in 1993.

Wages for artisans are relatively low. The Association of National Popular Art and Domestic Industry reported an average monthly salary of 9,200 forints for artisans. Lack of financing, high interest rates, inadequate banking services, lack of capital and investors, and inadequate financial experience have taken their toll on the profits and affected losses in the folkart industry.

### The Legal and Regulatory Environment for Folkart

As of 1992 employers are required to pay the 49% social security tax on each part time and home worker. Previously this was only required for full time employees. This requirement had led to additional layoffs while some part time workers work off the books or sell their products directly to shops or tourists on the streets.

Because of the labor intensive nature of the folkart industry, the social security contribution burden is significantly higher. Labor costs constitute an estimated 35%-50% of the production costs as compared with mechanized production where labor costs are about 15% in Hungary. The cost of social security contributions to folkart industries is 17.5% to

## **ECONOMIC & POLITICAL CONTEXT (Cont.)**

25% of the prime manufacturing as compared with 7.5% for mechanized production. Given inflation and the declining domestic market for folkart, these extra costs cannot be passed on to the purchaser.

New legislation effective January 1992 required all cooperatives to reorganize by December 1993. This required valuation and distribution of assets to members both active and retired. Most chose to remain cooperatives. Several chose to form a limited joint stock company.

New bankruptcy laws require that a company file for bankruptcy if unable to pay accounts within 60 days, with no options equivalent to the U.S. Chapter 11 status. This places a heavy burden on folkart business which on the one hand has to pay in full for raw materials but on the other hand does not receive payment for products until goods are delivered.

The new Value Added Tax (VAT) of 25% is an additional burden for folkart businesses. In January 1993 the special tax status for folkart was discontinued. The products qualified by jury as folkart receive a preferential tax rate; however, those products approved by jury constitute a small part of the total.

### **Folkart Industry Political Transformation**

The Folkart Council which juries folkart no longer can offer many of the services that it used to provide artisans such as legal advice, handling of taxes, and representation of artisan interests to government decision makers. The Folkart council is now under tighter control by the Ministry of Culture and has a new director, Mr. Zagan.

Other organizations have evolved to fill these needs. The Association of National Popular Art and Domestic Industry, (referred to as the Coop Managers' Association) has emerged representing the interests of some 24 cooperatives. The Association leaders have actively attempted to change some of the new policies that are negatively affecting folkart businesses, notably the tax-exempt status, and the social security costs. They

## **ECONOMIC & POLITICAL CONTEXT (Cont.)**

received no response to their request to the Minister of Finance. In February 1992 a member of Parliament asked the Ministry of Finance to look for aid for Hungarian popular art. This request was also denied. The Association then placed an appeal to the Prime Minister, the Honorable Dr. Josef Antall. In addition to economic issues the group stressed the value of popular art as a national heritage that is in great danger of disappearing without some government assistance. They note the 1996 World Exposition as an important opportunity for displaying Hungarian folkart as an important part of the culture, but need resources to do so.

Artisans have formed the Individual Artisans Association with help from the Folkart Council. The purpose of the association is to help artisans find export buyers, arrange export documents, pack export orders, and answer legal and accounting questions. The Folkart Council provided exhibition space on the first floor of the Council Building but the shop has since closed. The town of Eger's Chamber of Commerce has offered exhibition space for members. Currently the Association is inactive. There are no paid staff members; there is no regular meeting place, no newsletter, and no meetings have been held or dues collected in months. This may be in part because the initial impetus was the expectation that the Folkart Council would be dissolved. Even though it continues to operate, the Council no longer provides the services which the artisans need.

These organizations are new and in need of assistance in developing and implementing strategies for action, both in influencing the policy makers and in helping members market their products.

## **SUGGESTIONS FOR A.I.D.**

A number of specific constraints on folkart business are beyond the scope of the ATA program in Hungary. Additional effort is needed to ensure the longer term sustainability of A.I.D.'s accomplishments in the sector achieved during the two years of the ATA program. The following suggestions for the integration of Artisan issues into priority areas of activity should improve the legal regulatory environment for artisans and improve the access of small businesses in general to financial services. These are based on the priorities stated in the U.S. Hungary Country Strategy document, and discussions with staff in the A.I.D. Budapest Office, as well as discussions with the RME Hungary desk officer and other Bureau and RME staff in Washington.

**PROBLEM:** Newly passed laws and regulations (the VAT tax, loss of tax exempt status, and social security payment requirements, as well as strict bankruptcy laws) are threatening the sustainability of folkart businesses.

- Δ Address the tax-related issues in the advisory and technical assistance to the Finance Ministry's Tax Administration Department, particularly the appeal by the Association of Popular Arts and Domestic Industry.
- Δ Address these issues in the technical assistance to review and critique new and existing legislation affecting the private sector.
- Δ Include the artisan social security issue in the technical assistance to support reform of the social security system.
- Δ Encourage the CIPE project to work with the Association on these issues, particularly in their legal regulatory reform activity planned for next year.

## **SUGGESTIONS FOR A.I.D.**

**PROBLEM:** Lack of access to financial services, high real interest rates, and lack of capital and investors, have contributed to financial losses and loss of business opportunities by folkart producers as well as other small businesses.

- Δ As a part of A.I.D.'s assistance to enterprises, ensure that the Enterprise Fund increases and facilitates assistance to small businesses.
  
- Δ In technical assistance in the privatization of the troubled government banking sector, include loan and savings options for small businesses. Artisans and other small businesses need creative options such as short term loans, loans secured by letter of credit. The Association of Popular Art and Domestic Industry, the Individual Artisans Association, and local chambers of commerce could provide realistic information on the financial needs.

**PROBLEM:** Newly formed Folkart Associations have potential for representing the interests and serving some of the legal and other needs of artisans but lack skill and experience in organization, leadership, and representation of private interests in a democratic system.

- Δ In support for local democratic institutions, involve the artisan associations in training and outreach opportunities with USIA, CIPE, and other relevant organizations.
  
- Δ Provide the groups with information on applying for grants which A.I.D. plans to give to organizations and institutions for citizen networks.

## **SUGGESTIONS FOR A.I.D. (Cont.)**

**PROBLEM:** Self-employed and unemployed artisans need creative solutions to their need for health and other benefits formerly provided under the centralized system. Unemployment continues to loom in the future as a situation many artisans will have to cope with.

- Δ** In technical assistance to national and local government to support the reform of health care and unemployment systems, and other social safety net concerns, take into account the situation of folkart producers and involve their association spokespeople in the discussion of specific needs and strategies.

# **APPENDIX**

## **EVALUATION METHODOLOGY**

### **1. Critical review of all project documents including:**

- Original proposal
- Implementation Plan
- Cooperative Agreement
- Consultants' Journals
- Consultants' Reports
- Quarterly reports to USAID
- Correspondence with USAID
- Mid-Term Evaluation
- All other ATA Hungary files

### **2. Interviews with ATA project personnel:**

- Project Manager and ATA President Clare Smith
- Docey Lewis, Chief Product Design Field Consultant
- Christine Costello, Product Design Field Consultant
- Judy Evers, Yale SOM Business Analysis Field Consultant
- Charles Alsdorf, Yale SOM Business Analysis Field Consultant
- Karla Hostetler, ATA Projects Coordinator

### **3. Interviews with key informants participating in the program:**

- Coop management staff
- Coop design staff
- Foreign trade export companies
- Export agents
- Micro-enterprise owner-operators

## **METHODOLOGY (Cont.)**

4. Interviews with major U.S. importers/company principals:
  - EEE Group/Judy Espinar
  - Samii Clothes/Gay Ellis
  - Chandler Four Corners/Henry Chandler
  - Mariska/Karina Heffernan
  - Mesa International/Nancy McKenzie (product development)
  - Sandor Collection/Carol Karvazy
  
5. Interviews with USAID/Hungary Mission staff:
  - Mary F. Likar, Project Development Officer
  - Nance Kylvoh, Consultant
  - Gabor Erdi

## **DESCRIPTION OF EVALUATION FIELD ACTIVITIES**

The evaluation team visited 15 program sites during its 10-day field visit in March 1993. Sites included artisan cooperatives/companies, micro-enterprises, export companies, and craft organizations.

The following program clients were visited and interviewed:

### **COOPERATIVES**

- Matyo Textile Coop, Mezokovesd
- Debrecen Textile Coop
- Karcag Ceramics Coop
- Karcag Textile Coop
- Kalosca Textile Coop
- Mezotur Ceramics Coop
- Hodmezozasarhely Ceramic Coop
- Kaposvar Ceramic Coop

### **MICRO-ENTERPRISES**

- Lajos Kovats Studio, Budapest
- Kinga Szabo Studio, Budapest
- Imre Szucs Studio, Tiszafured
- Bela Falsi Studio, Kaposvar
- Lajos Pozsar Studio, Kaposvar

### **FOREIGN TRADE COMPANIES**

- Pal Bujnyik, Budapest
- Ica Todorne, Debrecen
- Folk Art Trading, Budapest
- Kelimart, Budapest

### **CRAFT ORGANIZATIONS**

- Coop Managers' Association, Budapest
- Folkart Association for the Protection of Artisans

**HUNGARY ITINERARY: KATE KERR & MARI CLARK**  
**FINAL PROJECT EVALUATION**  
**MARCH 20 - MARCH 30, 1993**

**SAT 3/20**      2:10 pm      Kerr & Clark arrive Budapest (DELTA # 116)  
Hotel Panorama Fax (361)175-9765

**SUN 3/21**      10:00 am      BUDAPEST: Lajos Kovats Studio  
12:00 pm      Lunch  
1:30 pm      Kinga Szabo Studio

**MON 3/22**      9:00 am      BUDAPEST: USAID  
11:00 am      BUDAPEST: Coop Managers' Association  
1:00 pm      HEVES: Heves Textile Coop  
[Overnight at local farmhouse]

**TUE 3/23**      8:00 am      MEZOKOVESD: Matyo Textile Coop  
11:30 am      TISZAFURED: Imre Szucs studio  
2:00 pm      DEBRECEN: Textile Coop  
[Overnight in Debrecen: Hotel Termal]

**WED 3/24**      8:30 am      KARCAG: Ceramics Coop  
12:00 pm      KARCAG: Textile Coop  
2:00 pm      KALOSCA: Textile Coop  
[Overnight in Kalosca: Hotel Kalosca]

**THU 3/25**      9:00 am      MEZOTUR: Ceramics Coop  
1:00 pm      HODMEZOVASARHELY: Ceramic Coop  
[Overnight in Hodmezovasarhely: Hotel Pelikan]

**FRI 3/26**      11:00 am      PECS: Zsolnay Porcelain Factory  
2:00 pm      KAPOSVAR: Ceramic Coop  
[Overnight in Kaposvar]

**SAT 3/27**      10:00 am      KAPOSVAR: Meetings with individual artisans  
Bela Falsi & wife; Lajos Pozsar & wife;

Afternoon: Drive to Budapest  
[BUDAPEST: Hotel Liget]

SUN 3/28 Morning BUDAPEST: Ethnographic Museum  
Afternoon Work on preliminary report to AID

MON 3/29 8:30 am BUDAPEST: Folk Art Centrum  
11:00 am Kelimart (Foreign Trade Company)  
2:00 USAID debrief  
6:30 pm Christine Costello, ATA Ceramics Consultant  
8:30 Judy Evers, Business Analyst/ATA Consultant

TUE 3/30 9:15 am Kerr departs Budapest by DELTA # 117  
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Clark stays additional 2 days for work  
on *other* AID project; stays Hotel Kempinski

-91'

## **QUESTIONNAIRE: ARTISAN COOPERATIVES**

1. What new buyers or other business clients has ATA introduced to you?
2. Have you done any business with them? [Probe: Have they asked you to prepare samples; have they placed orders?]
  - If yes to samples requested:
    - What did it cost to prepare (hours of staff time; materials cost)
    - Did the buyer pay for samples/design work?
  - If yes to order:
    - What did they order and how much?
    - Do you expect to do more business with them?
3. How useful were the buyer visits? Did you learn anything from the buyers? Explain.
4. Did you learn anything about the U.S. market?
5. Where do you get your supplies? Have you had any difficulty getting them?. [Probe: Are they too expensive? Is the quality adequate?]
6. Has ATA helped you with your supply problems?
7. Which ATA consultants have helped you? How many times and for how long?
8. What useful things did you learn in working with ATA product designers to adapt your products for the American market?
9. Did the ATA designer include your coop designers in this process? Did they listen to your ideas, ask for your input?]
10. Did you receive help from ATA on business management? How have you used what you have learned? Has it been practical?
11. What products are you selling on the domestic market?
12. From what other countries are people buying your products? What are they buying?
13. Has ATA helped you to deal with export orders? How did they help? How do you handle most export orders? [Probe: Folkart Centrum...]
14. Has ATA displayed your work at shows or galleries? At the New York International Gift Show?
15. Have you displayed your work at shows/galleries/exhibitions in the past year? What did it cost? Did it bring in sales? Was it worthwhile?
16. Did ATA help you to promote your products? [Probe: brochure preparation, press coverage, exhibit]

**ARTISAN COOPERATIVE QUESTIONNAIRE [Continued]**

17. Did ATA respond to your request for information?
18. What are your suggestions to help ATA do its job better?
19. If the program is extended, would you participate?
20. What would you ask ATA to do?

## SUNY/ATA FELLOWS ITINERARY

FEBRUARY 9 - 22, 1993

- TUE FEB 9** 5:45 p.m. Gabor Fulop arrives Burlington, Vermont
- WED FEB 10** [Gabor Fulop & Ildiko Polony]
- 9:00 a.m. Burlington: C. Harry Behany, President, Greater Burlington Industrial Corporation
- 10:00 Burlington: Wayne Roberts, Director, Lake Champlain Regional Chamber of Commerce
- 1:00 p.m. Montpelier: Patricia Moulton, Commissioner  
Rob Clark, International Trade Representative, State of Vermont Agency for Economic Development and Community Affairs
- 2:30 Montpelier: Robert Krattli, General Director, Scott-European Corporation
- 4:00 Essex Junction: John Arnott, President, Ladd Research Industries, Inc.
- 9:45 Burlington: Agnes and Lajos Kovats arrive
- THU FEB 11** [Gabor Fulop & Ildiko Polony]
- 10:00 a.m. Peter Clavell, Mayor of Burlington
- 11:00 Burlington: Ronald Savitt, Professor, University of Vermont School of Business; former Fulbright Scholar at the International Management School in Budapest
- [Agnes and Lajos Kovats]
- A.M. Burlington: Commercial district tour focusing on craft and import shops including Pier I, Pompasounic Mills, Thresholds, and Vermont Craft Center shop
- 2:00 p.m. Burlington: Karen Hewitt, President, Learning Materials Workshop
- FRI FEB 12** [All fellows and Ildiko Polony]
- 10:00 a.m. Middlebury: Pat Siers, Executive Director, Frog Hollow Vermont Crafts Center
- SAT FEB 13**
- 10:00 a.m. Queechee: P.J. Skien, General Manager, Simon-Pierce, Inc.

## **SUNY/ATA FELLOWS ITINERARY [cont.]**

- SUN FEB 14** Sudbury: Linda Aines, Director, University of Vermont Export Assistance Center
- MON FEB 15** Drive from Sudbury to Dorset
- 10:00 a.m. Dorset: Malcolm Cooper, Jr., President, J.K. Adams Inc.
- 1:00 p.m. Bennington: David Gill, President, and Patricia Fields, Sales Manager, Bennington Potters, Inc.  
Meet up with Chris Costello and Karla Hostetler of Aid to Artisans
- Following Bennington Potters, Inc. visit/tour, Karla drives fellows to Farmington, CT
- TUE FEB 16** [Gabor Fulop, Agnes and Lajos Kovats, Karla Hostetler of ATA]  
Farmington, CT: Tour of Farmington Valley Arts Center; meeting with center's two top-level managers
- WED FEB 17** Fellows to New York City in morning
- 7:00 p.m. Brooklyn: Mariska design team
- THU FEB 18** New York City: [Fellows and Ildiko Polony]
- 11:00 a.m. Richard Streiter, VP Administration and International Affairs, Fashion Institute of Technology
- Afternoon ABC Carpets, Inc.  
Pottery Barn
- FRI FEB 19** New York City: [Fellows and Ildiko Polony]
- Ceramica [Importer/retail gallery which handles Hungarian ceramics]  
Sightseeing and shopping
- SAT FEB 20** New York City
- New York International Gift Fair  
The Museum Source  
Handmade in U.S.A.  
New Resources
- SUN FEB 21** New York City: [Fellows and ATA executives and staff]
- Morning New York International Gift Show  
Afternoon Departure for Budapest

