COUNTRY REPORT
CROATIA

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THE COUNTRY:
Croatia, a country with the Middle-European and Mediterranean tradition, until the global financial crisis, was considered as the most prominent growth among transitional countries in this part of Europe. The focal Croatian economic and natural assets include the Adriatic coast, substantial agricultural areas, and significant fresh water resources along with the traffic infrastructure.

Croatia entered the European Union on July 1, 2013 as the 28th member state. Before the global financial crisis of 2008-09, the Croatian economy grew at a healthy 4-5% annually, incomes doubled, and economic and social opportunities dramatically improved. The prolonged crisis has put this progress and Croatia’s aspirations to the test and the country has now been in recession for four years, losing almost 11% of its output.

Croatia’s ranking in the World Bank 2014 Doing Business report declined by one place, relative to the previous year, from 88 to 89, of 189 countries. The World Bank noted positive developments, in the areas of tax reform, trading across borders, contract enforcement and resolving insolvency. The largest gaps remain in the areas of construction permits, investor protection, trading across borders and property registration. Progress has been made with respect to land registry reform, but some restrictions still exist for the purchase of land by foreign persons or legal entities. The government has intensified efforts to improve the business environment in other areas, but progress in achieving concrete results is slow.¹

Location (Region): Southeastern Europe, bordering the Adriatic Sea and Italia (sea border), and Bosnia and Herzegovina, Hungary, Montenegro, Slovenia and Serbia (land border)
Population: 4,290,612 (2011 census-first results)

Female 52%, Male 48%

Total area: 87 661 sq km
Land area: 56 594 sq km
Sea area: 31 067 sq km
Coastline: 1,778 km long,
Number of islands: 1,185 (66 inhabited)
Capital: Zagreb (792.875 inhabitants -2011.)
Population density: 2011
GDP per capita: $ 10 203(2011)
Average monthly paid off net earnings 5 441 kn (approximately 715 €)
Inflation rate: 2.3%(latest data as of 2012)
Unemployment rate: 21.1% (December 2012)
PPP(Purchasing Power Parity): $ 80,89

FRANCHISING IN CROATIA:

- Year of the first franchise network in your country: 1969
- National or foreign one?: Foreign (Diners credit card)
- Latest figures (including year by year figures and sector breakdown:
  Principal franchise sectors:
  a) Retailing (i.e. fashion industry-clothes, cosmetics, household appliances etc.)
  b) Services (i.e. fast food industry, wellness, tourism, rental car, credit cards, petrol stations etc.)
  c) Distribution (currier services and shipment services, etc.)
  d) Education (business schools, language training schools, etc.)

- Percentage of national brands versus foreign brands?
  180 total brands/24 national brands (13%)

- How many national brands operate abroad and where do they go (first 5 markets)?
  a) Mlinar (Croatia, Hungary) bakeries
  b) INA (Croatia) petrol stations
  c) AQUA maritime(Slovenia, Hungary, Greece, Mexico, Montenegro, Ukraine, Spain)
  d) Body Creator (Slovenia, Bosnia & Herzegovina, soon in Serbia). Innovative concept with regionally recognized slimming method.
  e) Putovanjazadvoje /Travelling for couples/(Slovenia, Serbia, France, Germany, Austria, Italia).Internationally recognized and original franchise concept.
  f) Surf’n’fries(Bosnia and Herzegovina, Slovenia, Montenegro, Turkey) Fast food, very promising concept with fast expansion
  g) Chilly frozen yogurt (Croatia,Turkey)
  h) Amadeus jeans (Bosnia &Herzegovina)
  i) Torte i to (Bosnia &Herzegovina, Serbia)
  j) Basburek (Croatia) bakery

Croatian Franchise Association (established in 2002) estimates that there are more than 180 franchise brands operating in Croatia, out of which only 13% are national brands. They operate
in approximately 1000 points of sale. Direct employment amounts around 17.000 persons (this is an educated guess, since there are no official market research done so far).

Some of the well-known, famous franchisers opened their offices in Croatia to offer their franchise concepts to interested entrepreneurs, in order to ensure quality over products. However, smaller and less known franchisers sell mostly corner, single or, sometimes, master franchise to the local entrepreneurs in order to ensure benefits of the local knowledge and achieve savings in business.

The fact that the level of investment is crucial factor of development of franchise sector in Croatia most common is single unit franchise and the local small investors which usually buy only one brand. There are some bigger players on the market: Tekstilpromet, Lantea, Iris, Sportina, etc.), which are multi brand franchisees usually operating in fashion sector.

**CURRENT STATE OF FRANCHISING IN CROATIA**

Diners club was the first franchise which entered to Croatian market in 1969. “When the former Yugoslavia collapsed, the Zagreb-based office that had been in existence since 1969, signed a franchising agreement with Diners Club which allowed it to operate under license within both the former Yugoslavia and other Balkan countries”. For its successful performance in East European market, Croatian franchisee Diners Club Adriatic won two awards from its Chicago based franchisor. Diners’ club franchise sold in Yugoslavia in ’69 was the first Diners franchise sold ever.

Franchise education of the Croatian market started in the beginning of the 1990-ties when first McDonald’s was opened in Zagreb. “McDonald’s expansion into the Croatian market has tended to use two franchising methods: direct franchising and business-facility lease arrangements... Such lease arrangements allow for franchisees to become entry-level franchisees using less capital at the outset.”

Today, the biggest franchise chain on the Croatian market is Hungarian franchise Pek-snack Fornetti (distribution franchise of frozen bakery products and business concept of the bakeries) which managed to spread quickly its business in the entire Croatia and the region based on the simple product and by using franchising. Fornetti are the franchise chain of mini bakeries, founded in 1997, with more than 3000 locations in the Central and Eastern Europe (Mandel, 2004). There are more than 450 selling points in Croatia of this franchise chain.

Currently, one important national player in this sector – Mlinar - is coming with its own franchise project. They are present on Croatian and Hungarian market, exclusively through their own shops. It is quite likely that in the near future they will have more points of sales in franchising. They have announced their presence present at the Paris Franchise Expo 2015 introducing their concept internationally.

The biggest national franchise chain is AQUA maritime franchisor of the brand AQUA present in developed franchise countries in Europe: Italy, Spain, Greece, and The Ukraine. They are present regionally in Croatia, Slovenia and Montenegro, but also overseas in Mexico with 55 points of sales altogether until now and some more in the opening phase.

The most interesting and the fastest growing national franchise chain is Surf’n’fries (fast food points with fried potatoes and dips). In the last two years, more than 40 franchise units were opened in Croatia and in the region. It has been recognized as a very interesting concept ready
to export everywhere. Until now they are present in Croatia, Bosnia & Herzegovina, Slovenia, Montenegro and Turkey. Since 2013, they have introduced several big innovations in their technology and processes of frying potatoes, including frying without oil, based on frying with hot air, using potatoes’ humidity. It will bring a competitive advantage to their business model on the national and international market.

Strong Croatian franchise brand Amadeus jeans is present on the Croatian and Bosnian market with 15 stores.

Alternative energy sources national company CentarEnergije from Slavonia (eastern part of Croatia) is presented through 15 points of sales.

Very successful franchise chain of natural and ecological food “bio&bio”, is present through 11 points of sales in Croatia. It is a very strong brand with very broad range of health products.

Body creator, as well-elaborated Croatian slimming center based on promising and scientifically proven method, is another interesting franchisor. Body creator currently operates in Croatia, Slovenia, Bosnia&Herzegovina, and it is expected to be present in Serbia very soon. Its slimming method is recognized by medical community and health associations in the region as well as among the clients all over the region. Recently they made a contract with known laboratory for DNA analysis, offering completely personalized slimming protocol to their clients, based on their DNA structure.

The important news for 2014 is that only national oil company INA started to franchise. They were preparing this project since 2003, and now they have announced the news and started with the selection of the franchisees.

However, franchise business is still in the development stage in Croatia, in comparison with the other countries in Europe (especially with the countries in transition). Croatia and Slovenia are the only countries in the region which have national franchise associations active in EFF and WFC. Serbia has an association which is not continuously active. Bosnia does not have the association at all and Macedonia started to organize one.

Croatia is the most developed county in the region regarding the franchising, as the number of franchise systems in Croatia has increased in the last two years and it currently totals 180 franchise systems. Based on the research done in 2009, which showed that reasons behind the slower development of the franchise business in Croatia can be found in (a) lower level of entrepreneurial activities, (b) lack of knowledge in all levels and (probably the most important reason) due to the fact that (c) banks in Croatia do not recognize the franchising sector as something deferent/more secure as usual start-up entrepreneurship. In this moment few new researches are in progress: the first one will update the research done in 2009, and the second one will address research the low response of Croatian companies to franchising, both as growth strategy, and as entrepreneurship entry model. This will be done by the beginning of 2015.

The lack of knowledge on all levels (entrepreneurs, institutions, banks...) is a very big impediment for Croatian entrepreneurs. They are not completely familiar with the pros and cons for franchising as the way of doing business, and that franchising philosophy is based on cloning of the success. They still do not know that franchising offers experience, knowledge and complete support during the entire business period. Most of the problems can be solved through establishing more efficient education system and support of relevant institutions in charge of promoting sustainable ways of doing business and job creation.
Nevertheless, there is a good chance for development of franchising in Croatia and high growth rates. The EU accession resulted with disappearance of some barriers, enabling environment for growth of this sector, and exchange of experiences with successful concepts such as franchising.

Croatian franchise association support and helps other franchise associations in the region to develop their role in the market.

In 2012, new Croatian government through the Ministry of Entrepreneurship and Crafts established pilot project for franchising and offered grants for purchasing the franchise. The budget of this grant was one million HRK (133,333 €) and grants were given to 12 companies dedicated to establish franchise unit. In that way 12 new companies bought franchise and project was extremely successful. However, it didn’t result with further prolongation of the project in 2013. The new grant scheme of the Ministry of Entrepreneurship and Crafts didn’t contain specific support programs for franchising. Financing franchising projects is allowed through so-called B2 grants, supporting “innovative business models in micro and small businesses, export of knowhow and intellectual property”. The momentum was lost.

Croatian franchise association is currently lobbying for establishing a franchise incubator as a resource center where the national companies could get trustworthy advice on how to establish their franchise business models.

In 2012, the Croatian Franchise Association was able to offer the elective course FRANCHISING to the students of the Entrepreneurial Economics at the University of Applied Sciences VERN’ in Zagreb (http://www.vern.hr/english/international-cooperation/courses-offered-in-english). As part of the course assignment, students were involved in organization of the 7th International Franchise Forum and Exhibition: “Creating Jobs and Gaining Experience through Franchising”, which was held on June 6th 2012, in Zagreb, Croatia. Organizer of the Forum was Croatian franchise association. As event is biannual, the new 8th International Franchise Forum “Franchising, business models based on innovation, knowledge and experience” will be most likely held in June or in September 2014.

In the second half of the year, the Croatian Chamber of Economy is planning to organize special workshops for Croatian companies in order to enhance franchising of national brands.

FINANCING A FRANCHISE-SYSTEM IN CROATIA

Financial institutions in Croatia are mostly owned by foreign banks (around 95%). There are a lot of different loans offered on the market, including different guarantee schemes. Main characteristics of domestic market are insolvency and bad collection (i.e. big debts which can lead to the bankruptcy of the small entrepreneurs, since they cannot collect from their debtors). In the first quarter of 2014, more than 50,000 companies have their accounts blocked due to the tax debt (even the small one like 200 euro). Other characteristic is barter trade as a way of payment between companies.

The banks in Croatia do not fully recognize the needs and advantages of franchising. Croatian franchise association has been involved in lobbying activities towards the banks for enabling better conditions while buying the franchise, but so far without any success. The only bank that finance startups is the Croatian bank for reconstruction and development (HBOR), which is willing to recognize the needs of franchise sector, but only if it fits in their pre-established products. However, the franchise industry even in this strong recession has slight upward
direction. The combination of grants offered through the Ministry of Entrepreneurship and Crafts, and finances offered by HBOR, together with the one of the family and friends are helping franchising in Croatia to be alive.

WHAT MAKES A FRANCHISE IN CROATIA?

FRANCHISE SPECIFIC LEGISLATION

There are no franchise-specific legislative provisions in Croatia. During the last few years, a number of laws which resulted with acceptance of Croatia to the World Trade Organization, CEFTA (Central European Free Trade Agreement) and to the status of the country negotiating for becoming a member of EU, wereapproved. Nevertheless, there is no legal basis for franchising in Croatia.

Franchising is first time mentioned in Croatian legal system in Trade law (NarodneNovine, 2003) where the franchising agreement is stated. But it is only stated in one article and very condensed. Therefore there is no standard for development of franchising and franchising agreement which is at the moment developed by business practice. The Croatian legislative system is already much in conformity with the European Union requirements, and Croatia continues to adjust it in its aspirations to join the Union but nevertheless in new Trade law franchising is not even mentioned.

Theforegoing, we can say that thefranchise agreementis not legallyregulated in Croatia, and the courts and lawyers inlitigationbetween parties applythe Code of Ethics EFF as the basis for concluding orterminationof franchiseagreements

FRANCHISE SUPPORT INSTITUTIONS

The following institutions/companies can provide valuable assistance and expert advice to franchisers seeking potential franchisees in Croatia:

- Croatian Franchise Association – Established in 2002, the association is doing a great job in popularization and promotion of franchising in Croatia with visible results. In the past, the Association was sponsored by the USAID and some other international donors, aiming to empower business organizationaddressing their members’ needs and the entire franchise society. The Association achieved these goals through numerous conferences, sponsoring of franchise exhibitions, forums, publications, lectures and traineeships. The association collaborates with the most institutions and private companies and established very good networks all over the world. Since 2006, the Association is the member of the EFF and the WFC. Due to the global crises and lack of government support, in addition to general fundraising problems, the Association has less and less power every year in its efforts to significantly promote franchising. The Association was the initiator and the main organizer of the Franchise Industry Fair and Workshop, which were held annually in Zagreb from 2003 to 2007. As of 2008, the event changedits format and became the Franchise Forum. The last, 7thfair, was held in June 2012 in Zagreb and 8this in preparing phase. Members of the Association participated both as exhibitors and as speakers at the round table, workshops or at the Forum e, and it has always been perceived as an excellent introduction to the market (www.fip.com.hr).
• Franchise center Zetel Zagreb d.o.o. is a business consulting company specialized for the franchise industry. It has experience in small business consulting but also both to franchisors and franchisees.

• The Franchise Center Osijek – a small business development center located in the eastern, continental part of Croatia and specialized for promotion of franchise industry in that region. The Centre is a franchisee of The Franchise Center of the University of El Paso, Texas and, twice a year, it organizes a seminar “Franchising from A to Z” for potential Croatian franchisers and franchisees. Speaking at these seminars is also a great promotional tool for the association and its members. The Franchise Center Osijek is the owner of the most informative and influential franchise portal in Croatia, which is at the same time their official web site (www.fransiza.hr).

**ANALYSIS OF THE CROATIAN FRANCHISE MARKET:**

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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<tbody>
<tr>
<td>• Stable domestic currency Single digit inflation rate</td>
<td>• Lack of franchise expertise as major problem</td>
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<tr>
<td>• Few market-entry barriers No franchising legislation European Code of Ethics for Franchising adopted by the national Franchise Association</td>
<td>• Both start-up and growth highly dependent on entrepreneur’s self-financing</td>
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<td>• Grants for establishing the franchise units from the Ministry of Entrepreneurship and Crafts</td>
<td>• Lack of banks’ understanding of franchising</td>
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<tr>
<td>• Increase of education about franchising through business college and higher education courses, seminars, press and SME journals Annual conferences with exhibitions organized by the Franchise Association and partners Seminars organized by the Centre for Franchising in Osijek With 2013’s admission to the EU, the process of acceleration in legal procedures gives better possibilities for franchising</td>
<td>• Lack of strategic thinking in most companies</td>
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<tr>
<td>• Entering to Croatian market in most cases means entrance to the regional one due to the similar language and habits</td>
<td>• Growth companies’ hesitation to grow through franchising model due to the lack of knowledge and fear of exposure of its intellectual property and most of all most of them are not aware of their intellectual property (know how) as selling product.</td>
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• Does your association have a Code of Ethics and/or a Standards-based accrediting system?  
  *Yes, we have adopted the EFF Code of Ethics and we insist on teaching the EFF code of ethics in franchise classrooms and workshops.*

• Support programs for franchising or SME’s: from government, from other agencies (national or international)  
  *Yes, since 2012, there are support programs for establishing franchise units and for creating franchise package under the other grants for competitiveness and innovation*

• Support, if any, from government funds to the association itself, or from other sources and for what
No, only membership fee or self-financing of the association (selling books, banners on the web site or similar). Only once we got grant from the USAID for organization of the franchise exhibition (2007)

- Relationships with other franchise associations (bilateral, membership to other regional groups)
  
  Membership in EFF, WFC, MFA (one of the founders), excellent collaboration and partnership with Slovenian, Hungarian, Serbian and Macedonian franchise association

- What is the association most in need of today?
  
  The biggest needs are for getting sustainable financial support and resources, and for institutional support for building its capacities for further activities.

- Where does the association see itself in 2 years’ time?
  
  We expect to see the growth of the franchise sector in Croatia and the Association will be an important part of it. We expect also more state grants. There are some signs that the Association may finally succeed in finding partner bank which will have the franchise financing program(s). More universities will introduce courses on franchising in their curricula. Hopefully, the need for better statistical support and recognition of various stakeholders in franchising business will be efficiently addressed.

ADVERTISING AND SUPPORT:

- Cite your main franchise media (any form):
  
  A) Web sites of
  
  1. Croatian Franchise Association, Zagreb (www.fip.com.hr)
  2. Centre for franchising, Osijek (www.fransiza.hr)

  B) Business magazines that occasionally cover franchising:
  
  1. business magazine LIDER (www.liderpres.hr)
  2. business magazine BIZdirekt (www.mirakul.hr)
  3. business magazine
  4. Poslovnisavjetnik (http://www.poslovni-savjetnik.com/)

  C) TV media

- Cite your main franchise exhibitions (+ websites):
  
  Biannual franchise conference/exhibition organized by The Association; last one held on June 6, 2012 (http://www.fip.com.hr/expo2009/index.asp?lang=hr)

STRUCTURE OF YOUR ASSOCIATION:

Cite the categories of membership, numbers, the structure of the board and the source of income.

Members: Number of member in total:

- full members: 13
- associated members: 2
- consultants/Lawyers: 2
- other members: 0
- franchisees as members: 0

Board: consists of: President, vice president and secretary

Does your Board of Directors include franchisee representatives? No
Source of income (in percent):

- membership fee: 70%
- marketing activities: 5%
- fair / conferences: 10%
- training activities: 5%
- Others: 10%

YOUR PUBLICATIONS AND RESOURCECENTER:

- What does your association publish?

PUBLICATIONS:
Books, newsletter, articles and TV shows relevant for popularization of franchising

EDUCATION MATERIALS
Translation of UNIDROIT’s Guide on International Master Franchise Arrangements
Conference proceedings
Internal course materials

- Do you have an established resource center open to students, potential franchisees or franchisors, public etc. ?
Yes, ongoing cooperation with University of Applied Sciences Vern’ in Zagreb and with some other universities.
SOURCES:

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- Croatian Franchise Association
- Erceg, Aleksandar (2012): Franchising and its influence on entrepreneur’s growth methods
- Kukec, Ljiljana (2010): Challenges for Implementation of Franchise Business Model for Business Development in Croatia
- Kukec, Ljiljana and Ćorić, Gordana (2010): Outline of country report on franchising
- U.S. Commercial Services, DamjanBenčić, 2008