



Croatia: Franchising

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Summary

Franchising in Croatia is yet to develop, but there is a strong ongoing initiative to promote the advantages of this business concept. There are between 120 and 150 mostly foreign franchisors operating in the Croatian market, of which the most well-known are McDonald's, Subway and Fornetti. Tourism and hospitality are considered to be the most promising sectors for franchise development. The typical prospective franchisee knows little about franchising and needs to be educated by the franchisor on how he/she could benefit from the concept. Numerous opportunities for advertising exist in the local daily press and specialized magazines, and expert assistance to franchisors looking for local partners is available from at least two franchise development centers. Market obstacles include the lack of franchise-specific legal and financial assistance, a relatively small population and low purchasing power, relatively high level of corruption in the society, and general inefficiency of the judicial system. However, these issues are being systematically addressed creating a strong and continuous trend of improvement of the business environment, further enhanced by Croatia's soon-expected membership in NATO and EU.



Market Demand

Although the number of companies actively offering their franchises in the Croatian market has been steadily increasing during the past few years, local entrepreneurs are still cautious and reluctant about this business concept they know little about. However, there are a few enthusiasts, mostly university professors and business consultants, that have recognized the numerous advantages of franchising and are promoting it by organizing franchise industry fairs, conferences, seminars and workshops, and by operating franchise-promotion websites. Most of these individuals are organized around two compatible and cooperating institutions – the [Croatian Franchise Association](#) based in the capital city Zagreb and the [Franchise Center Osijek](#) based in the eastern part of Croatia.

The Croatian Franchise Association was established in 2002 and currently has about a dozen members. It has been founded and led by Ms. Ljiljana Kukec, the owner of a successful Croatian franchise chain [Body Creator](#) and also the owner of a franchise consulting company [Pro Maturo](#). The Association has organized four annual [International Franchise Forums](#), the last one held in November 2007 in Zagreb, with a total of 13 foreign and domestic exhibitors and 7 roundtable-speakers including key franchise industry leaders from the neighboring countries of Slovenia, Serbia, and Bosnia and Herzegovina. The Forum attracted a total of about a thousand visitors and was co-sponsored by the [U.S. Agency for International Development \(USAID\)](#), under its [Enhancing Small and Medium Enterprises Project](#) in Croatia.

The Franchise Center Osijek is a part of the Osijek Entrepreneurship Center, a non-governmental organization founded and led by Ms. [Slavica Singer](#), a professor at the Faculty of Economics at the [Osijek University](#). The Franchise Center (founded in 2003) is led by Mr. [Alexandar Erceg](#) and Ms. [Mirela Alpeza](#), both of whom teach at the Osijek University. The Franchise Center Osijek itself is a franchisee of the [Franchise Center of the University of Texas El Paso](#), with which it has developed an educational seminar "Franchising from A to Z", held in Osijek twice a year for potential Croatian franchisors and franchisees. In 2006, the USAID sponsored Mr. Erceg and Ms. Alpeza's holding this seminar in ten other major cities in Croatia, attended by a total of about 200 participants.

Subsequently, USAID also sponsored a visit of Mr. [Ilan Alon](#) a professor at [Rollins College](#), FL, who held with Mr. Erceg and Ms. Alpeza several workshops on franchising for a total of 45 Croatian lawyers, bankers, and consultants interested in providing support to potential franchisors and franchisees. As a part of the workshop, the participants were asked to complete a questionnaire designed to analyze the political, economic, social and technological factors influencing the development of franchising in Croatia. The results of the survey have been analyzed and presented in an excellent, must-read article "[Development of Franchising in the Emerging Market of Croatia](#)", published in February 2008 in [Management Online REVIEW](#), an on-line journal sponsored by the [ESCP-EAP European School of Management](#).

Market Data

Although there are no reliable statistics on franchising in Croatia available, the Croatian Franchise Association did make its best effort to compile an approximate list of a total of 27 Croatian and 73 foreign franchisors established in the Croatian market. The franchise experts agree that there are probably a few other less-known franchisors that are missing on this list and that the best estimate of a total number of franchisors in Croatia should be between 125 and 150 (similar estimates for the comparable countries in the region are: a total of 90 franchisors in Czech Republic, 100 in Slovenia, 210 in Poland, and 300 in Hungary). The Croatian Franchise Association estimates that there is a total of about 900 franchise outlets in Croatia, with approximately 16,000 employees, engaged in about 20 different industries, but mostly in hospitality and trade.

In average, there are about 15-20 franchisors at a time (mostly from Europe and the U.S.) looking actively for partners in the Croatian market. The Croatian Franchise Association and the Franchise Center Osijek report receiving several calls and e-mails every week from interested potential franchisees responding to the franchisors' advertisements published on their websites. However, very few of these inquiries develop into signed franchise agreements (two-three a year). This indicates that interest does exist, but there are obstacles to be overcome.

Best Prospects

Local experts agree that tourism and hospitality are by far the most promising sectors for franchising development in Croatia. Indeed, tourism already represents about 25% of Croatia's GDP and is considered the industry with the largest growth potential (see also our recent, related market-research reports on Tourism Infrastructure, Wellness & Spa Equipment, and Recreational Boating and Equipment Market).

Key Suppliers

The credit card company Diners Club International is considered to be the first franchisor in Croatia, which sold its franchise to a local travel agency Atlas back in 1969. Not much was happening in the franchise sector until after the introduction of market economy and the Croatian war for independence (1991-1995). McDonald's was the leader by opening its first restaurant in Croatia in 1996, and since then, every year, there have been at least a few new franchisors entering the market. Following are some of the most well-known of them today:

Most Well-Known Foreign Franchisors in Croatia		
McDonald's	Fast food (17 restaurants)	www.mcdonalds.hr
Subway	Fast food (6 restaurants)	www.subway.com
Fornetti	Bakery (over 150 locations)	www.fornetti.com
Damaservice	Refilling toner cartridges (3)	www.damaservice.it
Berlitz	Language training courses (1)	www.berlitz.hr
Figurella	Weight loss center for women (2)	www.figurella.hr

Berghoff	Kitchen equipment (3)	www.berghoffworldwide.com
American Express (and other major credit cards)	Credit cards	www.americanexpress.hr
FedEx (and some other courier service companies)	Courier service	www.fedex.com/hr
Palmers (and a number of other well known fashion clothes distribution chains)	Fashion clothes	www.palmers.at
Hertz (and other major rent-a-car companies)	Car rental	www.hertz.hr

Most Well-Known Domestic Franchisors in Croatia		
Body Creator	Weight loss center for women (4 salons)	www.bodycreator.com
Rubelj Grill	Grill (17 restaurants)	www.rubelj-grill.hr
X-Nation	Fashion clothes (40 stores/corners)	www.xnation.hr
Skandal	Fashion clothes (15 stores)	www.skandal.biz
Bio & Bio	Health food (3 shops)	www.biovega.hr
Elektromaterijal	Household appliances distribution (over 50 stores)	www.elektromaterijal.hr
San Francisco Coffee House	Coffee bar (locations)	website not available

Prospective Buyers

Franchising is essentially about selling knowledge and experience, but these two sophisticated categories are yet to firmly establish as valued commodities in Croatia. Most potential local franchisees are very skeptical about paying high fees for something they are used to get for free (for example, the majority of the Croatian educational system is still state-owned and free-of-charge). Generally, they are not willing to put their time and capital at risk unless they clearly understand the value that a franchisor is offering in exchange for the initial fee and royalties. If they can find a way around paying the franchisor, they are likely to try establishing a similar, but their own, independent business.

Among Croatian individuals actively considering buying a franchise, we have noticed the following three most common profiles:

- a young manager with 5-10 years of experience in mid-to-senior positions at sales/services company; he/she has up to \$100,000 of savings and is looking for ways to start their own business;
- an owner of a well-positioned property that would be suitable for a small business operation; he/she has little or no experience in running a business and is looking for some easy-to-operate franchise that could be established at this specific location
- a middle-aged emigrant returning to his homeland from the U.S., Western Europe or Australia; he/she is very familiar with franchising as a successful business concept and would like to introduce to Croatia one of the franchises seen or experienced while living abroad.

Market Entry

When looking for franchisees in Croatia, a franchisor would probably do the best by placing an advertisement in one or more of the four most popular daily newspapers – [Vecernji List](#) and [Jutarnji List](#) are distributed country-wide, while [Novi List](#) is read primarily in Istria and Northern Adriatic region, and [Slobodna Dalmacija](#) is the most popular daily in the Dalmatian region. Depending on the industry and the type of franchise, a wide variety of specialized magazines and newsletters is available for placing an advertisement to a targeted group of people. Franchisors could obtain a good advise on where and when to advertise from any of the numerous local [advertising agencies](#), which would also often get a better deal for placing the add from the newspaper editors than the franchisor itself.

Many franchisors, however, choose the much-less-expensive option to advertise at the websites of the Croatian Franchise Association and/or the Franchise Center Osijek. Both institutions offer follow-up services, as does the [Commercial Service at the American Embassy in Zagreb](#) by its fee-based Franchise Gold Key Service. Speaking and/or exhibiting at the earlier-mentioned annual Franchise Forum (organized by the Franchise Association) and speaking at the Franchising A-Z seminar (organized by the Franchise Center Osijek) is a great and cost-effective promotional tool. Franchisors should also consider exhibiting at the major trade event in Croatia – the Zagreb Fall Fair, or at any other appropriate specialized industry fairs organized by the Zagreb Fair.

Market Issues & Obstacles

Franchising as a business concept is still relatively unknown to the Croatian business community, and thus a franchisor has an additional task of thoroughly explaining the concept to potential franchisees. The latter will face additional difficulties when seeking legal advice and financial assistance to set a franchise operation, as most local lawyers are not familiar with the specifics of franchise contracts (and there are no specific provisions in the Croatian legislation either) and the bankers typically do not recognize the lower level of risk involved in a franchise and treat it as any other start-up business. Both the franchisor and franchisee have to calculate the high risk of a potential legal dispute among themselves remaining unresolved for years, due to the overwhelming congestion and inefficiency of the Croatian judicial system. The situation is further complicated by the relatively high level of non-transparency and corruption in the state and local administration (compared to the U.S. and West-European standards) and by the relatively small and poor market (i.e. population of about 4.5 million, about \$13,000 GDP/capita and about 5% GDP annual growth rate).

However, taking the risk and facing unfriendly environment is the very essence of an entrepreneurship, and as the market economy in Croatia develops, more and more of successful risk-takers emerge. The time of privatization tycoons and overnight capitalists is passing by and individuals with modern marketing knowledge and experience are slowly but surely taking over the leadership role in society. In early 2008, Croatia has been invited to join NATO and the accession negotiations with the European Union are at a very advanced stage, setting the basis for Croatia's further democratization, political stability and economic growth. (For a full overview of Croatian political, economic, and business environment, please see our [Country Commercial Guide for Croatia](#).)

Trade Events

- Croatian International Franchise Forum (annually): <http://www.fip.com.hr>
- Zagreb Fall Fair, Zagreb (annually in September): <http://www.zv.hr>

Resources & Key Contacts

- Ministry of Economy: www.mingorp.hr
- Croatian Franchise Industry Association: www.fip.com.hr
- Pro maturo (franchise consultants): www.promaturo.hr
- The Franchise Center Osijek (regional development): www.fransiza.hr
- Organizacija poslovanja Kovac (market research/business consulting): www.opk.hr
- Gallup organizacija Zagreb (market research): www.gallup.com

- BBDO (advertising agency): www.bbdo.hr
- McCann-Erickson Croatia (advertising agency): www.mccann.hr
- PricewaterhouseCoopers: (tax consultants/accountants): www.pwc.com/hr
- KPMG (tax consultants/accountants): www.kpmg.hr
- Ernst & Young (tax consultants/accountants): www.ey.com/hr
- Deloitte & Touche (tax consultants/accountants): www.deloitte.com
- American Chamber of Commerce in Croatia: www.amcham.hr
- Croatian Chamber of Commerce: www.hgk.hr
- Croatia Home Page (click on Business & Economy): www.hr
- Croatiabiz (business directory): www.croatiabiz.com
- Zavod za poslovna istraživanja (business directory): www.zapi.hr
- Kompas (business directory): www.kompass.com.hr
- Wer Liefert Was? (business directory): www.wlw.hr
- Statistical Bureau: www.dzs.hr
- Croatian National Bank: www.hnb.hr
- Official Gazette: www.nn.hr

For More Information

The U.S. Commercial Service in Zagreb, Croatia can be contacted via e-mail at: Damjan.Bencic@mail.doc.gov;
Phone: (+385 1) 661-2186; Fax: (+385 1) 661-2446 or visit our website: <http://www.buyusa.gov/croatia/en/>.

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