Prilep Region Enterprise Development Agency (PREDA)

Market Assessment for Business Development Services in the Region of Prilep, Macedonia

Elisabeth Muench, Intercooperation
with contributions from Eva Schmidt, Intercooperation and Lene H. Mikkelsen

Prilep/Skopje, Macedonia and Berne, Switzerland
February 2002

TABLE OF CONTENTS

LIST OF TABLES AND GRAPHICS 2
ACRONYMS 3
0. EXECUTIVE SUMMARY 4
1. RATIONALE 5
1.1. Framework 5
1.2. Objective of the Market Assessment 5
1.3. Methodology 5
2. FINDINGS 7
2.1. Detailed profile of SME in Prilep Region 7
2.1.1 Geographic Distribution of Businesses 7
2.1.2 Size of Businesses 7
2.1.3 Economic Sector of Businesses 7
2.1.4 Age of Businesses 8
2.1.5 Ownership of the Businesses 9
2.1.6 Level of Education of Owner 9
2.1.7 Financial Resources for Starting-up a Business 9
2.1.8 Current Sources for Financing Business 10
2.1.9 Gross Profit of Businesses 10
2.2. Self-assessment by SMEs regarding their current business situation ... 11
2.2.1 Potential of Businesses 11
2.2.2 Risks 11
2.2.3 Constraints 12
2.2.4 Needs 13
2.3. Significance of BDS in Prilep Market 15
2.3.1 Awareness, Use, Retention (AUR) 15
2.3.2 Willingness to pay for service 17
2.3.3 Suppliers of Services 19
2.3.4 Information Channels for Services 20
2.3.5 Reason for "Non-Use" 21
3. SYNTHESIS OF FINDINGS 23
3.1. Conclusions 23
3.1.1 Profiling demand 23
3.1.2 Profiling supply 23
3.1.3 Linkage elements 24
3.1.4 Overall assessment 24
3.2 Implications for the project and PREDA 25
3.2.1 Objective of interventions 25
3.2.2 Fine-tuning the strategy 25
3.2.3 Aspects of strategy implementation 27
3.2.4 Assumptions and Risks 27
BIBLIOGRAPHY AND FURTHER READING 29

LIST OF TABLES AND GRAPHICS

TABLES

TABLE 1 Sector of Interviewed Businesses 7
TABLE 2 Sub-sector of interviewed enterprises 8
TABLE 3 Start-Up Year of Interviewed Businesses 9
TABLE 4 Start of Business by Year 1990 to 2000 9
TABLE 5 Gross Profit of Interviewed Businesses 10
TABLE 6 Potential of Enterprises seen by Respondents 11
TABLE 7 Risks of Enterprises seen by Respondents 12
TABLE 8 Constraints of Enterprises seen by Respondents 13
TABLE 9 Needs of Enterprises seen by Respondents 14
TABLE 10 Application for Credit by Interviewed Enterprises 14
TABLE 11 Awareness / Use / Retention of Services in Prilep Region 16
TABLE 12 Willingness to Pay for BDS by Interviewed Enterprises 18
TABLE 13 Amount Reported to be Spent by Interviewed Enterpreneurs 19
TABLE 14 Suppliers of Services to Interviewed Service Users 20
TABLE 17 Information Channels of Interviewed Entrepreneurs for Services ... 21
TABLE 18 Reasons for Not Using BDS by Interviewed Enterprises 22

GRAPHICS

GRAPHIC 1: Sector of Interviewed SMEs 8
GRAPHIC 2: Start of Businesses over the last 10 Years 9
GRAPHIC 3: Distribution of Average Monthly Gross Profit 10
GRAPHIC 4: Potential of SMEs 11
GRAPHIC 5: Risks of SMEs 12
GRAPHIC 6: Constraints of SMEs 13
GRAPHIC 7: Needs of SMEs 14
GRAPHIC 8: Awareness / Use / Retention (AUR) 16
GRAPHIC 9: Awareness / Use / Retention by Service 17
GRAPHIC 10: Willingness to Pay for Services 18
GRAPHIC 11: Willingness to Pay - Amounts 19
GRAPHIC 12: Suppliers of Services 20
GRAPHIC 13: Sources of Information for Service 21
GRAPHIC 14: Reasons for Non-Use of Service 22

ACRONYMS

AUR	Awareness, Usage, Retention
BDS	Business Development Services
ESA	Enterprise Support Agency
GTZ	Gesellschaft fuer Technische Zusammenarbeit (German Agency for Technical Cooperation)
IC	Intercooperation, Swiss Organisation for Development and Cooperation
ILO	International Labour Organisation
PREDA	Prilep Region Enterprise Development Agency
SDC	Swiss Development Cooperation
SED	Small Enterprise Development
SEED	Southeast European Enterprise Development Program
SME	Micro, Small and Medium-sized Enterprises
UAI	Usage, Attitude, Image (Market Study Tool)
USAID	United States Agency for International Development
ZPP	Zavot za platen promet (Literally: institution for payment transactions) National Payment Bureau

0. EXECUTIVE SUMMARY

The Market Assessment was based on a survey of nearly 1,000 enterprises with less than 150 employees in the Prilep region. The survey used the Awareness, Usage, Retention (AUR) methodology, which is based on the Usage, Attitude, Image (UAI) methodology, and was carried out by: PREDA staff, an international consultant, a specialist for data collection and data processing, and selected students from the Faculty of Economics at the St. Clement Ohridski University of Bitola.

Almost 50% of the interviewed enterprises belong to the trade sector, 28% to the service sector, 16% to the transportation sector, and the rest to various smaller sectors. The majority of them are defined as micro enterprises (95%), 84% of respondents are single owners, and nearly 100% are formally registered enterprises.

When asked about the constraints on their businesses, the majority of respondents referred to problems with selling their products and services; 12% “lack of purchasing power among clients”, 17% “strong competition”, and 29% “lack of access to new markets and clients”. These constraints corresponded with the enterprises’ perceived need for services, notably marketing, information, and networking.

By using the AUR methodology, the survey documented an interesting trend of enterprises being highly aware of certain services (accounting, for example, is required by law), but much less aware of others (production training and advice was listed by only 38% of respondents). This indicates a need to focus on raising awareness for such services. In terms of usage, the percentages are very low (less than 10% for all listed services). However, once an enterprise has sampled a service, the retention rate, or the willingness to use it repeatedly, is very high (75% for marketing services, 68% for business planning advice or training). This information points to the fact that demand for the services needs a boost, and possibly that supply of the services should be made both more available and more attractive.

Approximately 40% of respondents expressed a willingness to pay for services, but this was typically proposed to be less than 15 €/day, or 50 €/month.

The survey focused mainly on non-financial services such as business development services or BDS, but it did also include questions regarding financial services. 91% of the respondents had started their businesses with their own capital (or through families and friends), and rarely use formal financial services. 21% stated a need for access to credit, but only 13% had actually applied for credit.

One third of the respondents (35%) considered the current economic situation in Macedonia a risk to their business, while a fair share (22%) listed the social situation as a risk factor.

1. RATIONALE

1.1. Framework

The Prilep Region Enterprise Development Agency (PREDA) is a foundation, which is in accordance with Macedonian law. The Foundation is supported by the Swiss Development Agency (SDC), via the Swiss Foundation Intercooperation, within the framework of a bilateral Swiss-Macedonian agreement. The objective of PREDA is to increase the number of competent small entrepreneurs, who successfully establish and manage their businesses and create new employment and income-generating possibilities. Within the framework of its scope of work, PREDA has conducted a market assessment in order to adapt the design of the ongoing SDC project "Support to the SME Sector in Macedonia, Prilep Region" according to the findings of this study.

1.2. Objective of the Market Assessment

Within the region of Prilep there are approximately 4,000 registered small businesses, which could be considered a potential target-group for PREDA[1]. An assessment of the potential and the needs for, or the use of, existing business development services (BDS) of these SMEs does not currently exist, but it is considered to be essential for PREDA to understand the market for services in order to fulfil its objectives. Based on this knowledge, PREDA will be able to adjust the project design and adapt its interventions according to the evolving needs and demands of the micro, small and medium sized enterprises in the Region of Prilep. It will also be able to help suppliers to develop, or improve, commercially viable business services for the private sector. The practical objective of the market assessment was to provide PREDA with information on how to design appropriate interventions and strategies
(i) to develop demand-driven and need-oriented business development services (BDS) for SMEs, and
(ii) to supply those BDS in an adequate quality and quantity on the market to the SMEs within the region of Prilep.

1.3. Methodology

The Market Assessment was based on a survey of 1,000 existing small and medium enterprises (with up to 150 employees) in the Region of Prilep. The Region of Prilep covers the Municipalities of Prilep, Krivogastani, Topocalcani, Dolneni and Vitoliste. This relatively big sample size was necessary because during the pre-test phase we discovered that the market for services in the Prilep Region is still very weak. With a smaller sample size no significant data would have been available regarding the existing use of BDS in the Region.

The sample was chosen from the data of the national payment office, ZPP[2*3]. From this list, every fourth firm was selected for interviewing. In the case that one of these firms no longer existed, which happened in about 15% of all cases, the interviewers were instructed to choose additional businesses from a list of enterprises engaged in production (the list was

[1] According to the "Economic Map of the Region of Prilep", elaborated by ESA, Ohrid, for PREDA in December 2000.
[2] Until the end of 2001, the National Payment Bureau (ZPP) carried out all payments for all firms in Macedonia, registered in the respective local courts.
[3] We also tried to obtain data from the National Bureau of Statistics in Prilep, but such data was not made available to us. Therefore, only data from the National Payment Bureau was used for this assessment.

elaborated from the above mentioned data source and data from accounting firms) or - in the case that there was a neighbouring firm - to interview the latter.

The Assessment included the following four steps:
1) Design of the surveys and the necessary assisting documents;
2) Data collection through questionnaires and interviews and subsequent data processing;
3) Evaluation of the collected data and its relevance for PREDA;
4) Elaboration of recommendations for future work of PREDA.

The Market Assessment was carried out by the staff of PREDA, an international consultant, a specialist for data collection and data processing, and selected students from the Faculty of Economics, in Prilep, at the St. Clement Ohridski University of Bitola. Together with PREDA, the international consultant had the overall responsibility for the design, implementation and evaluation of the market assessment. The specialist for data collection and data processing was responsible for the collection of data, the supervision of the students, and the access to facilities for the processing of data and the actual processing itself. The reporting was carried out by PREDA in close co-operation with the international consultant. The international consultant, with the specialist on data collection and processing, elaborated recommendations for PREDA, which are incorporated into this report. The specialist on data collection and processing supported PREDA, and the international consultant, with their national knowledge regarding the overall design, implementation and evaluation of the assessment.

The design of this study was based on the "Guide to Market Assessment for BDS Program Design"[4], the "Technical Note: Applying Marketing Research to BDS Market Development"[5] and the conference discussion paper: "Application of Market Led Tools in the Design of BDS Interventions"[6].

The survey focused on entrepreneurs' awareness and usage of business services and used many of the elements of a Usage, Attitude, Image (UAI) Market Study. The adapted version of the UAI market study used here is a consumer research tool to obtain a quantitative overview of a market for a variety of services within a geographically restricted area. The tool can help in general to pinpoint specific market constraints and opportunities. A UAI market study provides a good "snapshot" of the current market for one or more given services. The power of a UAI market study is that it provides information *from the perspective of the consumers.* [7]

[4] A. Miehlbradt," Guide to Market Assessment for BDS Program Design A FIT Manual", International Labour Organisation, Geneva, 2001.
[5] A. Miehlbradt with contributions from R.T. Chua, "Technical Note: Applying Marketing Research to BDS Market Development", Development Alternatives Inc. under the USAID Microenterprise Best Practices Project, 2000.
[6] J. Tomecko, "The Application of Market Led Tools in the Design of BDS Interventions or Influencing the Price of the Soup", GTZ/IEDI, for the Committee of Donor Agencies for Small Enterprise Development International Conference in Hanoi, April 2000.
[7] For further information regarding UAI in BDS Development see M. Miehlbradt, Guide to Market Assessment for BDS Program Design, ILO, 2001, pp.14.

2. FINDINGS

2.1. Detailed profile of SME in Prilep Region

2.1.1 Geographic Distribution of Businesses

Most of the businesses (98%) in the Region of Prilep are actually situated in the City of Prilep itself. About 1.5% of the businesses are situated in the municipality of Krivogastani. This corresponds to the findings of the economic profile of the region of Prilep, which was based on data from the National Bureau for Statistics in Prilep, while for this particular market assessment only data made available from the ZPP was used. However, it should be considered that if we had considered more non-registered businesses, this relationship might have been different, because the possibilities for the control of businesses decreases the further the businesses are away from the administration of the county. This picture would also differ, if the sample had included more agricultural firms, for example, and if the database of the Bureau of Statistics had been used.

2.1.2 Size of Businesses

The majority of the businesses in the region of Prilep have less than 10 employees (96%). Only 3% have between 11 and 50 employees and 1% has more than 50 employees. This corresponds also to the findings of the economic profile of the Prilep Region. Men own 72% of the businesses with up to 10 employees, 28% are owned by women, whereas 67% of the firms with between 11 and 150 employees are owned by men and 33% by women.

2.1.3 Economic Sector of Businesses

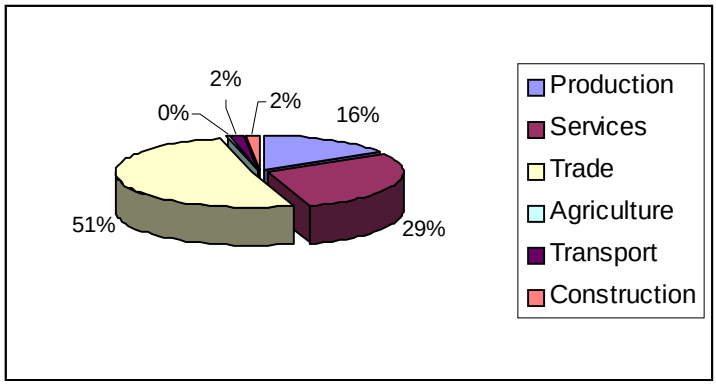
The economy of Prilep is based on trade (see Table 1). 50% of all businesses belong to the trade sector, 28% to the service sector and 16% to the production sector. 2% each belong to the transport and construction sector, and 3% did not specify the sector. In total 6.3% of the respondents reported to be active in more than one sector; 2.1% in the manufacturing and service sector, 2.2% in manufacturing and trade, and 1.7% in service and trade. It is interesting that only 0.4% reported to belong to the agricultural sector in an area, which is dominated by agricultural activities. (According to the economic profile, based on the data of the bureau of statistics, about 7% of all businesses in the Prilep Region are active in the agricultural sector). Those agricultural activities very often are not registered at the ZPP[8], whose database was available and used for this survey. 63% of the firms belonging to the production sector have male owners, 37% have female owners. In the service sector, men own 77% of the firms, and 23% are owned by women, whereas in the trade sector 70% of the firms are directed by men and 30% by women.

TABLE 1
Sector of Interviewed Businesses

	No. Of Enterprises	Participation in %
No answer	3	0 %
Production / Manufacture	152	16 %
Services	268	27 %
Trade	479	50 %
Agriculture	4	0 %
Transport	16	2 %
Construction	15	2 %
Other	29	3 %
Total	966	100%

[8] Agricultural businesses only need to be registered with ZPP if they trade, or make any other kind of transactions with formal businesses.

GRAPHIC 1: Sector of Interviewed SMEs



Regarding the sub-sector, over 52% of the interviewed persons did not specify the sub-sector due to problems defining the sub-sector to which they belong, and 7% did not answer this question. Taking into consideration only the respondents, being 396 enterprises of 966 interviewed firms, 23% (93 enterprises) stated to be active in the textile/ garment sector, 18% (71 enterprises) in the food processing sector, 13% (53 enterprises) in the gastronomy / tourism sector and 9% (36 enterprises) in the personal service sector.

TABLE 2
Sub-sector of interviewed enterprises[9]

	Respondents	%
Textile / Garment	93	23%
Leather processing and Shoe making	13	3%
Metalworking	24	6%
Wood processing	23	6%
Food processing	71	18%
Other light industry (Chemical, Plastics, Ceramics)	13	3%
Construction	20	5%
Computer related services	21	5%
Transport (Taxi, Bus Company)	22	6%
Gastronomy / Tourism (Restaurants, Hotels)	53	13%
Personal Services (Hairdresser, Beauty salon)	36	9%
Farming	7	2%
Total	396	100%

The highest percentage of female-owned firms can be found in the food-processing sector (42%) and the textile sector (41%).

2.1.4 Age of Businesses

21% of all interviewed businesses were founded before 1990. 4% have been in business for more than 20 years. Since 1991 - the year of independence of the Republic of Macedonia - according to our data, about 300 new businesses were established on average every year[10]. This shows that there is an enormous need for support for business start-up skills.

[9] This table excludes all no-answers, and all firms that did not specify their sub-sector. The total number of all respondents is here 396, being 41% of all interviewed firms, the total number of which was 966.
[10] 738 enterprises out of our sample of 966 were founded between 1991 and 2000. Taking into consideration that our sample size was about 1/4 of the overall number of roughly 4000 businesses in the Prilep Region, this number was calculated as follows: 738/10=73.8 firms per year x 4 = 295 firms with regard to the whole business population.

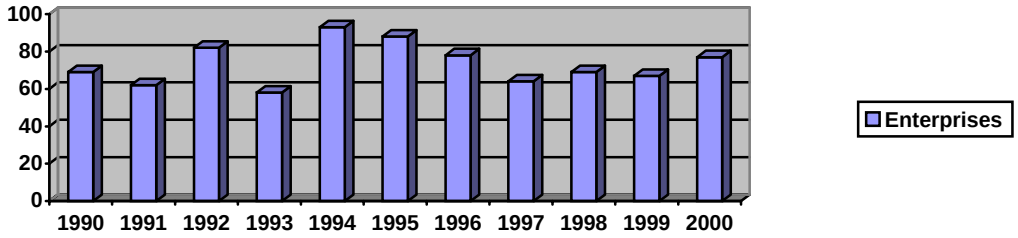
TABLE 3
Start-Up Year of Interviewed Businesses

	Enterprises	%
No-answers	4	0%
Before 1980	39	4%
1981 – 1985	26	3%
1986 – 1990	140	14%
1991 – 1995	383	40%
1996 – 2000	355	37%
2001	19	2%
Total	966	100%

TABLE 4
Start of Business by Year 1990 to 2000

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Enterprises	69	62	82	58	93	88	78	64	69	67	77

GRAPHIC 2: Start-Up of Businesses over the last 10 Years



Regarding the registration of businesses, almost all interviewed businesses were registered (94%), only 1% reported that they were not registered and 5% did not answer this question. Here, it must be taken into account that the data, which was used for the selection of the sample, came from the National Payment Bureau, and therefore included only those businesses paying taxes. The unregistered businesses were randomly chosen by the students only in those cases where the previously selected businesses were closed down at the time of the survey. However, most of the businesses in Macedonia are registered due to the fact that most of the economic transactions require an official seal, which is only obtained upon registration.

2.1.5 Ownership of the Businesses

Most of the businesses in Prilep Region are owned by one single owner (84%). 12% of the businesses have two owners and 3% have more than two owners. Men own 72% of all businesses and women own 28%.

2.1.6 Level of Education of Owner

Most of the owners of micro, small and medium sized businesses have a high level of formal education. 29% have a University degree, 1% have gained an additional post-graduation degree. 27% have completed high school education in the form of a "Gymnasium", while 27% have completed a medium-level type of speciality technical school. Only 3% reported "Primary School" as their highest level of education. This general high level of education should be taken into consideration when designing further interventions.

2.1.7 Financial Resources for Starting-up a Business

91% of the respondents had started their business with their own assets. 6% started their business through the means of some other family members or friends, 2% organised them-

selves funds via the informal market. Only 3 businesses (being less than 1%) used a bank loan or a SME credit line for starting up their firms, and only 1 business had started with a foreign investment. It should be taken into consideration that the confidence in the banking system in Macedonia, and in particular in Prilep, is not very high. Until the beginning of 2002, there was only one Bank operating in Prilep and this bank was offering only limited banking services, for example, national bank transfer, saving accounts and exchanging foreign currency. Certain local banks (outside of Skopje) do not have the authority to approve loan applications made locally, but have to send all documents to the headquarters in Skopje for final decisions. This certainly limits the opportunities for local enterprises that are less known by bank officers in Skopje. Furthermore, it should be mentioned that two big banks went bankrupt in Macedonia at the end of the 1990s.

2.1.8 Current Sources for Financing Business

83% of the businesses in Prilep Region quoted the income from their business as the major current source for financing their businesses. Only 1% quoted that the current source for financing their business came from other economic activities or other businesses. 13% finance their business through income from their own assets. This basically shows that most business-men/women in the Prilep Region can, at least, maintain their companies with the profit made from their business.

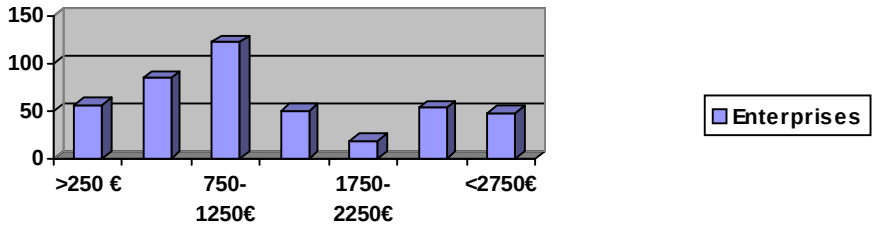
2.1.9 Gross Profit of Businesses

Information about the profit of the business was gathered by, or referred to, through two different questions: “What was the average gross profit per month?” and “What was the gross profit of the last month?”. More than 50% of the interviewed businesses did not answer either of these two questions (First question 55%, second question 58%). Of the respondents that did, the distribution is as follows:

TABLE 5
Gross Profit of Interviewed Businesses[11]

	Average Gross Profit		Last Months Gross Profit	
	Respond.	**%**	**Respond.**	**%**
No answer				
Less than 250 €	56	13%	53	13%
250 – 750 €	84	19%	97	24%
750 – 1250 €	122	28%	120	30%
1250 – 1750 €	50	12%	29	7%
1750 – 2250 €	19	4%	21	5%
2250 – 2750 €	53	12%	42	10%
More than 2750 €	48	11%	42	10%
Total	432	100%	404	100%

GRAPHIC 3: Distribution of Average Monthly Gross Profit



[11] Only those who responded to this question were considered in this table.

2.2. Self-assessment by SMEs regarding their current business situation

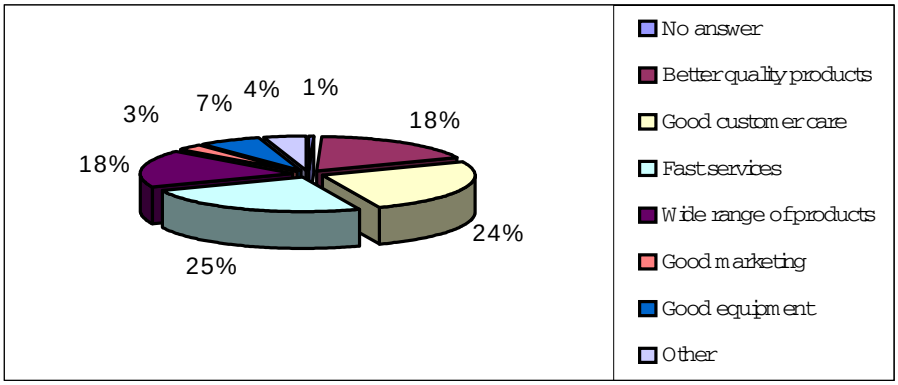
2.2.1 Potential of Businesses

25% of the respondents see their comparative advantages as being in good customer care. Equally 25% see it as being in the fast delivery of services. 18% believe that the quality of their products is better than those of their competitors and an equal 18% think that their wide range of services makes them better than the others, while only 3% think that they are better because of their marketing practice.

TABLE 6
Potential of Enterprises seen by Respondents[12]

	Enterprises	%
No answer	14	1%
Better quality products	440	18%
Good customer care	611	25%
Fast services	601	25%
Wide range of products	428	18%
Good marketing	68	3%
Good equipment	158	7%
Other	109	4%
Total	2429	100%

GRAPHIC 4: Potential of SMEs



2.2.2 Risks

As the major risk for the future of their businesses, the interviewed enterprises saw the economic situation of the country (35%), followed by the unemployment situation (22%) and the social situation (22%). Regarding the importance of the political situation, it should be considered that the market assessment was carried out in April 2001, about two months after an armed conflict broke out between ethnic Albanians and ethnic Macedonians in the north of the country, and at a moment when many young men had been mobilised into the army. Many families started to realise at that time that the tensions in the north had (or might have) a direct impact on their own lives, too. This was mixed with another political phenomenon, which is predominant in many other spheres - the influence of political parties on economic activities. In Prilep – as well as in other parts of the country - economic activities are influ-

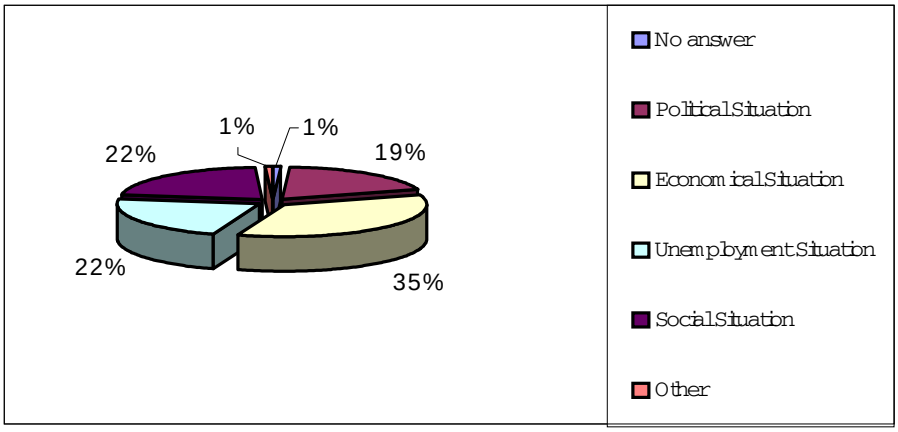
[12] Questions regarding the potential, risks, needs and constraints were asked as open questions during the pre-test phase and then - according to the results of the pre-test phase - classified and asked as closed questions during the main survey for easier evaluation.

enced by the affiliation or membership to one or another party. This party affiliation marks many relationships and transactions within the local society and therefore also the interaction with shops, producers or service providers. Many people are suffering as a result of this, but it seems very difficult to escape this cycle.

TABLE 7
Risks of Enterprises seen by Respondents[13]

	Enterprises	%
No answer	15	1%
Political Situation	402	19%
Economical Situation	737	35%
Unemployment Situation	461	22%
Social Situation	452	22%
Other	20	1%
Total	2087	100%

GRAPHIC 5: Risks of SMEs



2.2.3 Constraints

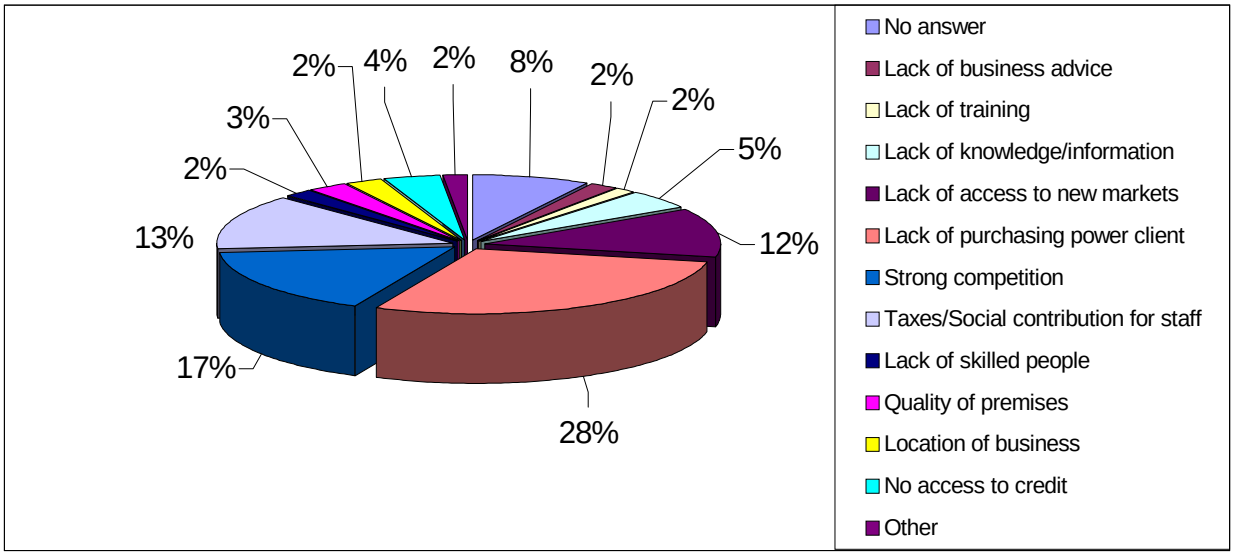
As major constraints the interviewed enterprises perceived "Lack of purchasing power of the clients" (29%), "Strong competition" (17%) and "Lack of access to new markets and clients" (12%). All these categories could be seen as problems when selling products and services. Translating these perceived constraints into possible activities for the project, the need for marketing measures could be understood as one of the most important needs for SMEs in Prilep. The lack of knowledge, information, training and business advice was perceived only by 9%. However, it should be taken into consideration that this could also be interpreted as a lack of awareness of the usefulness or benefits of these kinds of services. This implies that business advice and training measures supported by PREDA should be combined with awareness measures. The quality of the physical workshops and the location of the businesses seem to be perceived as a constraint only by 3%, and 2% respectively. A constraint that the project will not be able to tackle, but which is perceived to be quite strong, is the payment of taxes and social contribution for the staff (13%).

[13] Sum of answers (2038) exceeds the number of interviewed enterprises (966) because there was more than one answer possible.

TABLE 8
Constraints of Enterprises seen by Respondents

	Enterprises	%
No answer	214	8%
Lack of business advice	46	2%
Lack of training	40	2%
Lack of knowledge	25	1%
Lack of information	97	4%
Lack of access to new markets and clients	320	12%
Lack of purchasing power of the client	753	29%
Strong competition	436	17%
Taxes and social contribution for staff	353	13%
Lack of skilled / well educated people available on the market	53	2%
Quality and/or size of premises / workshop / shop	77	3%
Location of business	61	2%
No access to credit	100	4%
Other	47	2%
Total	2622	100%

GRAPHIC 6: Constraints of SMEs



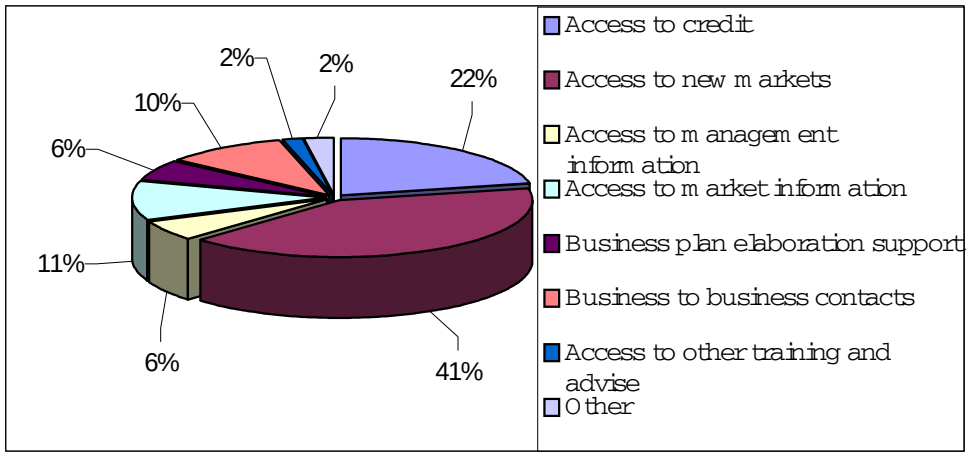
2.2.4 Needs

A similar picture to the one above can also be seen regarding the needs expressed by the interviewed enterprises. 41% mentioned the access to new clients and markets as their most important need, 21% the access to credit, 11% access to information about markets and 10% business to business contacts, while only 1% stressed the need for training and the need for advice. However, it should be noted that most of the respondents within this assessment have never before been exposed to support measures corresponding to the above mentioned needs and, therefore, might not be really aware of the benefits of such services.

TABLE 9
Needs of Enterprises seen by Respondents

	Enter-prises	%
No answer	21	1%
Access to credit	407	21%
Access to new clients/markets	781	41%
Access to information about managing the business	107	6%
Access to information about markets (market research services)	210	11%
Business Plan Elaboration Support	112	6%
Business to Business Contacts	192	10%
Training in other areas	18	1%
Advice in other areas	16	1%
Other	46	2%
Total	1910	100%

GRAPHIC 7: Needs of SMEs



However, during our assessment we also assessed the use of financial services. It is very interesting that 21% mentioned "Access to credit" as an important need for them, but only 13% had ever applied for a credit. The fact that less people actually apply for credit than document the need for it, indicates potential barriers, perceived or real, in regard to access to credit. It has been known that some enterprises would not even consider applying for loans in certain banks, because they felt they had no 'connections' in that particular bank.

TABLE 10
Application for Credit by Interviewed Enterprises

	No answer	No	Yes	Total
Entreprises	13	832	121	966
%	1%	86%	13%	100%
Respondents		832	121	953
%		87%	13%	100%

2.3. Significance of BDS in Prilep Market

2.3.1 Awareness, Use, Retention (AUR)

The awareness for BDS differs substantially from one service to another. Almost everybody knows about accounting services and legal services. 93% are using accounting services - according to Macedonian Law, every registered firm in Macedonia must do their accounting according to certain standards - 65% have used legal services, mostly in relation to the registration of their firms or to notify contracts with a solicitor. Also the existence of trade fairs are widely known (81%) and used (60%), mostly as visitors. The existence of computer services is also quite well known (67%) and used fairly often (22%), taking into account that that this is a relatively new service. This shows that services can be accepted quite quickly - if people see a benefit from the service. The real challenge, however, is bringing this type of service from awareness to usage. Business services in which donors have traditionally been involved in SME support programs, such as management training and advice, marketing training and advice, production training and advice and business planning training and advice, are not very widely known in Prilep. Only 38% of all interviewed enterprises have heard about production training and advice or business plan advice or training, 35% have knowledge of the existence of research services. Management training is known by 48% and 60% have heard about marketing services, which also includes advertising.

Only a very small percentage of enterprises have actually used one of the above-mentioned BDS. Only 4% have used business plan advice and training, 4% management advice and training, 5% production training and advice, 2% research services, and only 4% have participated as exhibitors at trade fairs. However, the retention rate of those who have tried out a service is high. 75% of those who have used a marketing service once have used it again. 68% of those having received business planning advice and training come back for services of the same kind. 71% of those who have participated in a trade fair as exhibitor, 73% of those having consumed a research service and 73% of the users of computer services continue to use those services. The retention rate for production training and advice (56%) and management training and advice (48%) is slightly lower. On the one hand this could be because the users of these services are satisfied with the quality and/or content of this kind of service. On the other hand, it might be because the management or production training or advice was sufficiently good or useful, so that the clients have acquired good enough knowledge to use their equipment, or manage the business well, and therefore do not need to come back for further training or advice. Taking those observations into consideration, it has to be stated that the market for BDS in Prilep Region is still very weak and demand side development measures are needed, in addition to the planned work with suppliers. This applies in particular to "traditional project-provided" services like business planning advice, management training, research services and trade fair participation. As soon as entrepreneurs have sampled such a service, many of the first time users come back for more, in particular in "retainable"[14] services such as marketing measures, business planning advice, computer services, research services and participation in trade fairs.

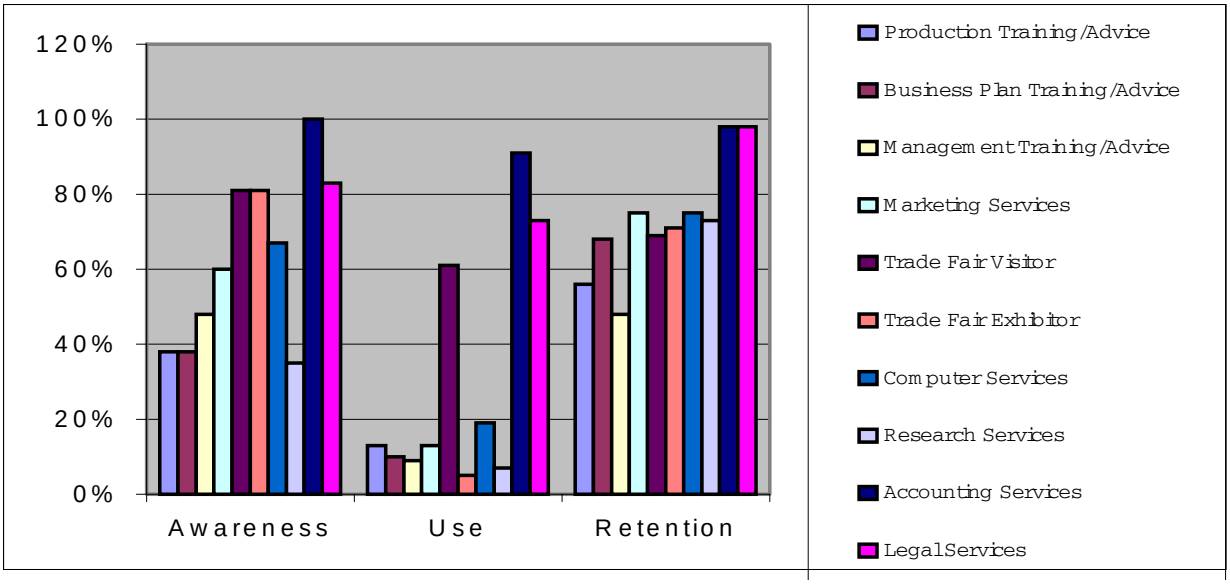
[14] "Retainable" Services are here defined as services, where retention of them makes sense.

TABLE 11
Awareness / Use / Retention of Services in Prilep Region

	Awareness		Use			Retention		
	Enter-prises	% of Total	Enter-prises	% of Total	% of Aware	Enter-prises	% of Total	% of Users
Production Training and Advice	371	38%	50	5%	13%	28	3%	56%
Business Plan Advice und Training	367	38%	37	4%	10%	25	3%	68%
Management Advice und Training	461	48%	40	4%	9%	19	2%	48%
Marketing Services	576	60%	73a)	8%	13%	55	6%	75%
Trade Fairs	787	81%	481b)	50%b)	61%b)	331b)	34%b)	69%b)
			42c)	4%c)	5%c)	30c)	3%c)	71%c)
Computer Services	649	67%	123	13%	19%	92	10%	75%
Research Services	337	35%	22	2%	7%	16	2%	73%
Accounting	NA	NA	881	91%	91%	862	89%	98%
Legal Services	NA	NA	585	61%	73%	575	60%	98%

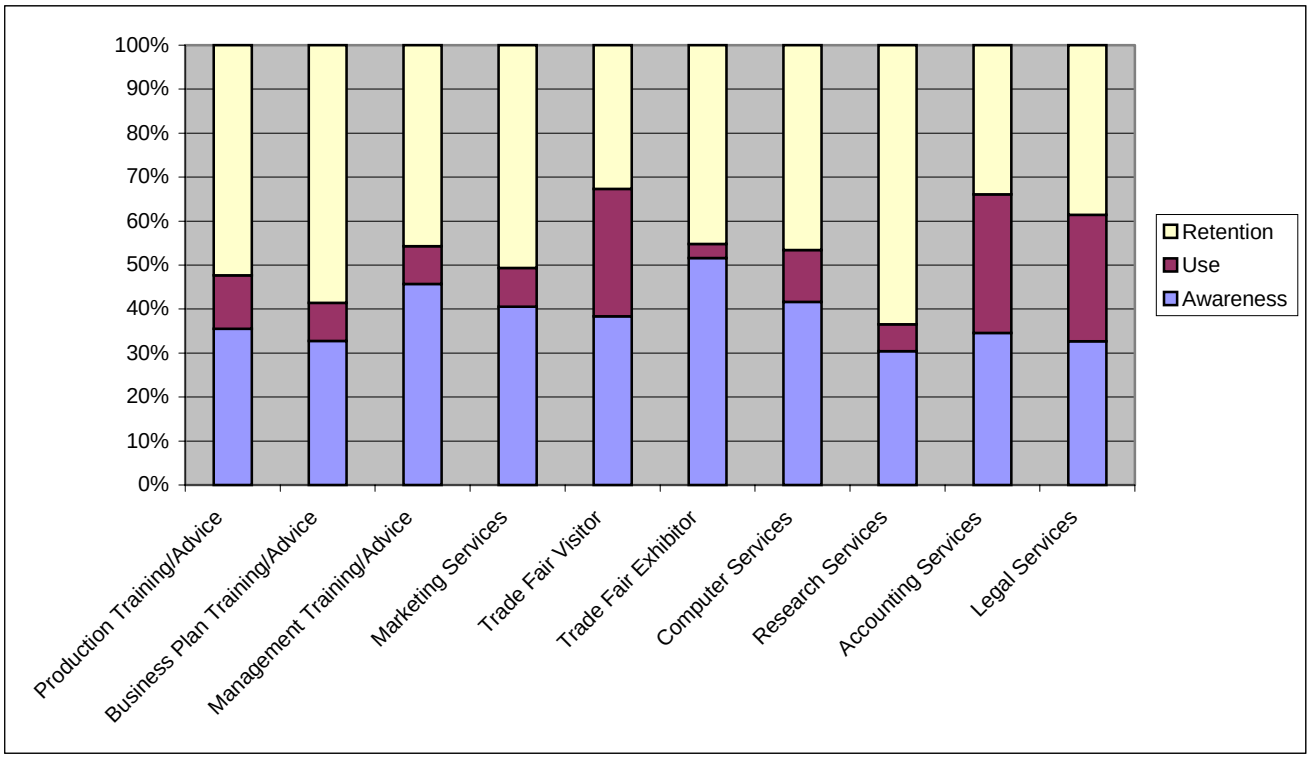
a) Advertisement and Advice/Training, b) Visitors, c) Participants

GRAPHIC 8: Awareness / Use / Retention (AUR)



Awareness: % of Total
Use: % of Awareness
Retention: % of Use

GRAPHIC 9: Awareness / Use / Retention by Service



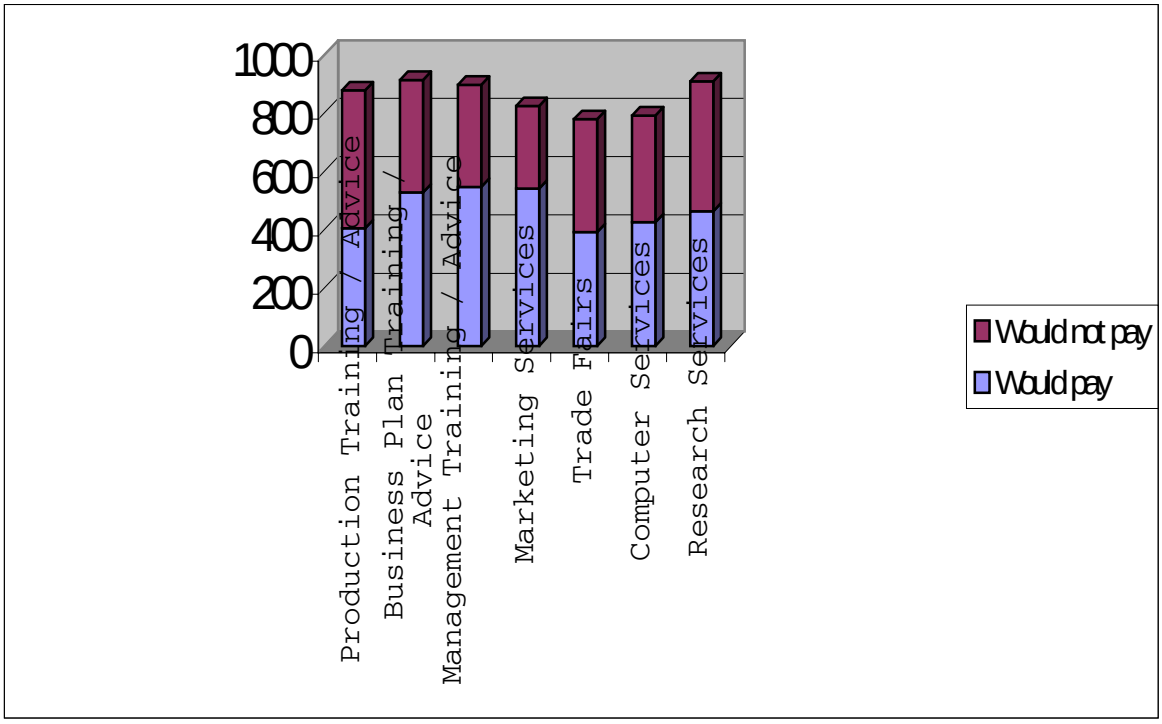
2.3.2 Willingness to pay for service

As an indicator for interest in BDS, the willingness to pay for the respective services was chosen. The fact that more than 40% of all interviewed enterprises declared that they were willing to pay indicates that there is a potential market for commercialised BDS in the Region of Prilep. Looking into the different BDS in detail it is striking that 57% of the enterprises, which have not used the service yet, would be willing to pay for management services, 56% for marketing services, 55% for business planning advice and services, and 48% for research services, although less than 5% have been using any of the above mentioned services. This seems to express a need for those kinds of services, of which entrepreneurs in Prilep are not really aware. Based on this information, there seems to be a very good market for those services, if they would be delivered locally and as good quality. Only 42% were willing to pay for production training and advice, but one has to take into consideration that this kind of training is often offered from firms, which provide equipment as embedded services, which means that the cost for the training is included in the price of the equipment. Regarding trade fairs, only 40% are willing to pay, but there might have been a misunderstanding between participant and visitor of trade fairs. Furthermore, many look upon trade fairs as almost a “public good”, or as promotion opportunity to be “granted”.

TABLE 12
Willingness to Pay for BDS by Interviewed Enterprises

	Would pay		Would not pay		No answer	
	Enterpr.	%	Enterpr.	%	Enterpr.	%
Production Training and Advice	404	42%	474	49%	88	9%
Business Plan Advice and Training	527	55%	387	40%	52	5%
Management Advice and Training	547	57%	351	36%	68	7%
Marketing Services	541	56%	284	29%	141	15%
Trade Fairs	391	40%	388	40%	187	19%
Computer Services	425	44%	367	38%	174	18%
Research Services	463	48%	446	46%	57	6%

GRAPHIC 10: Willingness to Pay for Services

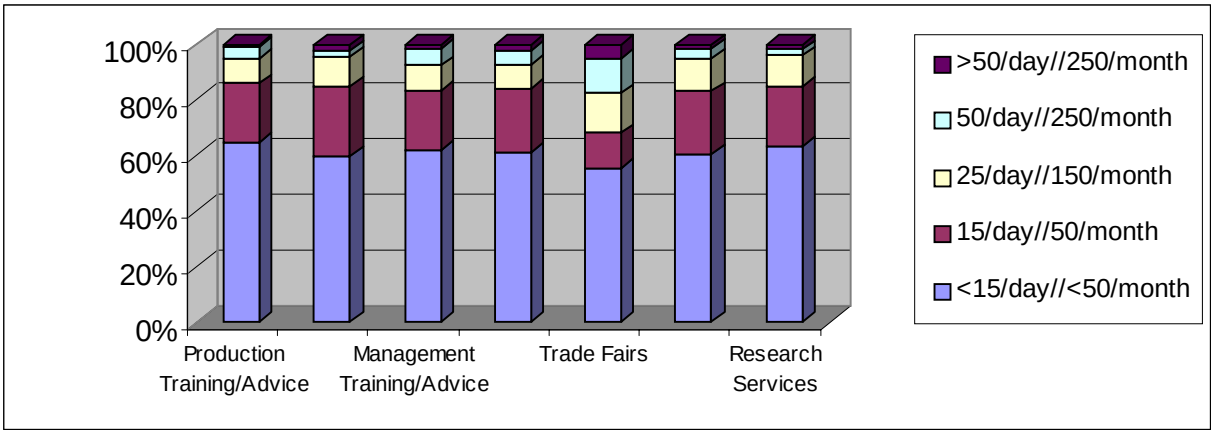


When asked about the amount of money entrepreneurs are willing to pay, most of the interviewed businesses only wanted to spend a small amount. This might differ if people are more aware of the benefits they would be getting from BDS. For the time being, the biggest market for BDS is within the low-cost segment of less than 50 € / month or 15 € / day.

TABLE 13
Amount Reported to be Spent by Interviewed Entrepreneurs[15]

€	<15/day <50/month		15/day 50/month		25/day 150/month		50/day 250/month		>50/day >250/month		Total
	Enter.	%	Enter.	%	Enter.	%	Enter.	%	Enter.	%	Enter.
Production Training and Advice	261	65%	86	21%	36	9%	18	4%	3	1%	404
Business Plan Advice and Training	314	60%	134	25%	55	10%	13	2%	11	2%	527
Management Advice and Training	339	62%	116	21%	50	9%	33	6%	9	2%	547
Marketing Services	332	61%	123	23%	46	9%	29	5%	11	2%	541
Trade Fairs	217	55%	49	13%	56	14%	48	12%	21	5%	391
Computer Services	257	60%	96	23%	51	12%	14	3%	7	2%	425
Research Services	292	63%	101	22%	51	11%	10	2%	9	2%	463

GRAPHIC 11: Willingness to Pay – Amounts in €



However, taking only the respondents into consideration (those who are willing to pay) about 65% are prepared to pay a little, but 35% are willing to pay more. About 2% are reported to be willing to pay more than 50 €/day or 250 €/month for BDS. For the local service providers for PREDA this means that the biggest market share can be found in the low-income segment of the market, but this share is quite substantial and numerous, i.e. 261 potential clients in Production Training and Advice out of 966 interviewed enterprises.

2.3.3 Suppliers of Services

Looking at the suppliers of BDS, many services are often received from private persons or friends, from firms and companies and/or from professionals. However, this depends very much on the type of service. For example, research services (42%) and computer services (42%) are received predominantly from private persons or friends, while marketing services are mostly received from a firm (42%). Production training and advice, business planning training and advice, management training and advice is received from friends, but also more or less to the same extent from firms and professionals. National institutions play a significant role in the field of management training and advice (24%), production training and advice (14%) and in business planning advice and training (18%). International agencies are approached by firms for research services (14%), production training and advice (9%), management training and advice (9%) and business plan advice and training (8%).

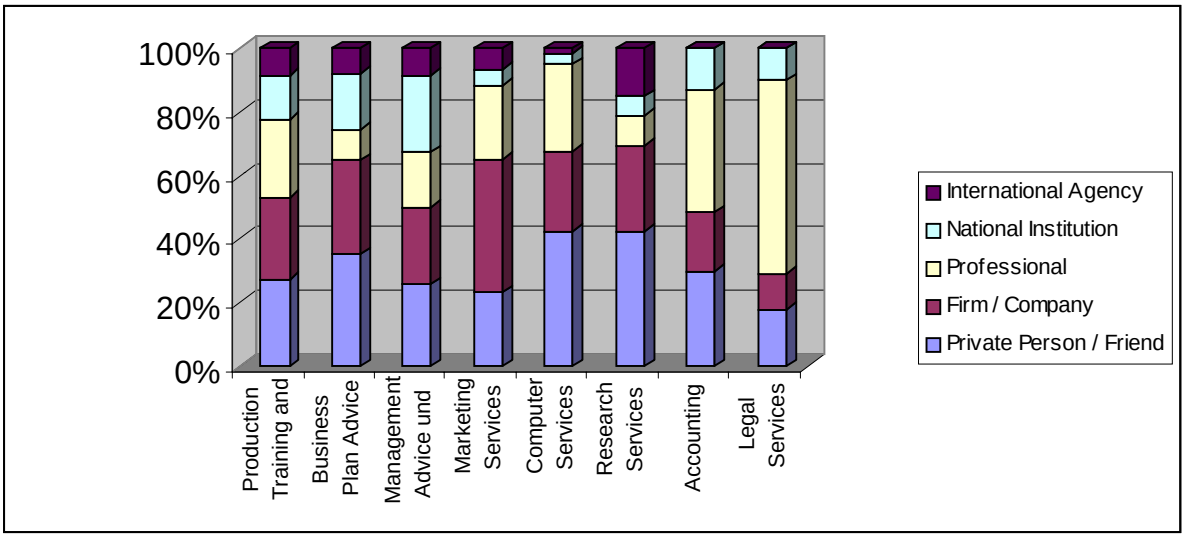
[15] Only those answers were considered valid, which reported a general willingness to pay for this service. The overall total (100%) refers therefore only to the number of those willing to pay for a service and not to the total of the sample.

TABLE 14
Suppliers of Services to Interviewed Service Users[16]

	Private Person / Friend		Firm / Company		Professional		National Institution		International Agency	
	Enter.	%	Enter.	%	Enter.	%	Enter.	%	Enter.	%
Production Training and Advice	22	27%	21	26%	20	25%	11	14%	7	9%
Business Plan Advice und Training	18	35%	15	29%	5	10%	9	18%	4	8%
Management Advice und Training	15	26%	14	24%	10	17%	14	24%	5	9%
Marketing Services	14	23%	25	42%	14	23%	3	5%	4	7%
Trade Fairs	NA		NA		NA		NA		NA	
Computer Services	86	42%	51	25%	56	28%	7	3%	3	1%
Research Services	14	42%	9	27%	3	9%	2	6%	5	15%
Accounting	268	30%	164	18%	348	39%	114a)	13%		
Legal Services	112	18%	69	11%	376	61%	62b)	10%		

a) In-House Accountant, b) In-House Lawyer

GRAPHIC 12: Suppliers of Services



2.3.4 Information Channels for Services

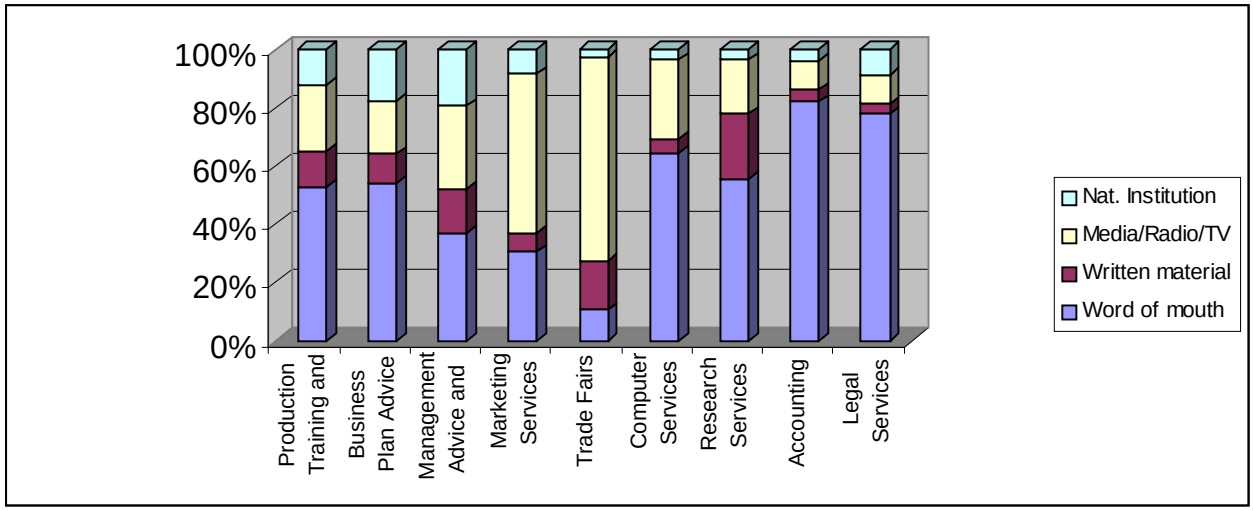
The information channels differ very much between the different services. The information about computer training, research services, production training and advice and business planning advice and training are usually received via word-of-mouth 'advertising', while the information about trade fairs and marketing services are received through the media. Institutions play a major role only in the fields of management training and advice (20%), business planning advice and training (18%) and production training and advice (12%). The word-of-mouth communication seems to be the most important in Prilep, but the media (radio and TV) should not be under-estimated with regards to information regarding business services. Flyers and other written material could be useful, but its outreach could be limited.

[16] Only the answers of those having used the service at least once were taken into consideration for this table.

TABLE 17
Information Channels of Interviewed Entrepreneurs for Services[17]

	Word of mouth		Flyer / Leaflet / other written material		Media / Radio / TV / Internet		Institution / NGO / Associations	
	Enter.	%	Enter.	%	Enter.	%	Enter	%
Production Training and Advice	39	53%	9	12%	17	23%	9	12%
Business Plan Advice and Training	27	54%	5	10%	9	18%	9	18%
Management Advice and Training	17	37%	7	15%	13	28%	9	20%
Marketing Services	29	31%	6	6%	52	55%	8	8%
Trade Fairs	34	11%	54	17%	226	70%	8	2%
Computer Services	119	64%	9	5%	50	27%	7	4%
Research Services	15	56%	6	22%	5	19%	1	4%
Accounting	614	82%	31	4%	74	10%	31	4%
Legal Services	436	78%	19	3%	55	10%	50	9%

GRAPHIC 13: Sources of Information for Service



2.3.5 Reason for "Non-Use"

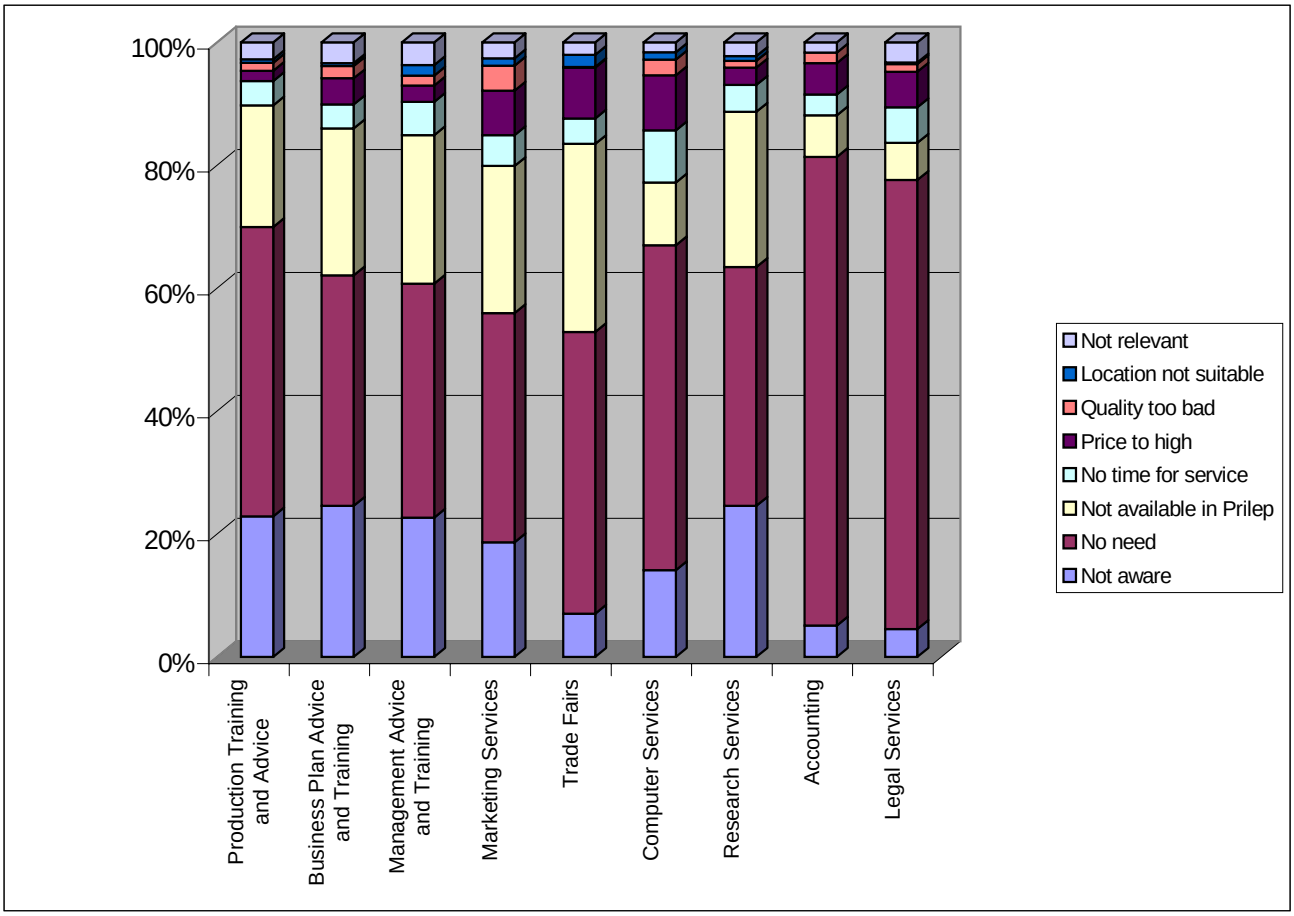
According to the survey, the reasons for not using BDS in Prilep are either that enterprises are not aware of the services we were asking about - at all, or as available in Prilep - or that they do not see any need for such kind of services. Price, quality and location of services seem to be more or less irrelevant for the firms for not using the service. The most important issue for PREDA is that many enterprises stated that they have no need for services. This might have two reasons: either they have a business, where there is really no need for service, for example a trade company most likely does not need production training, or a small grocery shop will most likely not be interested in exhibiting at an international fair, or the entrepreneurs in Prilep are not yet aware of the benefits to be gained from business development services. This would be a major area for PREDA to focus on in future, but only if it can be assured that there are providers for the services, so that a potential demand can be met. Regarding the fact that people are not aware of a service or think that a service is not available in Prilep, PREDA should support suppliers to make their services known within the business community in Prilep.

[17] Only the answers of those having used the service at least once were taken into consideration for this table.

TABLE 18
Reasons for Not Using BDS by Interviewed Enterprises

	Not aware		No need		Not available in Prilep		No time for service		Price to high		Quality too bad		Location not suitable		Not relevant	
	E.	%	E.	%	E.	%	E.	%	E.	%	E.	%	E.	%	E.	%
Production Training and Advice	266	23%	547	47%	230	20%	46	4%	19	2%	15	1%	7	1%	32	3%
Business Plan Advice and Training	319	25%	486	37%	310	24%	51	4%	55	4%	26	2%	6	0%	44	3%
Management Advice and Training	283	23%	476	38%	302	24%	68	5%	33	3%	20	2%	22	2%	46	4%
Marketing Services	201	19%	402	37%	258	24%	54	5%	78	7%	44	4%	13	1%	28	3%
Trade Fairs	63	7%	410	46%	274	31%	37	4%	74	8%	1	0%	18	2%	18	2%
Computer Services	140	14%	523	53%	101	10%	84	8%	89	9%	25	3%	12	1%	16	2%
Research Services	316	25%	499	39%	325	25%	56	4%	36	3%	14	1%	10	1%	29	2%
Accounting	3	5%	45	76%	4	7%	2	3%	3	5%	1	2%	0	0%	1	2%
Legal Services	18	5%	290	73%	24	6%	23	6%	23	6%	5	1%	1	0%	13	3%

GRAPHIC 14: Reasons for Non-Use of Service



3. SYNTHESIS OF FINDINGS

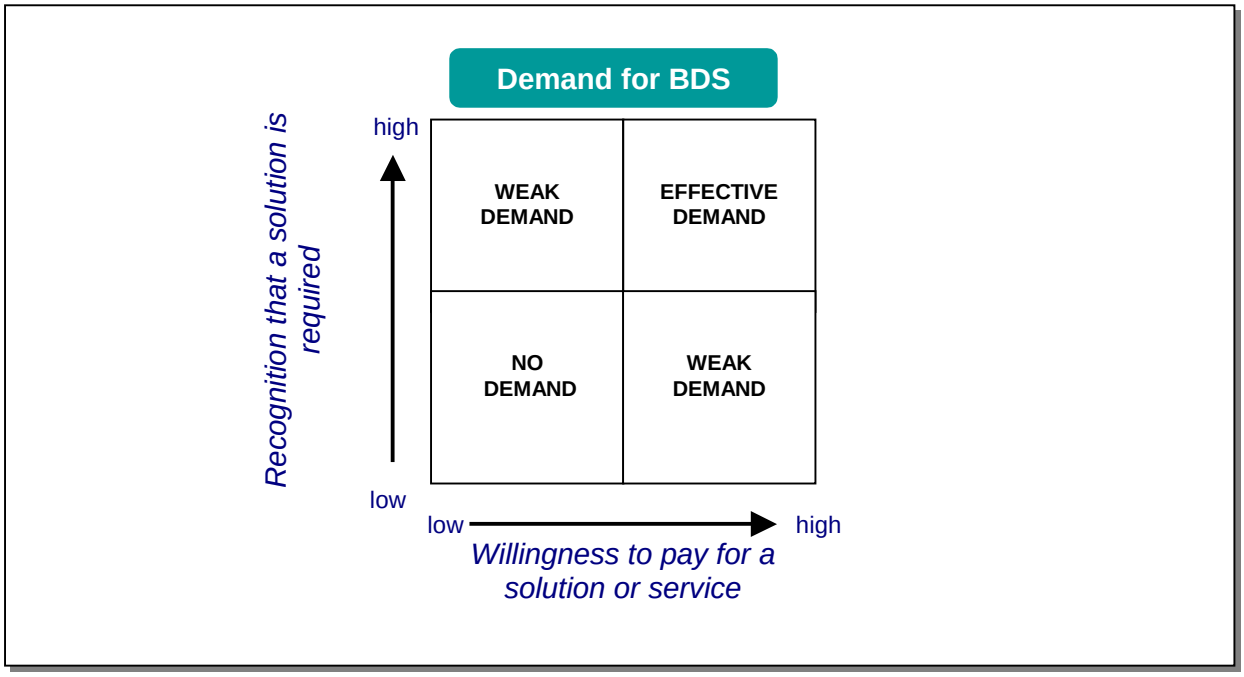
3.1. Conclusions

The practical objective of this market assessment was to understand the specific dynamics of the BDS market in the Prilep region with particular focus on the demand situation in order to design appropriate intervention measures. Assessing their value against different frame-works for the BDS approach elaborated has made the following synthesis of the findings by Rob Hitchins[18].

3.1.1 Profiling demand

The awareness and usage for BDS was shown to be relatively low for most of the services, although certain services are known by most respondents (such as accountants being re-quired by law, fairs being popular events). This implies that PREDA is presently working in a generally weak market with low demand for certain services. About 40% of the respondents, however, have expressed a willingness to pay – a relatively low price - for services if they were available in Prilep. This indicates that the recognition for the need for services is small, but there is a general willingness to pay for services.

Figure 1: Profiling demand for BDS[19]



3.1.2 Profiling supply

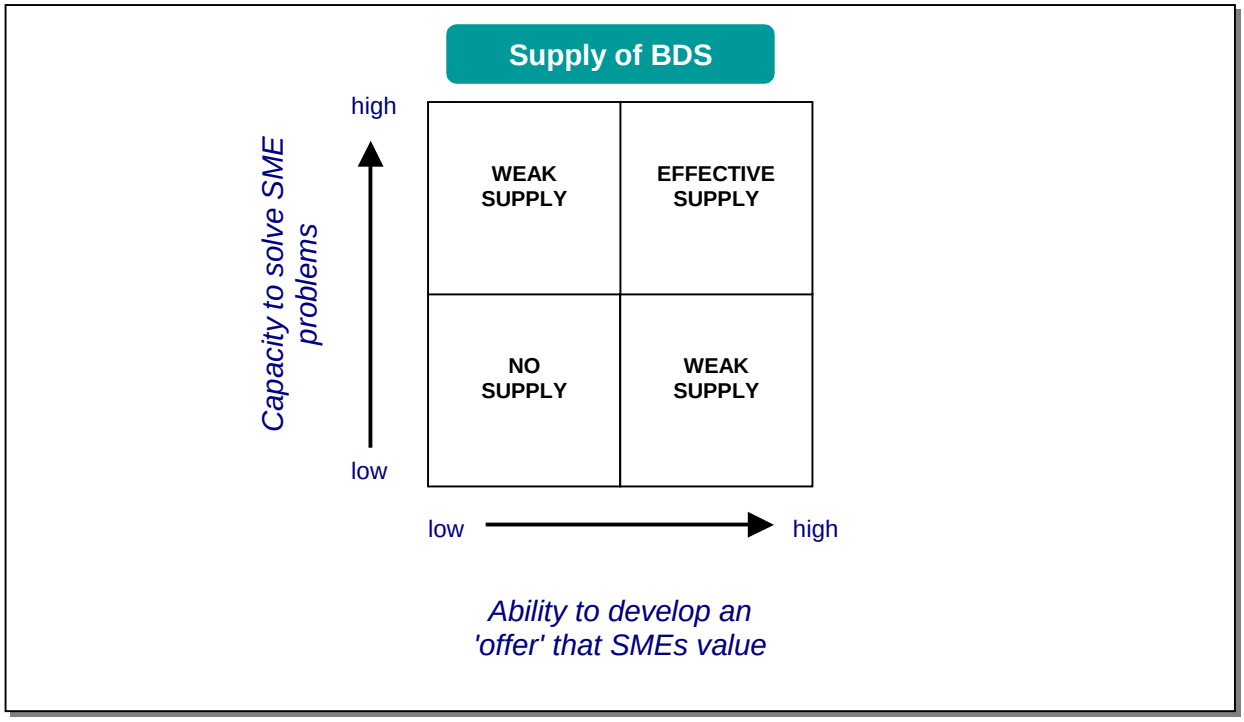
Concerning the supply situation, its profiling has not been the predominant objective of the market assessment. However, the usage of BDS reported implies the existence of some supply, but the supply is still weak. The constraints seem to concern both suppliers' capacity to solve business problems as well as their ability to develop an offer corresponding to the demand of the SME[20] - including effective market communications.

[18] Hitchins, R., "Developing markets for Business Development Services: Designing and Implementing More Ef-fective Interventions", SED Issue paper No 5, Berne, Switzerland, June 2000.

[19] R. Hitchins, op. cit. p. 17.

[20] For further reading see R. Hitchins, op. Cit., pp.18.

Figure 7: Profiling BDS supply[21]



3.1.3 Linkage elements

Based on 3.1.1 and 3.1.2 it seems to be justified to assume that many micro and small enterprises would use BDS to improve their performance, if they were aware of their existence. Lack of information was the most frequently mentioned reason for not using the services. Thus, access to information on what services are available becomes crucial for enterprises.

3.1.4 Overall assessment

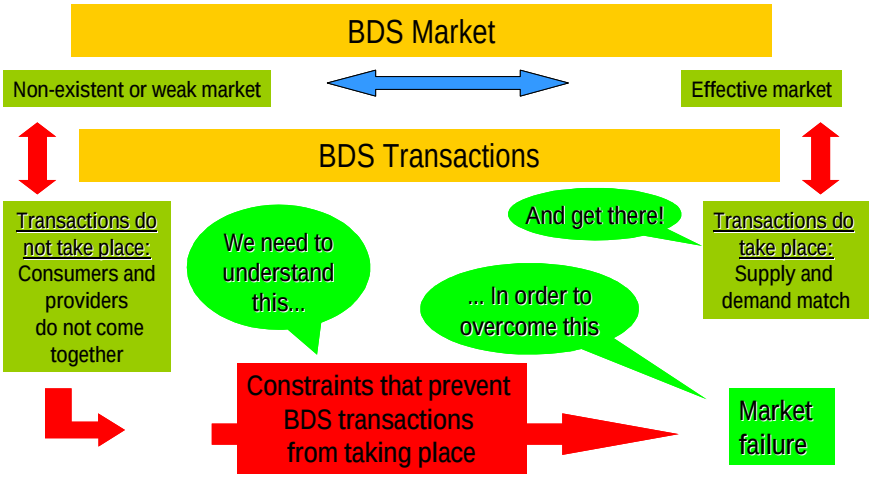


Figure Source: Developing Markets for Business Development Services, SED issue paper No 5, June 2000

The overall diagnosis of the existing constraints regarding the Prilep region BDS market has led to the following conclusions:

[21] R. Hitchins, op. Cit., p. 18.

The demand for BDS in Prilep is still quite low. Many entrepreneurs do not yet recognise the benefits of such services, though they are stating a willingness to pay. Since the retention rate of BDS is reported to be very promising, market development interventions seem to be reasonable. Due to the fact that most entrepreneurs are only willing to pay low prices, the project should stimulate partner organisations to address market segments of low cost BDS.

Supply can also be qualified as relatively weak. The service providers have a basic capacity to solve business problems, but their ability to package services into an adapted and demand-oriented offer is relatively low. By supporting suppliers to increase the outreach and quality of their services and applying specific demand creation measures, the supply should become more effective and correspondent to the demands.

Taking this into consideration, there should be good potential for market development, after overcoming the awareness constraint existing at enterprise level. A high demand for services is expected to develop, if the high retention rate for services can be verified in practice.

3.2. Implications for the project and PREDA

3.2.1 Objective of interventions

PREDA aims through its interventions to leverage existing BDS activities in the Region of Prilep by contributing to the development of effective supply and demand through the facilitation of existing and new initiatives.

3.2.2 Fine-tuning the strategy

Choosing the area of market intervention

The market assessment findings have shown that intervening on the supply side only will not be sufficient to cause significant changes on the currently weak market. PREDA should design a mix of supply and demand side measures matching the identified constraints.

Choosing the instruments of intervention

Given the need to address failures on both sides of the market, different instruments will be needed:

- On the demand side, the lack of awareness/information is one of the major constraints, which prevent BDS transactions taking place on the market at present. This refers not only to the existing offer of BDS in the local market, but also to the awareness of benefits from BDS for a better business performance. As shown by the findings, existing providers are generally not in a position to create this awareness. This should be therefore a focus of intervention for PREDA. Furthermore, PREDA should put emphasis on introducing effective marketing tools to local service providers to make their services known and hereby increase their usage. PREDA, furthermore, may have to consider introducing additional specific mechanisms to promote demand for services (for example, time-limited subsidies, such as vouchers).
- On the supply side, technical assistance to service providers, financial support in the form of incentives as well as product development promotion are all reasonable instruments. Concerning the invasiveness of its support, PREDA will also adhere, in the future, to the guiding principle of minimising market distortions when designing measures on the concrete co-operation level and concentrate on the pre- and post-delivery stages of suppliers' business activities. PREDA is planning to support also (potential) providers of those services, which are not yet available on the market, but for which there is a demand expressed or assessed, considering the low-price imperative. This might influence quality and / or duration of services.

Focusing services

- In terms of specific services, the need for access to new clients and markets seems to be of major importance for most of the respondents, and marketing service development for service providers should be considered a top priority intervention for PREDA. The importance of marketing is also emphasised by the promising retention rate.
- Another important service identified by the study is the delivery of good general management knowledge ("best practices") in particular for those firms currently in difficulties due to poor business performance.
- The interest for trade fairs is quite strong. A trade fair is a type of event that is not necessarily regarded as a service, but more as a forum for networking with peers and potential clients, as well as an excellent opportunity for marketing. Service providers could concentrate on the organisation of trade fairs.
- The market for accounting services and legal services is working very well already, being more or less classified as obligatory by the state. However, there may be a niche regarding potential needs for updated services, but caution should be paid to avoid market distortion.

3.2.3 Aspects of strategy implementation

Major aspects regarding the implementation of the strategy, based also on the cooperation agreements with local service providers, are as follows:

a. Support to service providers to overcome their weaknesses:

- By delivering advice and consultancy on specific aspects in one or more important business area(s) to service providers, addressing needs concerning the internal performance and / or the external environment (e.g. management, marketing);
- By delivering seminars and workshops for all service providers co-operating with PREDA on a generally relevant business topic addressing performance capabilities (e.g. presentation skills or marketing knowledge);
- To provide information on selected topics of interest for the business community.

b. Influence on the local society to create an enabling general business environment:

- By delivering consultancy for the elaboration of local business regulations or demand creation measures (e.g. support to the municipality in issuing business legislation or elaboration of advertisements to promote the general use of BDS);
- By delivering seminars and workshops for local authorities on economic development topics (e.g. importance of BDS for the local development);
- To motivate the local business community to use BDS (for example, introducing vouchers to stimulate the use of services offered by PREDA and its partners).
- To elaborate studies and provide information on selected topics of interest for businesses regarding the economic development in the local community.

3.2.4 Assumptions and Risks

Several assumptions form the basis for the above conclusions and recommendations and imply naturally certain risks:

- The assumption of the potential capacity and ability of local service providers to provide services in good quality is crucial for the approach chosen by PREDA to promote small business development in the region of Prilep.

- The recommendation to focus also on demand side promotion - one major finding of the market assessment – assumes the readiness of end-consumer SMEs and local authorities to accept that BDS have benefits to small businesses. Whether or not, and how fast, PREDA's activities will show results depends, however, on many other factors located outside the project's immediate sphere of influence (mostly with regard to the macroeconomic development).
- The assumption that consumers are willing to pay for services, as stated in the assessment by about 40% of the respondents, has to be proven in practice. If this were not the case it would represent a major constraint for effective demand creation.
- The impact of contra-productive interference of other donors' activities represents a potential source of disturbance for the project, as quite different approaches used may increase market distortion.
- At all time, the project must be aware of the high level of education of business owners in Prilep. This should be taken into consideration by the local service providers, but also by PREDA for awareness.

BIBLIOGRAPHY AND FURTHER READING

Committee of Donor Agencies for Small Enterprise Development, "Business Development Services fro Small Enterprises: Guiding Principles for Donor Intervention, 2001 Edition", February 2001.

Hitchins, R., “Developing markets for Business Development Services”, Designing and Implementing More Effective Interventions”, SED Issue paper No 5, Berne, Switzerland, June 2000.

McKee, K., "What Strategy for micro-enterprises? The experiences of the Micro Enterprise Unit of USIAD”, SCD-SED Workshop “Current Trends in Pro-Poor Small and Micro-Enterprise Development”, Münchenwiler, Switzerland, January 2002.

McVay, M., and Miehlbradt, A., "Emerging Good Practices in Business Development Services - BDS Seminar Reader", for the First Annual Seminar, International Training Centre, International Labour Organisation, Turin, Italy, September 2000.

Miehlbradt, A., "Developing Commercial Markets for BDS: Can this Give the Scale and Impact We Need? - BDS Seminar Reader", for the Second Annual Seminar, International Training Centre, International Labour Organisation, Turin, Italy, September 2001.

Miehlbradt, A.," Guide to Market Assessment for BDS Program Design A FIT Manual", International Labour Organisation, Geneva, Switzerland, 2001.

Miehlbradt, A., with contributions from R.T. Chua, "Technical Note: Applying Marketing Research to BDS Market Development", Development Alternatives Inc. under the USAID Microenterprise Best Practices Project, 2000.

Roberto, N., "User-Friendly Marketing Research" Life Cycle Press Asia, Manila, Philippines, 1996.

Tomecko, J., "The Application of Market Led Tools in the Design of BDS Interventions or Influencing the Price of the Soup", GTZ/IEDI, Nepal, for the Committee of Donor Agencies for Small Enterprise Development International Conference in Hanoi, Vietnam, April 2000.