2016 Top Markets Report Franchising
Country Case Study

Indonesia

Indonesia has strong long-term potential for franchise businesses. The local industry started with three franchises in the 1970s and grew to some 35 franchises with 308 outlets by the early 1990s. The franchise industry began to gain widespread popularity in the early 1990s when many well-known American franchises arrived in Indonesia.

Overall Rank
4

As Southeast Asia's largest economy, there are more than 460 foreign franchises, 540 local franchises and 1,400 non-franchised businesses operating in Indonesia covering a wide range of franchise sectors. Until recently, estimated future growth in the franchise sector was considered to be around 8 percent per year for local franchises and 14 percent per year for foreign franchises.

Local investors are very receptive to U.S. franchises. Indonesia's rising disposable incomes and large young population make it an attractive opportunity. Although the Indonesian franchise market is very competitive, the high demand for U.S. franchises, especially in the food and beverage sector, presents significant opportunities for U.S. franchisors. The demand for cafes, restaurants and bars continues to increase in the major Indonesian cities. Indonesia's growing middle class is earning higher incomes, and middle class communities are seeking food and after-hours venues for socializing. U.S. franchises are generally well received by Indonesian consumers.

In particular, there are two regulations that are of interest to U.S. firms looking to establish or expand a franchise in Indonesia. Ministry of Trade (MOT) Regulations No. 57 and 58 define the requirements and procedures for a franchisor to obtain a STPW (Surat Tanda Pendaftaran Waralaba or Franchise Registration Certificate). Before entering an agreement with a franchisee, a franchisor must first submit a copy of its draft master franchise agreement. After the draft master franchise agreement has been reviewed by the Ministry of Trade, the franchisor may register its franchise prospectus. These regulations also prohibit franchisors from appointing franchisees with whom they already have a relationship in order to provide opportunities for new franchisees and to prevent one group from gaining a monopoly. In the event a franchise agreement is terminated unilaterally by the franchisor before the expiration of the agreement term, the franchisor cannot appoint a new franchisee for the same area until both parties reach an agreement or until there is a legally binding court verdict.
Under Regulations No. 57 and 58, franchisors and franchisees may only engage in business activities as specified in their business licenses. The regulations require franchises to use local components for at least 80 percent of their raw materials, business equipment and merchandise.

In certain cases, the Ministry of Trade may issue a permit to a company to use domestically-produced goods and/or services equating to less than 80 percent of the raw materials, business equipment and merchandise based upon a recommendation by the ministry's appointed "assessment team." The regulation also states that franchisors should select local small and medium-sized businesses as franchisees or suppliers if they fulfill the requirements established by the franchisors. The regulation limits the number of company-owned outlets operated by franchisors to 150 outlets for "modern stores," such as minimarkets, supermarkets, department stores, hypermarkets and wholesalers, and 250 outlets for restaurants and cafes. Some U.S. brands exceeded this limit prior to the regulation's inception, and it is yet to be seen whether MOT will exempt others which are quickly approaching the regulatory cap.

A variety of other regulations are of concern to many U.S. restaurant franchisors, including Hallal certification requirements, restrictions on the import of beef and new reporting requirements for wood and paper products that intend to compel the use of domestic suppliers for items such as paper cups and napkins.

Indonesia

Competitiveness Index	Score (1-7)
Government/Regulatory	4.0
Labor Force	4.1
Infrastructure	4.4
Demand/Business Factors	4.6
Industry Interest*	6.2
	4.66 Total

World Economic Forum
International Franchise Association*

Economic Statistics	
Population	254.5 million
GDP	$888.5 billion
GNI, per capita (PPP)	$10,190
Income Level	Lower Middle
Unemployment	6.2%
Inflation	6.4%

World Bank (2014)

World Economic Forum's Global Competitiveness Index (GCI):[1]

With a government budget deficit of only 2 percent of GDP, low debt levels and a high savings rate, Indonesia's fiscal economy is sound. As an energy producing economy, Indonesia's economic prospects are tied to the price of oil, which has been on a downward trend lately.

GDP growth slowed considerably during 2015 and fell far below expectations. A significant cabinet shuffle by the current president, more than 10 economic stimulus packages that target foreign investment and the onerous regulatory regimes of the country have both inspired optimism and generated instability. Many believe the nation's largest city, Jakarta, may be quickly becoming saturated by foreign franchise brands, though many of Indonesia's secondary markets remain virtually untapped.

Government/Regulatory

Indonesia continues to receive low ratings on its government and regulatory section of the competitiveness index as a result of placing restrictive and burdensome regulations on foreign firms trying to enter its market, including franchise firms. Though improvements are underway, corruption is still a problem for U.S. firms conducting business in Indonesia. Indonesia's legal system and transparency are also rated low. The World Bank has ranked Indonesia 109th of 189 countries on its "Ease of Doing Business" report. In response, President Jokowi has asked his cabinet to seek reforms that will elevate Indonesia to 40th.

Labor Force

Indonesia's labor force efficiency retains low scores for attracting and retaining its workforce. Other issues of concern are the persisting rigidities in wage setting and hiring and firing procedures.

Infrastructure

With its roads, rail, ports and electricity systems remaining inadequate, Indonesia's Infrastructure ranking fell again this year. These infrastructure failings are causes of concern for U.S. firms when considering Indonesia as a market to pursue.

Demand/Business Factors

With its rising middle class and the largest economy in the region, Indonesia poses great opportunities for U.S. firms. Financing opportunities in Indonesia are lacking. Local content requirements are a problem for the U.S. franchise firms.

Industry Interest

Of the top 12 markets identified by the members of the International Franchise Association as markets most valuable to them for international expansion and to have profiled in the Top Markets Report, Indonesia was ranked seventh.

Resources

U.S. Commercial Service - Indonesia
http://www.export.gov/indonesia/

Country Commercial Guide - Indonesia
http://export.gov/ccg/indonesia090815.asp

Indonesia Franchising
http://apps.export.gov/article?id=Indonesia-franchising-industry

Industry Expert's Take:

There is good potential for U.S. brands with huge middle class growth. Food and beverage brands are the top focus. Some regulatory challenges do exist for franchise firms.

William Edwards, Edwards Global Services, Inc., December 16, 2015

[1] World Economic Forum, The Global Competitiveness Report 2015-2016