



Franchising in Indonesia

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Summary

Indonesia offers excellent market potential for franchising, a business concept that began to gain widespread popularity in the country in the early 1990s, when many well-known American franchise brands entered the market. Presently, there are approximately 278 foreign and 92 local franchises operating in Indonesia covering a wide range of franchise sectors. American franchises dominate the industry, accounting for approximately 41 percent of the entire market. The most promising franchise sector is Food and Beverages.

Market Demand

Indonesia is the third fastest growing economy in Asia and the largest economy in Southeast Asia. In 2010, GDP growth levels reached 6.1 percent, up from 4.5 percent in 2009. Many economists predict GDP growth to reach 8 percent in 2011.

Indonesia is the fourth most populous country in the world. Of its 237 million people, roughly 53 percent is under the age of 34. Upper and middle-income consumers represent about 10 percent of the population.

Demand for foreign franchises has been very strong for the past half decade. The country has recorded impressive consumer retail spending growth, mirrored by tremendous shopping center growth in large cities. Many large business groups have diversified their operations to include franchising. These companies are mainly interested in well-established franchises, and U.S. franchisors are usually preferred.

The demand for cafes, restaurants and bars continues to increase in the main Indonesian cities. Indonesia's growing middle class is earning higher incomes, and middle class communities are seeking food and socializing venues for after work hours. The annual growth rate of new cafes is about 5 percent.

Market Data

Below are unofficial estimates that illustrate the growth of the Indonesian franchise sector.

Number of Franchise Business	2009	2010	2011 (Projection)	2012 (Projection)
Total	352	370	390	410
Local Franchises	87	92	97	102
Foreign Franchises	265	278	293	308
U.S. Franchises	146	153	160	168

Best Prospects

Although the Indonesian franchise market is very competitive, the high demand for U.S. franchises, especially in the food and beverage sector, presents significant commercial opportunities for U.S. franchisors. U.S. franchise brands have a good image and are generally well received by Indonesian consumers. In addition to product pricing, U.S. franchisors must consider adapting to local tastes to guarantee success in the Indonesian market.

Most Indonesian franchise seekers are interested in well-established and innovative food and beverage business concepts such as fine-dining restaurants, fast food and coffee shop chains, ice cream shops, and others. Other best prospects include education, especially children's education, and retail, or specialty convenience stores.

Key Suppliers

Among foreign franchises, American franchisors dominate the market with over 50 percent market share in terms of the number of franchises. In 2010, Asian franchises have made a strong showing in Indonesia including from Singapore, Thailand, Malaysia and Japan. Other competitors come from Australia, France, the United Kingdom, and other European countries.

Some of the most successful franchise businesses include McDonald's, KFC, Pizza Hut, Dunkin' Donuts, Starbucks, Coffee Bean and Tea Leaf, Burger King, A&W Restaurants, Wendy's, Chili's, Haagen-Dazs Ice Cream, Baskin Robbins, Hard Rock Café, Direct English, English First, Circle K, Seven Eleven (7-11), Athlete's Foot, Body Shop, Century 21, Ray White, ERA, Coldwell Banker, L.J. Hooker, Martinizing, 5A Sec, and others.

Prospective Buyers

Numerous potential Indonesian franchises visit local franchise exhibitions and the Global Franchising and Licensing Expo in Singapore every year. These potential franchisees come from various business backgrounds, not necessarily from existing franchise holders.

Market Entry

Government Regulations: Franchising is regulated under the PP no. 42 of 2007 and the Ministry of Trade Decree No. 31/M-DAG/PER/8/2008.

In Indonesia, every franchise business is obligated to obtain a franchise registration certificate, namely the STPUW (Surat Tanda Pendaftaran Usaha Waralaba or Franchise Business Registration Certificate) from the Ministry of Trade. The registration, which is to be renewed every five years, should be made within 30 days after the date of the franchise agreement. The regulation further stipulates that priority should be given to the use of domestic goods and/or products as long as they meet the required quality standards.

Market Issues & Obstacles

There have been many cases in which franchisees are not so familiar with franchise concepts. In some of the worst cases, franchisees do not realize that there is still a lot of work to be done after they are licensed. Less serious problems involve franchisees not knowing how to use franchise concepts to effectively distribute goods and provide services. There have also been reported complaints about franchisees not being able to take the interests of all parties into consideration when problems arise.

Trademark Protection: Trademark disputes do occur. However, there is fairly strong trademark protection for companies in Indonesia and a foreign franchisor must have a strong franchisee to look after its interests. Over the past years, Indonesia's trademark law has been greatly improved. A foreign company can directly register its trademark without going through an agent, and the Indonesian trademark office maintains a list of "well-known foreign trademarks." Any attempt to register a "well-known foreign trademark" without the written permission of the trademark owner will be rejected.

Taxes: The Government of Indonesia (GOI) requires that a withholding tax be paid along with the royalty payable by a franchisee to its franchisor (PPH article 26). The rate of the withholding tax is subject to whether the country where the franchisor resides has a tax avoidance arrangement with Indonesia. The GOI withholds 20% of the royalty paid by a franchisee if the franchisor's country does not have a double taxation arrangement with Indonesia. Since the U.S. has a tax treaty with Indonesia, the withholding tax rate is variable depending upon the arrangement itself. In addition, there is another tax, namely the Value Added Tax (VAT), of 10 percent that is paid by a franchisee. Once this tax is paid, it can be credited back to the payee's account.

Resources & Contacts

The Indonesian Franchise Association (AFI)
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Jakarta 12150
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For More Information

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