

Expanding Markets--Franchising in Viet Nam and Indonesia

Viet Nam and Indonesia offer U.S. franchises potential new markets.

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This December, the International Franchise Association, *Franchise Times* magazine and the U.S. Commercial Service are sponsoring a Franchise Trade Mission to Indonesia and Viet Nam. This article looks at these two rapidly growing countries, their potential and challenges for U.S. franchises today.

At a time when the United States is experiencing annual Gross Domestic Product growth rates of 1 percent to 1.3 percent, Indonesia and Viet Nam will see growth this year of 5 percent to 8 percent. Research across many sources, including the World Bank, *Economist* magazine and the International Monetary Fund, show that countries with annual growth rates of 4 percent or greater are places where companies are investing in new businesses, usually to fill a niche in the marketplace. Such countries are places for U.S. companies to seek new licensees today.

Indonesia

According to the July 2011 U.S. Commercial Service report on franchising, "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." Many economists predict GDP growth to reach 8 percent this year. And Indonesia did not have a significant recession over the past two to three years.

The U.S. Commercial Service report also says Indonesia is the fourth most populous country in the world. Of its 237 million people, roughly 53 percent are under the age of 34 and upper and middle-income consumers represent about 10 percent of the population.

A key statistic for U.S. franchises is the last one. To be successful in a country, franchises need consumers who have discretionary income to buy their products and services. Indonesia is a country with almost as many middle and upper income consumers as there are total people in the entire state of Texas.

A Few Tips On Conducting Business In Indonesia:

- Indonesians by and large are pro-American. They are our allies in Asia, value our customs and often send their children to the United States for college. They like our business systems, which is good for franchising.
- Be sure to have senior people in your franchise meet senior people in the Indonesian company. Sending junior people will not be viewed positively.
- As in all Asian countries, the giving of business cards is a formal process and taken very seriously by the receiving Indonesian executive. Do not take their card and put it in your pocket – an extreme sign of disrespect for the person and their title. Put the card on the table in front of you during the first meeting.
- Although Indonesia is the world's largest Muslim country, Indonesians by nature and culture are open to all other religions and cultures.
- Time is a flexible aspect of life in Indonesia. You should be on time for your appointments, but the executive you are meeting might be a bit late.
- Saving "face" or maintaining one's honor is very important in this typical Asian country. Aggressive negotiation (the typical U.S. John Wayne, transactional approach) will not yield good results.
- Age and experience are valued in Indonesia. The term "Tuan Tua" (old man) is one of respect. You may encounter the second or third generation in your discussions. But decisions on new investment often come from the top down (the founder).

Indonesia is no stranger to U.S. franchises. There are 160 U.S. brands represented today in Indonesia, 40 percent of all franchises of any type. They include Abrakadoodle, KFC, McDonald's, Coffee Bean & Tea Leaf, Carl's, Jr., Athlete's Foot, Century 21, Pizza Hut and Chili's.

Today there is a strong desire for both education, food and service franchises in Indonesia. There are successful companies with English-speaking management seeking U.S. franchises and there is sufficient capital available.

One very important aspect of taking your franchise to Indonesia: the middle and upper class consumer, your buyer, shops in large malls. What are called regional malls in the United States are the standard size one will find in the largest city, Jakarta (10 million population). To succeed, a franchise organization should have a "mall model." Google "Grand Indonesia Shopping Town." There is space for 5,500 cars to park, it covers an area of 169 acres and has all the major retail brands of the world. There are at least six regional malls in greater Jakarta. Your target consumer comes to these malls to shop because they are convenient, air-conditioned and have everything they need for their family. It is common to find young families spending the entire day in one of these malls on a weekend.

Although there are a number of steps that must be completed to properly grant a franchise, there is a clear legal structure in Indonesia. Registration of the license agreement with the government is required. Agreements must be translated into Bahasa Indonesia, the local language.

A word on a potential conflict of interest. My wife, Nancy, and I lived in Indonesia in the mid 1970s. Our oldest daughter, Heather, was adopted in Indonesia. Therefore, we are somewhat prejudiced on the quality of this culture and people. Nancy and I hope you will find this wonderful country as nice as we have over the years.

Viet Nam

In contrast to Indonesia, franchising is fairly new in Viet Nam (the way Vietnamese write their country name). In the

Challenges to Franchising in Viet Nam:

- Franchising is new in this country and not very many companies understand the process and steps required to acquire, build, own and operate a Western franchise and pay ongoing royalties.
- Due diligence on candidates is even more critical than in most countries as there are few public records in companies. Funds committed to U.S. franchise investments needs to be clearly defined in writing up front to minimize misunderstandings.
- Western quality mall space remains very limited in the two major cities, which translates to high-unit rental costs.
- The middle and upper class Vietnamese consumers U.S. franchisors need live primarily in two cities: Ha Noi and Ho Chi Minh City (Saigon) with a total population exceeding 8 million.
- Ha Noi is a lot like Washington, D.C. Ho Chi Minh City is a lot like New York City and Los Angeles rolled into one.
- U.S. brands that require large size units, such as restaurants, are not yet developed in Viet Nam.

1990s, KFC entered the market. McDonald's is just now entering the market. Foreign investment found Viet Nam after they entered the World Trade Organization and signed a trade treaty with the United States in the mid 2000s. New and equitable laws and regulations related to franchising went into effect in 2007. The legal structure is clear and easy to follow, but may take some time to complete and to get the Central Bank approval for payment of fees in U.S. dollars.

Today's franchising opportunities are best summarized in the February 2011 U.S. Commercial Service report on franchising for Viet Nam: "Best prospects for American franchisors include fast food, quick service restaurants, business services, health and nutrition, education services, healthcare, children's services, cleaning and sanitation, hospitality, beauty and skincare, entertainment and convenience stores."

Today in Viet Nam you will find Carl's Jr., Crestcom, KFC, Pizza Hut, Round Table Pizza, Coffee Bean & Tea Leaf, Popeye's and Gloria Jean's. The country has a great desire for more U.S. brands.

In an article in the March 2009 edition of *Franchising World*, I wrote about my first trip to Viet Nam in December 2008. Although I have lived in China, Hong Kong and Indonesia, I was still concerned about what type of economy Viet Nam would have. Would U.S. companies be welcome in a country where we fought a war in the 1970s? Would investors know what franchising is? Were there companies who could qualify for U.S. franchise licenses?

Seventy percent of today's Viet Nam population was born after the war with the United States. The focus today is getting to middle class or higher. The young consumer is seeking Western brands where they know they will get value, quality, convenience and customer service. The Vietnamese I encountered highly value the U.S. way of conducting business. Although this remains a Communist country, like China, the populace is very capitalistic and entrepreneurial and very welcoming to U.S. business people and brands.

The business culture for Viet Nam is close to that of Indonesia. One additional caveat is to remember not to discuss government issues or how Viet Nam compares to China.

In summary, these two South Asia markets are open and welcoming for U.S. franchises with the caveats mentioned above. Their overall economic growth is increasingly being driven by internal consumer consumption, which is excellent for franchises.

One additional comment: as with all international markets, file for your trademark in Indonesia and Viet Nam before starting any sort of communication or marketing into these countries. This will save you money and time. ■

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