

**THE EFFECTIVENESS OF STRATEGIC PARTNERSHIP IN  
CONDUCTING MALAYSIAN FAST FOOD FRANCHISE INDUSTRY IN  
INDONESIA**

**RYAN ADITYA PERDANA**

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**'The Effectiveness of Strategic Partnership in Conducting Malaysian Fast Food Franchise  
Industry in Indonesia'**

BY

**RYAN ADITYA PERDANA**

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**Supervisor** : DR. Norfaridatul Akmaliah Othman

**Faculty** : **Institute of Technology Management and Entrepreneurship**

In Malaysia, there are lots of local fast food restaurants that are competing with each other especially in terms of penetrating new market which is overseas. Thus, this study is to find the relation in between the strategic partnership with perception of both franchisors and franchisees when conducting fast food franchise business. This strategic partnership is categorized into 2 parts; strategic partnership and knowledge and resource sharing. The marketing tools are also studied to examine the decision making for both franchisors and franchisee before conducting fast food franchise business.

**Approach:** The theoretical model and hypotheses in this study were tested using empirical data gathered from 8 samples of respondents that were store manager, area manager, regional manager, and president director through survey questionnaires and then the data being analyzed using the correlation coefficients.

**Results:** The results revealed that there is a significant relation between strategic partnership and conducting Malaysian fast food franchise industry in Indonesia. From the result, it is hoped that it can be guidance for both franchisors and franchisees when conducting fast food franchise industry.

**Conclusion:** This study has explored the perceptions of both franchisors and franchisees in conducting fast food franchise business. The marketing tools also have the important role in guiding franchisors and franchisees on decision making.

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**APPROVAL**

I hereby confirm that I have examined this project paper entitled:-

**“THE EFFECTIVENESS OF STRATEGIC PARTNERSHIP IN CONDUCTING  
MALAYSIAN FAST FOOD FRANCHISE INDUSTRY IN INDONESIA”**

By

**RYAN ADITYA PERDANA**

I hereby acknowledge that this project paper has been accepted as part

Fulfillment for the degree of Master of Business Administration

.....

**DR. NORFARIDATUL AKMALIAH OTHMAN**

**SUPERVISOR**

## **DEDICATION**

- This thesis is dedicated to my family who supported me all the way since the beginning of my studies. Thank you for supporting me!!!
- Finally this thesis is dedicated to all of my friends, those who supporting and helping me completing my study at UTeM

## DECLARATION

“I hereby declare that:

“I have sincerely endeavored to produce a paper project of “The Effectiveness of Strategic Partnership in Conducting Malaysian Fast Food Franchise Industry in Indonesia” by myself without any outside assistance except as cited in the references. I have not copied this paper from other papers or documents available, except where I have explicitly stated so. The project paper has not been accepted for any degree and is not concurrently submitted in candidature of any other degree”.

**Signature:** -----

**AUTHOR’S NAME: RYAN ADITYA PERDANA**

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## **Chapter 1**

### **Introduction**

#### **1.1 Introduction**

Economic system has grown rapidly along with the desire of individuals to live adequately. Rapid economic growth is not only felt by the individual alone, but rather by the market or the public.

Widespread economic development can be felt by all sectors. For companies that cannot balance the changes, then it will create a significant loss to the company. All companies are competing to survive and keep satisfying their customers, especially in the food industry. Many foreign restaurants make local restaurant's market become difficult to spread their wings. For some food industries that want to survive in the international arena, many of them are willing to cooperate in order to expand the market; therefore they need great strategies to be able to be accepted in the market.

Malaysian food industry is rich in terms of tropical and agricultural resources reflecting diverse cultures in Malaysian society; Malay, Chinese, and Indian. They have resulted in a fascinating range of processed food with an Asian twist. The Malaysian food and beverage market is supplied by both local and imported products (Market Watch 2012, The Malaysian Food Industry, n.d). Economic growth in the late 80's and early 90's has contributed to major changes in consumer purchases and consumption patterns. Lifestyle changes have led to an increase in the demand for convenience and health food (Market Watch 2012, The Malaysian Food Industry, n.d, n.d).

According to Brandt and Wei (2012) in 2010, the food industry contributed about 10% of the Malaysian manufacturing output attracted a total of RM1.972 billion in 69 projects.

There are several local restaurants in Malaysia which serve traditional dishes, such as OldTown White Coffee, Secret Recipe, PappaRich, Little Penang, etc. These restaurants are popping out along with the rapid of foreign restaurants. In order to keep conserving traditional dishes, these restaurants are expected to equalize the Malaysian market. From many local restaurants in Malaysia, there are two leading local restaurant which has successfully penetrated overseas markets. The restaurants are OldTown White Coffee and Secret Recipe.

#### 1.1.1 OldTown White Coffee

OldTown White Coffee is the largest kopitiam restaurant chain in Malaysia. It was established in 1958 in Ipoh, Perak, Malaysia. OldTown Berhad manufactures instant beverage mixes and products. In 2005, OldTown expanded into the food service sector with the opening of a chain of café outlets based on the traditional Ipoh coffee shop setting and ambience under the brand name “OldTown White Coffee”. By the October 2012, OldTown White Coffee has 211 outlets worldwide (OldTown White Coffee, n.d).

#### 1.1.2 Secret Recipe

Secret Recipe is a lifestyle café chain and has become common in Malaysia since 1997. It has established its brand name in Malaysia, Singapore, Philippines, Indonesia, Thailand, Brunei, Pakistan, and Australia. In a period of seven years, Secret Recipe has expanded by over 100 cafes throughout the region (Secret Recipe, n.d).

To be able to penetrate the international market is not that easy. The strategies used have to be really well-planned and neat. Moreover, the company will face with local restaurants which already had a good reputation, as well as foreign restaurant that have successfully penetrated the market first. Hence, strategic partnership between two companies is mandatory to be done in order to be successful in the international arena.

The rapid of foreign food industry was also felt in Indonesia. As well as in Malaysia, Indonesian local restaurants are also competing with foreign restaurants in order to conserving traditional dishes. OldTown White Coffee and Secret Recipe are two of many foreign restaurants that have successfully penetrated Indonesian market and taken Indonesian attention.

OldTown White Coffee opened its first restaurant in Indonesia in December 2010. Now, there are approximately four branches of OldTown White Coffee in Indonesia. In 2010 according to Alamsjah (President Director of PT Oldtown Indonesia), OldTown will open minimum 8-12 outlets which focuses on Java and Bali Island first. It is estimated that by the end of 2015, OldTown will have 200 outlets in Indonesia (OldTown White Coffee, n.d).

Secret Recipe penetrated Indonesian market since 2003. Currently, Secret Recipe has 14 outlets which are located in Jakarta and Tangerang. Secret Recipe is well-known by its cake and TomYum which become a characteristic of this restaurant (Secret Recipe, n.d).

Strategic partnership is an association between two companies by which they agree to work together to achieve a strategic goal. This is often associated with long-term supplier-customer relationships (Strategic Partnership, n.d). Typically two companies establish a strategic partnership when each company possesses a business that will help the other, however that each respective other doesn't wish to develop internally.

One common strategic partnership involves one company to provide engineering, manufacturing or product development services, partnering with a smaller, entrepreneurial firm or inventor to create a specialized new product (Strategic Partnership, n.d).

Usually, the larger company supplies capital and the important product development, marketing, manufacturing, and distribution capabilities. On the other hand, the smaller company supplies specialized technical or creative expertise. In the food industries, it can be said that one larger company, which wants to spread its market into another country, supplies all of the activities; marketing, distribution, financing, etc. For the smaller company, it should supply merely a space and human resources.

A Strategic Alliance is a relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organizations (Strategic Alliances, n.d). Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property. The alliance is collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization shared expenses and shared risk.

Resource sharing or commonly known as Shared Resource is a concept which has developed to include many cooperative activities between organizations and other stakeholders (Resource Sharing, n.d).

A franchise is a form of business organization in which a firm already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other business

(franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee (Franchise, n.d).

Franchises are a very popular method for people to start a business, especially for those who wish to operate in a highly competitive industry like the fast-food industry. Some people are willing to start their business from nothing, while some of them are willing to run business which already has a name or market, even though they will start from the beginning.

Franchising has known to have many benefits for both parties. One of the biggest advantages of purchasing a franchise is that a company will have access to an established company's brand name. It can be assumed that franchisees do not need to spend further resources to get their name and product out to customers (Franchising, n.d).

This is what underlies the writer to research about Strategic partnerships, global strategic alliances, resource sharing and franchising, and the purpose of this research is to study **the effectiveness of strategic partnership in conducting Malaysian fast food franchise industry in Indonesia.**

## **1.2 Background**

Along with the rapid economic development in all sectors can lead to high competition among companies. A competition does not always provide benefits, otherwise it can cause a decreasing profit if a company can't compete as well.

A company must have wanted a huge profit since the day it was built and also wanted to have a wide range of customers. Surely something like this should be supported by a great strategy, especially for companies that want to extend its market. In the food industry, a company should maintain its quality in order to keep satisfying the customers. Finding out what food that are desired by markets, how many orders are requested, and examining what feedbacks are given by society are three of many strategies that should be possessed by a food company.

(Holtzman, 2008) claims that strategies are basically needed in making a significant growth in one firm. The strategies are acquisitions and continuous process improvement. However, those strategies are very difficult to sustain, expensive and also risky to integrate. The easiest and most important strategies are placed by marketing team (Holtzman, 2008).

Innovations and improvements are mandatory needed in the food business. Patrons are like kings and they do not wait. They choose themselves what restaurant that want to be attained, not vice versa. Food business is increasing every single day. In order to maintain its existence, a company has to maintain its stability in serving patrons. Even innovations and improvements are necessarily needed with an eye they will keep choosing their favorite restaurant first.

To remain competitive in the eyes of society, a company should know exactly its customer expectations are properly met, and the future demands of the customers are properly addressed (Kotalunga, Amaratunga and Haigh, 2007).

(Gibson and Skarzynski, 2008) hand out the profit gained by PepsiCo can not be separated from the innovation they made and describe that innovation is a "lifeblood of any successful consumer products company". Assuredly, it won't happen if there wasn't a great strategy team behind.

A global strategic alliance or strategic partnership is usually established when a company wishes to edge into a related business or new geographic market. Typically, alliances are formed between two or more corporations, each based in their home country, for a specified period of time. Their purpose is to share in ownership of a newly formed venture and maximize competitive advantages in their combined territories (Global Strategic Alliances, n.d).

Strategic Alliances are commonly enduring interfirm cooperative arrangements involving flows also linkages for the joint accomplishment of individual goals (Hitt *et al*, 2000). This emphasizes that a cooperation is not always negative of not being able to remain competitive in the market, nevertheless a great cooperation can increase profits for both parties.

Resource sharing or commonly known as Shared Resource is a concept which has developed to include many cooperative activities between organizations and other stakeholders (Resource Sharing, n.d).

Same thing as in the economic sectors, Shared Resource can occur when two companies desire to make a relationship based on the arrangements and commitments they have made. Usually, this collaboration happened when each firm knows its weakness and they want to expand the company, in order to maintaining the existence of the firm. Sharing what companies have got will make such a great collaboration. It can be said as a win-win solution for both companies. For the practice to food industries, both parties should make agreements and regulations for both maintaining and running the business. One shares the technique and knowledge, while other shares the physic.

A franchise is defined as a long-term, continuing business relationship wherein for a consideration, the franchisor grants to the franchisee a licensed right, subject to agreed

requirements and restrictions, to conduct business utilising the trade and/or service marks of the franchisor and also provides to the franchisee advice and assistance in organising, merchandising, and managing the business conducted to the licensee (Luangsuwimol and Kleiner, 2004). Franchising can be interpreted as a method of marketing a product or service. The franchisor develops a special product, service, or system and gains national recognition. In this situation, a food company or a franchisor supplies special ingredients and good services before finding a right colleague as a franchisee.

Franchising is one of the most popular and successful strategies for business to enter new markets and expand operations. Franchising enables the franchisor to enter new market with very low risks and initial investment. Franchising systems are facing new challenges every day, such as; legal issues, marketing campaigns, franchisee-franchisor relationship, and as well as use of high technology system (Saleh and Kleiner, 2005).

In the term of food industries, the main problem faced by franchisors is mainly located in their trademark. Some of the local competitors are enable to copy the idea, knowledge, and technology without considering the consequences in the future.

### **1.3 Problem Statement**

A pretty tight competition among companies which are engaged in the food industries, makes a few local franchisee in Indonesia (business owner) want to invite some franchisor from Malaysia as to avoid deficit due to not able to compete with another competitors.

Apparently, establishing cooperation is not that easy, especially if it is done overseas. Before choosing the exact area to be operated in, a company should examine more deeply about that area