

Franchise Outlets Ownership Limited by the Minister of Trade

Davidson Samosir

Following the issuance of Minister of Trade [Regulation No. 53/M-DAG/PER/8/2012](#) on Organizing Franchise Businesses, the Minister recently issued [Regulation No. 68/M-DAG/PER/10/2012](#) on Retail Shop Business Franchises (“Regulation”). The Regulation specifically serves to limit the number of franchise outlets that may be owned by franchisors and franchisees.

The Regulation separates franchise outlets into two types – company-owned outlets and franchise outlets (Art. 2). The Regulation limits ownership of company-owned outlets to 150 outlets at most. If the number of outlets exceeds the limitation, a franchisor and a franchisee with exclusive rights to re-franchise are obliged to franchise the business to another franchisee (Art. 3).

It should be noted that although the Regulation sets a threshold of maximum 150 outlets, a franchisor or a franchisee with exclusive rights to re-franchise may still own and manage more franchise outlets under the condition that 40 percent of the additional outlets are owned by a third party (Art. 4 (2)).

Note that the 150 outlets threshold applies specifically to franchise outlets that fall under the following categories (Art. 4 (3)):

- Mini markets, with outlet space less than or equal to 400 square meters
- Supermarkets, with outlet space less than or equal to 1200 square meters, and
- Department stores, with outlet space less than or equal to 200 square meters

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❖ Document(s)

- [Minister of Trade Regulation No. 68/M-DAG/PER/10/2012](#) (UU_NO_16_2012.pdf – 30 Kb)

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Franchisors and franchisees with exclusive rights to re-franchise are not subject to the 150 outlets threshold IF the 150 outlets have not yet generated profit OR if the franchisor was not successful in finding a local franchisee business partner (Art. 5 (1)).

Besides the obligation to partner up with a local franchisee partner, a franchisor is also obliged to sell 80 percent of domestically produced goods in their outlets (see Art. 7 of the Regulation *juncto* Art. 19 of [Minister of Trade Regulation No. 53/M-DAG/PER/8/2012](#)) (for a discussion on Regulation No. 53/M-DAG/PER/8/2012, see [ILB No. 1984](#)).

Franchisors and Franchisees that own more than 150 outlets are given five years to comply with the Regulation provisions (Art. 12).

The Regulation has been in force since 29 October 2012.

❖ About this ILB

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Puri Imperium Office Plaza G-7
Kuningan, Jakarta 12319
to subscribe, call 62-21-83701827
or fax to 62-21 83701826
or email layan@hukumonline.com*

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