



Asian Emerging Markets Are No Panacea For Growth

Korean companies were excited for many years about the growth prospects in Mainland China and now are looking to the Philippines, Vietnam and Indonesia for future opportunities as well as smaller markets like Myanmar & Cambodia. It is easy to contemplate success in high growth markets with riches at the end of the rainbow, but the reality is far different. For example, Lotteria has been operating in Vietnam since 2004 and has yet to announce a profitable year. The parent company suffered severe setbacks in China given the Thaad Missile dispute with China, and are looking now to sell off all its retail stores. Many Korean brands that tried to ride Lotte's retail coattails in China have also been devastated by the same incident. These are only a few examples of what can happen in volatile emerging markets.

Here are some things to consider carefully before entering these markets.

The Economic Model

It is a big myth that these markets are cheap from a labor and rental standpoint. Tier 1 cities like Ho Chi Minh, Hanoi, Jakarta, Yangon, Shenzhen, etc. have very high rental costs relative to the local household consumption expenditure. Leasing costs in excess of 15-20% of sales are quite common. While absolute labor costs are clearly

cheaper than Korea, labor productivity is quite low so you need more staff to do the same job.

Central kitchens are costly to build and there are very few outsourcing opportunities for food preparation with the exception of China. The more you prepare your products inside the restaurant the higher the labor cost. These markets for the most part have low unemployment so few people want to do any difficult jobs in the kitchen. Also, parents want their children focused on studying, not working part-time which leads to further challenges.

Moreover, lower consumption expenditure means that your menu pricing must be highly affordable which will put pressure on your cost of goods (COGS).

All of these factors need to be taken into account prior to entering one of these markets. Store development is of course highly dependent on the store level economic model. If the local partner cannot get their cash back within 3 years or earlier, they will not build any more restaurants.

Partner Selection

These markets being less developed, have a very limited number of capable operators that understand modern restaurant management or franchising. The successful groups are generally started by entrepreneurs who know the local market well and do not see the



need to franchise an overseas concept. Large conglomerates with limited restaurant operating experience often partner with global powerhouse brands like Starbucks or KFC and get the support they need to be successful. They are not interested in smaller overseas brands and do not see the value in paying a fee for them.

Korean companies often make the mistake of working with a Korean entrepreneur living in the country who has limited capital and limited local knowledge of the market. While this may be fine for opening a few stores, there are very few if any success stories involving large scale store development.

In summary, finding a local partner is tough and poses high risks.

Local Palate

Korean food has a very unique taste and not everyone can enjoy it without local adaptations. This is another challenge that must be overcome to scale the business. The more authentic the cuisine, the harder it will be to scale the business unless you only care about catering to Korean customers. Investments in local R&D efforts will be necessary. While it is true that love of Korean dramas and K-Pop certainly has extended to fashion and food as well, local diners still want to enjoy foreign foods on their own terms within their comfort zones.

Competitive Intensity

Finally, these markets are already very competitive and there are many Korean restaurants already operating both by local entrepreneurs and large Korean groups. There are no undiscovered markets. Expect lots of competition.

When you consider the economic model, limited number of suitable partners, differences in local palate and the degree of competition, it should be obvious that entering these markets will not be an easy task.

Do your homework upfront and be patient to devote the necessary time to get your partner and concept right. Hire a person with international franchise experience and prioritize your markets. There are no quick profits so play the long game!