Philippines's Jollibee Goes Abroad

Fast-Food Chain Expands
In Mideast, Indonesia, U.S.
As Home Market Takes Hit

By JAMES HOOKWAY
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MANILA, Philippines -- With the global food crisis continuing to chafe, one of Southeast Asia's biggest fast-food chains is pushing to expand overseas to ease the impact of soaring agricultural prices on its profits at home.

Jollibee Foods Corp. is an icon in the Philippines for outselling McDonald's Corp. and Yum Brands Inc.'s KFC in a country obsessed with American-style fast food. It operates some 1,400 stores in the Philippines, compared with 280 run by McDonald's, its next-largest local rival.

Customers line up to place their orders inside one of Jollibee's restaurants.

But the Philippines is the world's largest importer of rice, whose price has nearly tripled in the global market this year because of poor harvests, growing demand and rising fertilizer costs. Apart from its large presence in the Philippine market, Jollibee has taken an extra hit because rice is a key ingredient in many of its most popular dishes, such as fried chicken and rice.

So now Jollibee, which has seen its stock on the Manila stock exchange tumble 30% to 42 pesos (95 cents) from last year's peak of 60 pesos, is changing tack.

Founder and Chief Executive Tony Tan Caktiong is building up Jollibee's presence in the Middle East, where there are about a million expatriate Filipinos, and in the U.S., where generations of Filipino migrants have settled. Both overseas markets can support higher retail prices than the Philippines, where the average per capita income is around $1,400 a year.

Chowking, a Jollibee-owned chain of Chinese-food outlets that appeals to non-Filipino customers, is expanding in Indonesia and the U.S., as well as in the Philippines. And Jollibee has acquired fast-food chains in China, including Yonghe King, which Mr. Tan says he might try to introduce to other markets to reduce Jollibee's dependence on the rice-sensitive Philippines.

Mr. Tan, a cheerful man who often delegates many of his management tasks so he can tinker with new recipes, has had a long run of success. He formed the company 30 years ago after realizing that customers at his Manila ice-cream parlor liked his soy- and sugar-seasoned burgers better than his sundaes. Since then, Jollibee has become a national institution, shaking off the entry of American competitors in its home market and becoming a magnet for Filipino expatriate communities whenever Jollibee has ventured overseas.
But rising agricultural prices -- especially that of rice -- have put a squeeze on the Philippines. In April, the country agreed to buy over 300,000 tons of rice from Thailand, Vietnam and Pakistan at an average price of $1,135 a metric ton, a record. Meanwhile, the price of wheat, another core ingredient for Jollibee, has doubled in the past year, while prices for medium-grade Thai rice -- a de facto global benchmark -- have moderated slightly to around $900 a ton.

Jollibee's net profit rose to 2.36 billion pesos last year but the higher costs slowed its profit growth rate to 9.6% from 28% in the previous year. In 2006, net profit had grown 28%. Jollibee is expanding beyond its Philippines home.

"This is why they are diversifying into other markets and starting new brands: They need to spread their risk," says Jojo Gonzales, managing director at Manila-based brokerage Philippine Equity Partners Inc. In all, 13% of Jollibee's sales came from overseas last year.

Other Asian restaurant chains have also ventured overseas over the years in the search of larger markets. Noodle-soup chain Pho 24 from Vietnam is one of the latest to venture abroad, opening restaurants in Singapore, South Korea and the Philippines and planning outlets in the U.S. and Britain. Japanese chains such as MOS Food Services Inc.'s MOS Burger have expanded around the Asia-Pacific region while Yoshinoya Inc. has taken its beef and rice bowls from Asia to the U.S.

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