Tim Horton's
Company Synopsis

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Introduction

Tim Hortons, headquartered in Ontario, Canada, is a restaurant chain in Canada and the U.S. Its major products include premium coffee, flavored cappuccinos, specialty teas, soups, sandwiches, wraps, baked goods and donuts.

Tim Hortons has 4014 outlets, 99.6% of which are franchised. It achieved revenue of $2,852[1] million and net profit of $382 million for the financial year of 2011.

Tim Hortons has surpassed MacDonald's as Canada's largest food service operator with nearly twice as many Canadian outlets as McDonald's. In 2010, Tim Hortons owned 3,148 restaurants in Canada. (Tim Hortons: Story).

Company Goals

Tim Hortons aims to offer superior quality products and services for its customers and communities through leadership, innovation and partnerships. This is reflected in their vision statement, which sets the company's overall goal as: to be the quality leader in everything they do (Tim Hortons: Fresh cup of coffee).

Brief History

In 1964 Tim Horton established the food chain that bears his name. While Tim Horton was a well-respected defensemen for the Toronto Maple Leafs, the NHL was not yet paying today's mega-salaries. To insure an income after his playing days ended, he opened a donut shop. In 1967, one of its restaurant operators, Ron Joyce became a partner within the company. After Tim Horton's death in 1974, Joyce became the sole owner by acquiring all of the shares in the company for $1million. Joyce aggressively expanded the number of stores, opening the 500th in 1991.

In the early 1990s, Tim Hortons built a partnership with Wendy's International (Wendy's: Story). This relationship allowed the two companies to develop real estate together. More importantly, they

[1] All figures are in Canadian dollars.

agreed to open a number of restaurant sites that combined Wendy's and Tim Hortons restaurants under the same roof (Tim Hortons: Story). According to Wendy's, their shared mission-to deliver quality food, value and unparalleled service to customers has been the key to their success. (Wendy's: Story).

Tim Hortons was acquired by Wendy's in 1995. This made Joyce the largest shareholder in Wendy's. In 2006, Tim Hortons was spun off as a separate company through an IPO on the NYSE, and is now publically traded under the name Tim Hortons Inc. In 2009, Tim Hortons reached an agreement with Cold Stone Creamery (the ice cream restaurant), Kahala Corp, to co-brand up-to 100 stores in the U.S. This project was later successfully rolled out.

International Expansion

During the 1970s Tim Hortons expanded along the border areas of the U.S., during the 1990s the firm began expanding more aggressively, acquiring former locations of other fast food chains. Tim Hortons has over 600 stores in the U.S. and plans to open more than 300 in the next 3 years (Tim Hortons: 2011 Annual Report).

In 2007, Tim Hortons reached an agreement with SPAR Ireland to open Tim Hortons' coffee and donut self-serve kiosks in its franchised locations nationwide in Ireland. These kiosks are independently managed by SPAR retailers (Tim Hortons: Story).

The year 2010 was a critical for Tim Hortons because the company announced its first concrete plans for accelerated international expansion. In 2011Tim Hortons signed a Master License Agreement with Apparel Group of Dubai for the opening of 120 stores over five years in certain markets within the Gulf Cooperation Council (GCC) region (The Canadian Press, 2011).

Current Situation

Product Categories

Tim Hortons is currently the largest fast food restaurant chain in Canada that provides a variety of products to appeal a broad range of consumer preferences at relatively attractive prices. The company's product line consists of premium coffee, espresso-based hot and cold specialty drinks (including lattes, cappuccinos and espresso shots, specialty teas, fruit smoothies), home-style soups, fresh sandwiches, wraps, hot breakfast sandwiches and fresh baked goods. As well as selling goods from within its restaurants, it also sells products such as coffee packets, Christmas hampers and coffee machines through its online shop and through grocery stores.

Market Share

Due to the significant brand presence in Canada, Tim Hortons has 41% of the quick service sector in Canada, and 78% of the quick service coffee market in Canada (Tim Hortons: 2011 Annual Report). The majority of locations are open 24 hours a day and guests have the option to eat in, take out, or use drive-thrus. By doing this, Tim Hortons aims to enhance the convenience for guests and gain a loyal customer base in their urban market.

Financial Performance

During the fiscal year ended January 2012 (See Table 1), the company realized $2,855 million in revenue and $383 million in net profit. This represents a 12.5% increase in revenue but a 38.6% decrease in net profit of 38.6%, compared to 2010 (Tim Hortons: 2011 Annual Report). The company has a current ratio of 1.3, and holds $126 million cash on hand. This indicates that Tim Hortons has a strong cash position and thus has the ability to expand.

Table 1: Tim Hortons' Summary Financial

Consolidated data	Cons 1 Jan 2012 th CAD	Cons 2 Jan 2011 th CAD	Cons 3 Jan 2010 th CAD	Cons 28 Dec 2008 th CAD	Cons 30 Dec 2007 th CAD
	12 months Unqual US GAAP 10-K	12 months Unqual US GAAP 10-K	12 months Unqual US GAAP 10-K	12 months Unqual US GAAP 10-K	12 months Unqual US GAAP 10-K
Total Assets	2,203,950	2,481,516	1,996,653	1,992,627	1,797,131
Shareholders Funds	1,152,548	1,436,801	1,169,044	1,140,404	1,002,083
Operating Rev./Turnover	2,855,026	2,537,595	2,245,457	2,043,693	1,895,850
P/L before Taxation	543,602	848,058	476,141	423,934	408,402
Net Income	382,812	623,959	296,367	284,678	269,551
Market Cap.	n.a.	n.a.	n.a.	n.a.	n.a.
Number of employees	2,023	n.a.	1,839	1,839	1,520

Source: Osiris

Current Strategy

Franchising

Tim Hortons charges $543,333 to $1,079,573 in set up fees, plus 24% of the franchisee's sales thereafter for rent, new equipment and contribution to the marketing budget (Tim Hortons: Franchising Selection Process). Because Tim Hortons supplies the properties to its franchisees, the majority of its assets are in real estate ($1,463,765,000 out of a total of $2,203,950,000). Some of the real estate is owned, but the majority is leased. Tim Hortons owns 769 properties for franchisees; leases 2,326 properties for franchisees; and owns and runs 18 stores itself (Tim Hortons: 2011 Annual Report).

Increasing the Same-Store Sales

Tim Hortons is currently concentrating on improving the same-store sales by leveraging its marketing strengths and advantages (Tim Hortons: 2011 Annual Report). The company continues to make menu innovations and increases cold and hot beverage variety. These actions are intended to ensure that its customer base does not get bored with the same products and to attract new consumers. In addition to this, advertising and market investment play a crucial role in reinforcing Tim Hortons' attractive price to value position, and increases the companies brand equity.

Expansion to New Markets

Tim Hortons plans to undergo rapid international expansion outside of the U.S. This has already been started in the Dubai and Ireland.

Integrated Cost Leadership and Differentiation

Tim Hortons' products are priced lower than competitor's goods. The company uses low cost advantages as a source of competitive advantage. As well as this, Tim Hortons does not wish to sacrifice quality, providing the finest Arabica coffee and striving for high quality customer service. Thus, Tim Hortons enjoys the benefits of having high quality products produced at low cost.

Tim Hortons has been able to achieve efficiencies to fulfill this integrated cost and differentiation strategy through vertically integrating the roasting of its coffee (it roasts 75% of its coffee itself) and through distributing the majority of the products itself. This enables Tim Hortons to capture more of the value chain. As well as this, it has a joint venture with IAWS Group Ltd, to par bake and package products, thus saving further costs by sharing factory space and thus achieving economies of scale.

Environment

Tim Hortons competes in a highly competitive sector of the quick service restaurant segment. Within Canada it has competitors such as McDonalds, Wendy's, Starbucks, and Dunkin' Donuts. Starbucks is a dominant competitor with the sale of hot drinks (Tim Hortons: 2011 Annual Report). Starbucks competes on high quality and good reputation, whereas Tim Hortons looks to offer affordable, quality coffee. As Tim Hortons produces low cost fast food, it competes with fast food chains such as McDonalds and Subway. Fast food restaurants also provide low cost coffee and tea, competing with Tim Hortons on price. For example, every year McDonald's offers free coffees for coffee lovers (Moran, 2011). Tim Hortons differentiates itself by a greater emphasis on traditional and more healthy home-cooking type foods rather than an emphasis on burgers.

More and more consumers are concerned about retaining or improving current well-being and caring about potential food risk (Agriculture and Agri-food Canada, 2010). However, most of Tim Hortons food has high levels of sugar or fat, as the socio-cultural trend away from these foods continues it may have an adverse effect on Tim Hortons sales. The Canadian government is also enforcing minimum health standards for the quick service restaurant industry, with specific regulations on trans-fats and sodium levels. The U.S. has now made it law that everything sold in a restaurant has to have calorie counts and nutritional information available to the public.

Coffee has experienced rapid growth in the Asian markets in recent years due to changes in consumer tastes and increases in wealth (Coffee culture around the world). This provides Tim Hortons with the opportunity to grow into these emerging markets.

As Tim Hortons aims to provide its products at lower prices this means that its inputs must be inexpensive and every element of its value chain efficient. Therefore, any change in the raw material costs such as coffee, wheat or oils will have a significant effect on Tim Hortons' margins. These commodities regularly fluctuate and thus Tim Hortons must protect itself from these risks by using futures contracts. Tim Hortons' uses 100% Arabica beans for its coffee, these beans are affected by subtle changes in the climate, thus global warming could adversely affect the supply of these beans in the future, increasing the price (Climate change threatens, 2012).

For Canadian sales the strong Canadian dollar has neutralized the increasing commodity prices of recent years, enabling Tim Hortons to purchase inputs cheaply, whilst selling to the Canadian market at full price. However, it is uncertain what the future holds for the Canadian dollar.

Strategic Challenges

<u>Picking the Right Places for Tim Hortons to Expand</u>

New franchises may not be successful and cause the company to lose money, creating company wide risk. It is essential that Tim Hortons continues to assess the suitability of its strategic initiatives. With international expansion plans this issue is going to become more important, as the new markets do not have the same brand awareness as Canada, and therefore will need higher marketing spending. which will increase financial risk. Therefore, Tim Hortons must do thorough analysis of the markets that it is entering to ensure that rewards outweigh the risks.

<u>Maintaining a Strong Brand Name in the Canadian Market</u>

Tim Hortons franchising model is built on its brand. Without the strong brand name no-one will want to be a franchisee of Tim Hortons. The company is spending $100m in 2012 to expand the use of its digital menu boards; this provides some indication of how seriously Tim Hortons takes its brand image. However, Tim Hortons must not just focus on emphising its brand image but must also ensure that its brand is protected. For example, if a customer gets food poisoning this would ruin the brand that Tim Hortons has spent so much time and money developing. Another issue that could seriously affect the brand is poor customer service. Thus, Tim Hortons must ensure that it has thorough screening processes for franchisees and must monitor them to make sure that they add to the brand image and not take away from it.

Maintaining Market Leadership in an Extremely Competitive Market

Tim Hortons maintains its foothold in the market by providing variety and quality at affordable prices. Other factors include:

- The number and location of restaurants;
- The quality and speed of service;
- Attractiveness of facilities;
- Effectiveness and magnitude of advertising, marketing, promotional, and operational programs;
- Pricing.

If Tim Hortons does not continue to offer superior value to the customer for each of the above elements, it will start to see its market share decrease.

Increase in the Cost of Commodities and Decrease in the Availability of Commodities Could be a Challenge

Increase in the price of commodities will not be passed onto the franchisees and thus is a cost that Tim Hortons must bear, lowering Tim Hortons margins. This is especially important to Tim Hortons as it aims to provide low priced goods and thus does not have the same margin of safety that other high priced quick service food outlets may have. Thus, Tim Hortons must ensure that it mitigates commodity fluctuation risk by planning and buying futures agreements, so that it can be one step ahead of the change in commodity prices.

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