Pensacola Christian College

Case Study: Tim Horton's

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By
Drew P. Turner
Box 1910

Pensacola, Florida

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Company Overview

Tim Horton's is one of the most popular restaurant chains in Canada. It is "the largest quick service restaurant in Canada, specializing in coffee, baked goods, breakfasts and homestyle lunches." Tim Horton's has dominated the Canadian market but has failed to make a substantial impact in the United States, likely due to the lack of brand recognition south of the Canadian border.

On August of 2014, Tim Horton's was "acquired by G3 Capital, the investment company that owned Burger King." Although under one umbrella, the two companies would operate independent of each other for the most part. By teaming up with Burger King, Tim Horton's had the chance to grow internationally. "Burger Kings global experience could provide expert advice" in expanding internationally. With Burger Kings help, Tim Horton's had a chance at entering the United States market more aggressively than in the past.

However, the addition of Burger King might not be enough to help Tim Horton's. Overall, the restaurant industry's growth appeared to be slowing. Forecast predicted less than one percent growth over several years. On top of that, consumer's taste were changing, which was forcing many fast food chains to amend their menus. Supplier prices were rising as well. With slow growth, changing consumer tastes, lack of international expansion, and rising supplier prices, Tim Horton's must find a way to adapt in order to maintain their market share.[1]

Environmental Scanning

Demographic. Demographics in the restaurant industry have been shifting. People in the older generations who have more money are more inclined to eat at a sit down (or full service) restaurant. The older generations are able to afford these restaurants because they have settled into their careers. Younger generations (especially millennials) tend to avoid sit down restaurants because they do not have as much money to spend nor do they have the time to waste. The lack of time and money make fast food the more desirable option. Fast food restaurants have seen an increase in afternoon, morning, and evening snacks to cater to people who need to get in and out fast. Ultimately these demographic changes have helped fast food companies like Tim Hortons', who have benefited from an increase in customers.[1]

Economic. As mentioned in the Company Overview section, the economic environment of the fast food industry is bleak. Rising wholesale costs of food threaten to shrink the profitability of the industry as a whole. "In the 12 months prior to July 2014, wholesale food prices rose 7.1 percent." This is a significant increase for a one year span. In order to remain profitable, companies are forced to try to push down the costs of the supply or raise the prices to the customers. However, raising prices to the customers has the potential to drive them away, and suppliers are not very willing to lower their prices. Unless Tim Horton's can find a way to

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[1] Hitt, Michael A., R. Duane Ireland, and Robert E. Hoskisson. Strategic Management: Competitiveness & Globalization: Concepts & Cases. Boston, MA, USA: Cengage, 2020.

respond to this dangerous economic trend, they and the rest of the fast food industry will be in trouble.[1]

Political/Legal. People love to control other people's personal decisions. This sad universal truth has led to regulation in every area of life. Even people's personal food choices are now in danger of being regulated out of existence if they are deemed "not healthy enough" by elitist bureaucrats. For example, powerful entities like the Work Health Organization are now calling for the regulation of the fast food industry in order to "improve the public health." If any of the potential regulations take affect, the entire fast food industry would be in danger. Most fast food is unhealthy. Everybody knows this, and the people that choose to eat there anyway know what they are getting themselves into. By regulating away the unhealthy options, fast food chains must find ways to adapt healthy menus or be forced to shut down completely. Companies like Tim Horton's must find a way to adapt in a world with increasing hostility towards things deemed unhealthy. If Tim Horton's can not find a way to voluntarily integrate in healthier menu items, they might find themselves being forced to by threat of the government.[2]

Sociocultural. Customers' taste has also been evolving over the last several years. Companies like Starbucks have popularized the dark roast. Consumers have grown fond of the dark roast and began to wonder why Tim Hortons' did not have a dark roast of their own. Since Tim Hortons' creation, they have only carried the premium roast. However, due to the shift in sociocultural taste, Tim Horton's launched a dark roast in 2014. This launch was the first launch of a different roast other than the premium roast in the company's history. Tim Hortons' CEO Marc Caira said "our guest want choice. . . and we applied our passion for coffee and brewing expertise to develop a superior tasting Dark Roast blend our guests will love." By launching the dark roast, Tim Horton's proved they are willing to listen to their consumers' changing taste.[1]

Technological. People desire for companies to remain on top of technological changes. Technology has shaped every industry, including the fast food industry. Many companies have launched mobile apps, which allow customers to see store locations, browse the menu, pay ahead of time, and enroll in rewards programs. Customers seem to enjoy have their favorites restaurant's app. "Customers, particularly in quick service restaurants, wanted the convenience of paying for purchases or accessing rewards though their mobile devices."[1] Companies that took advantage of this consumer trend have been able to bring in more customers. However, Tim Hortons has yet to launch an app [at the time of this case]. By ignoring their customer base, Tim Horton's risks losing customers to more technological-savvy competitors.[1]

Global. In order to become a household name like McDonald's or Starbucks, Tim Horton's must expand into other parts of the world. Tim Horton's already has the Canadian market down, but has struggled to compete in the US. So instead of risking more money by investing in US growth, Tim Horton's has instead announced plans to enter Great Britain, Spain, Mexico, the

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[2] Perveen, Saiqa, Harpinder Sandhu, Thea Walmsley, Katherine Walla, Douglas Donnellan, Jared Kaufman, Danielle Nierenberg, et al. "World Health Organization Study Proves Need for Regulation of Fast Food Industries." Food Tank, November 12, 2016. https://foodtank.com/news/2015/08/world-health-organization-study-proves-need-for-regulation-of-fast-food/.

Philippines, and China. Tim Horton's has entered a total of 14 different countries, which has helped them grow their revenue to over 20 billion. Although expansion so far has proved successful, Tim Horton's has still not became a household name to much of the world. However, if they continue to expand at the same rate, they should be a household name before too long.[3]

Physical. Tim Horton's has initiated an environmental stewardship program to help reduce waste. The initiative first helps to reduce waste by finding new ways to be even more efficient in packaging. It is estimated that the new packaging method has "increased product per pallet by 33%, which in turn increased [the] truckload weight utilization by approximately 29%". The second way this initiative helps to reduce waste is by cutting back on waste in their restaurants. The following is a graph showing the proportion of waste coming from the average Tim Hortons':

As the chart shows, there is still a lot of recyclable products that end up in the landfill. However, Tim Horton's is striving to make those numbers as small as possible. They are working with managers to get recycling stations put up in every restaurant. They also offer a ten cent discount to customers who bring their own mugs for hot coffees. A third way this initiative helps to reduce waste is by promoting household waste reduction. Tim Horton's even helps to pay for

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[3] Lewis, Michael. "Tim Hortons Takes on the World." thestar.com, May 15, 2019. https://www.thestar.com/business/2019/05/15/tim-hortons-takes-on-the-world.html.

packaging stewardship programs in many parts of Canada to make reducing waste more affordable. Ultimately, Tim Horton's has proved that they are a environmentally responsible company.[4]

Stakeholder Analysis

Capital Market. Capital market stakeholders are made up of shareholders and major suppliers of capital. Capital market stakeholders are interested in Tim Horton's turning over a profit. For Tim Horton's, the most important capital market stakeholder is 3G Capital, the company that owns a majority of Burger King. When Burger King and Tim Horton's became one, 3G Capital gained control of Tim Horton's as well. 3G Capital owns 51 percent of the firm, naturally making them the most important shareholder as well as the biggest supplier of capital.[1]

Product Market. The product market stakeholders are made up of primary customers, suppliers, hosts communities, and unions. Product market stakeholders are interested in outreach initiatives to make them feel important. Tim Horton's does all they can to make a positive impact for their customers in their host communities. For example, Tim Horton's hosts a children's foundation camp. The camp is "designed to support our campers in becoming responsible, caring and motivated individuals." They also have a minor sports program. "Tim Hortons sponsors minor sports programs across Canada and the US giving more than 300,000 children an opportunity to play hockey, soccer, lacrosse, softball, baseball and ringette." They also have a program called "Smile Cookie." Whenever one of these smiling cookies are sold, a portion of the funds are sent to charities in both the US and Canada. Tim Horton's clearly cares for their host communities and customers and wants to see them thrive. Tim Horton's also maintains good relationships with their suppliers. Tim Horton's also does not have to worry about unions because most workers are not represented by unions. Product market stakeholders are made to feel important when companies sponsor several initiatives for them.[5]

Organizational Stakeholders. Organizational stakeholders are made up of employees, managers, and non managers within the company. The interest of organizational stakeholders is that the company treats them well, as well as stays in business to keep ensure they have a job. Tim Horton's tries to take good care of their employees. Being a fast food chain, perks are few and far between for most of the employees. Pay is what would be expected from most fast food chains as well. There are simply too many low skill employees for good benefits that would be affordable to the company. Ultimately employees are treated well enough for the industry.[1]

Industry Analysis

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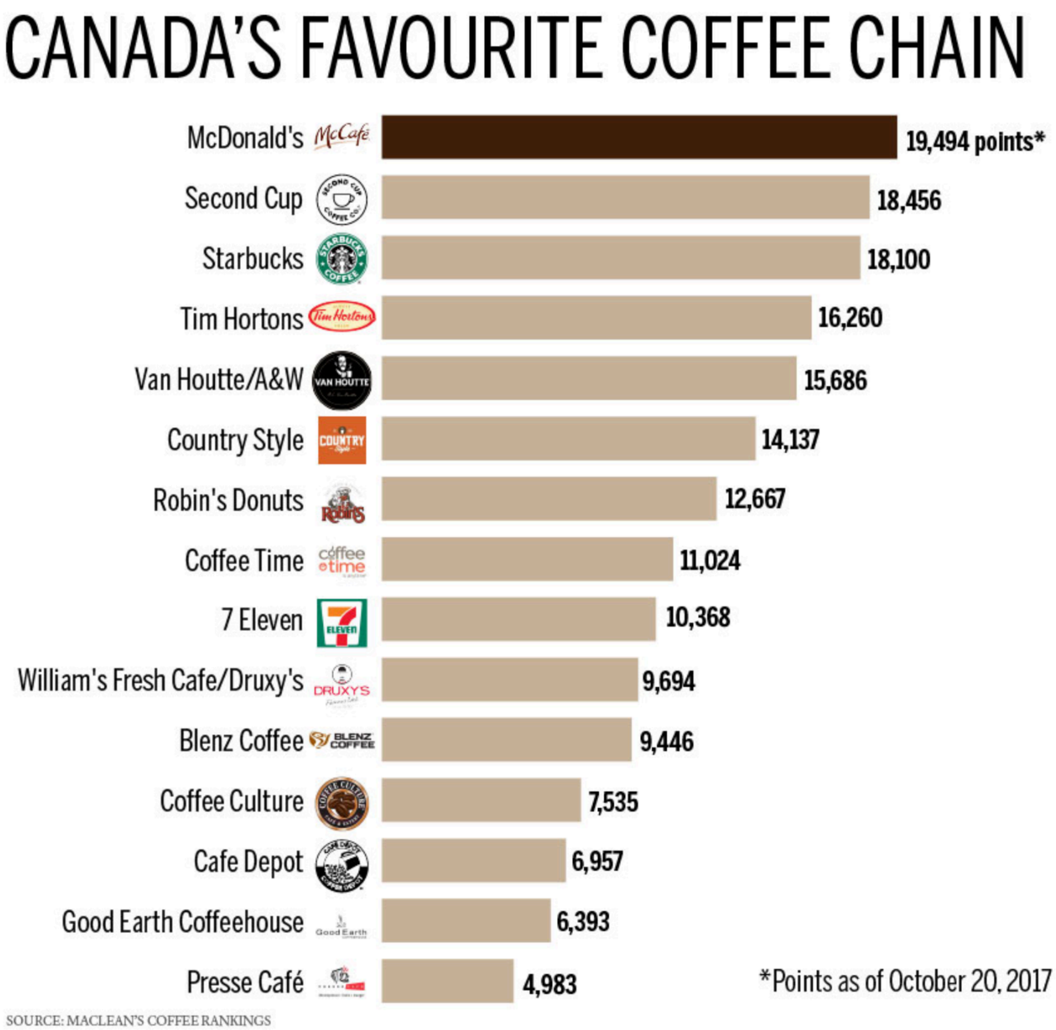
[4] "OUR INITIATIVES: ENVIRONMENTAL STEWARDSHIP View Our Performance." 2014 Tim Hortons Sustainability and Responsibility Report - Environmental Stewardship. Accessed October 28, 2019. http://sustainabilityreport.timhortons.com/planet-environmental-stewardship.html.

[5] "Community Initiatives." Tim Hortons, September 6, 2019. https://www.timhortons.com/us/en/corporate/community-initiatives.php.

Industry Definition. Tim Horton's is a fast food restaurant, which puts them in the NAICS category 722513, or the limited service restaurant. "This U.S. industry comprises establishments primarily engaged in providing food services. . .where patrons generally order or select items and pay before eating. Food and drink may be consumed on premises, taken out, or delivered to the customer's location." Because Tim Hortons' has expanded so far into serving full meals instead of just snacks and drinks, they are classified as a fast food restaurant.[6]

Industry Competitive Structure. The fast food industry is monopolistically competitive. A monopolistically market is one in which each firm sells somewhat similar products which are not perfect substitutes. Each fast food chain caters to a different market. For example, people would not go to Taco Bell for specialty coffees, much like people would not go to Starbucks for tacos.



6 "NAICS Code: 722513 Limited-Service Restaurants." NAICS Association. Accessed October 28, 2019. https://www.naics.com/naics-code-description/?code=722513.

Each company focuses on what they specialize is making while existing in the same industry. This makes the fast food industry monopolistically competitive. Above is a chart detailing Tim Horton's competition (specifically coffee shops over the entire fast food industry.)[7]

Industry Life Cycle. The lifecycle for the fast food industry is in the maturity stage. Fast food restaurants can be found anywhere. Although profits are growing, they are not growing at the rate they once were. Most people are familiar with the fast food industry and there are very few people who have not been exposed to a fast food chain yet. Although there is still room for growth and profit expansion, the market has slowed down considerably in the last few years. These indicate that the fast food industry is in the maturity stage.

The fast food market is a standard-cycle market. In the standard-cycle market, "imitation is partially shielded" and "is moderately costly". Any differentiation strategy (healthier options, value deals) can be copied somewhat quickly across the industry. That being said, most chains try to remain differentiated enough to gain customer loyalty and to set themselves apart. These factors are a sign that the industry is standard-cycle.[1]

Porter's Five Forces

Threat of New Entrants. *Economies of Scale*. As large as Tim Horton's is, they have reached peak economy of scale. New entrants with one or two locations can not possibly replicate the economies of scale of a company like Tim Horton's. It took Tim Horton's over 50 years to build their efficiency up to this point. New entrants can try to be as efficient as possible, but will not be able to match chains like Tim Horton's. This aspect drives down the threat of new entrants.[1]

Product Differentiation. Differentiating products in the fast food industry becomes harder with each passing year. New entrants try out different ways to prepare meals and coffees with varying levels of success, all while customers develop more and more loyalty to established chains. Tim Horton's has developed customer loyalty to the point that their customer base thinks that their products are unique. Unless a new entrant comes up with a radical new idea, the loyal Tim Horton's customers will most likely view the new entrant as an inferior knockoff and avoid going there. This aspect drives the threat of new entrants down.[1]

Capital Requirements. Starting a restaurant or opening a franchise is not cheap. Anyone who considers doing either of the two must have considerably capital backing them up. The amount of capital required to open a Tim Horton's franchise is substantial. "The cost of a Tim Hortons franchise varies depending on the restaurant size and location, along with other factors. You must have an estimated $500,000 in net worth and $100,000 in unencumbered funds in order to

[7] Ciolfe, Terra. "The Results Are in: Tim Hortons Is No Longer Canada's Favourite Coffee Shop." Macleans.ca, January 10, 2018. https://www.macleans.ca/news/canada/the-results-are-in-tim-hortons-is-no-longer-canadas-favourite-coffee-shop/.

qualify. Financial requirements may be lower or higher depending on the transaction type." On top of that, there's a $50,000 franchise fee.[8]

Many people might look at these costs and consider opening their own restaurant instead. Opening a new restaurant will still be pricey, but can be done at a much cheaper price than a franchise if done right. For example, a man based in Birmingham, Alabama, has opened up two restaurants in the area. His first restaurant opened in the 90's at a cost of $7,000. His most recent restaurant, which opened in 2013, only costs him $13,000. He cut out all unnecessary expenses and went as cheap as possible, proving that opening a restaurant can be cheaper than a franchise if done right. This aspect drives up the threat of new entrants.[9]

Switching costs. Switching costs among the fast food industry is virtually nonexistent. Most chains hover around the same price in order to attract customers. The exception would be chains like Starbucks and local coffee shops, who tend to have higher prices to appear to be higher quality. Either way the lack of switching costs creates a perfect environment for potential new entrants who want to be able to quickly turn a profit. Because Tim Horton's has such low prices, new entrants might incur some minor switching costs for the Tim Horton's customer base. However, they are the exception as most other chains are more expensive. This aspect drives up the threat of new entrants.[1]

Access to Distribution Channels. New entrant will not have the same access to distribution channels as would massive chains. Massive chains send so much inventory through their distributes that most distributers focus is on the massive chains instead of the local startups. Chains also will get better pricing and advertising allowances from their distributers that startups probably will not get. Many companies like Tim Horton's have their own distribution network to cut down on third party costs. Naturally, startups do not have the capital nor the resources to operate their own distribution network, so they are stuck with third party carriers, many of whom are too focused on massive chains that they do not care for the startup. This aspect drives down the threat of new entrants.[1]

Cost Disadvantages Independent of Scale. New startups have disadvantages that they would not be able to overcome regardless how big they get. "Proprietary product technologies, favorable access to raw materials, desirable locations, and government subsidies are examples." Established chains might have developed superior technologies in order to cut down on food preparation time. Established chains have also probably snatched up most of the desired locations in their area. These factors could not be fixed no matter how big these startups get. This factor drives down the threat of new entrants.[1]

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8 "Franchising Frequently Asked Questions: Corporate." Tim Hortons, June 20, 2019. https://www.timhortons.com/ca/en/corporate/franchise-ca-faq.php.

9 Tice, Carol. "Bootstrap Startup: Inside A $13K Restaurant Opening." Forbes. Forbes Magazine, March 24, 2016. https://www.forbes.com/sites/caroltice/2013/11/24/boostrap-startups-13k-restaurant-opening/#3e1e5d3162c2.

Government Policy. Government policy is another factor that new entrants must consider. Franchises like Tim Horton's will handle most of the government policies for their franchisees. These policies include licenses and permits that must be obtained for each location. A franchisee will probably have to still go get licenses for himself, but the franchise will help to handle a lot of the work. Someone who wants to start their own restaurant from scratch must handle all of the licenses and permits themselves, which can be costly and time consuming. This factor drives down the threat of new entrants.[1]

Expected Retaliation. In many industries, new entrants have to worry about retaliation from existing companies who are trying to protect their market share. This is not the case for the fat food industry. The industry is so vast and has so many competitors that established chains simply do not have the time to worry about a new entrant. Thousands of new restaurants open and close everyday, with no response from established chains. Companies like Tim Horton's is not worried about a new coffee shop opening up because they already have developed customer loyalty with their market share. The lack of expected retaliation in the fast food industry drives up the threat of new entrants.[1]

All of these factors combine to make the threat of new entrants a high threat. Startup restaurants have many disadvantages, such as economies of scale, product differentiation, access to distribution channels, cost disadvantages independent of scale, and government policy. However, these factors are not enough to overcome capital requirements, switching costs, and expected retaliation, which combined are enough to make the threat of new entrants high. Chains like Tim Horton's must watch out for new entrants.[1]

Bargaining Power of Suppliers. The Bargaining Power of Suppliers is low for Tim Horton's. Because of the sheer size and funds of Tim Horton's, most suppliers would benefit greatly from supplying to Tim Horton's due to the amount of supplies they would need to run all of their locations. Tim Horton's being such a massive company that consumes a lot of supplies drives down the bargaining power of suppliers.

Although Tim Horton's is a fast food chain, they specialize in coffee. Coffee suppliers (especially local suppliers) have very limited bargaining power. They lack bargaining power because there are so many of them. Coffee suppliers are oftentimes simple farmers who sell what they grow themselves. If one supplier starts to hike prices, Tim Horton's could simply find another supplier in the same region. Again, due to the amount of coffee consumes by Tim Horton's, they might be a coffee supplier's one and only customer. If Tim Horton's decides to go with another supplier, that supplier could lose everything. Ultimately the bargaining power of coffee suppliers is even lower than the bargaining power of normal suppliers as a whole.[1]

Bargaining Power of Buyers. The bargaining power of buyers for Tim Horton's is a medium threat. Tim Horton's serves millions of customers each year. If several of them decided they did not want to go to Tim Horton's anymore, it would not affect the bottom line very much. This fact drives down the bargaining power of buyers. On the other hand, there are relatively no switching costs. Customers who do decide to stop going to Tim Horton's have several other options to choose from, most of which costs virtually the same, if only slightly higher. McDonald's, Starbucks, and other coffee shops would be easy substitutes with very little cost difference. The lack of switching costs drives the bargaining power of buyers up slightly, which makes the bargaining power of buyers as a whole medium.[1]

Threat of Substitute Products. The threat of substitute products for Tim Horton's is very high. Coffee can be bought from almost anywhere. With the rapid expansion of Starbucks and McDonald's launch of their McCafe brand, coffee is easier to get more now than ever before. In order to overcome the threat of substitutes, Tim Horton's must find a way to differentiate. The threat of substitute products is what drove Tim Horton's to launch a second coffee blend, the dark roast, which we discussed in the SocioCultural section. Although they are doing all they can to differentiate in order to push down the threat of substitutes, the threat of substitutes remains high for Tim Horton's.[1]

Intensity of Rivalry Among Competitors. *Numerous or Equally Balanced Competitors.* Tim Horton's has several equally balanced competitors to deal with. McDonald's, Starbucks, and Dunkin' Donuts all are powerful competitors that Tim Horton's must contend with. One of the reasons Tim Horton's has had such a hard time entering the United States's market is because Starbucks, McDonald's, and Dunkin' Donuts are all based in the United States. The market saturation of similar competitors has proved challenging to overcome. The numerous and equally balanced competitors that Tim Horton's must deal with raises the intensity of rivalry among competitors.[1]

Slow Industry Growth. Fast food industry growth is slowing down, as we discussed earlier. "Future forecasts predicted that food service industry traffic would grow at less than 1 percent for the next few years." On top of that, "the number of visits to restaurants was stagnant in the United States and Canada in the year ending June 2014." The slow industry growth and stagnant visit rate encouraged competitors to attempt to steal the market share from each other in order to continue to grow profits. When growth slows in an industry, competitors fight hard to maintain their market share. The slow industry growth in the fast food industry raises the intensity of rivalry among competitors.[1]

High Fixed Costs or High Storage Costs. Fixed costs are relatively low in the fast food industry. Storage costs are somewhat high because food has a limited shelf life. With a limited shelf life, companies must make sure that they have a high inventory turnover in order to avoid food expiring on their shelves. Most restaurants have a high inventory turnover rate, so food expiration is not really a concern for big chains. The lack of high fixed costs and high storage costs drives down the intensity of rivalry among competitors.[1]

Lack of Differentiation or Low Switching Costs. As discussed earlier, there are low switching costs in the fast food industry. Low switching costs increases the intensity of rivalry among competitors. However, there is some differentiation in the fast food industry, namely in each competitor's brand. Tim Horton's brand is synonymous with Canada, which helps them thrive in the Canadian market. McDonald's can be found anywhere and is known for being a low costs option, which attracts people who live off of a lower income. Dunkin' Donuts is known for their donuts as well as their coffee, and has a strong foothold in New England. Starbucks is probably the most popular coffee shop on the planet. Each company uses their brand image to help to differentiate themselves from their competitors, even though each of these companies sell similar products. The low switching costs, as well as the minimal differentiation through brand power, drives up the intensity of rivalry among competitors.[1]

High Strategic Stakes. Like most industries, the fast food industry has high strategic stakes. If company starts to lose its market share considerably and faces closing down, there is no backup plan. Companies inside the fast food industry are almost always solely in the fast food industry. Companies in the tech industry might be diversified enough to take a hit in one or two of their markets because they are so big. However, fast food chains do not have the same luxury. If they lose their market share, they shut down. This fact creates high strategic stakes, which drives up the intensity of rivalry among competitors.[1]

High Exit Barriers. Much like the strategic stakes, companies in the fast food industry are typically stuck there. If McDonald's restaurants started to close down, I guarantee the corporate office will not start opening McDonald's hotels to keep the brand going. Fast food brands will remain fast food brands until they shut down. The exit barriers are too high for a company to start doing something else. The high exit barriers in the fast food industry drive up the intensity of rivalry among competitors.[1]

Company Analysis

Vision/Mission/Strategic Intent. Tim Hortons' strives to be the best company they can be. Their mission statement is "to be the quality leader in everything [it] did." Their vision statement is "to deliver superior quality products and services for guests and communities through leadership, innovation, and partnerships." Tim Hortons' actions reflect what their company policies are.[1]

Current Goals/Objectives. Tim Horton's retains lofty goals for growth. "From 2015 to 2018, Tim Horton's had goals of an 11 to 13 percent compounded annual growth rate, cumulative free cash flows of approximately $2 billion, operating income generated through the US segment of up to 450 million, and opening 800 or more new locations in North America." Clearly the acquisition of Tim Horton's by 3G Capital has boosted Tim Horton's confidence tremendously. The lofty goals can only be attained by the backing of 3G and Burger King. If Tim Horton's is able to achieve these goals, they will have further positioned themselves for longterm success and will have grown their market share considerably.[1]

Strategies. Tim Horton's strategies have evolved considerably over the years. Their original strategy was simply selling coffee. Eventually this strategy changed to add donuts and baked goods to the menu. Soon, their menu added sandwiches and soups, officially making Tim Horton's a fast food chain. Clearly Tim Horton's strategy in the past revolved around menu innovation. However, in order to meet the goals set by Tim Horton's, menu innovation would not be enough. Goals like this can only be met by rapid expansion, preferably into the United States. As discussed earlier, past attempts have failed. However, with Burger King's backing, Tim Horton's might be able to successfully enter the US market. If the new strategy of expansion works, Tim Horton's will be able to meet their goals for the next few years.[1]

SWOT Analysis.

Strengths	**Weaknesses**
• Strong presence in Canada, so much so that they have become a part of Canada's culture. • Ability to adapt (consistently adding new menu items to meet consumer tastes). • Strong menu variety, from coffee to donuts to sandwiches. • Strong brand recognition. • Holds a large portion of Canadian market share.	• Failure to successfully enter the United States's market. • Failure to create an app despite consumer demand. • Only offering two coffee blends (not counting decaf) despite different consumer preferences.
Opportunities	**Threats**
• Renewed chance to enter the US due to the merger with Burger King. • Chance to grow popularity among Millennials if an app is introduced. • Chance for international expansion that exceeds just the United States with the Burger King merger.	• Slowing market growth. • Rising Supplier Prices. • Changing consumer tastes. • Potential for failure of merger with Burger King. • Growing popularity of chains like Starbucks. • Established chain McDonald's launching McCafe, entering themselves into the coffee market.

Porter's Value Chain

Supply Chain Management. Tim Horton's sources their coffee directly from coffee producing regions of the world. They get their coffee directly from the coffee farmers in those areas. An issue that plagues the supply chain management of Tim Horton's is the poverty of the farmers who source their coffee. Because the areas of the world that produce coffee are typically poor areas in third world countries, Tim Horton's strives to make the lives of their coffee farmers better. "In 2005, [Tim Horton's] created the Tim Horton's Coffee Partnership in Brazil, Guatemala, Honduras, and Columbia to help local coffee farmers improve their lives economically, socially and environmentally. The program had assisted 3,400 farmers." By giving back, Tim Horton’s has been able to help thousands of farmers in an attempt to alleviate some of the poverty in those areas.[1]

Operations. Operations for Tim Horton’s consists of turning their raw materials (basic foods or ingredients) into finished products (sandwiches, donuts, and specialty coffees). Operations also consists of employee schedule generation, store layouts, and equipment upkeep. Store managers must keep track of all of these aspects to ensure their store runs smoothly. If employee schedules are not generated properly, the store could be left understaffed. If the store is not laid out correctly, the store might not be running as efficiently as possible (which is key for a fast food chain). If equipment is not taken proper care of and breaks down, entire portions of the menu might not be available until the equipment is fixed or new equipment is delivered. On top of all of these potential problems, managers must make sure that employees are preparing food properly. Ultimately managers must ensure that all aspects of operations run smoothly in their stores.[1]

Distribution. As big as Tim Horton’s is, distribution must run smoothly in order to keep all of the stores stocked with coffee and food. An issue revolving around distribution is keeping everything in order. In order to do that, Tim Horton’s has several facilities spread across North America. “Three manufacturing facilities, six warehouse distribution centers and one warehouse serviced Tim Horton’s restaurants across Canada and the United States; corporate-owned trucks delivered food and supplies from the distribution centers to the restaurants.” By servicing their own corporate trucks, Tim Horton’s avoids any potential problems that could exists by using a third party. The six distribution centers spread out across Canada and the United States ensure that all of the locations are stocked with everything that they need. Distribution runs smoothly for Tim Horton’s.[1]

Marketing/Sales. Sales for Tim Horton’s is relatively simple (customers come to the front desk and place an order), and lacks very many complications aside from the occasional wrong order. For marketing, Tim Horton’s must make sure that they are getting their name out there in order to maintain their market share. A mishap in advertising could cost them thousands of dollars. “On a chain wide basis, Tim Hortons advertised on television, radio, outdoor (billboards, transit shelters) and in some print vehicles (magazines).” As a whole, Tim Hortons is broadcasting in almost every mainstream outlet. “On a regional or restaurant basis, Tim Hortons also utilized newspaper advertising.” Individual locations require much less advertising, but still require enough to let locals or travelers know that a Tim Horton’s is nearby. They oftentimes use commercials to announce a new menu item. Every now and then marketing gets creative and hosts massive giveaways, such as the “Roll up the Rim to Win”. This campaign gave away millions up prizes, including several cars. The marketing department for Tim Horton’s does an excellent job of putting the Tim Horton’s name out to their customers.[1]

Follow-up Service. For the most part, the fast food industry lacks any form of follow-up service. Tim Horton’s is no different. The only follow-up service that Tim Horton’s takes the initiative in is occasional surveys (whether through the receipt or emails) asking how the chain is doing. For the most part, this is the extent to which Tim Horton's follows up on customers. If customers have a complaint about their experience, a location, an employee, their food, management, or anything else, they are free to contact the Tim Horton's customer service department. Customers can contact the customer service department directly through their phone or email. There is also a link found on the Tim Horton's website for feedback that customers can give at any time. Tim Horton's follow-up service is standard among the fast food industry and lacks any major issues that must be dealt with.[1]

Finance. Tim Horton's low costs structure has allowed them to provide some of the cheapest food on the market compared to their competitors. However, the finance department must find a way to combat rising costs. As discussed earlier, supplier prices have been rising considerably. In fact, food prices in 2013 rose 7.1 percent. Tim Horton's chose to combat this problem by rising their own menu prices by 2.4 percent. However, they still had to eat the costs of 4.7 percent due to the increase in supplier prices. This increase is substantial and costs Tim Horton's a lot of money. Even with the rising prices, "Tim Hortons grew overall revenues by 4.7 percent to $3.3 billion and operating income by 4.5 percent to $621 million in 2013." Despite these numbers, Tim Horton's did not meet their growth expectation or targeted earnings per share for 2013. Although the finance department has allowed Tim Horton's to continue to grow despite the rising costs, the growth Tim Horton's experienced was less than corporate predicted it should have been. Despite the failure to meet expectations, Tim Hortons returned good numbers in return on assets (20.5 percent), return on equity (53 percent) and debt to equity ratio (3.7 percent). The finance department has done an excellent job of ensuring growth, but must show better numbers in the future in order to match expectations.[1]

Human Resources. An issue that the Tim Horton's human resources department must deal with on a daily basis is hiring employees. Fast food chains are constantly hiring new employees for several reasons. For one, employees typically do not stay for very long. Many workers only work to have some spending money long enough to hold them over till they start their career. Secondly, a lot of employees are terminated along the way. Fast food jobs are typically low skill, minimum wage jobs, which tend to attract low skill, lower performing workers. Naturally a lot of these workers do not last very long. Hiring is typically done by the individual store managers instead of through the corporate office. However, the human resources department is still kept extremely busy by keeping up with all the thousands of employees spread out across hundreds of locations. In this sense, the Tim Horton's human resources department does an excellent job of keeping track of all of their employees.[1]

Management Information Systems. Like any massive chain, an issue that Tim Horton's must watch out for in terms of management information systems is keeping track of all of their data. A management information system is a system that stores, maintains, and distributes all of a companies information. This information includes employee records, supplier information, distribution channels, financial records, and so on. The bigger the chain is, the more information the company must store. A chain the size of Tim Horton's must have very sophisticated systems in order to securely store all of their information. Tim Horton's does an excellent job of running their management information systems.[1]

Strategic Analysis

Corporate Level. On a corporate level, Tim Horton's strategy is to expand internationally. Having almost completely saturated the Canadian market, the only way to grow is to expand past Canadian borders. After slowly pushing south into the United States, Tim Horton's decided an acquisition of a local company would help give themselves a foothold into the United States market. "In 2004, the acquisition of Bess Eaton restaurants allowed the company to gain a foothold in New England, the traditional stronghold of Dunkin' Donuts." However, this acquisition did not go as well as hoped, and 36 of the stores in New England ended up closing down. Another key acquisition that has been discussed several times throughout this paper is the acquisition of Tim Horton's by G3 Capital. This acquisition pairs Tim Horton's with Burger King, which has the potential to give Tim Horton's the edge they need to successfully enter the United States's market. Time will tell if this acquisition will be successful.

The American market was not the only market that Tim Horton's was focused on. "Tim Horton's had also expanded into the GCC [Gulf Cooperation Council, located in the Middle East]. By August 2014, there were 38 stores in the United Arab Emirates, Oman, Qatar and Kuwait." The Middle East stores were actually successful when compared to the US stores. In fact, Tim Horton's planned on adding 120 more stores in the region by 2018, as well as expanding into Bahrain.

Outside of the Middle East and the United States, Tim Horton's also looked to expand into Europe. In 2007, Tim Horton's partnered with Spar, a European convenience store chain. This partnership allowed Tim Horton's to open "255 locations in Ireland and the United Kingdom; the majority of these locations were self-serve kiosks." The strategy of opening self-serve kiosks instead of full-service stores in Europe appeared to be the key to success for the European market.[1]

Business Level. On a business level, Tim Horton's pursues a cost-leadership strategy. Compared to their biggest competitors (Dunkin' Donuts, and Starbucks), Tim Horton's has by far the lowest prices. Their only other major competitor, McDonald's, has a similar price. However, McDonald's quality is lacking in comparison to Tim Horton's.

All companies have a mix of cost-leadership and differentiation. Tim Horton's, while being the cost-leader, still strives to be different than their competitors. One simple way that Tim Horton's differentiates themselves from their competitors is by offering only two roasts for coffee. Their standard roast is "best-in-class". This premium roast shows that Tim Horton's believes that their quality is not lacking even though they remain the cheapest option. By being a cost-leader and pursuing some measure of differentiation, Tim Horton's has managed to set themselves apart without becoming stuck-in-the-middle.[1]

Cultural Assessment. Tim Horton's has become a staple of Canadian culture. When people think of Tim Horton's, they oftentimes think of Canada. Tim Horton's culture is unique because it has become synonymous with the culture of an entire country. As popular as McDonald's is in the US, McDonald's has not became synonymous with America's culture. By becoming synonymous with Canada, Tim Horton's has reached a level of uniqueness in their culture that far exceeds most companies. Tim Horton's represents quality, good service, and Canadian friendliness. Their unique culture has allowed them to reach such national prominence that they are part of the culture of an entire country.[1]

Organizational Structure. Tim Horton's organizational structure most closely resembles the Functional Structure for Implementing a Cost Leadership Strategy. The head office is located in Oakville, Canada, and holds more 1,800 employees, including the President and CEO. The headquarters also houses Tim Horton's University, an innovation center and corporate restaurants. Below the headquarters are seven regional offices (two in the United States and five in Canada). The President oversees nine executives who are in charge of various departments. "The central team supported all facets of the business including operations, finance, human resources, information technology, legal services, research and development, training, real estate acquisitions, franchising, purchasing and marketing." Besides the team of nine executives, the Franchisee Advisory Board regularly meets to discuss the companies' performance. This board is made up of sixteen franchisees, which provide insight into how the company is running and are a direct line from the customers to upper management.[1]

Firm Leadership. At the time of the merger between Burger King and Tim Horton's, Marc Caira was President and CEO of Tim Horton's. "Caira had extensive food experience, having been the CEO of Nestle Professional and the president and CEO of Parmalat North America." Caira clearly knows how to run a restaurant chain. As mentioned in the Organizational Structure section, Caira oversaw a team of nine executive officers. Each of the officers reported to Caira, who helped to give input in any major decision of those officers. Naturally, due to these responsibilities Caira had major significance in the strategic management of Tim Horton's.[1]

Functional Level. Tim Hortons is able to achieve superior quality in several areas. For Research and Development / Production, Tim Horton's has been able to consistently come up with good new menu items. Tim Horton's started off as a coffee and donut shop, and has been expanding its menu ever since to match consumer preferences. The menu "expanded to include tea, a small selection of cold beverages and baked goods. The baked goods offerings expanded to include muffins, cakes, pies and cookies. This was followed by more substantial items including soups, chilis, and sandwiches." Throughout all of the menu innovation, Tim Horton's has maintained excellent quality on old and new products. This is a reflection of superior quality that their R&D/ Production line offers.[1]

Tim Horton's also displays superiority in their marketing department. Their marketing department has done such an excellent job creating the Tim Horton's brand that they have created a culture so unique that it reflects the culture of all of Canada. On top of the unique culture, the marketing department has been able to grow Tim Horton's market share to the point where is dominates the Canadian market. The unique culture as well as the market share is a reflection of how well Tim Horton's marketing department performs.

Tim Horton's also displays superiority in they human resources department. As discussed earlier, the human resources department is tasked with keeping track of thousands of employee's information. They must make sure that pay rates, bank records, hours worked, and benefits earned are all correct and assigned to the proper employees. This job is no small task. The fact that the human resources department has had to major issues shows the superior quality of the department for Tim Horton's.

Tim Horton's also displays superiority in their finance department. The finance department has created a cost structure that allows Tim Horton's to pursue a cost-leadership strategy. If the costs structure were any higher, they would not be able to provide such low prices to their customers and still turn a profit. The finance department has synthesized a structure that accounts for distribution, supplier, corporate, franchise, and marketing costs in a much better way than the competitors. This allows Tim Horton's to charge a lower price and still be successful. The low costs structure is evidence for the superior finance department that Tim Horton's possesses.[1]

Strategy Formulation.

My first recommendation for Tim Horton's would to be use to the acquisition of Burger King to their advantage. Burger King has a massive presence in the US as well as in several places internationally. One easy way Tim Horton's could get their name out through Burger King is by replacing the Burger King coffee line with Tim Horton's coffee. If Burger King dropped their coffee and started to exclusively serve Tim Horton's coffee, many United States residents would be introduced to the Tim Horton's brand. I realize that G3 Capital probably wants to keep the Burger King brand and Tim Horton's brand separate, but this move would make a move by Tim Horton's into the United State's market so much easier. On top of the coffee, Burger King could also start selling some basic pastries and dessert items from Tim Horton's menu. The dessert items could completely replace Burger Kings' dessert menu. If Burger King marketed this partnership heavily and the American consumers accepted it, Tim Horton's would not have to do any of the work necessary to introduce their brand to America. This move would greatly help Tim Horton's.

My second recommendation for Tim Horton's would be to continue to push into the American market. If G3 Capital does not green light the first recommendation, Tim Horton's can still push farther into America. The Tim Horton's located close to the Canadian-American border on the American side seem to be doing the best out of the American locations. This is likely due to the fact that many Northern Americans are familiar with the Tim Horton's brand, whereas the farther south Tim Horton's goes, the more foreign they seem. If Tim Horton's slowly pushes into the south, they will continue to build brand recognition and improve performance. The reason this strategy failed last time is because they expanded too far south too quickly. Americans need to become accustomed to the Tim Horton's brand before they become regular customers. This strategy will take years to implement, but the slow push into the United States will prove successful.

My third recommendation for Tim Horton's would be to introduce an app. As discussed in the Technological section, people want for their companies to be on top of technological trends. Many companies are introducing apps that allow for people to be able to pay ahead of time and have their order waiting on them to arrive. Tim Horton's would greatly benefit from an app with similar functions. Customers would be able to avoid the line, grab their order, and go quickly. Not only would this allow for customers who are in a rush to be able to get what they want, but it would cut down on the number of consumers who take up space in the restaurant. Instead of ordering and having to wait until their order is completed, customers can be in and out in much less time with an app. This creates more space for customers who want to come in and physically place an order. Ultimately an app would be a simple way to improve customer relations and grow the Tim Horton's market.

My fourth recommendation would be for Tim Horton's to continue to focus on international expansion outside of the United States. The expansion into parts of the Middle East and Europe has proved successful up until this point. In Europe, the kiosks have helped to build brand recognition of Tim Horton's. The next step would be to start opening up more full service locations. The market would more than likely welcome a full service location if they are receptive of a self-serve kiosks. Because these kiosks are mostly located in the United Kingdom, it would be wise to open full-service locations in the United Kingdom. Opening more kiosks in the rest of Europe to build brand recognition among the rest of the continent would be the next step. In the Middle East, continue to open locations in good areas. The more stores that are successfully opened, the more brand recognition is built. By continuing to expand internationally, Tim Horton's will set themselves up for more profits and a greater market share.

My fifth recommendation would be for Tim Horton's to launch more coffee roasts. The launch of the dark roast was successful. There is no reason to believe that launching more roasts would not be successful as well. These roasts would aim to take away some of the market share of companies like Starbucks, who have a large variety of roasts. Many consumers do not go to Tim Horton's because Tim Horton's does not serve a roast that they prefer. Breakfast blends, French roasts, and Italian roasts are some examples of roasts that Tim Horton's could offer. These roasts would add much needed variety to the coffee menu and would serve to attract more customers (especially customers in America, who are accustomed to Starbucks and their large variety). Not only would this move attract more customers but it would serve to bring in existing customers in order for them to try something new. The variety of roasts has the potential to breathe life into the customer base who are growing bored with the lack of variety. Ultimately adding more roasts has the potential to grow Tim Horton's market share.

Case Analytical Insights.

Industry. Tim Horton's performs very well in comparison to the rest of the fast food industry. They operate a little over 4,500 locations, and yet are able to gross $3.3 billion. Compared to other Canadian chains, they bring in an average of $16,000 more per location. The numbers are less for the American market, which is likely due to the failure to make a substantial impact in the United States. That being said, Tim Horton's United States' growth rate exceeds that of the average US-based chain by 1.1 percent. Clearly Tim Horton's is slowly starting to gain favor in the US market. Like I suggested for them to do, they are slowly pushing there way into the United States. If they take their time, they will succeed in entering the United States. Eventually, they should have a substantial portion of the Northern United States' market share. Compared to the rest of the fast food industry, Tim Horton's is performing very well.

Restaurant. Being a quick service restaurant, Tim Horton's has the benefit of having multiple customer visits within a week. In fact, in the quick service industry, 39 percent of customers report that they return to a chain at least once within a week after there last visit. The high return rate of customers helps to propel the quick service industry to make up 28 percent of the entire restaurant industry. The multiple customer visits within such a short amount of time has helped the quick service industry be able to gross over $175 billion dollars despite only charging an average of $5.30 a check. The quick service industry is very profitable, and Tim Horton's has reaped the rewards of being a part of it.

Performance. Tim Horton's has also done an excellent job of staying profitable in the face of rising costs. Even though wholesale food prices has risen 7.1 percent, Tim Horton's has only raised their menu prices by 2.4 percent. And yet Tim Horton's still remains extremely profitable. While the rest of the industry is only netting around 3-6 percent, Tim Horton's is netting almost 19 percent. This is a testament to how strong of a company Tim Horton's is, even in the face of rising costs.

Stores. Tim Horton's, being a Canadian company, has most of its locations in Canada. Nearly 80 percent of their stores are located in Canada. Tim Horton's has about 18 percent of their stores in the United States. The other two percent are spread out across Europe and the Middle East. The number of stores in Europe and the Middle East will not doubt continue to grow as Tim Horton's eyes territory outside of North America. This graph is telling in that it shows that Tim Horton's holds significant stake in the success of their American locations. If 18 percent of their locations closed down, Tim Horton's would be in trouble. Their presence in America has to be successful in order to stay afloat.

Finances. In terms of finances, Tim Horton's has had several years of consecutive growth. In 2011, Tim Horton's saw a severe drop in operating income and have been trying to make it back to where they were in 2010 ever since. The sharp drop can be attributed to a large rise in expenses in the same year. However, if things continue the way they are, Tim Horton's will be right back where they were in a couple of years. Tim Horton's has done an excellent job of growing sales each year, which has led them to be as profitable and as large as they are today.

Competitors. Out of the three major competitors (McDonald's, Dunkin' Donuts, and Starbucks), Tim Hortons has the fewest number of locations by far. Dunkin' Donuts, which is second to last in terms of locations, has over double the amount of locations as Tim Horton's. That being said, Tim Horton's still brought in $3.3 billion in 2013 alone. The amount earned per store is less than Dunkin' Donuts and McDonald's, but more than Starbucks. They are probably not earning more per store over all of their competitors due to the fact that they are a low cost leader, which means that they must sell much more in order to turn the same amount of profit. Although Tim Horton's would like to be earning more per store than all of their competitors, being on top of Starbucks (which is a very expensive alternative) is definitely a good start. If Tim Horton's had the same pricing as Starbucks, their profits would be much higher (all other things constant). In terms of menu pricing, Tim Horton's is the low costs leader (another sign that they are pursing a cost-leadership strategy) in coffees, lattes, and breakfast sandwiches. The only item that they are not the cost leader in is muffins, which comes in at ten cents more expensive than McDonald's.

Either way Tim Horton's remains one of the cheapest chains on the market. Overall Tim Horton's does an excellent job of keeping up with their competitors.

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