Tim Hortons: A situational analysis

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Throughout this educational endeavour I have used my MBA learning to gain a deeper knowledge of one of the most important companies in Canadian history. I will conclude

emphatically no company has been able to imitate the loyal bond this company has created with consumers. The unique insight I have gained has provided me with a perspective on Tim Hortons, the QSR retail coffee industry and all businesses which strive to create a distinctive relationship with their consumer.

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Chapter 1: Introduction

1. Background

One of the greatest Canadian business success stories began 52 years ago in a former gas station on Ottawa Street in Hamilton, Ontario. The seeds were planted in 1964 by National Hockey League (NHL) star Tim Horton who established a coffee and donut shop which has emerged during the past five decades to become the largest Quick Service Restaurant (QSR) business in Canada. In partnership with Tatamagouche, N.S. native Ron Joyce, a former navy and Hamilton police officer, the two men created a franchise system of coffee and donut shops which has 4,772 locations and growing across Canada including a strategic presence in the United States and the Persian Gulf Region of the Middle East. Tim's coffee and donuts are also sold in self-serve kiosks in Spar convenience stores and gas stations and other sites in the United Kingdom and Ireland.

In 2013 before its merger with Burger King the firm had $6 billion in system wide sales. Tim Hortons now serves more than two billion cups of coffee per year and is considered the most influential QSR and out of home coffee sales business in the nation. With its strong brand recognition it has captured a significant market share while continuing to appeal to consumers. More than 75% of coffee purchased and consumed outside the home, 27% share of QSR dollars and 42 % share of QSR traffic has been achieved by the company, states the 2013 annual report. 1 (Retrieved from Tim Hortons.com, 2015) 2 (Retrieved from Wikipedia.org, 2015)

http://www.timhortons.com/ca/en/menu/dark-roast.php?gclid=CNem-vWGosgCFVQXHwodCPIEbg

https://en.wikipedia.org/wiki/Tim_Hortons

In addition to being the most recognized QSR brand in Canada, Tim Hortons has also emerged as a national institution praised by citizens of all ages in small towns and large cities from Saint John's, Newfoundland to Victoria, British Columbia. In fact, no Canadian food service or retail business has had such a social and psychological impact on individuals and families across Canada. During the past five decades Tim's has emerged as an iconic brand which continues to grow and captivate the hearts and minds of loyal consumers including politicians who frequent the coffee shop and have their photos taken, especially during election campaigns. In his book Double Double, business author Douglas Hunter, a native of Hamilton, explains the importance for politicians to identify with the Tim Hortons voter. "The real danger to Ignatieff's electoral fortunes was that he would be photographed holding a Starbucks cup," says Hunter commenting on the 2011 spring election campaign which resulted in the Liberal party and leader Michael Ignatieff's defeat at the polls. 3 (Hunter, 2012, p.299) Every morning thousands of Canadians rush to Tim's and line up in the drive-thru to get their morning coffee. For many beginning the day with a hot cup of Tim's coffee is an important part of their daily routine. Many places of work conduct coffee runs where a staff member takes an order and runs out to make a purchase at a nearby Tim's.

2. The founders

Tim Horton

The coffee story began with Miles Gilbert Tim Horton who was born in Cochrane, Ontario on January 12, 1930. He founded the business in the early 1960's while playing for the NHL. He knew hockey careers were short lived and so like his hockey colleagues wanted to invest in a business to support his family after retirement. He began his 22 year NHL career in

1949 as a defenceman playing for the Toronto Maple Leafs. He played 17 full seasons and three partial seasons with the Leafs and then moved to play briefly with the New York Rangers, Pittsburgh Penguins and Buffalo Sabres. In his final years with the Sabres, Horton is recognized for assuming a major role in training the team's younger players. In his lifetime, he played 1,446 regular season games, scored 115 goals, 403 assists for a total of 518 points. "Tim Horton played on four Stanley Cup teams, was an All-Star player six times, and was honored in 1969 with the J.P. Bickell Memorial Cup in recognition of his outstanding service to the Toronto Maple Leafs Hockey Club," states the corporate biography. In his autobiography, Always Fresh, Ron Joyce details his business partnership and friendship with Horton following the opening of the first Hamilton location in 1964 and the establishment of additional sites in different regions across Canada. Joyce discusses his own and Horton's life and how their lives and relationships evolved with the expansion of the company. 4 (Joyce & Thompson, 2006) Hunter, an award winning business writer, tells the story of the early days of the coffee giant which has emerged as a national cultural icon ranked next to hockey. 5 (Hunter, 2012)

In 1964-65 Horton and Joyce established three Tim Horton's locations. On February 21, 1974, at the time of Tim's tragic death from a single vehicle accident, the business had grown to 40 sites. In the company profile and tribute, hockey great Bobby Hull describes Horton this way, "Few players brought more dedication or honor to the game. He was my idea of a pro." Hockey legend Gordie Howe referred to Horton as hockey's strongest man. After his death, Buffalo Sabres retired his #2 jersey in his memory. 6 (Retrieved from Tim Hortons.com, 2015)

http://www.timhortons.com/ca/en/about/bio_timhorton.php

Ron Joyce

Many Canadians have heard about Tim Horton, the founder of the national chain, however, few people know a lot about his business partner and co-founder, Ron Joyce. Joyce, this report has learned played the most crucial role from the early days of the company by leading the real estate development of restaurants, franchise system, brand, products, menu, marketing, supply and distribution system which have made the firm a national QSR success that is in place today. Joyce was born in 1930 in Tatamagouche, N.S. to a poor struggling family. In 1951 he enlisted in the Royal Canadian Navy where he specialized in communications and travelled the world. In 1954-55 he served off the coasts of Korea and Japan. In 1956 he moved to Hamilton where he enlisted with the Hamilton Police Force. While a police officer, he began thinking about business and wanting to make a better life for himself. In 1965 he began operating the Tim Horton Donut shop on Ottawa Street in Hamilton. Two more locations were established and by 1967 he became full partners with Horton. Following the hockey player's death, Joyce purchased the company shares from Horton's widow Lori for $1 million. In 1975 Tim Hortons Donut Limited (TDL) had 40 locations. 7 (Joyce & Thompson, 2006, p.96)

Joyce has received numerous awards from universities and business organizations including an Honorary Doctorate in Commerce from Saint Mary's University in Halifax, Nova Scotia in 1993. "In 1994 he received the McGill University Management Achievement Award. He holds honorary degrees from Mount Allison University and McMaster University. In November 1996 Joyce became only the second person ever to receive the Canadian Franchise Association's Lifetime Achieve award." Among several other achievements he is recognized for founding the Tim Hortons Children's Foundation, a charitable organization which funds camps for poor children. He and Lori Horton created the idea to establish camps in select locations in memory of Tim and his love of helping less privileged children. Camps include the Tim Horton Memorial Camp Parry Sound, Ont., the first one founded in 1976 on the shore of Lorimer Lake; Tim Horton Children Ranch, Kananaskis Country, Alberta; Camp Des Voyageurs Tim Horton, Quyon, Quebec; Tim Horton Camp Kentahten, Campbellsville Kentucky; Tim Horton Onondaga Farms, St. George, Ont.; Tim Horton Camp, Whiteshell, Sister Falls, Manitoba. These camps are the primary charitable project for the company and the franchisees today. 8 (Retrieved from Tim Hortons.com, 2015) http://www.timhortons.com/ca/en/about/biographies.php

Chapter 2: The corporation

A. Editor's note: The acronym QSR refers to the quick service restaurant industry discussed throughout this report. Analysts use the acronym to refer to a diverse category of retail coffee shops and fast food businesses including, for example, Tim Hortons, Starbucks, Dunkin Donuts, Burger King, McDonald's, Wendy's, Subway, A&W and KFC. This is a specific category in the restaurant industry and is distinct from family dining restaurants such as East Mario's, Boston Pizza and Applebee's. Although there are similarities in consumers and operations, the QSR industry category is also distinct from businesses in the new fast casual category which includes, Chipotle Mexican Grill, Lime Fresh and Panera Bread. The fast casual burger category sometimes referred to by analysts as the "healthier" burger class is another grouping which comprises Shake Shack, Five Guys Burgers and Fries, SmashBurger, Fatburger, Habit Burger and others. Prince Edward Island's April 1-30th, 2016 Burger Love campaign now in its 6th year is an example of this fast casual burger trend sweeping North America. In April 2016 seventy-three restaurants across PEI are competing to sell the best hamburgers made from local beef.

B. Editor’s note: The acronym QSR as referenced in this report is not be confused with the Burger King, Tim Hortons’ parent company, Restaurant Brands International (RBI). RBI uses the ticker symbol QSR and is a dividend paying common equity stock trading for $50 Canadian (TSX: QSR) and $38 US (QSR: NYSE).

1. Business, coffee & menu development

The company began with a single coffee and donut shop in Hamilton which has developed into a system of 4,772 franchise owned restaurants across Canada with a visible and growing presence in United States and the Persian Gulf States under an agreement with the Gulf Cooperation Council. The brand is also present in several self-serve kiosks in the United Kingdom and Ireland. This business and cultural success story can attribute its accomplishments to its founders, franchisees, coffee brand, progressive menu and the food service and retail practice of listening and responding to consumer demand. The largest QSR business in Canada has changed with technology and new menu offerings but in many ways operates on the same principles on which it was founded. Its core business continues to be coffee and donuts while other hot drinks such as cappuccinos, mochas, lattes, fresh soups, sandwiches and wraps continue to be added to the menu. In the company’s historical chronology the brand grew as different products and services emerged and as franchises and locations were added. As cited throughout this report, Tim’s sells more than 75% of restaurant coffee in Canada and claims 27% of QSR sales and 42% of QSR traffic.

Chronological highlights:

- 1964: First store opens on Ottawa Street in Hamilton, Ontario.

- 1980's: Always Fresh slogan emphasized. Drive-thrus are added which increases traffic. They are so popular that municipalities have had to implement by-laws to ensure a safe flow of traffic near the restaurants.
- 1981: The first TH location opens in Pompano Beach, Florida, USA and closes in 1985. (Joyce & Thompson, 2006, p.139).
- 1984: Smoke free restaurants are attempted by Danny Murphy in Charlottetown but later reversed with a separate smoking section because of the negative response from customers. It took several years for TH locations in Canada to become smoke-free. (Joyce & Thompson, 2006, p.183)
- 1986: Roll Up the Rim promotion for the first time. The promotion has become a marketing phenomenon.
- 2004: The word "double-double" is added to the Canadian Oxford Dictionary.
- 2007: Take 10 coffee to go is introduced.
- 2013: Single serve coffee cups for Tassimo and Keurig coffee machines are sold in restaurants and supermarkets. 9 (Retrieved from Tim Hortons.com, 2015)

http://www.timhortons.com/ca/en/coffee/our-coffee-story.php

Menu development has been an important component of the company's efforts to increase revenue and market share. In 1964 the store sold only coffee and donuts but created two distinct products Duchies and Apple Fritters still considered popular today according to the company. Other products soon followed.

- 1976: Timbit bite sized donuts in 35 varieties
- 1981: muffins

- 1983: croissants
- 1984: cookies
- 1985: soups and chilly
- 1993: sandwiches and improved sandwiches in 1998
- 1996: bagels
- 1997: flavored cappuccino
- 1999: café mocha
- 1999: iced cappuccino
- 2003: turkey bacon club sandwich and maple pecan Danish
- 2005: yogurt and berries and cinnamon roll
- 2006: chicken salad wrap: 2006: hot breakfast sandwich egg, sausage, bacon, processed cheese on a home-style biscuit
- 2014: dark roast coffee

Regardless of the menu additions during the past 52 years the restaurant's major product appeal, this report asserts, is Tim's coffee sold in four sizes small $1.35 + HST, medium $1.61+ HST,1arge $1.78+ HST large and extra-large $2.00 + HST. Coffee and related beverages account for 80% of revenue. Today Tim's coffee is also sold in cans and packages at the restaurants and in grocery stores across Canada. Most of the restaurants are free standing with 24-hour drive-thrus but to increase their presence in recent years the company has added numerous non-traditional locations such as drive thru only and kiosk units. These smaller stores offer a scaled down version of the menu and are located in shopping malls, airports, hockey arenas, sports stadiums, hospitals, universities and inside gas stations.

2. Mergers and acquisitions: Wendy's, Burger King and M&A consequences.

Industry watchers recognize Danny Murphy of Charlottetown, Prince Edward Island for establishing the first Wendy's-Tim Hortons combo restaurant in Montague, P.E.I. in1992. (Joyce & Thompson, 2006, p.96) When Murphy who owns all Wendy's and Tim Hortons restaurants in the province proposed the idea Tim Hortons Donut Ltd (TDL) was cool to the concept but when he agreed to finance the business on his own, the company allowed him to proceed. Other TH franchisees in Canada soon adopted the idea to attract and serve more customers at one location.

Murphy's achievement and Wendy's chairman Dave Thomas' attendance at the grand opening on PEI contributed to the idea of a QSR merger between the American and Canadian companies. On August 8, 1995 Wendy's International merged with Tim Hortons. Tim's initially thought the alliance would enable the coffee icon to develop a stronger presence in the United States; however, this partnership for various reasons, proved to be an unsuccessful alliance. In late 2005 Wendy's started selling15-18% of shares in an initial public offering which was completed in March 2006. The remaining TH shares were sold and on September 29, 2006 the firm became a separate corporation Tim Horton Donut Limited (TDL). 10 (Retrieved from Tim Hortons.com, 2015) 11 (Retrieved from Wikipedia.org, 2015)

http://www.timhortons.com/ca/en/about/the-story-of-tim-hortons.php

https://en.wikipedia.org/wiki/Tim_Hortons

From 2006-2013 TH continued to add locations, increase revenue and improve its menu in Canada, the United States and the Gulf States. However, in early 2014 the most historic and significant corporate change began to unfold. The company's consistent revenue growth, solid brand recognition and market penetration drew the attention of a Brazilian based multi-billion dollar global investment firm. 3G Capital Partners LP, which acquired Burger King in 2010, expressed an interest in acquiring Tim Horton Donut Limited. On December 2014, 3G Capital purchased Tim Hortons for 11.4 billion dollars and placed the two businesses, BK and TH, under Restaurants Brands International (RBI). 12 (Jennings, 2014, p.8) This acquisition was seen as part of a strategy for both firms to expand their brands globally especially in the lucrative United States market. Media reports and observers agree the investors saw Tim's success in the coffee and morning breakfast category as a means to expand Burger King and TH in North America and around the world. This acquisition would create a burger - coffee chain alliance to compete in the growing breakfast and QSR market against chief competitor McDonald's which recently started offering all day breakfasts at US locations. 13 (Maze, 2014, p.8)

3G Capital founded in 2004 with offices in New York and Rio de Janeiro partnered with billionaire Warren Buffet's Berkshire Hathaway Inc. which provided $3 billion to finance the Tim Hortons acquisition. Buffet who purchased 8.4 million shares valued at $330 million saw the TH-BK merger traded as Restaurant Brands International as a sound business investment. 3G owners include J.P. Lehmann, C.A. Sicupira and M.H. Telles. 14 (Retrieved from The Wall Street Journal.com, 2015)

www.wsj.com/articles/investment-firm-3g-capital-eyes-next-targets

A news release in December 2014 from Oakville, Ontario stated: 3G Capital's, Restaurant Brands International Inc. (TSX, NYSE: QSR) completes a transaction to acquire Tim Hortons Inc. (TSX, NYSE: THI) and partner it with Burger King Worldwide, Inc. (BKW). Restaurants Brands International emerges as a new global quick service restaurant leader with two iconic brands. It boasts a combined $23 billion in sales, 19,000 restaurants in 100 countries.

It has 450,000 employees and serves 11 million customers every day. 15 (Retrieved from Restaurant Brands International.com, 2015) 16 (Retrieved from 3G Capital.com, 2015)

http://rbi.com/

http://www.3g-capital.com/about.html

In the RBI statement, 3G explains that Tim Hortons founded in 1964 operates in the quick service food market with 4,590 restaurants, 3,665 in Canada, 869 in the United States and 56 in the Gulf States in partnership with the Gulf Cooperation Council. Burger King Worldwide, Inc. was founded in 1954 and has 14,000 locations, serves 11 million customers daily in 100 countries and territories around the world. In 2010 the Brazilian investors bought Burger King for $24 per share or $4.0 billion including company debt. Together TH and BK generate $23 billion in annual system wide sales and have similar business models because the restaurants are owned and operated by independent franchisees. 17 (Retrieved from RBI.com, 2015)

http://rbi.com/

TH executives and shareholders saw the benefits from such a merger which would enable the coffee icon to expand and capitalize on Burger King's 14,000 locations in the United States and around the world. Secondly, the merger provides Tim's the financial strength to expand strategically and rapidly into international markets. The Canadian market is reaching its peak in terms of growth and therefore TDL saw an opportunity for the Canadian company to grow and strengthen its brand below the 49th parallel and elsewhere. 3G Capital also saw an opportunity for Burger King to expand its brand and capture the expanding early morning coffee and breakfast business established by its new partner during the past 52 years. Major fast food franchises such as McDonald's have used their coffee and breakfast menu to increase individual store sales, grow their brand and add new locations. Under the new alliance the burger and coffee restaurants aim to adopt a similar strategy which has allowed McDonald's stock price to increase significantly during the past decade.

Presently RBI is operating the two businesses separately, but this report suggests it is possible Burger King stores could be combined with Tim Hortons in one building or the two businesses could be physically located next to one another. Consumers could also see BK selling Tim's products similar to the coffee kiosks located inside McDonald's. Loblaw's acquisition of the Shoppers Drug Mart chain on March 28, 2014 is one example of a large company benefiting from acquiring a smaller brand. Loblaw's President's Choice products and Joe Fresh merchandise are now being sold in Shopper's Drug Mart stores.

RBI stocks are sold under the symbol QSR and are traded on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE). Common shares have been trading for $50 Canadian and $38 US. The company is offering a modest dividend for shareholders but many analysts expect this distribution to increase following the initial purchase. Warren Buffet's purchase of 8.4 million QSR shares valued at $330 million and the recession-proof nature of fast food is a good indication RBI is a sound investment. Prior to its purchase of the Canadian icon, 3G has been involved in many major brand acquisitions. 18 (Retrieved from RBI.com, 2015)

http://rbi.com/

Before approving the $12.5 billion merger between Burger King and Tim Hortons, the Canadian government required the company to commit to certain conditions. The new merged company called RBI committed to maintaining front-line staff levels at TH restaurants; however, this pledge did not include employees at corporate head office, regional offices and distribution centers across Canada. Future growth and financial data will indicate whether the Tim Hortons brand will prosper and grow in North America and globally as a result of its purchase by 3G Capital and merger with Burger King.

For example, the Brazilian investors have a history of acquiring food related businesses and then cut costs, often at the expense of employees. On June 7, 2013 3G partnered with Berkshire Hathaway to buy the 144 year-old internationally known food giant H. J. Heinz Company for $72.50 per share, 20 % above its a highest closing price or $28 billion including debt on in Pittsburgh, Pennsylvania.

In November 2013 Heinz Canada closed its plant in Leamington, Ontario throwing 740 people out of work. Heinz had been in Leamington since 1909. The Huffington Post reported the Ketchup, baby food, salad dressing, and sauce maker will eliminate 1,350 positions in Canada and the United States. On July 2, 2015 in Pittsburgh, Pa. and Northfield, it announced the purchase of Kraft Foods Group to establish a new company Kraft Heinz (NASDAQ: KHC). 19 (Retrieved from Huffington Post.com, 2015) 20 (Retrieved from Heinz.com, 2015)

http://www.huffingtonpost.ca/2013/11/14/heinz-layoff-job-cuts_n_4276600.html

http://news.heinz.com/press-release/finance/berkshire-hathaway-and-3g-capital-complete-acquisition-hj-heinz-company

http://www.heinz.com/

This recent transaction created the third largest food and beverage company in North America and the fifth-largest in the world. The investors stated the two brand portfolios complement each other which will result in increased investments in marketing and innovation.

"This historic transaction unites two powerful businesses and iconic brands and provides a platform for leadership in the food industry both domestically and internationally," says the company which also has investments in other corporations including Anheuser-Busch InBev, a multi-national beverage and brewing company based in Leuven, Belgium. 21 (Retrieved from 3 G Capital.com, 2015)

http://www.3g-capital.com/about.html

Both of these M&A examples and the acquisition of Tim Hortons could result in additional cost cutting measures which could include job losses to reduce employment overlap and cuts in operational expenses to increase efficiency and boost shareholder profits. When 3G purchased TH many Canadians especially Tim's corporate office staff feared the company would change because of the investment firm's ability and reputation to cut costs especially by reducing the number of employees to make more money for its shareholders. Their suspicions were correct. In January 2015 3G Capital cut 350-400 positions or 20% of the office workforce of approximately 2000, including senior management personnel at the TH head office in Oakville, Ontario and regional offices and distribution centres across Canada. The Brazilian investment firm said it wanted to reduce job overlapping and improve efficiency. In a CBC news report, January 28, 2015 it was stated that dismissed staff worked at the Oakville headquarters, distribution centers or regional offices in Guelph, Ont., Kingston, Ont., British Columbia, Alberta, Quebec and Nova Scotia. Corporations often adopt this classic business strategy to increase profit margins to justify to their shareholders the financial costs associated with purchasing another business such as the 12.5 billion merger between BK and TH. Appointed in December 2014, Tim Hortons president Elias Diaz Sese, a former BK executive, said the chain would be changing its structure. In the CBC news article, he says the changes would allow the company to make faster decisions while enabling the firm to capture opportunities in a fast-moving global marketplace. 22 (Retrieved from CBC.ca News Business)

http://www.cbc.ca/news/business/tim-hortons-layoffs-long-time-employees-escorted-out-the-door-1.2934853

As in any merger or acquisition there are risks which BK and TH will have to confront even though their combined strengths and assets will be a powerful player in the highly competitive North American and global QSR market. These risks are more likely to be sustained by TH which is dependent on its restaurant coffee sales in Canada. The challenge is whether the brand has the ability to capture US and international demand and loyalty similar to McDonald's and Starbucks. The US coffee market is highly competitive with McDonald's, Starbucks and Dunkin Donuts. However, studies show there is still room for growth especially in specialty coffee products. 23 (Retrieved from CBC.ca News Business, 2015) 24 (Retrieved from Tim Hortons.com, 2015) 25 (Retrieved from RBI.com, 2015)

http://www.cbc.ca/news/business/how-the-burger-king-deal-could-change-tim-hortons-1.2746620

http://www.timhortons.com/ca/en/about/the-story-of-tim-hortons.php

http://rbi.com/en/brands

3. Tim Hortons five year strategic plan 2014-2018

With QSR trends showing a strong coffee and breakfast market, TDL released its five-year strategic plan in February 2014, several months before being purchased by 3G Capital. The five-year 2014-2018 strategic plan entitled, "Winning in a New Era" was based on three pillars

Canada- Lead, Defend and Grow; United States a Must-Win Battle; and International- Grow, Learn and Expand. One of its primary objectives was to grow the brand by adding 800 new locations in North America and around the globe. This study claims these strategic pillars should be critical objectives for the new company if the business is to grow amidst increased competition from domestic and foreign firms.

1) Canada: Lead Defend, Grow

- Protect and defend the core business by delivering the ultimate guest experience and flawless restaurant-level execution.
- Apply technology to meet consumer needs and strive for operational excellence.
- Continue to bring new innovative products and services to customers and make the restaurants inviting and comfortable.
- Maintain value positioning but seek to narrow the average cheque gap by emphasizing combination product offers and encouraging guests to trade up to premium options.
- Target an untapped market of new consumers.
- Develop approximately 500 net new locations in Canada by 2018, while at the same time institute new restaurant formats and sizes that target under-represented captive audience settings such as office, sporting venue and health care locations.

2) United States: A Must-Win Battle

- Commit to the U.S. market which will provide additional revenue for the TH brand beyond Canada in future years.
- Leverage the awareness and convenience established in core and priority markets to drive average unit volumes in existing restaurants.

- Deliver new and differentiated menu items and combos to increase order size to become more relevant to a broader number of U.S. consumers.
- Increase sales and traffic by leveraging technology, marketing and promotional initiatives.
- Add 300 restaurants in the U.S. by 2018, through a less capital-intense model.
- A profitable U.S. business model that is aggressively scaled.

3) International: Grow, Learn, Expand

- Maintain a prudent and pragmatic approach to developing an international business.
- Near-term focus is continued growth of operations in the Gulf Cooperation Council with its 38 units with a roadmap to build approximately 220 locations.
- Continue to refine TH existing market research, business assessments and views on market opportunities. Enter new international markets potentially beginning in 2015.

Based on market capitalization the company identifies itself as one of the largest publicly-traded restaurant chains in North America. TDL is the leading QSR in market share and traffic in Canada and one of North America's largest developers and franchisors of QSR restaurants, with 4,485 system wide restaurants. It gets 27% of QSR dollars in Canada and 42% share of traffic - more than the next 15 chains combined. Strong awareness and convenience in the U.S: 95% of the population is aware of Tim Hortons and 79% say Tim Hortons is convenient, states the 2013 annual report. 26 (Retrieved from Tim Hortons.com, 2015)

http://timhortons.com/ca/en/index.php

The strategic report places strong emphasis on restaurant expansion into the United States market which this study agrees is a "must win" battle. Most industry analysts concur the US is among the largest food service markets and remains attractive in terms of growth, stability and consumer demand. In its forecast until 2018 TH intends to increase growth and profit by establishing 300 new restaurants in the United States especially in core and priority markets. It says it will accomplish this expansion through traditional franchising methods by increasing sales volumes in existing restaurants and by establishing new restaurants. The document identifies mega trends affecting the QSR business including healthy menu choices, behavioural and demographic shifts where emphasis is on value, pricing and technology which allow consumers to gather information quickly. It adds the company will focus on boosting sales in existing establishments by improving the menu and using technology to engage the consumer. For example, customers can pay with their smart phone and access the company's website and take advantage of free in- store Wi-Fi service. By applying a "disciplined" expansion policy the company expects US operating income to increase to $50 million by 2018. In addition to establishing new locations in Canada and the United States, TDL states it will continue expansion with the Gulf Cooperation Council and in other nations beginning in 2015.

In its annual 2013 financial report TDL stated its objectives for 2014 and for 2015-2018 emphasizing its goal to open 800 new locations in North America and in the Persian Gulf region through its partnership with the Gulf Cooperation Council.

The 2014 financial outlook:

- A total of 215 to 255 restaurant openings in Canada, the U.S. and the Gulf Cooperation Council (GCC), including
- 140 to 160 restaurant openings in Canada, approximately evenly split between standard and non-standard format restaurants

- 40 to 60 full-serve restaurant openings in the U.S., approximately evenly split between standard and non-standard format restaurants
- Capital expenditures between $180 million to $220 million, including approximately US$30 million in the U.S.
- Same-store sales growth of 1% to 3% in Canada and 2% to 4% in the U.S.
- Diluted earnings per share (EPS) of $3.17 to $3.27
- Increase earnings per share (EPS) from 11%-13% compounded annual growth rate
- Cumulative free cash flow of approximately $2 billion
- U.S. Restaurants operating income of $50 million by 2018
- Improve return on assets and total return to shareholders.
- Executive compensation will be aligned with 5-year strategy, same-store sales growth and shareholder value

27 (Retrieved from Tim Hortons.com, 2015)

http://www.timhortons.com/ca/en/corporate/tim-hortons-outlines-plans-for-winning-in-the-new-era.php

Chapter 3: Competitive analysis McDonald's and Tim Hortons

1. McDonald's

In any strategic business analysis it is constructive to look at the two main industry competitors to compare their competitive strategies, objectives, resources and assumptions about themselves and their industry. In Canada, the United States and around the world McDonald's and its new McCafe brand coffee is viewed as the largest and most aggressive competitor in the quick service food and coffee retail market. The McCafe product introduced in 2011 has enabled the global fast food giant to increase sales and traffic especially in the coffee and morning breakfast market, the most crucial strategic space for TH. Although McDonald's has struggled from time to time during its 60 year history, its marketing and expansionist strategy is aggressive as it continues to open new restaurants around the world. It continues to improve its menu and strives to take market share from its QSR and retail coffee competitors. McDonald's key competitor in Canada is TH which claims 27% of QSR sales, as stated throughout this report. To attack TH and other competitors and to respond to consumer trends, McDonald's employs a shrewd and subtle marketing strategy using every traditional and contemporary media format including a regular stream of coupons and continuous television and radio advertisements. Expensive television advertising promoting limited time specials on test products such as McTaster burgers is one example of the burger giant's marketing plan. Occasional free coffee and breakfast discounts are the types of menu advertising the company broadcasts on every media platform to attract consumers.

The hamburger giant is not intimidated by new fast casual entrants and market trends but continues to quickly adapt to changes in consumer tastes by adding healthy menu choices such as new wraps and salads. It is beginning to promote humane treatment of beef and poultry by requiring farms to provide more open spaces for the animals used for food production. The company is also noted for adapting menu items in foreign countries to respond to local tastes and respect local cultures. Beef and pork are not served in India. The menu includes Veg McMuffin, McVeggie burger and McChicken. Restaurants even offer home delivery in India.

McDonald’s assumes that it operates as a world leader in the QSR restaurant industry; all citizens regardless of age, culture or income are potential customers. Secondly, it assumes it has the full capacity and resources to move into any QSR or coffee retail space it desires. It is not afraid of taking risks by opening new locations in existing markets and new countries. On January 30, 1990 it opened its first restaurant in Moscow, Russia during the Soviet era. On March 31, 2016 the company announced plans to add 1,500 new locations in China, Hong Kong and South Korea during the next five years. In December 2015 it revealed plans to introduce 150 customized burger stores similar to the customized offerings at fast casual restaurants and pre-ordering electronic kiosks, according to several news reports including CNBC.

Recently, the Golden Arch’s objectives to expand into the growing coffee and breakfast market became clear when it announced it would introduce all day breakfasts in its US locations but said it will not do so in Canada. However, if the initiative is profitable south of the border, analysts expect the restaurant leader will likely introduce all day breakfasts in Canada. Recent figures reveal McDonald’s sales increased by 5.7% in the US due to the introduction of all day breakfasts. 28 (Retrieved from McDonald’s.com & McDonald’s India.net, 2015) 29 (Retrieved from CTV News.ca, 2016)

http://news.mcdonalds.com/Corporate/news-stories/2015/McDonald-s-Reports-Third-Quarter-2015-Results http://www.mcdonaldsindia.net/home.aspx

http://www.ctvnews.ca/business/breakfast-bump-mcdonald-s-u-s-sales-jump-5-7-per-cent-1.2750609

In fact, all day breakfasts at McDonald's Canada could come sooner than many expect. If all day breakfasts are successful and boost sales in North America, the restaurant will not hesitate to introduce the concept in international locations. 30 (Retrieved from The Globe and Mail.com)

http://www.theglobeandmail.com/report-on-business/international-business/us-business/mcdonalds-says-all-day-breakfast-coming-to-us-outlets-next-month/article26190768/

On December 9, 2015 the QSR world frontrunner began flexing its financial and tactical might to go head to head with TH and others by announcing the opening of McDonald's Canada first stand-alone McCafe with all day breakfasts at Toronto's Union Station, a high traffic transportation venue in the city's downtown. A second location was slated to open in a nearby Toronto office tower. This could lead to the traditional restaurants also offering all day breakfasts. These developments are a direct and serious challenge to the TH control of the coffee and breakfast market. TH executives will not be able to sit idly by but will have to re-invigorate their corporate plans and aggressively respond to the strategies and objectives of the largest and most recognized restaurant company in the world. 31 (Retrieved from CBC.ca, 2015)

http://www.cbc.ca/news/business/mcdonalds-mccafe-1.3356969

Furthermore, a review of marketing strategy reveals McDonald's with its global strength could use greater resources if it wanted to try and eliminate TH from the industry environment by undercutting prices and adding more locations. However, it has learned that a large entry into a new market is not always the best strategy to follow. Many businesses, including McDonald's learned valuable lessons when it saw how US retailer Target opened 131 locations in Canada and 18 months later closed its doors in the spring of 2015. This report concludes the hamburger giant plans to continue a systematic paced expansion gradually capturing a greater share of the market while still allowing TH to be a player in QSR space; however, this approach could easily change. For the time being, McDonald's has chosen not to apply a Walmart tactic to push out any and all competitors. The fast food leader, this report suggests wants to lead, control and dominate in the QSR and coffee retail space rather than eliminate its opponents. Information gathered would indicate the company may even have a desire to acquire TH through some type of merger and acquisition.

Meanwhile, McDonald's continues to thrive using its unrivalled brand recognition and its international presence as the largest restaurant company in the world with 36,000 locations in 119 countries. It boasts 1.9 million employees who serve more than 70 million customers daily. It is using its real estate, brand identity and solid corporate and franchise system to dominate every space in the QSR category. Furthermore, McDonald's which is 81% franchisee owned is strongly motivated by American corporate global interests and US cultural expansionary objectives. It has the characteristics of being a patient corporation which favors stability and longer term growth. This is one reason why it has sustained annual 4% sales increases without antagonizing shareholders or significantly affecting a durable stock performance. 32 (Retrieved from Wikipedia.org, 2016)

https://en.wikipedia.org/wiki/List_of_countries_with_McDonald%27s_restaurants

Approximately 81% of its locations are owned by franchisees; 57% conventional franchises, 24% are foreign licensees and 18% are corporate owned. By the year 2018

McDonald's plans to increase the number of franchise units to 90 % of all restaurants. The company operates under four segments. The United States accounts for 40% of operating income. International lead markets including Australia, Canada, France, Germany and the United Kingdom combined account for another 40% of the market. High growth markets which include China, Italy, Poland, Russia, Korea, Spain, Switzerland and the Netherlands account for 10% of the firm's 2014 operating income. The fourth division is sales from foundational and corporate operations. The corporate head office is located in Oak Brook, Illinois. 33 (Retrieved from McDonalds.com, 2015)

http://www.mcdonalds.com/us/en/home.hthttp://www.aboutmcdonalds.com/mcd/investors/company_profile.htmlml

In its 3rd quarter financial report, the restaurant is showing sales increases of 4% in North America and Australia and more than 8% in China with system wide revenue at more than $35 billion in 2015. Sales are projected to reach almost $44 billion in 2020, leading all competitors by a wide margin. McDonald's stock (NYSE: MCD) is trading in the $124 US range with a PE ratio 25.9, EPS $4.81 and a yield at 2.86%. Of 30 analysts' reports 8 recommend buy, 13 outperform, 8 hold and one underperform. Analysts contend and this report agrees this company's stock is a good investment. 34 (Retrieved from Investor's Edge CIBC.com, 2016) 35 (Retrieved from McDonalds.com, 2015) 36 (Retrieved from Statista.com, 2015)

https://www.onlinebrokerage.cibc.com

http://news.mcdonalds.com/Corporate/news-stories/2015/McDonald-s-Reports-Third-Quarter-2015-Results http://www.statista.com/statistics/315436/projection-of-the-leading-restaurant-chains-in-systemwide-sales-us/

The successful strategy, objectives and assumptions the business embraces today began in 1954 when Ray Croc, 51, a multi-mixer salesman visited a small, successful burger and fries restaurant owned by Dick and Mac McDonald in San Bernardino, California. He was so impressed by the business that in 1955 he established the McDonald's system and in 1961 purchased exclusive rights to the McDonald's name. He established a franchise system and fulfilled a vision to establish McDonald's restaurants across the United States. He referred to the concept as being in business for yourself but not by yourself. The company has demonstrated it is aware and responds to consumer demand. When military personnel were not permitted to leave their vehicles with their uniforms on (for their security) McDonald's opened its first drive-thru near a military base in Arizona in 1975.

2. Tim Hortons

As previously stated in this study, the Tim Hortons legacy traces its roots to a former rundown gas station turned coffee shop on Ottawa Street in Hamilton, Ontario. This single location was the springboard which launched a system of 4,772 franchisee owned restaurants in Canada, United States, the Persian Gulf States and self-kiosks in the United Kingdom and Ireland. This business and cultural success story can attribute its recognition to its iconic coffee brand named in honor of the famous Toronto Maple Leaf defenseman, franchisor-franchisee relations, customer engagement and the evolving beverage and food choices which appeal to consumers. This study maintains Tim's competitive strategy has been enhanced by its meticulous attention of listening and responding to consumer appetites and tastes as well as its ability to influence and meet consumer demand. Although, the largest QSR business in Canada has changed with technology and new menu offerings, its business objectives and strategy are based on the same basic principles on which it was founded. TH markets its core product “Always Fresh” coffee to grow its brand and compete by infiltrating spaces where its consumers or potential consumers are located through franchisee owners who operate 100% of the restaurants. TH continues to build new locations and wants a visible presence where consumers are living, travelling, working, studying and receiving healthcare in hospitals. The coffee retailer has a visible and growing presence at several Maritime hospitals including the QEII and IWK in Halifax and Moncton Hospital. It is simply a matter of time before it moves into PEI’s acute care hospitals. This report also maintains that Tim’s expansion in the United States and globally is motivated by a high level of cooperation between the corporation, individual and corporate developers. International growth is inspired by promoting a superior business model and brand and less about promoting Canadian ideology or values. This strategy, as stated in this analysis, differs somewhat from McDonald’s which is 81% franchisee owned but more strongly motivated by American corporate global interests and US cultural and political expansionary objectives.

Regardless of the menu additions during the past 52 years Tim’s major appeal is still its coffee sold in four sizes small $1.35 + HST, medium $1.61+ HST,1arge $1.78+ HST large and extra-large $2.00 + HST. Coffee and related beverages account for 75%-80% of revenue. Even though TH advertises hot and cold beverages including cappuccinos, mochas, lattes, fresh soups, sandwiches and wraps, research maintains the coffee brand is the key product which draws consumers to the business. As stated in this report, the company claims to sell about 75% of restaurant coffee sales in Canada and claims 27% of sales and 42% of the QSR traffic.

As highlighted in this account, TH intends to grow its brand in the next five years by adding more locations in Canada, in core and priority markets in the United States and in the Gulf States. This expansion in Canada and the United States will include new free standing restaurants with 24-hour drive-thrus. The company is also planning to increase the number of Tim Hortons Café and Bakery locations south of the 49th parallel. Furthermore, to increase its presence, TH continues to embrace a McDonald's business model to develop non-traditional locations sometimes with a scaled down menu in drive thru only and kiosk units. Although not as profitable, these smaller stores offer a scaled down version of the menu and are located in shopping malls, hockey arenas, sports stadiums, hospitals, universities and gas stations.

Although Tim's has been successful with most of its 3,800 Canadian units, it faces complex challenges with its 870 US locations because of the crowded and fierce competitive environment. In November 15, 2015 TH announced it was closing some stores in the United States. In 2010 the company closed 54 stores in New England. However, information concludes this is merely a realignment of US operations because the company signed a deal in October, 2015 with a US developer Seven Invest to develop 150 new locations in the Cincinnati area during the next decade. 37 (Retrieved from The Globe and Mail.com, 2016)

http://www.theglobeandmail.com/report-on-business/tim-hortons-shutters-unspecified-number-of-shops-in-new-york-and-maine/article27394547/

Today Tim's coffee alongside the McCafe brand is sold in grocery stores across Canada in tins, packages and single serve condensed cups for Keurig and Tassimo single cup coffee makers. This product space in large retailers contributes to the company's efforts to expand sales outside the restaurants.

TH is making the assumption its corporate structure, products and brand is competitive enough to be a tough player in the giant American market. Management's position assumes the firm is comfortable with industry conditions and is content with 5% sales growth in Canada and 7% growth in the US, accompanied by a paced rather than an aggressive expansion in the United States and overseas. TH favors increasing unit sales combined with gradually adding new locations to increase overall revenue and profits. This approach is partially similar to the paced strategy employed by wholesale giant Costco which has favored increasing sales in existing locations while methodically adding new units to maintain higher sales and profits.

TH resources, as mentioned in this report, were significantly strengthened when it was acquired by 3G Capital, a multi-billion investment company with business interests and income generating assets around the globe. Tim's has access to investor capital, BK marketing and real estate presence in a combined 19,000 locations. RBI the parent company of TH and BK has system wide annual sales of more than $23 billion. 38 (Retrieved from Tim Hortons.com, 2015)

http://www.timhortons.com/ca/en/coffee/our-coffee-story.php

i. Financials 2nd quarter data June 30 2015

This report claims the 2nd quarter financial highlights for Tim Hortons and Burger King ending June 30, 2015 reveal the new partnership is contributing to the stability and long term objectives of both iconic brands. Success was attributed, according to the company, to several factors including promotion of the Dark Roast coffee, Creamy Chocolate Chill and higher sales at lunch time. BK's success was attributed to sales of the Hearty Mozzarella Bacon Cheeseburger, Extra Long Pulled Pork Sandwich and Chicken Fries.

- TH sales grew by 5.5% compared to 2.8% in the 2nd quarter of 2014. Canada 5.4% and United States 7.0%. Burger King experienced 6.7% sales growth.
- TH added 52 new restaurants compared to 22 in the 2nd quarter of 2014. BK added 141 new restaurants.
- System wide sales grew by 8.4% compared to 6.5% in the 2nd quarter of 2014. System wide sales grew 11.4% at BK.
- RBI ‘s (earnings before interest, taxes, depreciation and amortization) EBITDA was up 19.1% on an organic basis to $427 million
- Adjusted diluted EPS was $0.30 per share
- A dividend of $0.12 per common share was paid to shareholders
- TH 2nd quarter sales were 1.66 billion
- BK 2nd quarter sales were 4.41 billion

ii. Financials stock data August 2015

RBI trades in the $50 Canadian on the Toronto Stock (TSX: QSR) and for $38 US on the New York Stock Exchange (NYSE: QSR). This report concurs with analysts who recommend a strong buy for RBI. Of 10 analysts 7 recommend a hold on stock and 3 say the stock has outperformed. This synopsis has been consistent for the past several months. The stock is rated #1 in a five scale rating and is listed #5 in a list of 62 companies in a similar industry category. Morgan Stanley, Scotiabank, RBC Capital all make positive recommendations for investors to purchase QSR stock. Earnings per share were -1.95 due to the cost of the acquisition and merger with BK. The annual dividend is 0.52 and the stock yield is 1.57%. 39 (Retrieved from Investor’s Edge CIBC.com, 2016) 40 (Retrieved from TMX Money.com, 2016) 41 (Retrieved from

NASDAQ.com, 2016) 42 (Retrieved from Financial Post.com, 2015) 43 (Retrieved from RBI.com, 2016) Further financial analysis in Appendix I.

http://web.tmxmoney.com/company.php?qm_symbol=QSR&locale=en

http://www.nasdaq.com/symbol/qsr/analyst-research

http://www.financialpost.com/markets/company/index.html?symbol=QSR&id=119774822

http://investor.rbi.com/~/media/Files/B/BurgerKing-IR/presentations/earnings-presentation-27-07-2015.PDF

iii. Financial ratios RBI and McDonald's in August 2015

- RBI's Quick ratio or the most recent interim measurement ratio (MRI) of 1.31 [current assets-inventory/current liabilities] is considered healthy because it is above one. McDonald's quick ratio is 2.13.
- The Current ratio (MRI) is 1.40 [current assets\current liabilities]. RBI would be in a slightly better position if this ratio was 2. McDonald's current ratio is 2.16.
- The Total Debt\Equity ratio (MRI) of 7.87 is high due to the debt financing required for the acquisition of Tim Hortons. McDonald's is at 1.7.
- Interest coverage on debt is 2.14. McDonald's is at 12.42. This financial calculation determines how well a firm can pay interest expenses on outstanding debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses over that same period.
- The Price to Sales ratio P/S of RBI stock is 2.63. McDonald's is 3.33. Price to sales is calculated by multiplying the number of shares by the share price. This number is then

divided by the company's total sales for the past 12 months. The lower the ratio the more attractive the investment. 44 (Retrieved from Investopedia.com, 2016)

http://www.investopedia.com/articles/fundamental/03/032603.asp

Chapter 4: Competition

1. **Starbucks**

Another significant rival in the retail coffee space is global competitor Starbucks which began in 1971 as a single coffee shop in Seattle's, Washington's Pike Place Market. Today the company has coffee shops in 50 countries with 23,768 locations including 13,107 in the United States and 1,400 stores in Canada. The stores are corporate owned or licensed units. This contrasts with TH which is 100% franchisee owned and McDonald's which is 81% franchisee owned. The company assumes itself to be the number one roaster and retailer of specialty coffee in the world. This report agrees with the company's assumption because it has achieved global brand recognition and is a serious competitor to TH, McDonald's and Dunkin Donuts in the United States and in Canada. Starbucks was founded by three American entrepreneurs Gordon Bowker, Jerry Baldwin and Zev Siegl. Its head office is located in Seattle.

Starbucks opened its first international location in Canada at the SeaBus Sky train station in Vancouver on March 1, 1987. In 1995 the coffee store established an alliance with Chapters to serve beverages in their bookstores. In 1996 five stores opened in Toronto all on the same day. Today there are 1,009 company-operated and 349 licensed locations across Canada. To support its business growth in Canada the corporation invested in the region's infrastructure by establishing a regional support centre in Toronto. Today the company also has offices in Vancouver, Calgary, and Montreal.

The menu includes coffee, handcrafted beverages, merchandise, fresh food and all day breakfast in an effort to capitalize on the growing morning segment and compete against TH and McDonald's. Consumer products are also sold at Starbucks locations in 13 countries. These include several items such as packaged coffees, teas, ready-to-drink items and coffee flavoured ice cream. Brands include Starbucks Coffee, Seattle's Best Coffee, Tazo Tea, and Torrefazione Italia. 45 (Retrieved from Starbucks.ca, 2015)

http://www.starbucks.ca/about-us/company-information

Howard Shultz joined the business as chairman, president and CEO in 1982. In November 4, 1985 Starbucks was incorporated under the laws of the State of Washington, in Olympia, Washington. On June 26, 1992 the company went public at $17 per share and closed the day at $21.50 per share. At the time of writing this paper, Starbucks Corporation trades (NASDAQ: SBUX) for $60 US per share.

The name Starbucks was inspired by Moby Dick which evokes the romance of the high seas and the seafaring tradition of the early coffee traders. The firm's mission is to inspire and nurture the human spirit – one person, one cup, and one neighbourhood at a time and convey a cultural heritage and an exceptional life experience for customers. 46 (Michelli, 2007) 47 (Retrieved from Starbucks.ca, 2016)

http://www.starbucks.ca/about-us/company-information

As competition increases among coffee retailers and QSRs, Starbucks and Tim Hortons are moving outside their traditional menu to capture a larger segment of the consumer market. In 2016 Starbucks began serving wine, beer, olives and cheese after 4 pm at three test market locations in Toronto. Starbucks says traditional coffee shop beverage and food sales and the numbers of locations are reaching a saturation point in Canada. The company is experimenting with a business model which implements a pub style atmosphere in the evening which caters to women who make up 60% of their customers. Some women may be uncomfortable with the traditional pub or bar scene and prefer to socialize and have a glass of wine in a more tranquil environment. Starbucks president Roseann Williams says the company believes women, who make up 60 per cent of Starbucks' customers, will enjoy a drink with friends in a coffee shop, instead of a bar. This model has been implemented at several locations in the United States. It remains to be seen how well this concept will be received in Canada. In a further effort to expand its market share and increase sales throughout the day, Starbucks is planning to create more drive-thru locations and express walk-in stores with a smaller menu. The company rolled out a bakery line called La Boulange in Canada March 2015. 48 (Retrieved from Starbucks.ca, 2015) 49 (Retrieved from CBC.ca, 2015) 50 (Retrieved from CBC.ca, 2014)

http://www.starbucks.ca/

http://www.cbc.ca/news/business/starbucks-to-add-beer-and-wine-to-canadian-menu-1.2944863

http://www.cbc.ca/news/canada/toronto/tim-hortons-concept-store-coffee-flavoured-beer-digital-menus-1.2709580

By executing these tactical changes and focusing more closely on its niche market and core consumers Starbucks will continue to differentiate itself from TH and McDonald's and not likely be negatively affected by McCafe's less expensive coffee and menu offering.

2. Canadian coffee retailers

Tim Hortons, Starbucks and McDonald's-McCafe expansion in the coffee and breakfast market across Canada will not only challenge but could have a negative impact on other

Canadian coffee restaurants which don't have the financial strength and brand recognition of the big players. Several Canadian franchise coffee shops have carved their own niche in the market but have never posed a significant threat to Tim's growth plans. However, research claims these smaller brands and their limited market penetration could face greater competition at their existing locations and will have a tougher time competing on quality, price and product especially if the larger companies step up efforts to increase market share by implementing more aggressive marketing tools. These lesser known players include Robins Donuts, The Second Cup, Timothy's and Countrystyle Donuts. Robins Donuts is a 100 % domestically owned company founded in Thunder Bay, Ontario in 1975 with 130 locations across Canada. The Second Cup founded in Toronto in 1975 has 345 locations with its head office in Mississauga. The firm has faced its own business challenges and was forced to close 20 locations in the past couple of years. In December 2014 the coffee shop was re-branded beginning with its King Street West location in Toronto but the new concept is still proving to be a challenge for the company. Timothy's coffee which began in 1975 has 60 locations and is operated by Threecaf Brands Inc. Countrystyle Donuts opened its first location in Toronto, Ontario in 1963. Today Countrystyle has 500 locations and is Tim's largest Canadian born competitor in terms of the number of locations. It is owned by MTY Tiki Ming Enterprises Inc. and its head office is in Richmond Hill, Ontario. 51 (Retrieved from Robins Donuts.com, 2015) 52 (Retrieved from Second Cup.com, 2015) 53 (Retrieved from Timothys.ca, 2015) 54 (Retrieved from Countrystyle.com, 2015)

http://www.robinsdonuts.com/about/ourHistory.aspx

http://www.secondcup.com/?isPreviewMode=false

http://www.timothys.ca/products-k-cups.php

http://www.countrystyle.com/coffee/

3. QSRs

QSR competitors serving burgers, chicken and submarines such as Subway, KFC, Wendy's, A&W and Dairy Queen are not likely to be seriously affected by the increased competition in the morning coffee and breakfast category. This situational analysis suggests these businesses can complement an existing coffee shop rather than directly compete. The common practice today in the QSR environment is to locate and align a burger business next to a coffee breakfast restaurant. This is evident in southern Ontario as RBI continues to establish BK restaurants near TH especially at On Route plazas along Highway #401. QSR competitors include Subway which began in 1965 in Bridgeport, Connecticut. It has 44,306 in locations in 111 nations. KFC began in 1930 in Louisville, Kentucky. It has 19,000 locations in 115 countries. In 1969 Dave Thomas opened the first Wendy's restaurant in Columbia, Ohio. Today there are 6,500 franchise and company restaurants in the United States and 29 nations. Dairy Queen began in 1938 in Kankakee, Illinois. It has 6,000 locations in 18 nations. A&W was founded in 1919 in Lodi, California. The first Canadian drive-in restaurant opened in Winnipeg, Manitoba in 1956. The Canadian company trades as AW.UN for $28 per share on the TSX and has operated separately and has had no affiliation with the American firm since 1972. Today there are 830 locations in Canada with $930 million in sales. A&W is noted for promoting beef and chicken burgers produced from animals raised without added hormones or anti-biotics. Cara Operations Ltd. began in 1883 and operates several restaurants including Harvey's, Swiss Chalet, East Side Mario's and

Montana’s. It has $1.9 billion in revenue with 40,000 employees across Canada. The company trades on the TSX under the symbol CAO for $32 per share: 55 (Retrieved from Subway.com, 2015) 56 (Retrieved from KFC.com, 2015) 57 (Retrieved from Wendys.com, 2015) 58 (Retrieved from Dairy Queen.com, 2015) 59 (Retrieved from AW Income Fund.com, 2015) & (Retrieved from Cara.com, 2016)

http://w.subway.com/en-ca/

http://www.kfc.ca/

https://www.wendys.com/en-us/about-wendys

http://www.dairyqueen.com/ca-en/Company/About--Us/

http://www.awincomefund.ca/

https://www.cara.com/

Chapter 5: Consumer trends and the coffee market

In spite of tighter competition in the QSR and retail coffee space, Tim’s continues to increase sales and market share by strengthening its brand, improving its service and by expanding its menu offering. It is able to accomplish this by tactically adding more stores in every locale especially in smaller Canadian communities where the coffee icon does not have a presence. On PEI, TH has strategic rural locations in O’Leary, Kensington, Borden, Souris and a seasonal kiosk in Cavendish. Inspite of the trends and new category of restaurants, reports reveal there is a steady increase in QSR breakfast and coffee sales across North America. This indicates TH and its Canadian and American competitors are engaged in a business which continues to show potential for growth across demographic categories. Although some say coffee sales are flat, research reveals coffee and related beverages continue to show an increase in demand. Studies also indicate coffee is the number one beverage in demand by Canadians. An October 24, 2013 report released in Toronto states coffee is the dominant drink in Canada surpassed only by drinking water. The Coffee Association of Canada's (CAC) research reveals 65% of Canadians consumed coffee the previous day they were interviewed and 78% (ages 18-79) stated they drank coffee in the past week. The results show 83% of Canadians drank coffee during the past year and consumed on average 3.2 cups of coffee per day. This is the type of data businesses like Tim Hortons, McDonald's and Starbucks source when making plans to increase investment and grow market share across Canada, the United States and around the world.

The CAC data found that traditional coffee is the most common type with 55% of consumers drinking the beverage the day before. Twelve per cent drank espresso-based coffee, 9 % instant traditional coffee, 6% iced/frozen blended coffee and 5% decaffeinated. The report explains 32% of coffee drinking Canadians consumed an espresso-based beverage during the past week- cappuccinos 16% and lattes 14%. Speciality coffee beverages are most popular with Canadians aged 18-34 but the report notes these consumers are less likely to drink a cup the day before and tend to drink fewer cups.

In its data, the coffee association also found that 78% of the consumers who drank coffee during the past-day consumed it in-home, while 37% consumed coffee out-of-home. The study revealed that 53% of past-day coffee drinkers drank the beverage prepared using a drip coffee maker. However, single-cup machines are gaining popularity with 25% of past-day coffee users drinking coffee prepared from a single-cup machine. CAC notes that single-cup brewer ownership is evidently higher in Canada at 20% than in the United States at 12%.

In the report CAC President, Sandy McAlpine, explains the out-of-home coffee market benefits from the high number of outlets per capita. “In fact, coffee in Canada is second only to Italy in terms of menu importance for away-from-home coffee consumption,” he says. He adds the single cup phenomenon has dramatically changed the grocery store shelf and the at-home coffee drinking experience for many Canadians. The study does point out retail coffee purchases are in the vicinity of $1 billion annually. Since the majority of coffee is consumed at home then the research indicates 85% of coffee drinkers include the beverage with their breakfast. About 25% of consumers enjoy coffee later in the morning, 13% at lunch, 16% in the afternoon and 9% at dinner. This data which shows a loyalty to coffee consumption has directed QSR coffee players to market their products in supermarkets and in retail locations for those who wish to consume the beverage at home.

In 1998 the Coffee Association of Canada, a national trade association representing industry participants in Canada, commissioned the initial wave of the Coffee Drinking Study of Canada. Subsequent studies were conducted in: 1999, 2001, 2003, and 2005, 2006-2013. The primary objectives of the 2013 study was to determine the current disposition of coffee beverage consumption in Canada and identify changes over time; investigate consumption and attitudes toward coffee consumed at-work; understand the market for single-cup brewing systems; and determine awareness, purchase, and attitudes toward cause-related coffee and attitudes surrounding environmental practices in the coffee industry. 60 (Retrieved from the Coffee Association.com, 2013)

http://www.coffeeassoc.com/contact-us/coffee-the-number-one-beverage-choice-for-adult-canadians/

Chapter 6: Consumer ethnographic comparative analysis TH & Starbucks

1. Ethnographic analysis TH consumer

As Tim Hortons manages paced development within North America it must continue to study and appreciate its consumers and find ways to serve and maintain their ongoing loyalty. The TH customer consists of individuals from a broad ethnic, income, age and regional demographic. During the past 35 five years the writer of this analysis has been a frequent customer of Tim Hortons and has visited locations throughout PEI, Nova Scotia, New Brunswick, Quebec, Ontario and the state of Maine. From these observations it is realistic to conclude the average loyal and regular Tim's customer is above 34 years old working or retired with an average or less than average Canadian income. Customers include a wide range of blue and white collar workers, not likely six-digit working professionals. Tim Hortons' locations especially those located at the On Route plazas along Highway #401 to Toronto are highly visible and easily accessible to millions of travellers. Two remarks can be made from observing these busy locations. Firstly, most of the TH customers are from the same age demographic i.e. 30+ years of age as elsewhere in Canada. Secondly, there is a visible presence of Burger King at the same On Route centres, an RBI business strategy likely to develop.

In recent years TH has implemented a strategy to attract consumers outside its traditional 30 plus to senior demographic base. The company has invested in new products and technology to attract the 18-34 age demographic that would likely be more inclined to follow trends and buy from Starbucks. In its plan TH has expanded and marketed a wider selection of sugar-filled hot and cold beverages such as mochas and cappuccinos. Free WIFI in restaurants, a website, apps, social media such as Facebook & Twitter and Tim's TV are predominantly aimed at the younger and more technologically involved consumer. The opportunity to pay with one's smart phone and other promotions i.e. free donuts when using interact tap are other methods the company has implemented to attract the younger audience.

Although this is a worthwhile stratagem to increase sales, this report suggests the company should exercise caution and not neglect the loyal customer base is has served during the past 52 years. Common business knowledge reveals the younger generation, unlike older cohorts, move with trends and will not stay loyal to one brand for an extended period. Younger age brackets constantly change their preferences and move with the trends in music, fashion and food service. The rapid 17 % growth of fast casual burger establishments such as Shake Shack based in New York and the expansion of fast casual dining businesses such as Chipotle Mexican Grill are two examples. The traditional loyal TH consumer is less interested in trends and wants consistency and familiarity in the coffee, donuts, muffin, bagels, other food products, service and atmosphere. They want a traditional coffee shop environment with little fanfare or sophistication. To continue on its road to success the company must not lose sight of its core consumer. If it spends too much time and resources i.e. technology and marketing trying to attract the Starbucks demographic i.e. 18-40 and sophisticated minded consumers then strategic problems could develop. This research contends it is critical for TH to direct resources to serve and strengthen its traditional consumer base if it desires to grow domestically and internationally, to do otherwise would be a serious mistake. The company should focus more research and attention on engaging its loyal senior consumers. Further, this report suggests it would be a mistake if TH followed Starbucks and tested beer and wine in some locations. The traditional TH coffee shop is a distinct alternate venue for those who choose to socialize with friends without consuming alcoholic beverages.

2. Ethnographic analysis Starbucks consumer

The Starbucks consumer is vastly different from patrons of TH, McDonald's and other traditional coffee shops. Some Starbucks customers consciously or sub-consciously want to engage in a socially conscious earth friendly crusade to improve the world and the human condition by freeing society from environmental waste, war, violence and poverty. Starbucks consumers also want to be entertained while purchasing a product which expresses their own individuality. The 18-24 age group of working professionals have been drawn to the Starbucks phenomena. They now make up 40% of the customer audience. The company's marketing plan also targets 25-35 year old single, college graduates focused on their career. The 25-40 age group make up 49% of the customers. These individuals who work 9-5 and spend time doing professional work at home account for 49% of the company's consumers. They are middle class consumers who are interested in image more than price and frequent Starbucks to socialize and relax with friends and family. As previously stated, women make up 60% of the customers who choose to socialize with friends at Starbucks rather than go to a pub. In his book, The Starbucks Experience, Joseph A. Michelli, says the Starbucks experience is as much about people as it is about coffee. 61 (Michelli, 2007, p.11)

CEO Howard Shultz says the coffee restaurant has built an emotional connection with its customers. "We are not in the coffee business serving people, but in the people business serving coffee. The equity of the Starbucks brand is the humanity and intimacy of what goes on in communities," he says. The restaurant teaches employees to develop an inspiring relationship with customers which include five ways of being: be welcoming, be genuine, be considerate, be knowledgeable and be involved. 62 (Michelli, pp.28 & 20)

This report claims it is this socially conscious cultural climate and sense of belonging which distinguishes Starbucks customers from loyal TH consumers. Therefore, each category of consumer has a different cultural and social reason for committing to a particular brand. Furthermore, neither brand is superior to the other because each offers its own unique experience and relationship with its respective patrons. 63 (Retrieved from Scribd.com, 2015) 64 (Retrieved from Slideshare.net, 2016)

https://www.scribd.com/doc/48355878/8/Consumer-Profile-and-Target-Market .
http://www.slideshare.net/manikgun/marketing-plan-for-starbucks

Chapter 7: Critical strategic factors of success

Several critical strategic factors of success have transformed Tim Hortons from a single coffee and donut shop into one of Canada's most trusted food service businesses in the 21st century. These factors include the company's focus on identifying its mission & values, owner's preferences, marketing, corporate structure, customer value, operational efficiency, human resources and finances. Later on this report will identify and reaffirm several of these observations and conclusions by conducting a comprehensive analysis referred to as SWOT: strength, weakness, opportunities and threats and PEST: political, economic, social and technological. Another standard academic and industry analytical tool used by market experts commonly known as P-5 or Porter's five forces will also be discussed. These and other concepts, analytical tools and techniques have been applied to the research, analysis and conclusions made throughout this report using an evidence-based management approach which are core principles of learning for students and graduates of UPEI's Executive Masters of Business Administration program. The twelve courses and the final signature project are conducted and completed by students using the premise that assumptions, decisions and conclusions are reached using an academic evidence based approach.

1) Mission and values

TH's ability to communicate its mission and values to consumers is a critical factor which has contributed to its success as Canada's most successful QSR and coffee retailer with more than 4,700 locations in Canada and the United States. As a partner with Burger King the two entities are among the largest and most prominent quick service restaurant brands in the world with more than $23 billion in system-wide sales and more than 19,000 restaurants in nearly 100 countries and U.S. territories. This study concludes these two 50 year-old experienced companies can continue to operate independently, complement one another and still focus on the same core values of serving customers, employees, franchisees and communities.

2) The owner's preferences

Since its founding Tim Hortons has been able to identify and implement the preferences of its owners which has enabled the business to stay ahead of its competitors in the Canadian marketplace. It is clear from the strategic reports the company is determined to increase sales and add locations in Canada and in the United States. Although this strategy appears progressive it can have both positive and negative consequences, especially if new units are developed too quickly in unfamiliar markets. In recent years the owners have been prudent by conducting a paced expansion in North America. Although the company has closed some US locations, most recently in December 2015, as mentioned in this report, the firm has been risk adverse by limiting the number of unprofitable units.

3) Marketing: Product

This report demonstrates TH has developed a strategy based on the four principles of marketing; product, place, price and promotion. The company has been successful because it continues to offer a basic menu of coffee, a variety of flavored hot and cold beverages, donuts, muffins, soups and sandwiches. This vigorous appetite for hot fresh coffee and donuts has no doubt helped TH capture the loyalty of Canadians from coast to coast since opening its first shop in 1964. However, industry research mentioned in this report reveals coffee and its associated products such as lattes, cappuccinos, and mochas are critical to fuel the company's growth and expansion.

In his book Always Fresh, Joyce says the business grew because it established a solid foundation from the beginning. "And without fresh coffee and products, Tim Hortons would not have been able to differentiate itself from what could be purchased in corner stores and gas bars. The brand is associated with great coffee and is the backbone of the company. 65 (Joyce and Thompson, 2006, pp.115-117)

4) Marketing: Place and Position

The company's ability to carve a unique place or position in the quick service market has been a success factor which has enabled it to identify and expand its customer base. Restaurants are strategically located near consumers in visible and convenient locations. For example, units are located at intersections, malls, airports, sport venues and hospitals in large cities and small towns across Canada. The coffee brand can also be purchased at TH locations and several supermarkets in the form of beans, ground or single serve coffee.

5) Marketing: Price

Since its founding the company has been successful at selling its products at an affordable price point for all Canadians regardless of their income or net worth. This article submits that Canadians keep returning to TH because they know what to expect and know how much they will pay for a cup of coffee - $1.35(s), $1.60 (m), 1.78 (l) and $2.00 (xl) plus HST - there are no hidden costs or surprises. The coffee and lunch combos are the same price across Canada and appeal to a wide loyal consumer demographic regardless of social, cultural, professional or economic status.

6) Marketing: Promotion

This report claims brand marketing is another critical factor which has contributed to the restaurant's success in the QSR retail coffee space during the past five decades. From the early days of the business promotion has been a major factor of success when Tim Horton the NHL Toronto Maple Leaf defenceman was the key marketing instrument to attract customers to new store openings. Every form of contemporary marketing and forms of technology are used to appeal to a wide demographic with the message everyone is a potential TH customer. However, the expansion of the morning breakfast market is aimed at individuals on the move who don't have time to eat at home and want to purchase a coffee and breakfast sandwich on their way to work. In recent years cappuccinos, espressos, lattes and other flavored coffee drinks have been promoted especially to the 18-34 age groups who want to consume something more than a typical cup of coffee and receive an energy boost from the higher sugar content beverages.

Traditional print, broadcast and electronic media including social media and a continuously updated website seek to engage the consumer through applications (apps), quick response codes (QR codes) and the opportunity to pay from one's smart phone. Marketing is incorporated into the contemporary exterior and interior design which today includes relaxing décor with an artificial brick fireplace. Curb side appeal and attractive interior restaurants complement the easy to read electronic menu boards with the slogan, "Always Fresh". Beverage express lines have been installed to improve overall speed of service and address capacity constraints.

The firm has been able to foster a unique connection with consumers from the Atlantic to the Pacific similar to the symbols which have characterized Canadian identity before and after Confederation in1867. These human, institutional and geographic symbols include the British Royal family, Sir John A. MacDonald , the Fathers of Confederation, Terry Fox , the Rockies, the Great Lakes, Niagara Falls, the Maple Tree, the Beaver, the game of hockey and of course Anne of Green Gables. These unique symbols have a special brand identity which distinguishes Canadians from Americans and other citizens in the world. Canadians can credit Horton and Joyce for making a significant contribution to national culture and identity by crafting a business institution which present and future generations can identify as their own. The company contributes to communities by funding TH children's camps for the under-privileged, funding minor sports programs and by raising money for various charitable foundations such as Children's Wish by selling smile cookies. 66 (Retrieved from the Government of Canada, 2013) http://www.pch.gc.ca/eng/1363193195814

7) Marketing: Managing customer value

Managing customer value is another critical factor which has made the corporation popular with Canadians for several decades. The firm's marketing plan is committed to understanding customer needs by providing and enhancing a total customer experience throughout the purchasing process. Visiting a TH restaurant is about service, product quality, value and overall environment. No matter where one lives in Canada every consumer will receive the same quality and service from any TH location. This research reveals the company follows text book marketing principles by focussing on the consumer and by demonstrating an ongoing commitment to understand and enhance their needs as loyal clients. 67 (Best, Roger J., 2013, p.147)

8) Operational efficiency

Operational efficiency is a critical factor of success at the store, supply chain, distribution and corporate locations which has enabled the company to rival competitors, increase market share and build new stores. In spite of economic fluctuations, TH continues to improve its operations and quality without imposing huge price hikes. The basic tenants of cost, price, quality, delivery speed & reliability, changes in demand and flexibility in introducing new products have positively influenced the brand. 68 (Jacobs, Chase & Balakrishnan, 2013, p.23) By implementing a combined strategy of large scale production at central bakeries, outsourcing and internal distribution, the firm is able to control operating costs and maintain a high level of efficiency. The coffee icon has a competitive advantage in cost leadership, product differentiation and focus. It has differentiated itself by listening and responding to its consumers and penetrating into an expansive niche market. 69 (Millmore, et al., 2007, p.7-8) Corporate distribution centres in the strategic regions of Oakville, Ont., Moncton, N.B., Calgary, Alta. and Langley, B.C. enable it to deliver products timely and efficiently to its locations. This report concurs with Joyce’s claim that the distribution centres are a strategic factor of success, an integral part of the company and a significant stream of revenue. 70 (Joyce and Thompson, 2006, p.70)

9) Corporate structure franchising

Another factor of success is the firm's business structure which consists of restaurants operated by franchisees many of whom run at least three or more locations. This differs from Starbucks where stores are corporate or licensed establishments which sell company products. The TH corporate structure places more responsibility and financial risk with store owners who must work hard and improve sales because the business is their paycheck and livelihood. Although there are limited opportunities for new potential franchisees in Canada, applicants are still encouraged to apply if they have a minimum $1.5 million net worth and $500,000 in liquid capital. In addition to meeting the basic financial requirements, the company prefers an investment from two partners such as two friends, relatives or a husband-wife team who will be committed to work and build the business at a location selected by the company. Franchisees do not own the property but rather lease the building and premises and pay rent and royalty fees to the company in exchange for operating the business and receiving the benefits of a solid cash flow. When accepted applicants pay an initial $50,000 franchise fee for a 10 year agreement with an option to purchase an additional 10 years. When in business franchisees pay a 6% royalty of weekly gross sales and 4% per month for advertising fees. Opportunities are more widely available in the United States where the company continues to capitalize on opportunities to expand. 71 (Retrieved from Tim Hortons.com, 2016)

http://www.timhortons.com/ca/en/team/franchise-ca-faq.php

Joyce says the business grew one store at a time because of the co-operation between the company and individual franchisees. “They were the backbone of the company; they were what made the system work. They are on the front lines, dealing face to face with the customer and are therefore integral to the company’s success.” 72 (Joyce and Thompson, 2006, p.216)

He explains how competitors like Robins Donuts founded in 1975 by former TH employees and other coffee and donut shops were all similar and failed to become a serious threat to Tim’s expansion plans. “They failed to recognize that a strong chain is built one link at a time. If you don’t try to sell a solid, proven business to your franchisees and instead focus on selling franchises, you’re doomed to failure.” 73 (Joyce and Thompson, 2006, p.142)

10) Corporate structure and real Estate

This report claims the company’s real estate strategy and choice of prime locations throughout Canada is a critical factor which has contributed to the organization’s success. TH wisely chooses the best locations which are most convenient to its consumers. Land and buildings serve as a revenue stream and asset on the corporate balance sheet. The company selects the site, builds the restaurant and leases it to the franchisee. Locations are selected to meet consumers wherever they are such as busy intersections, On Route locations on the #401 in southern Ontario, Esso and Petro Canada gas stations, shopping malls across Canada, airports and hospitals. The company’s strategy to build as many profitable locations as possible in a geographic area attests to its efforts to confront other competitors.

11) Human resource management

A human resource policy of linking HR practices with business strategy has been another strategic factor of success for the Canadian icon. The corporation’s focus on franchisee growth encourages employee recruitment, training, retention and promotion through work flexibility and incentives. TH realizes it is more economical to preserve and promote existing staff than it is to recruit, hire and train new individuals.

Chapter 8: Can the TH strategic success factors in Canada be applied to TH expansion in the United States?

1. Competition, trends and the US consumer

Vigorous competition, trends towards healthier eating, a movement towards fair treatment of cattle, pigs and chickens, less use of hormones and antibiotics in food animals, a more demanding price conscious consumer and the arrival of new food service entrants in the United States are changing the way QSRs like Tim Hortons, Dunkin Donuts, Starbucks and McDonald's are conducting business. These factors are also putting pressure on traditional US family restaurant chains such as Applebee's and Ruby Tuesdays. Furthermore, the US consumer, as stated in this analysis, is more loyal to homegrown American enterprises which make it more challenging for foreign companies including TH to become a permanent fixture in the geographical landscape. If Tim's is to continue to operate and develop in the US then it must understand this reality. This report maintains the business must continue to position itself, carve a niche and provide an alternative by complementing existing coffee retailers in a very tight space.

i. Dunkin Donuts

Even though Tim Hortons was able to defeat Dunkin Donuts in Canada it faces a much different challenge south of the 49th parallel. Dunkin has 11,000 locations in 41 US states and the District of Columbia including 3,200 stores in 36 nations around the world. The company recently announced it has aggressive plans to expand the number of locations at home as studies show an increase in demand for coffee and related beverages. Responding to McDonald's all day breakfast, a Dunkin vice president of brand marketing, Chris Fuqua said, "… if we execute our plans well … we can fight anybody any day." 74 (Retrieved from Fortune.com, 2015)

http://fortune.com/2015/10/06/dunkin-donuts-response-mcdonalds-breakfast/

The Dunkin story began in 1950 in Quincy, Mass when Bill Rosenberg opened the first shop. The company has its head office in Canton, Mass. Today the stores serve more than three million customers per day and sell more than 52 flavors of donuts, a dozen varieties of coffee, bagels, breakfast sandwiches and a variety of baked goods. Dunkin Brands (NASDAQ: DNKN) is the parent company of Dunkin Donuts and Baskin Robins. Shares have been trading in the $46 (US) range. Dunkin has several strengths but most importantly is its history as an American founded enterprise. The business is able to identify itself with those who believe in the American dream and understand what it means to be an American. Consequently as demonstrated in this analysis, Tim's will struggle to capture the minds and hearts of Americans but can still find a space by complementing existing US retail coffee and fast food establishments. Dunkin's faces several competitors in the US including McDonald's, Starbucks and a wide scope of new entrants and fast casual restaurants which have begun developing an international presence. This report reveals that Panera Bread and Chipotle Mexican Grill are two of many established and emerging American based restaurants catering to the health conscious consumer. 75 (Retrieved from Dunkin Donuts.com, 2011).

http://www.dunkinbrands.com/

http://www.dunkindonuts.com/dunkindonuts/en/company.html

ii. Panera Bread and fast casuals

Panera Bread's $2.6 million annual sales per unit is one example of a growing trend in the café bakery concept which competes against TH café bakery stores in the United States which are averaging about $1 million in sales per store. Canadian TH locations average $1.6-$2 million. It is this type of business, this report suggests, which could gradually cut into TH operations in North America. Panera began in 1981 under the name Au Bon Pain Co., Inc., founded by Louis Kane and Ron Shaich. In 1993 the company expanded by purchasing Saint Louis Bread Company containing 20 bakery cafes in the Saint Louis, Missouri area. In 1999 the company sold Au Bon units, kept the Panera stores and renamed the company Panera Bread. In 2007 the firm acquired majority ownership, including 70 locations in 10 states (mostly in the west and southwest) of Phoenix based Paradise Bakery and Café. Panera attained full control in 2009. Panera (NASDAQ:PNRA) is trading in the $210 US range.

As of June 2015 there were 1,926 locations, 950 corporate and 976 franchise bakery cafes in 46 states, the District of Columbia and in Ontario. The stores operate as Panera Bread Saint Louis Co. and Paradise Bakery and Café, "delivering fresh, authentic artisan bread." The company has a market capitalization of $4.5 billion (USD). In comparison RBI has a market capitalization of $11.5 billion (CAD), McDonald's has a market cap of $115 billion (USD) and Starbucks has a market cap of $90 billion (USD). Average weekly sales for Panera corporate stores were $44,967 and $49,683 for franchise units. Second quarter 2015 revenue increased 7.7% to $677 million. Net income ending June 30, 2015 was $42,348 million or 1.60 diluted EPS down 10% from July, 2014 $47,143 where diluted EPS was $1.82. Company owned stores were up 2.4% in the 2nd quarter and 4.7% in the first 27 days of the 3rd quarter. 76 (Retrieved from Panera Bread.com, 2015) https://www.panerabread.com/en-us/company/about-panera/our-history.html

The competition, trends and changing consumer appetites mentioned are also putting pressure on growth opportunities for American based family franchises such as Applebee's, Ruby Tuesdays and others who are facing stiff competition from fast casual restaurants, a new entry in the food service market. Applebee's has 3,600 locations in 18 countries including the United States. Ruby Tuesday founded in 1972 has 800 locations in the United States and around the world. In response Ruby Tuesday launched its own Florida chain of fast casuals called Lime Fresh Restaurants. 77 (Patton, L., 2011, pp.23-24) 78 (Retrieved from Dine Equity.com, 2015) 79 (Retrieved from Ruby Tuesday.com, 2015)

http://investors.dineequity.com/phoenix.zhtml?c=104384&p=irol-irhome

https://www.rubytuesday.com/franchise/intl-list

This movement towards fast casual restaurants which offer better food quality, healthier choices, social responsibility and competitive pricing are showing substantial growth. Chipotle Mexican Grill, Shake Shack, Habit Burger, SmashBurger and Five Guys Burgers and Fries among others are examples of QSR fast casual and "healthier" burger restaurants spreading across the United States and into Canada. Sales of fast casual outlets grew by 10.5 % in 2014 compared to 6.1 % sales increase in fast food sales. The significance of this fast casual concept is that it caters to the growing demand from the 18-34 year-old demographic. The Economist magazine reports that Chipotle, once owned by McDonald's is experiencing a 20% annual growth rate which is partly attributable to its offering and focus on fresh food, organic and local vegetables and meat produced without hormones or antibiotics. These new US based players in the food service category are uniquely different from traditional QSRs and remain in a strong position to draw consumers away from traditional menus and businesses such as McDonald's, TH, Burger King and Wendy's.

Shake Shack is a New York based fast casual burger restaurant founded in 2004. Today it has 66 restaurants including locations in Istanbul and Dubai. Habit Burger was founded in Santa Barbara, California in 1969. It has more than 109 locations in five States. The company experienced a 40% sales increase from 2013-2014. SmashBurger was founded in Denver, Co. in 2007 and now is located in 32 states and five countries. Five Guys Burgers and Fries started in Fairfax County Virginia in 1986. Today there are 1000 locations in 40 states and Canada. 80 (Retrieved from The Economist.com, 2015) 81 (Retrieved from Five Guys.com, 2015)

iii. Chipotle Mexican Grill

In spite of its recent difficulties and e-coli contamination issues, reports say Chipotle Mexican Grill; a corporate owned chain of fast casual restaurants is the most successful business in this new food service category. In November, 2015 Chipotle temporarily closed all of its 43 stores in Seattle, Washington and Portland, Oregon to deal with e-coli contamination possibly attributed to some of its fresh vegetables. Regardless, industry observers say this issue will be resolved because the company is founded on true principles of healthy eating. Chipotle, this report predicts, will regain consumer confidence and continue to be a leader in the fast casual category.

Founder, chairman and co-CEO Steve Ellis started the business with one restaurant in 1993. The Company has 1,800 locations including 17 outside of the United States and boasts more than 3 billion in revenue. In the 2013 annual report the company stated it had one of the best industry restaurant-level operating margins at 26.6%. Diluted earnings per share were of

$10.47, an increase of 19.7% over 2012. However, due to e-coli food contamination issues at US locations the stock (NYSE: CMG) fell recently to $450 (US) from $664. The firm has a market cap of $13.3 billion (USD). The company is in the process of restructuring operations by centralizing its supply and distribution channels and is expected to make a comeback when these issues are resolved. As of December 31, 2013, Chipotle employed 45,340 employees, including about 3,740 salaried employees and about 41,600 hourly employees. None of the employees are unionized or covered by a collective bargaining agreement. The menu includes burritos, tacos, burrito bowls and salads with fresh, high quality ingredients. "Through our vision of food with integrity, Chipotle is seeking better food from using ingredients that are fresh and where possible sustainably grown and raised with respect for the animals, the land and the farmers who produce the food," states the company in its annual report. 82 (Shreve, K., 2015, p.1) 83 (Retrieved from Chipotle.com, 2015) 84 (Retrieved from Reuters.com, 2015) 85 (Retrieved from CNN.com, 2015) 86 (Retrieved from Smashburger.com, 2015) 87 (Retrieved from Five Guys.com, 2015)

http://www.chipotle.com/en-US/default.aspx?type=default

http://www.reuters.com/article/2015/11/04/us-chipotle-mexican-ecoli-idUSKCN0ST2JB20151104#XedFAYcdwKmdMvry.97

http://money.cnn.com/2014/12/29/investing/shake-shack-ipo/index.html

http://smashburger.com/us/company/story/

http://www.fiveguys.com/

2. Canadian Tire in the US and Target in Canada.

As Tim Hortons strategizes how it will expand into the United States, it can learn from businesses which have tried and failed to capture the hearts, minds and wallets of American consumers. Canadian Tire made two unsuccessful attempts at entering the US market in 1982 and 1991. In 1982 Canadian Tire bought Texas based White Stores Inc., an automotive retail chain. The business failed and the stores were closed three years later. In 1991 Canadian Tire made a second attempt at doing business in the US by establishing 10 stores under the Auto Source banner. The stores lost $15.3 million in 1992 and continued to lose money in subsequent years. The company's expansion into the US once again failed and all the 10 stores were closed in 1995. Canadian Tire failed to understand the intense competitive US retail environment, especially the strength of giant retailer Walmart and the entrance of new auto retail service supercentres. At the same time Canadian Tire had to adjust to Walmart's aggressive moves to increase the number of its Supercentres here in Canada. Today Canadian Tire is much stronger, has expanded and now owns Marks and FGL Sports. The company's stock (TSE: CTC.A) has tripled since 2009 and is trading in the $133 range. 88 (Retrieved from Funding Universe, 2015) 89 (Retrieved from BNN.ca, 2015)

http://www.fundinguniverse.com/company-histories/canadian-tire-corporation-limited-history/

http://www.bnn.ca/News/2015/2/23/Canadian-Tire-Target-learn-home-is-where-the-profit-is.aspx

Moving south to north Canadian businesses including TH can learn from Target's 2013-2015 strategic catastrophes when it opened and closed 133 new stores across Canada in less than two years. Target entered the Canadian market with a money losing strategy before it opened its doors. The company did not understand the most fundamental concept in a successful goods and services business – the consumer. Neither did it comprehend the marketplace, competition, positioning, products and prices. Many Canadians were looking for price competition and product alternatives to Walmart. This report concludes the Canadian version of Target failed to offer a similar selection of merchandise and prices offered at its stores in the United States. Canadians were expecting a discount retailer as an alternative to Walmart. They did not get it. Target paid an expensive price for its mistake by sustaining $5.4 billion in pre-tax losses in the 4^{th} quarter of 2014. 90 (Retrieved from The Globe and Mail.com, 2015)

http://www.theglobeandmail.com/report-on-business/missing-the-mark-5-reasons-why-target-failed-in-canad/article22459819/

3. Tim Hortons in the USA

Unlike the Canadian Tire and Target failures, TH understands the competitive nature and dynamics of the QSR market and has chosen to continue to expand in the US but at a controlled pace in priority and core markets as opposed to its Canadian strategy to be in every large city and small town. The restaurant continues to open new units in the United States and seems undeterred by the level of competition. For 40 years Tim Hortons has tried different tactics to expand into the United States occasionally by employing a trial and error strategy with some successes and some failures. Many lessons have been learned by the company since it opened its first US location on Atlantic Boulevard in Pompano Beach and a second location on the Federal Highway in Deerfield Beach, Florida with the goal of serving Canadian snowbirds spending their winter months in the Sunshine State. The stores were closed in 1995. Other locations were established in Hilton Head and Beaufort, North Carolina, said to be similar markets to stores in

Canada. Because it was difficult to attract the right employees and customers these NC stores were later closed and proved to be more of a failure with larger financial losses than the Florida locations. Joyce says the lessons learned were worth the experiment noting that semi-tropical areas are not well suited to a business selling coffee and donuts. 91 (Joyce and Thompson, 2006, pp.139-140) However, in spite of these challenges, this report claims several US units near the Canadian border have been successful which indicates there are opportunities outside of Canada. Today there more than 860 locations in standard and kiosk units in core and priority markets in 15 states in Northeastern states, New York and Maine and Midwestern states, Michigan, Ohio and Pennsylvania. The company says it will continue to focus further expansion in these core and priority markets.

In 2009 when business writer Douglas Hunter visited Tim Hortons new locations in New York City he discovered problems when he learned there were only 10 outlets instead of the planned 13 while some restaurants were experiencing difficulties. He notes that TH stores in the city had undergone a “curious rebranding” at odds with its Canadian units. Some of the outlets experienced problems with the city’s restaurant health inspectors. One store was even shut down for a day. He concluded the Canadian coffee icon did not have an effective strategy to expand in the US. Quoting Queens University business professor Ken Wong, “I don’t think they have a brand in the U.S., outside the border areas and I don’t think they have a plan for how they’re going to roll this out regionally.” 92 (Hunter, D., 2012, pp. 225-227)

This report disagrees with this observation and claims these problems are growing pains sustained by a business entering a new territory. In spite of these challenges, the company continues to move forward by adjusting its strategy and boasting above average QSR sales with annual sales growth of approximately 5% in Canada and 7% in the United States. Several of the strategic factors which have contributed to TH success in Canada for the past 52 years could be successfully applied to TH operations in the United States, especially the firm's achievements in marketing through product, price, place, promotion, managing customer value, franchising and real estate. An increase in US store sales suggests Tim's paced expansion of the traditional and non-traditional QSRs with a 24-hour drive thru and the TH Café Bakery concept are two successful strategies in the US marketplace. US operations will prosper, this report maintains, if development and brand marketing continue in core and priority regions rather than locating in competitively higher risk regions. TH strategic factors in the categories of owner's preferences, operational efficiency, marketing, corporate structure, human resources management and financials which continue to strengthen the brand can be applied with success in the US. However, for growth to continue two additional strategic issues need to be addressed, the franchise system and the emerging consumer tastes and demands. A key TH success factor is the firm's decade's long strategy to construct and develop one store at a time and cultivate an ongoing cooperative relationship between the franchisor and the franchisee. Hunter notes in his book that the average franchisee operates about three stores and devotes their full time to the business. If the Canadian coffee company applied a strong supportive role for American franchisees, this report affirms, it will increase its chances of sustainable expansion into the US market regardless of the competitive environment. Secondly, TH in the US must respond and be proactive towards the trends emerging in the food service industry. Americans are more demanding than Canadians and are now more insistent on receiving fresher and healthier menu choices from fast casual restaurants for almost the same price as a highly processed, high fat, high sodium fast food meal. Furthermore, Americans are beginning to demand that animals used in food production are treated humanely. They want cattle and chickens, for example, not to be cramped in cages neither do they want these animals to be treated with hormones or unnecessary anti-biotics. Socially responsible consumers are also serious when they want food providers to use non-genetically modified food products on their menu. Chipotle is setting the standard for other food service businesses to follow.

At a recent Canadian Franchise Show in Toronto several franchisors gave the impression they were primarily interested in selling their franchises and collecting royalties. Even long established brands like Burger King seem more interested in adding new locations whether or not they could actually be profitable. They will encourage franchisees with a high net worth $800 K - $1 million and at least a third in liquid capital to invest in locations which may or may not be able to achieve minimum break even sales figures. Tim Hortons has implemented a strategy to create a win-win situation for the franchisor-franchisee which has proved to be a winning strategy for the company for the past five decades. This report suggests it would be prudent for RBI to continue this approach when implementing TH expansion plans. 93 (Retrieved from The Financial Post.com, 2015)

http://business.financialpost.com/news/retail-marketing/tim-hortons-burger-king-owner-restaurant-brands-international-incs-profit-beats-on-new-offerings

Chapter 9: SWOT Analysis: Strengths, weaknesses, opportunities and threats

Editor's note: The acronym SWOT refers to strengths, weaknesses, opportunities and threats. SWOT is a common tool used by strategic analysts to present a picture of the internal workings of a company and the external environment in which it operates. It is also a principal analytical tool used by students in the UPEI MBA program. Strengths and weakness are internal categories under management control. Opportunities and threats, however, are external categories in the environment which concern and affect all businesses within an industry and therefore what occurs is beyond management control. A study of external conditions and events not under management control will be referred to as a macro analysis.

Editor's note: To complement and strengthen this SWOT analysis a political, environmental, social and technological study commonly referred to as PEST by business analysts and academics will also be discussed.

1. Strengths: internal factors under management control

As stated in the editor's notes, a SWOT examines strengths and weaknesses which are internal factors under management control. When a company's internal strengths and weakness are identified and examined, market analysts say these factors are critical conclusions which determine the overall health of an organization. This report has identified several categories where Tim Hortons' management has been effective and other areas where the firm has faced challenges at controlling strategic outcomes. Strengths where management has significant control include but are not limited to categories of marketing, financing, operations, corporate structure, franchising and real estate. Weaknesses under management control which necessitate attention include components of human resources and the absence of a corporate global (outside the US) expansionist strategy. If executives do not adequately address these weaknesses, future growth and profitability will be adversely affected within North America.

i. Strength: Marketing-product

As stated in the editor's note, strengths and weaknesses represent the analyst's conclusion following an investigation of the internal functional areas controlled by management. A review of the marketing program leads to the conclusion that this is a key strength of the firm. Marketing infiltrates every facet of the corporation and is not mutually exclusive from financing, operations, strategic planning and human resources. Evidence contends marketing is a strength because the company has successfully developed a strategy based on the four principles of marketing; product, place, price and promotion. In the sub-category of product, marketing is a strength factor because TH effectively continues to offer a basic menu of coffee, a variety of flavored hot and cold beverages, donuts, muffins, soups and sandwiches while still maintaining a strong positive consumer response. This vigorous appetite for hot fresh coffee and donuts has no doubt helped TH capture the loyalty of Canadians from coast to coast since opening its first shop in 1964. However, this report agrees with industry experts who say innovative coffee products such as lattes, cappuccinos and mochas are critical to fuel the company's growth and expansion. However, Joyce is correct when he says, "Coffee is the backbone of the company. The brand is associated with great coffee and is a benchmark of quality and a barometer for all coffee in Canada. Without fresh coffee, Tim Hortons would not have been able to differentiate itself from what could be purchased in corner stores and gas bars." 94 (Joyce & Thompson, pp.115-117) A review of product strength reveals TH is primarily about coffee and therefore the TH brand cannot be isolated or distinguished from its primary beverage. Take coffee away from the business and little remains.

ii. Strengths: Marketing-price

In the sub-category of price, facts suggest marketing is a strength because management has controlled and limited price increases, sometimes even absorbing higher operational and commodity costs without implementing major increases in the price of a hot coffee. Secondly, since its founding the company has been successful at selling its products at an affordable price point for all Canadians regardless of their income. Canadians keep returning to TH because they know how much they will pay for a cup of coffee: $1.35(S), $1.60 (M), 1.78 (L) and $2.00 (XL) plus HST. There are no hidden costs or surprises. The coffee and lunch combos are the same price across Canada and appeal to a wide consumer demographic regardless of social, cultural, professional or economic status. Surgeons, politicians, corporate executives or blue collar workers will stand in line and purchase a Tim's coffee and food product like any other individual. There is no distinction or entitlement to those who choose to spend their disposable income at TH.

iii. Strength: Marketing-place & position

In the sub-category of place and position specifics reveal marketing is strong point because the company has been able to carve a niche in the quick service market and from there has expanded its customer base. The firm's achievement in offering a speedy take-out morning coffee and breakfast service has directed management to strategically locate restaurants near its consumers in visible and convenient locations. For example, units are located at busy intersections, malls, airports, sport venues and hospitals in large cities and small towns across Canada. The company's marketing strength has been implemented to sell its coffee brand at TH locations and supermarkets in the form of beans, ground or single serve coffee. It doesn't matter where one lives in Canada, the company guarantees every consumer will recognize the brand and receive the same quality and service from any TH location.

iv. Strength: Marketing-promotion

In the sub-category of promotion details disclose marketing is a strength because management promoted the Tim Horton Toronto Maple Leaf hockey player brand and integrated the theme with Canadian culture and values during the last five decades. From the early days of the business, consistent promotion has been another major factor of success when Tim Horton the NHL Toronto Maple Leaf defenceman was the key marketing instrument to attract customers to store openings. Promotion has been enhanced by the leaders who continue to support community projects including the TH children's camps for the under-privileged, minor sports programs and by raising money for various charitable foundations such as Children's Wish by selling smile cookies all in the name of the NHL player.

This study maintains promotion using every form of contemporary marketing and technology is constantly employed to appeal to a broader demographic with the message everyone is a potential TH customer. Traditional print and broadcast advertising including a constantly updated website and social media platform engage the consumer through apps, Q-R codes and the opportunity to pay from one's smart phone. The expansion of the morning breakfast market is aimed at individuals on the move who don't have time to eat at home and want to purchase a coffee and breakfast sandwich on their way to work. In recent years, cappuccinos, lattes and flavored coffee drinks have been promoted especially to the 18-34 age groups who want to consume something more than a traditional cup of coffee and receive an energy boost from higher sugar content beverages. Now in its 30th year, Tim's annual RRROLL UP The Rim every February is the coffee retailers' most successful promotional campaign in a time of year when the economy is slower and consumers spend more time at home.

Marketing is incorporated into the contemporary exterior and interior design which today includes relaxing décor with an artificial brick fireplace. Curb side appeal and attractive interior restaurants complement the easy to read electronic menu boards with the slogan, Always Fresh.

The promotional marketing strategy has succeeded by fostering a distinctive bond with consumers from the Atlantic to the Pacific similar to the symbols which have characterized Canadian identity before and after Confederation in1867. Examples include admiration for heroes like Terry Fox and respect for Canadian values which advocate tolerance and diversity. These illustrations define Canadians and distinguish them from citizens of other nations. As stated in this report, Canadians can credit Horton and Joyce for making a significant contribution to national culture and identity by crafting a business institution future generations can identify as their own.

v. Strength: Finance

In addition to the four components of marketing, a fifth crucial internal strength in this SWOT analysis is the company's ability to control its financial decisions and sources of financing. This study concludes TH is a durable company because it has financed its operations and expansion by raising money in the capital markets and by issuing equity stocks on the Toronto Stock Exchange (TSX). The company also relies on several other sources of revenue to remain profitable such as controlling supply and distribution, franchise fees, franchise royalties, franchise advertising fees and leasing agreements. By not operating corporate locations TH places more responsibility and financial risk with franchisees who must put up their own equity and capital to operate a TH location. Based on the following financial report, the evidence demonstrates the company is making the correct financial decisions to continue growth.

RBI's 2nd quarter financial results released on July 27, 2015 and 3rd quarter outcomes released on October 27, 2015 support and strengthen previous financial forecasts for growth. The financial results indicate the business is moving in a positive direction as the company continues on a paced strategy to grow the brand, increase same stores sales and add new locations in Canada and the United States. Furthermore, since 2011 BK has added 350 + new locations in Brazil, 275 + in Turkey, 300 + Russia, 325 + China. These financials support the contention which claims BK has the expertise to strategically introduce TH units into international markets.

- 2rd quarter Global compared sales growth increased 5.5% for TH and 6.7% for BK respectively
- 3rd quarter Global compared sales growth increased 5.3% for TH and 6.2% for BK respectively
- 2rd quarter net restaurants growth (NRG) increased 193 units – 52 for TH and 141 for BK which shows a restaurant base growth rate of 5.2% on a trailing 12 month basis. System wide sales grew by 8.4% at TH and 11.6% at BK.
- 3rd quarter net restaurants growth (NRG) increased 210 units which shows a restaurant base growth rate of 5.2% on a trailing 12 month basis. System wide sales grew by 8.2% at TH and 11.2% at BK
- 2nd quarter RBI adjusted EBITDA increased 19.1% YoY on an organic basis of $427 million and adjusted diluted earnings per share $0.30

- 3rd quarter RBI adjusted EBITDA increased 23.0 % YoY on an organic basis of $441 million and adjusted diluted earnings per share $0.34
- 2nd quarter Canada: 3,819 locations in 13 provinces and territories began in 1964, 80% of the units. United States: 892 locations in 18 states began in 1984, 19% of the units. International: 65 restaurants in 5 nations began 2011, 1% of the units (Gulf States).
- 3rd quarter Canada: 3,879 locations in 13 provinces and territories began in 1964, 80% of the units. United States: 895 locations in 18 states began in 1984, 19% of the units. International: 71 restaurants in 5 nations began 2011, 1% of the units (Middle East Gulf States) 95 (Retrieved from RBI.com, 2015)

http://investor.rbi.com/~/media/Files/B/BurgerKing-IR/presentations/earnings-presentation-27-10-2015.pdf

vi. Strength: Operations

A sixth significant internal strength in this SWOT analysis is the firm's operational structure at the store, distribution, supply chain and corporate locations. This consistency in operations across Canada has enabled TH to remain ahead of its competitors and increase market share while continuing to add new locations. Prior to its merger with Burger King, Tim Hortons Donut Limited (TDL) implemented a consistent operations and supply chain strategy in spite of economic upturns and downturns and without making significant changes in price or quality. This strength will likely continue under the new owners. The company distribution centres in the strategic regions of Oakville, Ont., Moncton, N.B., Calgary, Alta. and Langley, B.C. enable it to deliver products timely and efficiently to its locations. Joyce makes a strong point when he says the distribution centres are an integral part of the company and are among the several successful milestones as well as a significant stream of revenue. 96 (Joyce and Thompson, 2006, p.70) Evidence throughout this study indicate business textbook strategies such as cost, price, quality, delivery speed & reliability, changes in demand and flexibility in introducing new products have positively influenced the brand. Operational strengths include management's willingness to apply a QSR strategy of introducing a new product at test market locations for a limited time. If the trial is successful the product may be introduced as a regular menu item. This reduces the numerous operational costs and risks of permanently introducing a new product which may or may not appeal to consumers. 97 (Jacobs, Chase & Balarishnan, 2010, p.23)

vii. Strength: Corporate structure and franchising

A seventh internal strength of the firm relative to a SWOT analysis is management's decision to continue the 100% franchise owner operated structure. Although the firm has operated a few corporate locations for various reasons, it does not plan to establish corporate owned restaurants in its expansion plans. This differs from Starbucks where the restaurants are corporate owned and operated or licensed establishments. As previously stated, the TH corporate structure places more responsibility and financial risk with store owners who must work hard, improve sales and build the business which is often their primary source of income. Although there are limited opportunities for potential franchisees in Canada, applicants are still encouraged to apply if they have a minimum $1.5 million net worth and $500,000 in liquid capital. As explained in this analysis, franchisees do not own the property but rather lease the building and premises and pay rent and royalty fees to the company in exchange for operating the business and receiving the benefits of a solid cash flow. When accepted, applicants pay an initial $50,000 franchise fee for a 10 year agreement with an option to purchase an additional 10 years. Franchisees pay a royalty of 6% of weekly gross sales and 4% of monthly gross sales for advertising. 98 (Retrieved from Tim Hortons.com, 2015)

http://www.timhortons.com/ca/en/team/franchise-ca-faq.php

This report agrees with Joyce when he says the company grew one store at a time because of the co-operation between the corporation and individual franchisees, as well as their combined ability to listen to the consumer. He notes the TH brand is a solid business with long-term growth potential. Joyce says when he owned the company, the number one customer of TDL was the restaurant owner. “They were the backbone of the company; they were what made the system work. They are on the front lines, dealing face to face with the customer and are therefore integral to the company’s success,” he adds. 99 (Joyce and Thompson, 2006, pp. 215-216)

Information in this report is supported by the co-founder when he says competitors like Robins Donuts founded in 1975 by former TH employees and other coffee and donut shops were similar but failed to become a serious threat to Tim’s growth plans. “They failed to recognize that a strong chain is built one link at a time. If you don’t try to sell a solid, proven business to your franchisees and instead focus on selling franchises, you’re doomed to failure.” 100 (Joyce & Thompson, 2006, p. 142)

viii. Strength: Corporate structure real estate

The information in this study concludes an eighth internal strength in a SWOT analysis is the corporation’s meticulous real estate strategy and judgement in choosing prime locations throughout Canada. The firm continues to choose the best locations which are most convenient to its consumers. Management’s bricks and mortar real estate decisions are strengths because they enable the company to acquire valuable real estate assets and develop a solid revenue stream. These income generating assets are strong financial accounts on the corporate balance sheet, income and cash flow statements. The company selects the site, builds the restaurant and leases it to the franchisees. Locations are selected to meet consumers wherever they are such as busy intersections, On Route locations on the #401 in southern Ontario, Esso and Petro Canada gas stations, shopping malls across Canada, airports, hospitals and yes at Canadian military bases in Afghanistan. The company's strategic initiative to have as many locations as possible in a geographic area attests to its efforts to confront all competitors. This report concludes the real estate component of the business was and still is an important element of the firm's success.

SWOT Analysis: Strengths, weaknesses, opportunities and threats

2. **Weakness: Internal factors under management control**

In this SWOT analysis this report has identified the firm's human resource policy and corporate global strategy or the lack thereof as two key internal weaknesses which can be controlled by management decisions. If these weaknesses are not addressed, TH will face growth and profitability troubles in future years which will weaken its ability to develop its brand and add new locations in Canada, the United States and around the globe.

a. **Weakness: Human resources**

Poor management decisions with respect to hiring, promotions, working conditions, wages and benefits or lack of the attention in any of these areas can have serious negative consequences on profitability and growth. This report suggests two areas of the TH human resource policy can be classified as a weakness in a SWOT review. The first issue concerns the fact most Tim Hortons' employees earn minimum or low wages with no tips, therefore when the demand for labour exceeds available supply the company faces the challenge to fill job vacancies to meet consumer demand for products and services. Worth noting is information which illustrates similar conditions exist at other QSR establishments in Canada. MBA studies reveal higher wages especially in lower skilled positions can be an incentive for employees to be more productive. Additionally, TH food service employees are often not earning wage increases which correspond to the escalating cost of living. Furthermore, TH similar to other food establishments in Canada faces worker shortages at some locations. This has resulted in the hiring of temporary foreign workers to meet workplace labour demands. This is an inadequate HR solution to a serious national and global economic labour supply and demand problem in the QSR industry and other sectors of the economy. Advanced solutions can be found, however, it appears some TH locations choose to take the easy route of hiring foreign workers even when unemployment exists, in lieu of paying Canadians higher wages and offering better incentives. Although complex, these HR weaknesses at TH require concrete innovative actions by management and executives. A re-thinking of HR policy would be a first step where some employees become non-voting equity owners of some of the franchise locations. This is a step beyond profit sharing and could solve some of the issues of low wages and labour supply. If a manager or employee has real ownership and benefits from profits he or she would more likely make a stronger contribution to the organization which would strengthen the firm's ability to meet wages, compensation and labor requirements for existing operations and future growth.

Moreover, to overcome these weaknesses, managers have the option to implement key text book principles of Human Resources. Managers can integrate personnel policies with business planning, assume responsibility of personnel and focus on management-employee relations. Furthermore, management can initiate and commit themselves to assume the role of enabler, empowerer and facilitator to contribute to corporate achievements. Developing and aligning contemporary HR management with business practices will enable the company and franchisees to focus on individual restaurant successes, add new locations and address labour issues. This approach will strengthen management's decisions to support employee retention, training and internal promotion at the franchise level. 101 (Millmore, et al., 1990, p.41)

b. Weakness: Global strategic planning outside the United States

Another internal weakness under the control of management in a SWOT analysis concerns TH executives' lack of concrete initiative in formulating and implementing an aggressive international global expansion strategy. Financial reports mentioned in this study and the 2014-2018 Strategic Report place strong emphasis on US and global expansion. Recent initiatives demonstrate the company, regardless of recent US closures, is determined to push forward in plans to develop more locations in the United States. News reports say the company in late 2015 signed deals to develop sites in Cincinnati and Columbus, Ohio and in February 2016 signed a deal with a US company to open units in Indiana. However, in spite of this, progress has not been made to move in and establish a global presence in key developing nations such as Brazil, India, Russia and China. Brazil has 203 million people and is the 5th largest country in the world in population and geographical area. Russia has more than 142.4 million. China has 1.36 billion residents with an economy expected to grow 6.8% in 2016. India has 1.2 billion people with an economy expected to grow 7.7% in 2016. These nations and the geographic regions in which they are located present an unlimited opportunity for TH to grow its brand and become an international QSR success 102 (Retrieved from CIA.gov, 2016) 103 (Retrieved from The Wall Street Journal.com, 2015) 104 (Retrieved from The Times of India, 2015)

https://www.cia.gov/library

http://www.wsj.com/articles/china-economic-growth-slows-to-6-9-on-year-in-2015-1453169398

http://timesofindia.indiatimes.com/business/india-business/Indias-economic-growth-to-surpass-Chinas-in-2015-16-UN-report/articleshow/47352054.cms

Several competitors including McDonald’s and Starbucks have a solid and expanding presence in several nations as mentioned in this report. At this stage TH has failed to demonstrate any real willingness or effort to direct and grow the firm in these challenging and dynamic regions of the world. There is never a perfect time; however Tim’s new partnership with Burger King presents an opportunity for the coffee restaurant to accelerate expansion outside North America. If the company continues its inaction and reluctance to extend into the international QSR space then it will be left behind without experiencing substantial growth and profitability in future decades.

SWOT Analysis: Strengths, weaknesses, opportunities and threats

3. **Opportunities and Threats: External categories not under management control**

In addition to examining strengths and weakness which consist of internal categories under management control, a SWOT study also includes a macro analysis which examines external opportunities and threats which can impact an industry environment. This study of macro environmental conditions concerns and affects all players within an industry. In this case QSR industry firms such as TH, McDonald’s and Starbucks and many others are directly affected by external opportunities and threats. Therefore, management has no control over existing and new environmental conditions which emerge and directly affect the industry.

Similar to internal strengths and weaknesses, external opportunities and threats are critical conclusions of any business analysis.

This report suggests opportunities can be found in consumer demand for more flavored sweet and unsweetened beverages and healthier menu items. Additional opportunities are emerging from changes in population, immigration, demographics, economics, social behavior, globalization and technology. On the opposing side, industry threats include more intense competition, animal rights activists, volatility in the supply and demand of labor and the evolving social dining trends which affect younger generations. These threats and opportunities where management does not have significant control are sometimes reversible where an opportunity is seen as a threat and a threat can be regarded as a potential opportunity. However, this study will conclude emphatically whether a category is an opportunity or a threat.

I. Opportunities: Coffee, flavored beverages, breakfast and healthy foods

Information suggests there are opportunities for TH and industry competitors to continue expanding across Canada and the United States as demand increases for coffee, tea, smoothies, breakfast sandwiches and affordable healthy menu items. Opportunities for growth can be found in data which reveals there is growth in coffee consumption amongst several age groups including the 18-34 demographic, as stated in this report. Furthermore, research previously stated, shows there is an increase in demand for non-traditional stylish hot and cold coffee associated caffeinated beverages such as espressos, cappuccinos, ice-caps, mochas, lattes and French vanillas.

Additionally, a rising trend towards consumption of healthy foods and beverages present an opportunity for QSRs to sell more vegetable smoothies, bagels, soups, sandwiches, wraps and salads. In response to these predictions the firm continues to update its beverage and menu offerings as it continues to new build traditional and non-traditional sites by establishing kiosks in hospitals, universities, sports venues, gas stations and office buildings. In July 2013 a small black coffee cost $1.50 at the Tim's kiosk at Roger's Stadium in Toronto, Ont. A beer at another kiosk was $7.00. TH takes its product to the consumer at the same cost. This initiative is a shrewd marketing strategy which demonstrates the company's respect for its loyal customers. It wanted to present the same product and price offering at Roger's Stadium as anywhere else in Canada.

II. Opportunities: Growing population, immigration and demographics

Canada's growing population and the 250,000 new immigrants who come to Canada each year can be viewed as opportunities for Tim Hortons and other QSRs such as McDonald's to expand market share. A larger population can be viewed as an opportunity for businesses to add locations and expand in existing markets. Additionally, large influxes of new Canadians including refugees from war torn nations provide the potential for new employees as well as providing newcomers with the opportunity to develop language and workplace skills.

Seniors, an important segment of the Tim Horton's consumer market, are living longer which means the coffee restaurant can play an expanded role in providing an affordable traditional food service and social meeting place. Seniors have been viewed as regular early morning customers at TH locations in Charlottetown area and Halifax. Morning visits at different times indicate seniors flock to TH restaurants and are considered a strictly loyal demographic. The allegiance of this demographic bodes well for the business because it allows the company to secure a solid consumer base for many years. This trend is likely to continue which means TH may have to reassess its restaurant size and seating numbers to accommodate a larger number of seniors who want to sit inside Tim's to have their morning coffee and a breakfast sandwich. In recent years the firm has taken initiatives to build restaurants in rural areas. Prince Edward Island is a good example where TH has established locations in rural communities such as O'Leary and Souris where many seniors reside.

III. Opportunities: Economic growth, low interest rates, low energy costs and the low dollar.

This report ascertains steady economic growth, low interest rates, low energy costs and the lower Canadian dollar are opportunities to add new locations and expand menu offerings to increase basket sizes as Canadians spend more time out of their homes. Canada is expected to experience economic growth at 1.3% and Ontario at 1.5% gross domestic product (GDP) in 2016. Lower fuel costs allow consumers more disposable income making them less likely to cut back on QSR and take out coffee items. For the company low interest rates provide less expensive financing to build new restaurants renovate and modernize existing locations to remain ahead of competitors. 105 (Retrieved from CBC.ca News Business, 2016)

http://www.cbc.ca/news/business/cibc-canada-economy-1.3423856

Likewise, this study views the low Canadian dollar and the high cost of purchasing United States currency as an opportunity for Tim Hortons and other food service operators in

Canada. Many Canadians will be inclined to spend more of their disposable income at home where most TH units are located.

IV. Opportunities: The United States and international

Industry assessments indicate the United States market provides a huge potential for business because its economy and dollar are strong and half of global wealth is controlled by Americans. Opportunities exist for TH expansion in identified priority markets where existing locations have been successful. The similar language, culture, values and economy provide prospects for franchisees in the US to open and expand in a growing market.

As a QSR business partner with Burger King under Restaurant Brands International, owned by a multi-billion dollar investment company, 3G Capital, Tim's has significantly more cash and marketing leverage to add more locations in the Persian Gulf and around the globe. TH has 4,000 locations in Canada, 42% of QSR traffic, 27% of sales, 75% of restaurant coffee sales, 50 plus years of tradition, innovation in menu, technology and unparalleled brand loyalty. According to this research, TH can use its new relationship with Burger King's 14,000 worldwide locations in the world as an established platform for global expansion. By capitalizing on the strengths of its new partner TH can replicate the successes of McDonald's and Starbucks who have made great strides in recent years by establishing their brands in the international marketplace.

V. Opportunities: Social behavior and the price conscious consumer

External opportunity exits where social trends and media are constantly promoting a healthy way of life both mentally and physically. A TH, McDonald's and Starbucks store is a clean, safe and healthy environment for people to go especially for individuals who want to socialize without consuming alcoholic beverages. These QSRs provide this social environment as well providing quality products for the price conscious consumer. Having a cup of coffee and a donut with a few friends is a good opportunity to socialize without having to spend a lot of money. As stated in this report, Starbucks is experimenting with serving wine and beer at some locations to provide an alternate social environment for women (who make up 60% of their customers) who wish to meet with friends at a coffee shop rather than a pub or bar. TH has experimented with this concept at a corporate convention; however, this report argues an adjustment to the business model in this fashion would distract the business from its loyal consumers especially seniors and young families. 106 (Retrieved from Financial Post.com, 2014)

http://business.financialpost.com/2014/07/16/inside-tim-hortons-store-of-the-future-quinoa-salads-beer-taps-and-cold-brew-coffee/

I. Threats: Competition

Fierce competitive forces within the QSR and general restaurant industry are the most serious external factors beyond management's control which can affect the future operations and potential expansion of TH and other industry participants in Canada, United States and globally. Information gathered for this report reveals Tim's faces several threats to its business from an environment which hosts aggressive competitors including McDonald's, Starbucks and Dunkin Donuts who continue to expand and grow their respective brands in Canada and in the international marketplace. McDonald's is the largest restaurant company in the world with 36,000 restaurants, 1.9 million employees in 119 countries serving more than 70 million customers daily. It is relentless in using its financial and real estate leverage to grow its coffee and breakfast market. Restaurants even give away free coffee from time to time to promote the McCafe brand. In December 2015 McCafe opened its first Canadian stand-alone coffee unit in Toronto with a second on the way. All-day breakfast offerings at McDonald's in the USA and the pending introduction of all day breakfasts at McDonald's in Canada could pose a challenge to the TH dynasty.

Starbucks which boasts similar successes with its 11,000 US locations including 1,200 in Canada has aggressive expansion goals including plans to sell alcoholic beverages at select locations to attract customers who desire to have beer or wine without going to a pub. Dunkin Donuts also plans to add more locations in the United States. The new category of fast casual dining imposes even more competition in the marketplace, as stated in this report. How TH management responds to its competitors will determine whether these threats remain or if they can be converted to opportunities by implementing a more aggressive strategy to accelerate international expansion.

II. Threats: Animal rights activists

Today there is gradual movement towards recognizing the rights of animals and the fair treatment of animals sold for food production. Activists have been successful in recent years by raising the awareness of the unnecessary use of antibiotic and growth hormones in the treatment and production of cattle, pigs and chickens. Advocates have pushed for laws to force primary food producers and farmers to allow these animals to roam more freely on farms. They have been successful in forcing several QSRs including McDonald's and Tim Hortons to develop long term plans to meet some of these objectives. These types of groups have also been promoting greater production of organic foods and non-GMO products. How TH and other QSRs respond to this movement will influence their ability to protect existing and capture future market share.

III. Threats: Technology and the younger generation

Technology and the use of social media, data suggests, can be a threat to existing QSR industry businesses because it has been used to promote new dining trends to a younger demographic who not only favor more cultured coffee related beverages and more sophisticated shops like Starbucks but are frequenting fast casual dining rivalries such as Chipotle Mexican Grill, Panera bread and Lime Fresh who offer an even a healthier and wider menu at competitive prices. Furthermore, fast casual burger spaces which host Five Guys, Habit Burger, Shake Shack and SmashBurger are also attracting the younger generation. These “healthier” burgers directly challenge QSR burger and fries made by McDonald’s, Wendy’s and Burger King. This report suggests TH and other company executives at this stage do not have control over these external threats. Industry management will have to be more innovative in their business model and use technology, including social media to capture the attention of younger generations. 107 (Retrieved from Panera Bread.com) 108 (Retrieved from Lime Fresh Mexican Grill.com) 109 (Retrieved from SmashBurger.com)

IV. Threats: Volatility in the supply and demand of labor

An ongoing external threat to the reputation of TH and other fast food outlets comes from challenges to meet an increased demand to fulfill low skilled and low wage jobs in many industry restaurants. In recent years this vacuum has resulted in the practice of recruiting temporary foreign workers sometimes at the expense of having to pay higher wages to potential applicants here at home. Reports have revealed some of these foreign workers may have been chosen over Canadian applicants and that some of these temporary employees have been mistreated by their sponsoring employer. This is undeniably a complex external labor and supply demand issue with no easy solution.

Chapter 10: Political, economic, social and technological (PEST) analysis

In addition to a SWOT investigation business writers sometimes conduct a macro analysis referred to as PEST. The four categories of this acronym argue and conclude the political, economic, social and technological external factors impacting an industry and the relevant businesses operating within that environment. Similar to opportunities and threats the components of PEST are elements not under management control.

A. Political

Political considerations with respect to strict regulations in the food service industry pose challenges to existing businesses and new entrants. Governments at the municipal, provincial and federal levels have enacted and continue to legislate and enforce laws which regulate and impact food service operators. The Canadian Food Inspection Agency (CFIA) oversees 14 categories of acts and regulations including the Agriculture and Agri-Food Administrative and Monetary Penalties Act, Foods and Drug Act (food) and Animal Health Act. Nine other acts not under CFIA control, however, are closely related to the food industry including the Canadian Environmental Assessment Act, Canadian Human Rights Act and the Employment Equity Act. Provincial governments, regional health authorities and municipalities have additional acts and regulations which impact the food service industry. Prince Edward Island has a Food Safety Program under the Department of Health and Wellness, Environmental Health. This program regulates important areas in food service including temperatures in food safety, hand washing and implementation of a food premises sanitation plan. Inspections are conducted on a regular basis. Information suggests as more consumers eat food prepared out of the home regulations will continue to be strengthened and more strictly enforced.

Reports reveal stricter regulations in the fast food industry in recent years have made it more difficult for firms to operate. For example, in September, 2015 Ontario released its Healthy Menu Choices Act requiring food service businesses with 20 or more locations to post calories on their menus by January 1, 2017. Restaurant Canada, an industry body voiced its concern that the regulations were too broad because they included print and online advertisements. 110 (Retrieved from Government of Canada.ca, 2015) 111 (Retrieved from PEI Government.ca, 2016) 112 (Retrieved from Restaurants Canada.org, 2016) http://www.inspection.gc.ca/food/information-for-consumers/report-a-concern/restaurants-and-food-services/eng/1323139279504/1323140830752

http://www.gov.pe.ca/health/index.php3?number=1021577

https://www.restaurantscanada.org/en/Results?q=regulations

B. Economic

This report concludes external fluctuating or stagnant economic conditions can have a significant impact on the activities and profits of TH and QSR participants in Canada. The industry is an important generator of economic activity generating $23 billion in annual sales with 4.3 billion visits. A wide scope of volatile indicators such as the rates of unemployment, job security, wages and inflation, as well as Canada's gross domestic product (GDP) performance will impact consumer and business confidence which will affect how consumers spend their money and where and how business chooses to invest.

C. Social

Research concludes social developments affecting the industry environment directly influence how QSRs and TH will develop business strategy in present and future operations.

External pressures to engage in social and environmental responsibility have impacted TH and other similar firms. For example, in Tim's 2014 Sustainability and Responsibility Performance Report, the firm incorporates individual well-being, social responsibility and environmental sustainability into its strategic plan and business model. These include, the Tim Hortons Foundation which funds and supports TH camps for disadvantaged children in which 17,700 children attended in 2013 and the annual Smile Cookie campaign where cookies are sold in the restaurants to raise fund for the Children's Wish Foundation. Since 2007 the company reduced sodium in deli meats by 49% and since 2011 about by 35% less water was used at corporate head office. 113 (Retrieved from Tim Hortons.com) 114 (Retrieved from The Star.com, 2015)

http://sustainabilityreport.timhortons.com/

http://www.thestar.com/business/2015/01/20/canadas-fast-food-industry-going-on-slow-burner-research-firm-says.html

D. Technological

Information reveals technological changes have impacted the QSR industry making it easier for businesses to engage with the consumer beyond television ads and websites and more personally on their cell phones. For example, many companies including food service operators in Canada engage directly with their consumer through text messaging. Aeroplan and Bell Canada use text messaging to personally connect with their consumers. In addition to sending Aeroplan offers via e-mail, subscribers are now sent occasional text messages to their cell phone. Restaurants must continue to use and develop technology including smart phone apps and text messaging to market and engage with their customers.

Chapter 11: Porter's five forces analysis

In addition to a SWOT examination, market analysts often apply Michael Porter's five forces, commonly referred to as P-5, to determine industry attractiveness. An industry is attractive when conditions are such that when competition is limited, profitability is more likely to be substantial. The more competitive an industry is, the less attractive it is which reduces the opportunity for participating businesses to reap substantial profits. Porter's analysis identifies the level of competition within an industry which determines whether or not that industry is attractive and profitable to existing companies and new entrants. His 1979 Harvard Business Review article was revolutionary because it introduced a new method by which researchers could identify five forces that shape industry competitiveness and attractiveness. These factors include a thorough industry scrutiny which analyzes the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products or services and the rivalry among existing competitors. By systematically scrutinizing TH, BK, McDonald's, Starbucks and industry forces including consumers, suppliers and competitors, analysts can answer the following three questions and conclude: Is the QSR industry attractive? Is the QSR industry profitable? Are the profits sustainable? 115 (Porter, M.E., 2008, pp.78-93)

The P-5 analysis has benefited industry firms including Tim's and others which has enabled them to understand the structure of the food service and coffee retail industry. This data has also assisted the Canadian coffee icon to position itself in the marketplace to maximize profits and protect its business from attacks by existing competitors and new entrants. However, in spite of the competitive strengths and advantages which TH, Starbucks and McDonald's and similar large companies have, this report can conclude with a degree of certainty that the QSR industry in North America is not attractive because of the aggressive competitive climate, low or easy entry barriers resulting in lower annual sales increases and lower profit margins partially due to the higher costs of operating in a "hostile" competitive environment. If there were fewer competitors or less competition in the industry, QSR companies would achieve higher annual sales increases, higher profit levels and maintain a more secure level of profitability in short term and long term growth and therefore could be considered more attractive.

1. **Threats of new entrants**

This report reveals QSRs and coffee retailers are under continuous threat from new entrants because of the easy access and low entry barriers required to enter the industry. Industry observers agree the food service and coffee business is relatively easy to enter if a business can obtain sustainable financing. Furthermore, the unceasing competitive structure of the industry places restaurants in an environment where operating costs are high, while profit margins and sales increases are low. These results make it more difficult to attract investors who want an attractive yield, minimum risk and solid growth dividend on their invested capital. 116 (Porter, 2008, p.80)

TH and large QSRs have responded to these threats by maintaining a competitive advantage in cost leadership by implementing a strategy of affordability and by minimizing price increases. By focusing on products and services which appeal to consumers existing large firms have penetrated into an expansive niche market. 117 (Millmore et al., 2007, pp. 7-8)

To stay competitive against new entrants TH, McDonald's and other successful rivals control operating costs and maintain a high level of efficiency through large scale production at central bakeries, outsourcing and regional distribution centres. This report claims that profitable companies closely observe the actions of new entrants and respond to innovations which promote the business. Introducing Wi-Fi service in the restaurants, expanding the menu offering of creamy sugar-filled hot and cold beverages such as ice caps and mochas are examples of how these players follow industry trends. However, existing restaurants face a more serious severe threat if existing retail giants Walmart or Costco started aggressively promoting their own coffee brand or decided to use their resources to establish their own retail coffee restaurant. These titans are in a strong bargaining position to use their retail and wholesale leverage to expand and develop a niche in the coffee retail category.

2. The bargaining power of suppliers

The bargaining power of suppliers is a significant force in the industry structure which can positively or negatively influence profit margins Suppliers can impact the availability and the costs of goods and services they charge to companies and their retail businesses. A review of information indicates suppliers may not have significant control of the prices they charge to TH, for example, because the company is an industry leader with almost 4,000 locations and 75% control of the restaurant coffee business in Canada. Similar to Walmart, for example, Tim's and McDonald's strong position in their industry allows their respective firms to leverage their strength and negotiate the price they pay for goods and services. This power lets them control operating costs and retail prices so that profits are maintained at levels which attract equity investment. How much TH or its franchisees pay for goods and services will directly affect menu prices and profit margins. Therefore, as a large coffee retailer, TH and other large players can influence the bargaining power of suppliers by negotiating terms of payment beyond the standard 30 days. By extending the terms of its accounts payable the company can reap the financial benefits of capitalizing on positive short term cash flow. This revenue stream in the cash flow statement can positively influence corporate profits. Walmart is known for paying its suppliers after 60 days which allows it to use the money for short term investments while selling the products it has received from suppliers. Moreover, this report views the bargaining power of suppliers to be limited because TH and others produce some of their own goods and services and purchase foods directly from primary producers i.e. farmers.

3. The bargaining power of buyers or customers

The bargaining power of buyers or consumers can exist as a powerful force which can affect QSR profits. Consumer behaviour influences demand as well as the level of quality and prices which impact overall profits. This report, as previously stated, suggests profits are lower because of the large number of competitors in the QSR environment. These businesses, therefore, must occasionally absorb higher operating costs because they are pressured to invest in more expensive marketing to attract new customers without increasing retail prices. In this case the business must look at other means to increase or maintain profits. This could include increasing efficiency and boosting sales volumes.

This industry has widespread competition in every space where consumers can take advantage of an extensive range of venue and menu choices as mentioned throughout this report. However, in spite of the fierce and aggressive competition within the industry, TH and other large companies have some bargaining power with consumers because coffee is sold virtually everywhere at the same price. In spite of the competition, coffee retailers seldom if ever get into a price war which benefits existing coffee shops especially Tim Hortons and other large participants. Even if a coffee war took place, it is unlikely the price would radically shift consumer behaviour towards the less expensive product. Most consumers choose their cup of coffee because of their loyalty to a brand and for the cultural experience and not necessarily the cost. However, there are exceptions when consumers choose to go McDonald's when it gives out free coffee for a few days once or twice a year. McDonald's gave away a small free coffee to customers here on PEI and across Canada from February 29 – March 6, 2016

4. **Threat of substitute products or services**

Recent studies on the growth of the tea industry in Canada and across the globe reveal tea and flavored tea beverages could be considered the most serious threat to the traditional hot cup of coffee which is the most popular and most profitable beverage menu item aggressively marketed by Tim Hortons, McDonald's and Starbucks. As stated repeatedly throughout this report, coffee is overwhelmingly the key product strength behind the success of TH and Starbucks. McDonalds's with its McCafe coffee and all day breakfast is determinedly moving to capitalize on this demand. However, in spite of the strength of the retail coffee, The Tea Association of Canada predicts Canadian tea consumption will increase by 40% by the year 2020. Citing a 2015 Agriculture and Agri-Food Canada study, The Canadian Food Trends report basis its prediction on greater consumer trends towards health and wellness and the consumer's desire to take advantage of the underlying health benefits of drinking tea. According to the federal government report, Canadians above the age of 14 now drink 10 billion cups per year or 340 cups per person or 6 cups per week compared to 284 cups per person in 2010. The association refers to 2015 Neilson data which states the tea market in grocery stores was valued at $426 million. Regular black tea consisted of 35.6% of sales while speciality teas comprised of 64.4% of revenue. In term of pounds of tea sold in grocery stores regular tea dominates with 70.7% of sales compared to 27.3% for speciality teas. Meanwhile, tea bags make up 94% sales. The findings indicate tea consumers have on average 11 types of teas in their cupboard.

Furthermore, a March 4, 2015 CBC news article cites research which reveals out-of -home coffee servings are down three per cent, but the number of coffee visits has remained steady. 118 (Retrieved from Tea.ca, 2014) 119 (Retrieved from CBC.ca news, 2015) 120 (Retrieved from FoodBiz.ca, 2016) 121 (Retrieved from CBC.ca News, 2015) 122 (Retrieved from Food in Canada.com, 2014) 123 (Retrieved from Reuters.com, 2016) 124 (Retrieved from CBC.ca News, 2014)

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http://www.cbc.ca/news/business/keurig-s-coffee-supremacy-challenged-by-canadian-firm-1.2787075

Even though tea is emerging as a possible threat to coffee sales Tim Hortons and its main rivals McDonald's and Starbucks remain in a strong industry position with respect to the products and services they offer to their customers. These large QSRs have data from sources including the Coffee Association of Canada which argues coffee is the preferred beverage (except for tap water) with a strong consumer demand, while Canadians continue to drink an average of 2.6 cups per day.   Information might suggest mocha's, cappuccinos and other hot and cold flavored beverages are substitute products which could threaten TH, McCafe and Starbucks market share. However, as stated in this report, coffee restaurants continue to add hot and cold flavored teas and hot and cold flavored coffee related beverages in response to an increase in demand for more sophisticated flavored beverages. As consumer tastes demand a healthier beverage the dominant players have responded by increasing their menu selection of fruit and vegetable smoothies which replaces appetites for coffee or highly concentrated sugar drinks such as cappuccinos.

Home brewed coffee, K-cups and Tassimos are substitutes for restaurant coffee but also complement existing restaurant coffee sales and are significant in extending TH, McCafe and Starbucks brand recognition and product convenience to millions of consumers in supermarkets across Canada. These take home coffee products sold at QSR locations across the nation have assisted the stores to protect market share, increase sales and profits as well as attracting the younger 18-34 consumer. A growing number of Canadians are spending more time and money eating out of the home which bodes well for QSRs especially TH as it continues to reach out to the consumer by locating in every high traffic location. The company is aggressive in gaining a presence in sport venues, airports, hospitals, universities, colleges and transportation routes such as Highway #401 in southern Ontario.

Similar to any food product, the coffee business could face difficulties if researchers claimed there were negative health consequences from drinking too much coffee or if the coffee beans were threatened by an agricultural virus which could affect production and supplies. However, contrary studies could also reveal that coffee consumption has positive health benefits which could increase sales and profits. 125 (Retrieved from Coffee Association.com, 2013) http://www.coffeeassoc.com/coffee-in-canada/wake-up-and-smell-the-coffee/

5. Rivalry among existing competitors

Among Porter's Five Forces, the fierce rivalry among existing competitors is the most significant factor which impacts industry attractiveness, profits and sustainability in the QSR and coffee retail industry in Canada and across North America. Information argues this rivalry has a negative impact on restaurant profits in Canada. TH and the other big companies would likely sustain higher annual sales increases than the usual 4%-5% growth if the QSR environment was not as crowded. As stated in this report, the consensus is that fierce competition has a negative impact on business growth and profits. Profits are squeezed as more money is allocated to marketing, food service, quality and bricks and mortar decor to maintain existing and attract new customers. To increase market share and profits, these opponents continue to wage battles against each other by using aggressive and expensive media marketing claiming they offer the best products, service and prices.

In response to this pressure, Tim Hortons and other businesses continue to position themselves to serve their consumers and attract new patrons by focusing on strengths as stated in this report. A weaker argument worth mentioning is the fact QSRs benefit from this fierce industry rivalry because they often adopt products and services initially offered by their competitors. Today many QSRs offer Wi-Fi, flavored hot and cold beverages, wraps and drive thru service which began in 1947 at Red's Giant Hamburg in Springfield, Missouri. This rivalry has made the superior firms more operationally efficient and has forced them to provide a higher level of products and services to consumers.

Moreover, a unique characteristic of the coffee retail environment is the fact that coffee is basically the same price at most competing restaurants. Except for occasional offerings of free coffee at McDonald's the price of coffee is seldom used as a tactic to gain new customers.

Advertising and the marketing of menu item specials, coupons and new limited time food items are often used by all companies to attract more consumers. Further analysis in Appendix II.

Chapter 12: Recommendations, future research, challenges and conclusion

1. Recommendations

This report recommends Tim Hortons should continue its expansion in urban and rural areas throughout Canada by opening new traditional free-standing stores and non-traditional kiosk or drive thru only units. A similar strategy should continue in the United States, however, the firm should focus expansion in established and familiar core and priority regions. Furthermore, it is essential for the company to continue identifying and analyzing new potentially viable markets where the company does not have a presence. Early lessons learned should not be forgotten. It is best to stay away from hot climates where consumers may not always have an appetite for hot coffee and donuts. However, successes in the Gulf States including the United Arab Emirates, Qatar, Bahrain, Oman and Kuwait and may be an exception. The company's December television advertisements show customers warming up with a hot cup of coffee which exhibits the relationship between TH products, consumers and climatic conditions.

The company has repeated its intention to locate in non-traditional sites and establish kiosks in hospitals, universities and sports venues. In recent years the firm has taken initiatives to build restaurants in rural areas. Prince Edward Island is a good example where one will find TH in rural communities such as O'Leary, Kensington and Souris. As a QSR business partner with Burger King owned by a multi-billion dollar investment company, Tim's has access to more capital, marketing leverage and unlimited prospects to add more locations in the Persian Gulf States and around the globe. Recently RBI has been aggressive expanding Burger King in France and Spain which could increase opportunities for Tim's to develop a durable presence in Europe.

If TH is to compete against the trend towards fast casual food service restaurants in North America it may have to establish outlets which look beyond the QSR coffee bakery concept while still focussing on its core business. The firm will have to continue to serve quality combo meals for less than $10 and improve the menu to contain organic, local, fresh, non-genetically modified wheat products as well as beef, pork and poultry and dairy products produced without hormones or antibiotics. TH will have to begin purchasing more meats and poultry from farms where animals raised in the production of food are treated and caged or uncaged in more humane conditions. Marketing in every corner must emphasize this concept. 126 (Retrieved from UPEI Business Source, Sanborn J., 2012, pp. 60-61)

Importantly, if Tim's is to gain a solid footing and create a competitive advantage in the large US market, it must maintain and strengthen its brand, while providing a high quality of service while implementing the strategic successes it has achieved in Canada. To grow in the US, it must respond to the values and demands of American consumers. Stores could expand their basket size to existing customers and add new customers by offering healthier choices in its beverage and food menu. Approximately 11 million Canadians and 115 million are diabetic or are at risk for type 2 diabetes, according to the Canadian and American Diabetic Associations. TH offers little on its menu to this segment of the consumer market. Donuts, muffins, most beverages and the affiliated products are filled with too many unacceptable grams of sugar, fats and carbohydrates. The company would better serve its consumers if it began offering some products with little or no sugar and less fat. This would be a clear message the company supports healthier eating.

This report recommends that Restaurants Brands International must focus on cooperating with franchisees and their consumers to capitalize on present and past successes. RBI can't be primarily focused on increasing the number of units unless market evidence strongly suggests a new location is a win-win situation for the franchisor-franchisee. Expensive franchise businesses sometimes open and close within a few years. Even large corporations make large mistakes. Target opened and closed 133 stores in two years by ignoring the fundamental concepts of a retail business; people, products, promotion, place and prices. Many Canadians were looking for a similar version of the US giant in Target Canada's offering. What they got instead was a Canadian version of the US stores which failed to offer the same product and price points as the US outlets. Canadians were expecting a competitive discount retailer similar to Walmart's selection and prices. They did not get it. To expand internationally TH can learn from Starbucks which has been successful in exporting the company and American culture around the globe. Tim Hortons must envision how its international expansion successes outside the US can be linked to promoting Canadian culture and values. Without exporting this concept it will be difficult for the Canadian coffee icon to expand globally. If Tim's is just another coffee shop in a foreign capital its brand will not sustain itself.

2. Future research and challenges

This signature project is a situational analysis of Tim Hortons with recommendations on how the company could grow in Canada, United States and internationally. This is by no means an exhaustive analysis of the company but is a summary which opens the door towards further research. Further studies could identify individual locations and regions in the US and examine what factors make these units thrive or prosper. Secondly, researchers could analyze foreign opportunities to determine whether the success factors in North America can be transplanted into other nations around the world. Although TH has a presence in some Persian Gulf States the actual sales are minimal at 1% and the real growth potential has yet to be determined. Tim's self-serve kiosks in the UK and Ireland need to be developed into locations where the brand engages more closely with the consumer. Brazil, Russia, India and China (BRIC), Europe, Asia and Africa offer an untapped market. If Tim’s is to become worldwide competitor then it must seriously explore these regions of the globe.

Examining the coffee and QSR market is an exciting and yet challenging exercise because of the emerging trends and rapidly changing climate within the food service industry. What is popular this year can easily change. In the coming months, Chipotle Mexican Grill will come under closer scrutiny from the American public because of the high sanitary requirements involved in preparing fresh vegetables in high volume restaurants. The e-coli threats in these types of establishments may provide a short term window of opportunity for establishments such as Tim Hortons where most of the products served are freshly baked and cooked and items such as fresh vegetables are not a significant component in the menu items. Opportunities for growth can also be found in data which reveals there is growth in coffee consumption in the 18-34 demographic age groups. Furthermore, research shows there is an increase in demand for non-traditional hot and cold beverages such as cappuccinos and mochas.

One of the greatest challenges this report has experienced in both the research and writing during the past two years is the rapid pace and changes which have occurred in the QSR environment. Changes include the 3G Capital purchase, all day breakfasts at McDonald’s, Starbucks growth including all day breakfasts here in Charlottetown, Tim Hortons menu changes, McCafe’s new stand-alone locations and McDonald’s decision to sell customized and healthier burgers at 150 test locations to counter the threat from fast casuals. Recently convenience store gas station retailer Couche Tard acquired 279 Esso retail stations which contain 229 Tim’s full service or smaller kiosks. This is a new alliance which provides expansion venues for Tim's and is a win-win result for both companies. Other issues include the low barriers which allow new entrants, fair treatment of chickens, pigs and cattle and the e-coli contamination issues at US locations of fast casual leader Chipotle Mexican Grill. The continuous flow of news announced regularly on Canada's business station BNN and the American networks CNN and CNBC in addition to other print and broadcast media attests to the significance of this industry which continues to attract the attention of consumers and business investors across North America.

3. Conclusion

After a meticulous and extensive examination of Tim Hortons using various methods of research learned in the University of Prince Edward Island Executive Master of Business Administration Program this analyst can ascertain several conclusions about the company. Research methods learned in this graduate program were applied and contributed to the writing, analysis, recommendations and conclusions made in this report. Several types of sources required to conduct evidence-based research were used including academic, industry reports, financial reports, business articles, news articles, company reports, numerous websites and extensive observational findings and analysis. One hundred and twenty-six references were cited and about 165 items are listed in the bibliography.

Throughout the research, analysis, writing and conclusion of this document the EMBA UPEI evidence-based strategic concepts, tools and techniques including SWOT, P-5, PEST, strategic success factors, market analysis, competitive analysis, financial analysis and ethnographic analysis taught in the 12 courses were applied. This approach and method of learning has enabled this analyst to gain a deeper knowledge, appreciation and unique insight into why this company has become so successful in Canada. After conducting this comprehensive study using MBA learning this analyst can conclude Tim's retail success is unparalleled in Canadian history. For the past five decades the company has been persistent in focusing every detail of its business to distinguish itself from other companies by providing a higher level of quality service and products. Attention has been directed to develop every component of the company such as marketing, finances, operations, distributions, human resources, real estate and corporate structure especially in its relationship with franchisees. However, Tim's real achievement goes beyond its strategic and marketing factors of success or its proven ability to provide a high level of customer service. By applying MBA knowledge this writer has learned the company has developed an unparalleled relationship with its consumers. TH consumers are committed, loyal and emotionally attached to the iconic brand. Consumers experience the comforts of home, familiarity, safety and security whenever they visit a Tim's location in their local community or when they travel. The consumer's experience with the brand is highly emotional and is comparable to a person's emotional attachment with Canada and its distinct values. No other business can claim this exceptional honor. It is this bond which will guarantee present and future generations of Canadians from the Atlantic to the Pacific the privilege of enjoying a hot fresh cup of Tim's coffee.

-End-

Appendix I

Financials supplement

On August 10 & 27, 2015 Morningstar analyst RJ Hottovy published three articles on RBI; Investment Thesis, Analyst Note and Economic Moat. In the August 10th "Investment Thesis", Hottovy points out that RBI is the third largest world-wide quick-service restaurant chain which continues to increase the number of locations around the world. It is able to recognize cost reduction opportunities and has the potential to add to its exiting brands. (Retrieved from Investor's Edge CIBC.com, 2015)

https://www.investorsedge.cibc.com/ie/index.html

Despite RBI's plans to manage the BK and TH brands independently, the forecaster sees several similarities between the four pillars of BK's operations including menu, marketing communications, image and operations with the components of TH's five year strategic plan unveiled in February 2014. The TH plan focused on brand awareness and guest experience investments; increased use of technology to acquire customers and as a marketing tool; international expansion; and channel diversification". He explains there is strength in the BK-TH partnership which would lead 3G Capital to seek other partnerships to strengthen existing brands.

In the August 27th, "Analyst Note" report, Hottovy points out that BK's 6.7% sales growth and TH's 5.5% revenue growth demonstrates the company's ability to align its menu with consumer preferences. In his 10 year forecast the analyst predicts the share price to trade in the $48 Canadian range and the number of locations to grow to 32,000 units system wide, low to middle annual sales increases and adjusted EBITDA margins to grow to 50% in 2024 from 39% in 2014.

In the August 10th, “Economic Moat,” commentary Morningstar explains that RBI has carved an economic channel to stay ahead of its competitors because of its franchisee/license system, portfolio of popular brands and a highly scalable business model. “Strong brand recognition, consistent customer service, and menu balancing choices with locally relevant menu choices, BK is among a handful of restaurants brands to be successfully replicated across the globe.” The report notes that BK had $17 billion in global system wide sales in 2014 which is slightly under 1% pf the approximate $2.1 trillion in worldwide restaurant sales (Euro monitor estimates). It also suggests BK’s store unit sales will grow from $1.2 million to $1.5 million by 2024 due to management’s renewed emphasis on franchise profitability. The article cites similar strengths for TH especially in Canada where the chain leads in the QSR category by a wide margin. TH has netted 27% of the 24 billion quick-service market in Canada. Tim’s own 42% of all QSR transactions and 87% market share of the donut/coffee/tea category. In terms of the number of units Tim’s leads the way with 3,800 units followed by Subway (3,200 units), McDonald’s (1,450) and Starbucks (1,450). He adds that new entrants to the market find it difficult to carve a niche due to low barriers to entry, non-existent customer switching costs and intense industry competition.

Appendix II

Analysis supplement

I. VRIO analysis: Testing the TH business model

- **Valuable:** TH is a valuable business for consumers and the economy. It offers something that consumers want and provides a cultural and a social icon for Canadians.
- **Rare:** Tim Hortons and the food products it sells are not rare but offered by many food service businesses, however, the brand's widespread loyalty and dominance is unique in the Canadian marketplace.
- **Inimitable:** Tim Hortons products could be easily copied, however, no company has been able to successfully copy the TH business model.
- **Organized:** TH is a well-structured supply, distribution and coffee-QSR company which focuses on expansion by cooperating with motivated and dedicated franchisees who work in partnership with the franchisor to develop and expand a successful location (s). (Gamble E., 2011)

II. Stakeholder's analysis

The company's profits, expansion, menu, social responsibility and brand recognition are affected by a long list of stakeholders. Strategic learning in the MBA program at UPEI identifies various stakeholders who vary in their **power** (capability or capacity to do or accomplish something); **legitimacy** (accepted as conforming); and **urgency** (pressing importance). They may impact corporate and individual store management decisions which shape overall operational effectiveness and strategy. Tim Hortons and its owners must consider these stakeholders when making decisions. In this analysis stakeholders include:

- **Dormant stakeholders** are minority equity shareholders who are not active in the operations of the business but have power and share in the company's profits and losses. RBI shares are traded on the Toronto Stock Exchange and the New York Stock Exchange.
- **Discretionary stakeholders** have legitimacy and consist of the additional service providers and suppliers. These include agricultural producers of coffee, chicken and livestock who are under pressure to produce organic crops, raise animals in spacious areas without using hormone and antibiotics to boost animal growth. Today many food service providers especially Chipotle Mexican Grill demand that animals used in food production are treated in a fair and humane manner.
- **Demanding stakeholders** such as customers and front line employees have a sense of urgency and require a lot of effort and attention. Customers demand quality, price and fast service which meet their expectations.
- **Dominant stakeholders** are owners 3G Capital, Warren Buffet, RBI, board members and franchisees who exercise authority and influence by having power and legitimacy.
- **Dangerous stakeholders** can consist of labour, environmental or health organizations that have a sense of urgency as well as the power and capability to harm the company.
- **Dependant stakeholders** who have legitimacy and urgency include front line employees at the restaurants, head office employees in Oakville and franchisees whose livelihood depend on company sales and franchise development.
- **Definitive stakeholders** with power, legitimacy and urgency are core consumers, owners, board members, franchisees and specific food and coffee suppliers. (Gamble E., 2011)

III. Value chain analysis

TH's structured and cohesive operations and supply chain consisting of in-going logistics, production, out-going logistics, sales and marketing and customer service has contributed significantly to the organization's success during the past 51 years. TH has translated the Toyota production and lean supply chain model to its own QSR system. This value chain allows stores to receive supplies, produce and deliver products to franchisee and then to consumers in an efficient, economical and timely manner which has positively affected the corporation's financial stability. The company's regional distribution centres, warehouses and transport trucks enable TH to deliver supplies to restaurants using the following lean production concepts:

1. Just in time production
2. Focus on quality
3. Lean process and product design
4. Workforce involvement through staff training
5. Close supplier relationships with farmers and other suppliers
6. Problem solving and continuous improvement. (Jacobs et al., p.286)

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