

Tim Hortons – The Value of Community Connections

What comes to mind when you think of Tim Hortons?



Source: timhortons.com

Perhaps it was the burnt bagel with too much cream cheese you bought the other day. Or the chocolate dip that stuck to the top of the bag. And most likely you can think of a time when the sugar was forgotten in your daily double-double order.

But perhaps your thoughts shift toward a positive experience instead. Trying to balance coffees in one hand and timbits in the other you've bought for your friends. That friendly face who has your order ready before you're even at the counter. Or how great is it to feel surprised on a Friday morning when a colleague brings donuts to the office? Or maybe its tradition of stopping at Tim's on the way to the cottage so your kids can have vanilla dips.

Most of us in Canada have had somewhat polarizing experiences like those with Tim Hortons. Arguably, no other

Canadian institution evokes as much frustration at times but so much affinity and loyalty at others.

Yet Tim Hortons as a restaurant chain has become part of Canadian culture and identity. One whose core product has more than 70% market share in its home market and has become a habitual part of customers' daily rituals for more than fifty years. One whose loyal and committed group of franchisees have been an integral part of their communities for decades. The brand's rich history is an oft-studied phenomenon that continues to perplex many.

Trouble in Timbit Land

However, the last year was particularly difficult for Tim Hortons, a subsidiary of Restaurant Brands International (RBI). In addition to increased competitive intensity, stagnating sales growth trends, sharp jumps in minimum wage and questions about strategy, the company was embroiled in a media storm over deteriorating franchisee relations. Tim's also struggled to find consistent leadership; after a number of leadership changes, including a stint by RBI's CEO, former Burger King boss Alex Macedo was appointed as new President of Tim Hortons. Still, damage had been done. Sales were flat and questions were arising over product quality, execution and employee relations, among others.

More importantly, it appeared the company was potentially treating franchisees poorly, underinvesting in the business and new products, and haphazardly cutting costs in the name of short-term profit. As long-term investors, we were concerned about how these developments might impact the long-term durability and value of Restaurant Brands, the owner of Tim Hortons.

Making a Difference

In our effort to better understand these challenges, we dug deeper into Tim's role in the community. We researched various biographies, old marketing materials, and spoke with more franchisees and corporate social responsibility experts. We began to better understand the positive impact Tim Hortons, its franchisee owners and customers have had in the community for decades and the benefit of positive social relations to long-term loyalty and brand value.

For example:

- ▶ Tim Hortons Children's Foundation operates 7 summer camps for underprivileged youth across North America, sending nearly 20,000 kids to camp each year.
- ▶ Tim's and its restaurant owners, since 1982, support hundreds of thousands of youth annually through the iconic Timbits Minor Sports Program.

- ▶ Last fall, Tim's and its franchisees announced investments in distribution, store remodels, and a relaunched marketing campaign, including the return of Tim's True Stories.

In short, the ongoing and continuous support and community involvement, particularly by restaurant owners, is one reason (of many) the brand has created an incredible and difficult-to-replace sense of loyalty from customers. We believe these factors fall squarely under the Social aspect of Environmental, Social and Governance (ESG) considerations. Moreover, they are integral to assessing the durability of the brand and value of the business over the long-term.

Long-Term Thinking

When we think of these social considerations over the long-term, one begins to appreciate the unique approach to community development and marketing at Tim Hortons. The ecosystem of franchisee owners, employees, customers and partners comes together annually to support these (and many more) great causes, which create a unique community connection. An intangible asset like this, which has been built and cultivated over time, cannot be easily replaced.

Tim Hortons and its restaurant owners have been exceptional at community marketing, and, including the aforementioned social considerations, believe this has been integral to the strength and durability of the brand and why it resonates so strongly with customers. After all, it still has 70%+ market share in Canada despite a host of excellent competitors, including the rejuvenation of the independent coffee shop, who all arguably serve similar or better-quality products. And in light of all the negative publicity, same-store sales were flat in both 2017 and 2018.

A long-term approach to ESG analysis can differentiate between what truly matters to long-term value and what events, however troubling, are short-term noise. While the struggles are disappointing, it is necessary for us to step-back and focus on how this will impact the enduring community connection and customer loyalty as well as the long-term value of the business. In the case of Tim Hortons, we believe that the goodwill built up in the country will be a major factor in whether and how quickly the company can overcome these challenges.

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