

## **CASE STUDY: SHOULD TIM HORTONS EXPAND INTO THE CHINESE MARKET?**

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**Tim Hortons (THI)**, arguably, is the best known Canadian brand. Its restaurants provide premium coffee, espresso-based hot and cold specialty drinks, cappuccinos and espresso shots, fruit smoothies, home-style soups, fresh baked goods, grilled Panini and classic sandwiches, wraps, soups, prepared foods, and other food products.

**THI** was founded in 1964 in Hamilton, Ontario, by Canadian hockey player Tim Horton. Tim Hortons franchises spread rapidly and eventually overtook McDonald's as Canada's largest food service operator. The company opened twice as many Canadian outlets as McDonald's and system-wide sales also surpassed those of McDonald's Canadian operations as of 2002. Tim Hortons commands 76% of the Canadian market for baked goods (based on the number of customers served) and holds 62% of the Canadian coffee market (compared to Starbucks, in the number two position, at 7%).

As of December 30, 2012, the company had 4,264 restaurants, including 3,436 in Canada, 804 in the United States, and 24 in the UAE and Oman. Tim Hortons' international expansion strategy has been categorized as careful and slow. In comparison, Starbucks, a U.S. based competitor, has been very aggressive in international markets for several years, and has already expanded into China.

However, Tim Hortons' international presence has some interesting features. To provide moral support to the Canadian soldiers in Afghanistan, it opened a restaurant on a military base outside Kandahar, Afghanistan. Two more outlets are located in military bases at Fort Knox, Kentucky, and Naval Station Norfolk, Virginia. Tim Hortons' other international expansions include a small outlet at the Dublin Zoo. Tim Hortons also made a deal with the Spar convenience store chain in the UK and Ireland, resulting in Tim Hortons coffee and donuts being sold at small self-service counters in many Spar stores.

Its busiest branch is located in Fort McMurray, Alberta; its location in Iqaluit is the northernmost store.

In November 2010, Tim Hortons extended Interac debit payment system acceptance to most of its stores. The company previously began accepting Interac in its stores in Western Canada in 2003 and, later, MasterCard and MasterCard Pay Pass across most of its stores in 2007. The company often indicated the delay of broader or wider electronic payment acceptance was to "ensure speed of service." In 2012, Tim Hortons began accepting Visa cards.

Twenty years ago, THI used to sell mainly donuts and coffee but today it offers breakfast and lunch menus. Product lines have been diversified and the stores are getting better furniture and free Wi Fi. Investors in THI stocks have been rewarded very well.

### **China**

Since initiating market reforms in 1978, China has shifted from a centrally planned to a market based economy and experienced rapid economic and social development. GDP growth averaging about 10% a year has lifted more than 600 million people out of poverty.

With a population of 1.3 billion, China recently became the second largest economy and is increasingly playing an important and influential role in the global economy.

Yet China remains a developing country and its market reforms are incomplete. In 2011, China's gross national income per capita of \$4,940 ranked 114th in the world; over 170 million people still live below the \$1.25-a-day international poverty line. With the second largest number of poor in the world after India, poverty reduction remains a fundamental challenge.

Rapid economic ascendance has brought on many challenges as well including high inequality, rapid urbanization, challenges to environmental sustainability, and external imbalances. China also faces demographic pressures related to an aging population and the internal migration of labor.

Significant policy adjustments are required in order for China's growth to be sustainable. Experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income.

China's 12th Five-Year Plan (2011-2015) forcefully addresses these issues. It highlights the development of services and measures to address environmental and social imbalances setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. Its annual growth target of 7% signals the intention to focus on quality of life rather than pace of growth.