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碩士論文

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Master Thesis

天好咖啡(Tim Hortons)在中國 - 個案研究

Tim Hortons in China- A Case Study

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本論文係 Shlok Bhanu Roy 君（R10749059）在國立臺灣大學企業管理碩士專班、所完成之碩士學位論文，於民國112年03月09日承下列考試委員審查通過及口試及格，特此證明

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Abstract

The goal of this case study is to analyse Tim Hortons published business strategies including business overview, operations, and partnerships in relation to its expansion into China, against the conventional business growth & sustainment practices, identify any gaps and recommend solutions that Tims China could pursue to develop, grow and sustain their business in China.

To accomplish this, we had to utilise various types of business analysis methods, including Macro level CAGE analysis methods, Micro industry level Porter's five analysis, and Internal company analysis to examine the internal processes, resources & competitive advantages analysis. These external & internal findings were then combined using SWOT analysis. Next, to develop a comprehensive summary of recommendations, we presented our solutions in three categories: short-term or most current, medium-term, and long-term.

Together, we believe this case study offers a balanced view of how far Tims China has come in its goals to expand into China and the strategies they have deployed along with sound analytical methods, theories, and frameworks to identify business development & sustainment practices for Tims China's continued growth in China.

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1. Purpose

The goal of this case study is to analyse Tim Hortons' published business strategies including business overview, operations, and partnerships in relation to its expansion into China, its fastest growing market (as part of the Restaurant Brands International Inc. (RBI) group of restaurant brands).

In this paper Tim Hortons business venture in China, TH International Ltd., will be referred to as Tims China.

The purpose of this analysis will help address the problem statement: Are Tim Hortons' business strategies in China sufficient to develop and sustain their business in China?

Tims China is a joint venture of RBI group and Cartesian Capital Group, a New York based private equity firm. Together this joint venture (TH International Ltd.) has recently opened its 400th store in China, a nearly 3-fold jump since it had 137 stores at the beginning of 2021. Furthermore, Tim's executives predict an 800% store growth or more than 2,750 stores in China by 2026. This shows the bullish nature of the joint venture in China despite the recent recurring challenges due to COVID-19 and associated lockdowns in China.

This case study will analyse the coffee landscape in China (a traditionally tea-drinking country) and will conduct a thorough macro and micro economics analysis to predict if Tim Hortons' bet on China could yield the returns they expect.

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2. Background

2.1 Tim Hortons History and Culture

Tim Hortons Inc. is a Canadian multinational fast-food restaurant chain. The company was founded in 1964 by NHL hall-of-famer Tim Horton, who played hockey for the Toronto Maple Leafs, New York Rangers, and Buffalo Sabres until his death in 1974.

Based in Toronto, Tim Hortons has served fresh coffee, baked goods, and other fast-food items for 40 years. While Tims has grown their menu over the years to include soups and freshly made sandwiches, their signature coffee is the backbone of its strong customer loyalty where coffee is synonymous with the brand and lovingly referred to as “Tims”. As a differentiator, Tim Hortons has maintained a greater emphasis on traditional and more healthy home-cooking type foods rather than an emphasis on burgers (Qing et al., n.d.).

It is Canada's largest quick-service restaurant chain with 4000 + stores in Canada and 5000+ stores globally operating in 7 major international markets.

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Figure 1: Number of Tim Hortons in each country

(Source: D'Amours, 2020, retrieved from website: https://flytrippers.com/map-countries-tim-hortons/)

2.2 Global Expansion Strategy

Rooted in Canada and with 5100 restaurants across 13 countries, Tim Hortons is accelerating its global growth plans. Currently, it owns restaurants in the United States, Mexico, Spain, the United Kingdom, the middle east, China, Thailand, and the Philippines. It plans to launch its first store in India in 2022 as well (Tim Hortons Accelerating Global Growth with Plans to Launch in India in 2022, 2022).

Tim Hortons launched in China in February 2019 and recently opened its 400th store.

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Tims China has big plans for expansion into the country. Three years ago, it had plans to open 1500 locations in 10 years and that target has nearly doubled to 2753 stores in 7 years (by year 2026).

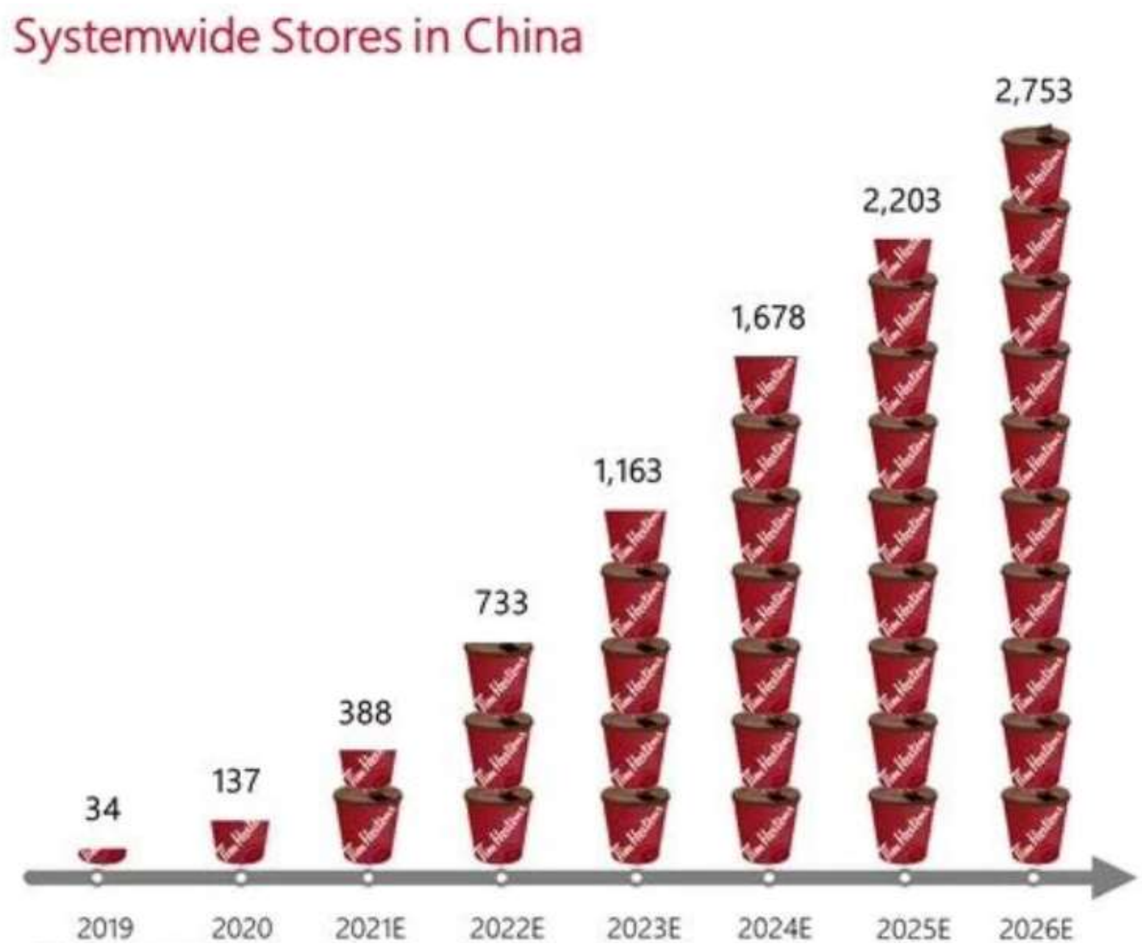

Figure 2: Tim Hortons Stores in China

(Source: TinyHuang, 2021, retrieved from website: https://chinafoodpress.com/2021/08/16/just-now-tim-hortons-a-coffee-shop-invested-by-tencent-announced-that-it-would-be-listed-in-the-united-states/)

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Tims China is aiming to go public on the Nasdaq stock exchange through a merger with Silver Crest Acquisition Corp, a special-purpose acquisition company (SPAC). If it is successful (, the deal will value the company at approximately 1.69 Billion USD thus paving the way for its aggressive growth plans in China (Robertson, 2022)—***Update: The merger was completed on 28th September 2022, JV TH International Limited (NASDAQ: THCH), selling at 10 USD/share, the company share price dropped to 2.78 USD/Share on Dec 01, 2022, and has rallied back to ~4.0 USD/Share as of Mar, 2023. A key consideration here is that the aggressive expansion though backed by strong revenue growth is still being funded by investment not internal operational earnings. This may impact the long-term financial health of the company if not managed well.***

2.3 China's Coffee Culture

The rapidly growing Chinese economy coupled with globalisation has both increased the Chinese consumers buying power and more importantly transformed its cultural landscape. Despite traditionally being a society of tea drinkers, coffee consumption is rapidly increasing at a rate of approximately 16% in the last several 5-year periods. The popularity and success of Starbucks in China has "started a national trend for consuming coffee" in a country commonly known as the homeland of tea (Zhi & Chen, 2021).

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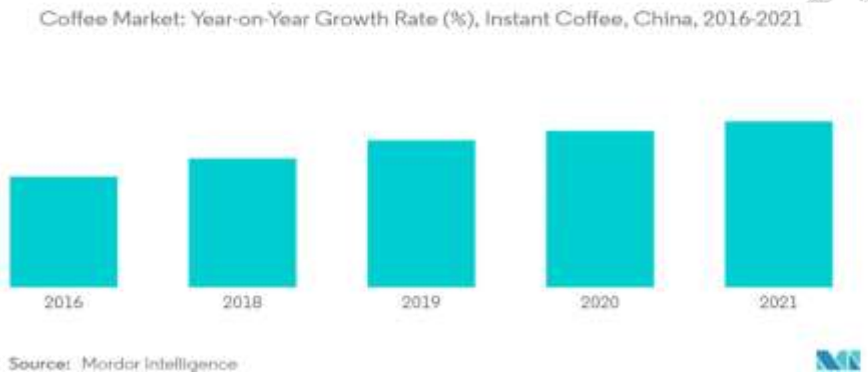

Figure 3: Coffee market growth in China

(Source: Mordor Intelligence, 2021, retrieved from website: https://www.mordorintelligence.com/industry-reports/china-coffee-market)

Coffee is viewed as an exotic western drink and due to Chinese fascination with the west, it has become more desirable and a symbol of sophistication as compared to the inexpensive brewed tea (Xu, X. & Ng A. Y., 2022). This can be seen in the numerous international chain coffee houses such as Starbucks, Costa Coffee, and Pacific Coffee Co. seen in major Chinese cities such as Shanghai, Beijing, and Guangzhou (Zhi & Chen, 2021).

As per Ferreria, C. (2018), the annual consumption of coffee in China is approximately five to six cups per capita, the consumption rate of growth is at approximately 16% and held steady for the past 5 years.

The major consumer base for coffee in China is returnees (particularly students who have spent time abroad), foreign expatriates, and Westernised young professionals (Bantiwalu & Demisse, 2010).

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The above information establishes the coffee culture in China is rapidly growing based on its fascination with the West and is penetrating the masses and in particular the more Westernised youth and expatriate populations. Coffee companies have an opportunity to tap into this rising consumer demand.

2.4 Objectives of this Case Study

The goal of this case study is to analyse Tim Hortons published business strategies including business overview, operations, and partnerships in relation to its expansion into China, against the conventional business growth & sustainment practices, identify any gaps and recommend solutions that Tims China could pursue to develop, grow and sustain their business in China.

This will be done in a three-phased approach. First, an external macro and micro market analysis will be conducted. For the macro analysis, the CAGE methodology will be utilised to compare Tim Horton's home country market of Canada to China. For the microanalysis, Porter's five forces will be utilised to understand how Tims China is positioned for competition in the Chinese landscape.

Next, an internal analysis will be conducted to examine the performance of Tim Horton's internal processes and resources in the Chinese context.

Finally, a strategic analysis combining the external & internal findings will be used to compile Tims China's Strengths, Weaknesses, Opportunities, and Threats or SWOT framework. Taking this analysis a step further using the TOWS analysis, we will attempt to match up its Strengths with Opportunities and the Threats with Weaknesses. This exercise

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should then allow us to identify business growth & sustainment practices tailored for Tims China.

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3. External Analysis

3.1 Macro Analysis- CAGE

3.1.1 Culture Distance

Here we highlight the differences in cultural norms, values, and social beliefs that shape the behaviours of individuals and organisations between Canada (Home) and China (expansion) markets.

- ➢ Different languages (largely English versus Mandarin)
- ➢ Different ethnicities (largely European versus Oriental)
- ➢ Different religions (largely Christian versus Confucianism, Taoism, and Buddhism)
- ➢ Differences in national work systems (largely 8 hrs/day, 5 days/week versus 12 hrs/day, 6 days/week)
- ➢ Different values, norms, and dispositions (Largely equality, just, diversity, politeness, tolerant, respectful, generous and peace versus harmony, benevolence, righteousness, courtesy, wisdom, honesty, loyalty, and filial piety)

Cultural sensitivity related to our case study: Canada is largely a Coffee drinking nation versus China is largely a Tea drinking nation. Additionally, there typically exists a home bias towards the entrenched taste of tea in China.

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3.1.2 Administration

Here we highlight the difference in history, politics, governance, and administration between Canada (Home) and China (expansion) markets.

- ➢ Lack of colonial ties (largely British and American ties versus no direct colonial ties)
- ➢ Lack of shared regional shared trading bloc (largely separate trade partners)
- ➢ Lack of common currency (Canadian dollar versus Chinese Yuan)
- ➢ Differences in legal systems (combination of common law and civil law versus a purely civil law system)
- ➢ Differences in governance systems (parliamentary capitalist democracy versus single-party communist republic)

Administrative sensitivity related to our case study: the Canadian government and the Chinese government occasionally have suffered from political disagreements including trade-related protectionism, deficient intellectual property protection, and human rights, amongst others. This has often triggered "boycotts", bans, or protests against foreign businesses operating in China. Additionally, high government involvement is typical in China.

3.1.3 Geography

Here we highlight the geographical distance, the nation's physical size, shared borders, access to trade routes, and climate differences between Canada (Home) and China (expansion)

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markets.

- ➢ Physical distance (the distance between the Canadian port city of Vancouver and the Chinese port city of Shanghai is over 9,000KMs)

- ➢ Lack of land border (Canada and China do not share a land border and trade happens over oceans)

- ➢ Difference in climate (Largely Canada has cool summers & cold winters versus China has warm summers and cool winters)

- ➢ Population density (Canada has 6 cities with over 1M inhabitants versus China has 160 cities with over 1M inhabitants)

- ➢ Geographical size & location (Canada and China are both physically large nations however Canada is located across North America while China is located on the eastern side of Asia)

Geographical sensitivity related to our case study: Due to the great physical geographical distances there is a low value to weight/bulk ratio consequently resources including human, machinery, raw materials, and utensils/products have to have supplied over oceans or local alternatives have to be found. Additionally, a higher level of local supervision is typically required in China.

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3.1.4 Economy

Here we will highlight the economic distance, the cost of labour, the level of consumer wealth, per capita income level between Canada (Home) and China (expansion) markets.

➢ Differences in cost of labour (as of 2022 minimum wage in the City of Vancouver-Canada was 15.65 CAD$/hr or ~12.06 US$/hr versus in the City of Shanghai- China was 23 CN¥/hr or ~3.41 US$/hr)

➢ Difference in consumer incomes (As of 2022, Canadian Mean income: $22,042/yr and GDP per Capita (PPP): $51,668/yr versus in China Mean income: $4,246/yr and GDP per Capita (PPP) $16,829/yr) (World Population Review, 2022))

➢ Differences in infrastructure (Canada was ranked 14th out of 141 countries on the overall Global Competitiveness Index with infrastructure quality ranking 26th versus China was ranked 28th out of 141 countries on the overall Global Competitive index with infrastructure quality ranking 36th (Brown et al., 2019))

➢ Difference in market economic size (As of 2021, Canada's GDP was 1,990 Billion USD (Canada GDP - Trading Economics, 2021), with a market size ranking of 16th (Brown et al., 2019) and a population of 38.6 Million (Population Estimates, Quarterly - Statistics Canada, 2022) versus China's GDP was 17,734 Billion USD (China GDP - Trading Economics, 2021), with a market size ranking 1st (Brown et al., 2019) and a population of 1412.6Million (Peng, 2022))

Economic sensitivity related to our case study: Differences in willingness and income-

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based ability to pay a premium for expensive coffee (versus Tea) may limit the "actual" market size of coffee drinkers in China. Additionally, as the Chinese market continues to grow more players are likely to enter the coffee market, introducing an additional need for variety, and agile localization to local tastes and offerings.

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3.1.5 Summary

Table 1: CAGE analysis

	Distance	Study Specific Sensitivity
Culture	● Different languages (largely English versus Mandarin) ● Different ethnicities (largely European versus Oriental) ● Different religions (largely Christian versus Confucianism, Taoism, and Buddhism) ● Differences in national work systems (~8 hrs/day, ~5 days/week vs ~12 hrs/day, ~6 days/week) ● Different values, norms, and dispositions (Largely equality, just, diversity, politeness, tolerant, respectful, generous and peace versus harmony, benevolence, righteousness, courtesy, wisdom, honesty, loyalty, and filial piety)	Canada is largely a Coffee drinking nation versus China is largely a Tea drinking nation. Additionally, there typically exists a home bias towards the entrenched taste of tea in China.
Administrative	● Lack of colonial ties (largely British and American ties versus no direct colonial ties) ● Lack of shared regional shared trading bloc (largely separate trade partners) ● Lack of common currency (Canadian dollar versus Chinese Yuan) ● Different legal system (combination of common law and civil law versus a purely civil law system) ● Differences in governance systems (parliamentary capitalist democracy versus single-party communist republic)	The Canadian and Chinese governments occasionally have suffered from political disagreements including trade-related protectionism, intellectual property issues, human rights etc. This has often triggered "boycotts" against foreign businesses- high government involvement is typical in China.
Geographic	● Physical distance (the distance between the Canadian port city of Vancouver and the Chinese port city of Shanghai is over 9,000KMs) ● Lack of land border (Canada and China do not share a land border and trade happens over oceans) ● Difference in climate (Largely Canada has cool summers & cold winters versus China has warm summers and cool winters) ● Population density (Canada has 6 cities with over 1M inhabitants versus China has 160 cities with over 1M inhabitants) ● Geographical size & location (Canada and China are both physically large nations however Canada is located across North America while China is located on the eastern side of Asia)	Due to the great physical geographical distances, there is a low value to weight/bulk ratio consequently resources including humans, machinery, raw materials and utensils/products have to have supplied over oceans or local alternatives have to be found. Additionally, a higher level of local supervision is typically required in China.

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Economic	● Differences in cost of labour (as of 2022 minimum wage in the City of Vancouver- Canada was 15.65 CAD$/hr or 12.06 US$/hr versus in the City of Shanghai- China was 23 CN¥/hr or 3.41 US$/hr) ● Difference in consumer incomes (as of 2022, Canadian Mean income: $22,042/yr and GDP per Capita (PPP): $51,668/yr versus in China Mean income: $4,246/yr and GDP per Capita (PPP) $16,829/yr) ● Differences in infrastructure (Canada was ranked 14th out of 141 countries on the overall Global Competitiveness index with infrastructure quality ranking 26th versus China was ranked 28th out of 141 countries on the overall Global Competitive index with infrastructure quality ranking 36th) ● Difference in market economic size (Canada's GDP was 1,990 Billion USD, with a market size ranking of 16th and a population of 38.6Million versus China's GDP was 17,734 Billion USD, with a market size ranking 1st and a population of 1412.6Million)	Differences in willingness and income-based ability to pay a premium for expensive coffee (versus Tea) may limit the "actual" market size of coffee drinkers in China. Additionally, as the Chinese market continues to grow more players are likely to enter the coffee market, introducing an additional need for variety, and agile localization to local tastes and offerings.

As can be inferred from the CAGE framework, the distances between Canada Tim Horton's home country, and China, their target expansion country are significant. Fortunately, coffee sales and consumption have seen a significant boom globally over the past few decades. The growth is projected to register a healthy **compound annual growth rate** (CAGR) of 2.5% during the forecast period 2022-2027. This can be attributed to a variety of reasons including clinical studies showing modest coffee consumption is gentle or even slightly beneficial for healthy adults, increased diversity & variety of preparations (iced coffees, cappuccino, macchiato, frappuccinos, lattes, and so on), and the broadening of demand from "new" markets beyond the traditional mature coffee drinking markets of North America, European Union and Japan ("Global Coffee Trade Analysis (2022 to 2027) - Growth, Trends, COVID-19 Impact and Forecasts - ResearchAndMarkets.com," 2022)

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3.2 Micro Analysis- Porter's 5 forces

3.2.1 Rivalry in the Industry

While the Covid 19 pandemic caused massive travel, business and personal disruptions around the world. The Chinese coffee market appeared to have largely been left unscathed. In fact, according to a market report (Mordor Intelligence, 2021), the Chinese coffee market is projected to see a CAGR of 10.42% during the forecast period 2022-2027.

This is good for the coffee industry in China, as while China continues to be a largely tea drinking nation, the demand for coffee is increasing. Furthermore, according to data from the China Coffee Association Beijing (CCAB) coffee consumption is increasing at an annual rate of 15% (Mordor Intelligence, 2021).

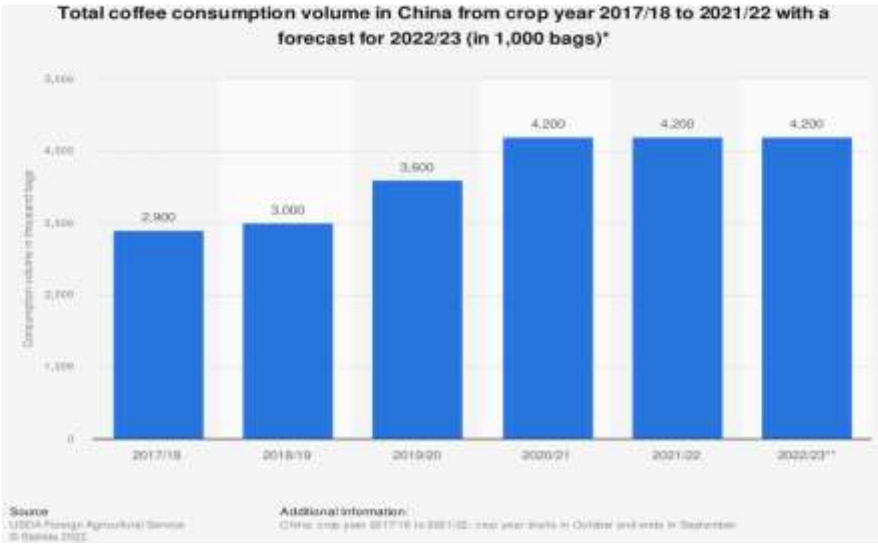

Figure 4: Coffee Consumption in China

(Source: Yilan Ma (2022, July 6). Retrieved from Statista website: https://www.statista.com/statistics/1046674/china-coffee-consumption-volume/)

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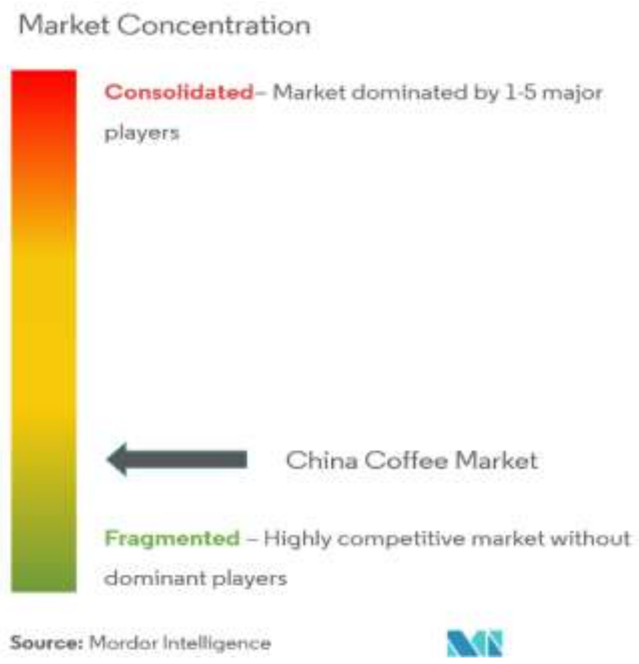

Figure 5: Coffee market concentration

(Source: Mordor Intelligence, 2021, retrieved from website: https://www.mordorintelligence.com/industry-reports/china-coffee-market)

Per Daxue Consulting, as of 2020, the total number of coffee shops in China had reached 108,000 ("The Coffee Shop Market in China - Daxue Consulting," 2022). Consequently, with high growth potential a fragmented market concentration is inevitable. Hence, coffee shops face a highly competitive market without few dominant players (with the exception of Starbucks which alone retains 36.4% of China Coffee shop market (Cheng, 2021)

As such, based on 2020 data, there were 12 competing Coffee shop franchise brands in China that had a national presence and controlled over 51% of the coffee shop market. With Starbucks (36.4%), Luckin Coffee (6.8%), Costa (2.3%) and Pacific Coffee (1.7%) leading the pack these brands represent the larger franchised segment (Yilan Ma, 2022). See the extended list of franchise brands below.

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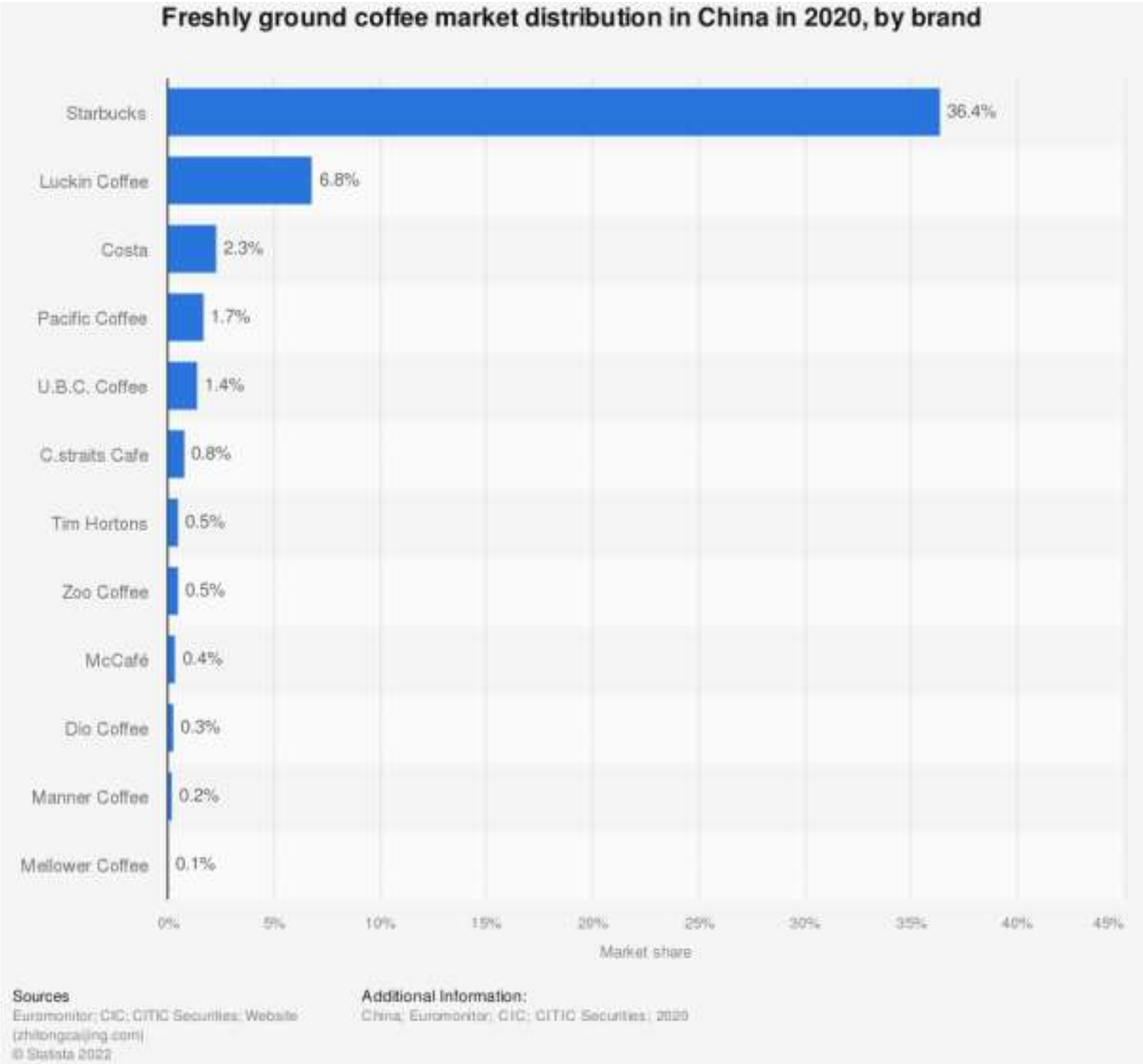

Figure 6: Coffee brand distribution in China

(Source: Yilan Ma (2022, April 6). Retrieved from Statista website: https://www.statista.com/statistics/1171833/china-freshly-ground-coffee-market-share-by-brand/)

We can see in the table above, with 137 stores in 2020, Tims China held a market share of 0.5% within the lucrative Chinese coffee shop franchise market.

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Rivalry in the Industry: MODERATE - Hence, it becomes clear that Tims China faces a fragmented highly competitive landscape with Starbucks being in the clear lead. However, the coffee drinking market size continues to grow in China and with a continued focus on good quality, high service, stable supply chain and the planned opening of more shop front locations planned, Tims China may be well positioned to take the largest and strongest incumbent in the market- Starbucks.

3.2.2 Threat of New Entrant

Speciality coffee shops representing the smaller franchises and the non-franchised "independent" shops have become the greatest New Entrant Threats to the industry incumbents. This threat can be best explained by examining the inherent attributes of the coffee industry as the technical 'know-how' to operate a coffee shop is not complex and can easily be overcome or even removed (AdamKasi, 2020). The other typical barrier to entry in most industries is Capital, however opening a coffee shop does not require massive capital investment, a small coffee "to-go" shop at the corner of a busy street qualifies as a new entrant. Next, if we consider the human aspect where staffing and training can be a barrier, the skills required are not very sophisticated and can be easily copied or trained, further diluting the entry barrier into the coffee industry. Lastly, considering the market report (Mordor Intelligence, 2021) discussed in the previous section, the Chinese coffee market is projected to see a CAGR of 10.42% during the forecast period 2022-2027, hence a lucrative opportunity for new entrants.

With this understanding of how New Entrants can join and participate in the coffee industry. Let us take a closer look at a Chinese coffee shop "New Entrant" - "Big Sur Tea and Coffee Shop" based out of Shanghai, China.

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Image 1: Big Sur "Independent" coffee shop in China

(Source: David, M. (2017, November 20). Retrieved from Daxue Consulting website: https://daxueconsulting.com/coffee-shop-industry-in-china/)

Launched in 2015, a couple decided to pool their personal savings together to open the "Big Sur Tea and coffee shop" in the Huangpu district of Shanghai. Their growth strategy revolved around convenient, healthy, fresh, high-quality products at a reasonable price. This strategy without any direct or indirect venture capital allowed the couple to organically grow their coffee and tea shop business. According to Carol Liu (one of the co-founders), the couple spent around RMB 500,000—1,000,000 (about 75,000 – 150,000 USD) per location and by 2019 had 5 stores across Shanghai with rent and equipment being the major costs (David, 2017). Next, finding suitable, trained and friendly staff took some effort. However, the main ongoing operating challenges they faced were increasing labour costs and raw material price fluctuations ("Entrepreneurs in China: How to Compete in the Chinese Coffee Market," 2019). During this time, Big Sur saw a month over month revenue increase of around 10-15% and appeared poised

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to compete against incumbents such as Starbucks (36.4%), Luckin Coffee (6.8%), Costa (2.3%), Pacific Coffee (1.7%) and Tims China (0.5%) (Yilan Ma, 2022).

Unfortunately, with the onset of the Covid 19 pandemic, several prolonged city-wide lockdowns were triggered in Shanghai. This had dire consequences for many restaurants and cafes including Big Sur, which had to dissolve most of its operations and only the original flagship location in Xuhui district, Shanghai left in operation.

Threat of New Entrants: HIGH - Hence, it becomes clear to compete in the Chinese market Tims China needs to be ever cognizant of the threat of New Entrants. As the example above of Big Sur Tea and Coffee shop demonstrates, anyone can join and grow in China's Coffee shop industry. With more participants entering the fray-- small independent shops, small franchises and venture capital backed large franchises, each will be looking to eat away the available market share. Therefore, due to low entry barriers, growing market size, the Chinese coffee industry will continue to attract new entrants and the long term threat of losing market share remains high.

3.2.3 Power of Customers

Coffee lovers the world over start off their day with a "cup of Joe" the common man's drink. Usually, coffee drinkers will buy one or two cups of coffee and sometimes baked snacks to go with their coffee. This is the typical size and scope of the purchase transaction for most coffee shops and franchises. Of course, there are the occasional corporate or team orders making larger purchases but the typical customers are still individuals placing individual orders. Hence, coffee shops and franchises face a larger number of buyers making relatively small purchases as compared to the business's total revenue. This helps lower the customer's bargaining power

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(Porter's Five Forces - Starbucks and Dunkin Donuts, 2019).

Also worth noting is that there exists a segment of individual coffee buyers who are very loyal to specific brands for many reasons including emotional (country of origin/taste of home, personalization of coffee preparation) & physiological (taste, alertness, smell). These buyers are willing to pay more and travel extra to visit their coffee shops or franchises of choice for their coffee/caffeine fix. This segment further helps to lower the customer's bargaining power.

However, the majority of coffee drinkers are individuals, these individuals generally recognize there are a larger number of coffee providers, who offer no significant or radical differentiation. This majority recognizes the cost of switching is low or none at all, in fact there are multiple international and local brands to choose from, increasing the customer's bargaining power (AdamKasi, 2020).

Another point worth noting is, procurement of coffee beans and coffee machines for home use is not very difficult and quite inexpensive. Furthermore, many vending machines often sell ready-to-go coffee and many brands of instant coffee sell their products in grocery stores. These alternative options make switching costs for customers even lower-- further, increasing the customer's bargaining power (Greenspan, 2015).

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Image 2: At home coffee machine

(Source: Cicurel, D. (2021, August 30). Retrieved from Scotsman website: https://www.scotsman.com/recommended/best-coffee-machines-2021-for-home-use-3138706)

Lastly, with the advent of social media, similar to other customer facing businesses, positive customer feedback can often have a direct and significant impact on the bottom line revenue of coffee shops and franchises. Thereby, adding further weight to increasing the customer's bargaining power.

<u>Bargaining Power of Customers: HIGH</u> - With the information presented, we see both sides of the Customer's bargaining power. Two factors that work to lower customer bargaining power-- Smaller individual purchases and Higher switching effort for loyal customers versus three factors for higher customer bargaining power-- No radical differentiation between coffee shops or franchises, easily accessible alternative sources of coffee (at home coffee, instant coffee) and social media powered customer opinions/feedback. Hence, when we take a holistic view of the

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arguments, it becomes clear customers retain significant bargaining power over the coffee shops and franchises. Understanding this key factor can help Tims China propel further in terms of growth and sustainability in China.

3.2.4 Threat of Substitution

As is true for any industry, if a new or repurposed product meets a similar customer need in a different way, that industry's profitability suffers. The same is true for the coffee shop & franchise industry ("Coffee Holding Co., Inc. Porter Five (5) Forces & Industry Analysis [Strategy]," n.d.). As was already highlighted in the power of customers section, coffee drinkers have many alternatives. We know the cost of switching to a new coffee shop because it is cheaper or more convenient is very low, the same can be said for making coffee at home or buying a cup from a vending machine.

In many Asian nations including China, the locally preferred hot beverage of choice has traditionally been tea. Consequently, tea is a very strong substitute for coffee. However, it is worth noting that Tim Hortons (as well as Tims China) offer a competitive selection of tea based beverages, freshly brewed coffee and other beverages, bakery & sides and sandwiches, making the risk of substitution from tea low ("Tims China and Easy Joy Open Three Tims Coffee Shops in Beijing," 2022).

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Image 3: Tim Hortons speciality tea offerings

(Source: Tim Hortons Specialty Tea. (2022). Retrieved from Tim Hortons website: https://company.timhortons.com/ca/en/menu/specialty-tea.php)

Next, we have the customer segment that craves the caffeine fix that coffee offers. The primary substitutes for this segment are the caffeinated soft drinks offered by many vendors including Pepsi and Coca-Cola. However, due to increasing health driven concerns associated with caffeinated soft drinks consumer preferences are shifting. Furthermore, studies showing coffee as a relatively healthy alternative have reduced the risk of substitution from caffeinated soft drinks further ("Competition in the Coffee Industry," 2017).

Threat of Substitution: LOW - It becomes clear for Tims China the threat of substitution from tea or caffeinated drinks is low, however the risk of customers switching to other shops/ home coffee/ vending machines remains. The latter can be addressed by Tim China's strong focus on quality, taste, reasonable pricing, strong availability of capital and economy of scale/ nationwide reach.

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3.2.5 Power of Suppliers

The coffee bean suppliers are spread globally where they face varying levels of soil quality, labour costs, weather conditions, infrastructure and investment. Additionally, most coffee farming operations are small, fragmented and loosely organised. They are weather dependent and changing natural phenomena such as rain, frost, floods, pests and diseases can impact the supply of coffee beans.

For commercial coffee farming operations (to supply coffee shops franchises) the two main species of coffee plants that are cultivated globally are Arabica (Coffea Arabica) and Robusta (Coffea Canephora). According to the International Coffee Organisation (ICO), more than 60% of the world's coffee production/supply consists of Arabica beans (Michelle, 2019).

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Figure 7: Types of coffee beans

(Source: Starbucks Coffee at Home. (n.d.). Retrieved from athome.starbucks.com website: https://athome.starbucks.com/learn/arabica-coffee-vs-robusta-coffee-beans)

Regardless of the coffee bean plant a supplier is cultivating, each species has its uniqueness and requires specific conditions to grow and thrive. Thereby, the challenges faced by the suppliers are complex and varied.

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Figure 8: Coffee exporting countries

(Source: Michelle. (2019, January 22). Retrieved from Quirky Coffee Co website: https://quirkycoffeeco.com/blog/beans/what-are-arabica-coffee-beans)

On the other hand, coffee shops and coffee franchises have the option to select from a list of global suppliers of coffee beans. As well, some of the larger coffee franchises produce their own coffee beans and command economies of scale via their retail distribution network (AdamKasi, 2020).

Additionally, the coffee shops and franchises often limit the marketing to the coffee species, the coffee bean preparation methods and the various types of coffee based preparation and not necessarily the country of origin or the region of coffee to avoid paying a premium for specific regions or countries of origin. This is to avoid the premiums often paid for wines and

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liquor from specific regions or countries of origin.

Although the coffee producers have been sponsoring competitions and tastings to rank the coffee beans by region & country of origin to improve premiums, it's still not something customers demand when buying coffee from coffee shops or franchises (World Coffee Events, 2013).

Bargaining Power of Suppliers: LOW - Therefore, it becomes clear the bargaining power of suppliers is low. This by extension applies to the Chinese market where Tims China is competing.

3.2.6 Summary

See below summary of the Porter's 5 forces analysis, including;

New entry threat: How easy is it for new businesses to set up shop?

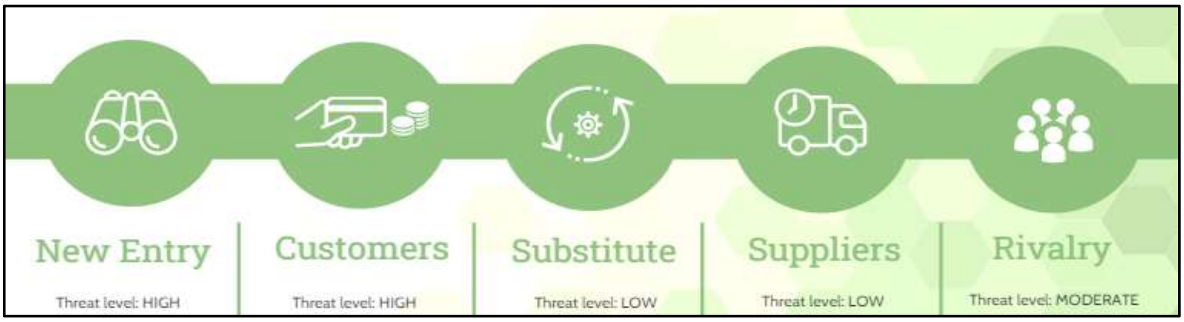
Bargaining power of customers: How much power do customers have?

Threat of substitution: How likely are customers to switch to an alternative?

Bargaining power of suppliers: How much power do suppliers have?

Rivalry in the Industry: How many firms compete & how much is the market growing?

Table 2: Porter's forces summary



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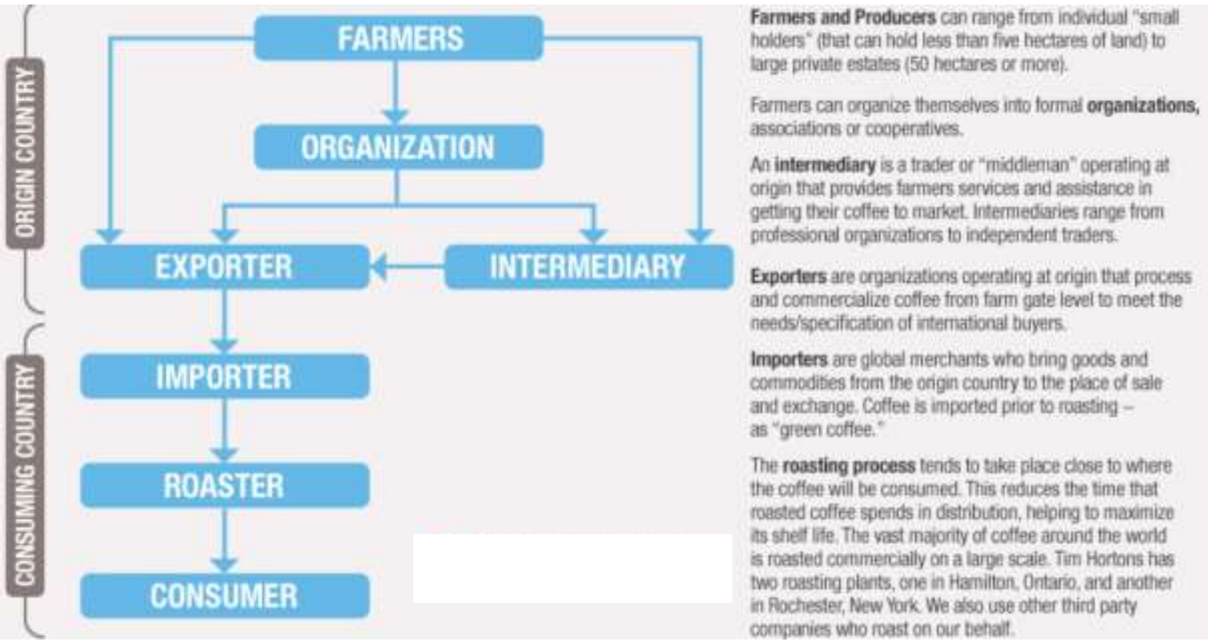
4.0 Internal Analysis

4.1 Activities/Processes

a. Production & Distribution

Tims China's production process flows through six levels of the coffee supply chain, these include: Farmers, Organization, Intermediary, Exporter, Importer and Roaster. The flow diagram is shown below:

Table 3: Coffee supply chain



(Source: Sustainability & Responsibility (2012). Retrieved from Bradsherri website: http://www.bradsherri.com/2012%20-%20online%20SR%20report/planet_supply_initiatives.html)

Tim Hortons partners globally with farmers, coffee organisations and intermediary or "middlemen" traders to import unroasted 100% Arabica beans "green coffee" from renowned

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coffee growing regions in the world like Columbia and Guatemala.

These batches of "green coffee" beans are then blended in proprietary combinations to create a consistently rich and complex blend by Tim Hortons's Master Blenders. These blends then go through another delicate and proprietary roasting process which Tim Horton's Roaster Masters have fine tuned over the past decades. The roasting process involves adjusting airflow temperature and other settings to optimise and create the unique Tim Horton's coffee flavours.

Additionally, Tims China purchases several other products to keep their stores supplied as shown below.

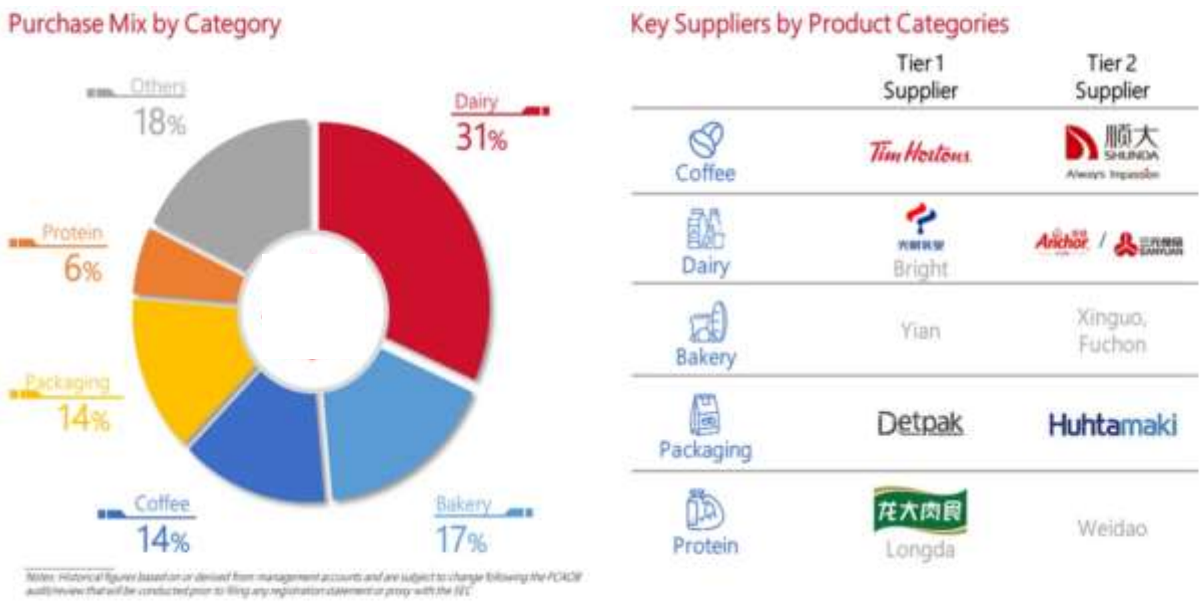

Figure 9: Tim Hortons purchase mix

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

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However, it is worth noting that other than the roasted coffee beans supplied by Tim Hortons, the other suppliers are typically generic and offer non-proprietary products (including cups, lids etc).

b. Advertising

Tims China has multiple partners that are helping them expand and penetrate deeper into the Chinese market. They have partnered with Easy Joy, a convenience store chain, LeleCha tea stores, Tencent digital entertainment, MAC cosmetics and Meituan delivery services. These partnerships allow different types of advertising and reach including setting up of physical Tim Horton Express coffee shops inside their convenience stores, supplying Tims Roasted coffee beans, digital advertising on electronic platforms, convenient home delivery and special offers with the purchase of products ("Tims China Opens Three Coffee Shops in Beijing," 2022).

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Image 4: Tim Hortons customers

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

The company is also working to build a genuine community of loyal or repeat customers with special offers, rewards, customizations, in-store convenience including relaxed work-space ambience and brand presence on various digital platforms. Furthermore, Tims China is investing heavily in best-in-class digital capabilities including mobile smartphone-based services including purchasing information, ordering history, and customizations linked directly to loyalty club membership profiles with loyalty rewards being pushed out in real-time (Tim Hortons China, 2021).

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c. Sales

The sales strategy adopted by Tims China is pinned around absolute convenience, to achieve this the company is investing in three storefront formats. These include large central Flagships stores, busy city junction Classic stores and smaller peripheral or rural Tims Go or Tims Express stores. Between these storefront three formats, Tims China aims to reach and directly serve 31% of its customers.

Next with strong digital partnerships, social media outreach and e-platform investments, the company plans to streamline the customer experience. Allowing the company to effectively reach another 69% of their customers via mobile smartphones. Lastly, to achieve absolute convenience, Tims China is partnering with delivery companies to help connect and expand the reach of their stores (Tim Hortons China, 2021).

Figure 10: Tim Hortons sales channel

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_

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ex99-1.htm)

Combined Tims China aims to reach out to, engage with, invite and serve all segments of their customers.

d. R&D

Recognizing the broad selection of food and beverage Tim Hortons can source, prepare, market and sell the company consistently invests in tasty R&D. In fact, Tims China boasts continuous innovation as one of the cornerstones of its success so far. It is worth noting, whether it's the introduction of its new dark roast coffee blend or the development of a new Frozen Hot Chocolate flavour, through its R&D efforts, Tim Hortons has been able to create some of the most unique and inventive food and beverage products in the industry. Tims China with support from parent Tim Hortons has customised new coffee blends & flavours, revamped sandwich combos and introduced new menu items that will appeal to its Chinese customers.

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Image 5: New products

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

Through these efforts, Tims China aims to continue to evolve to match its customers' tastes and attract new customers.

e. Management & HR

Tims China's leadership team is stacked with experienced managers who are committed to Tims growth and success. The management team has varied experiences in Tim Hortons restaurant operations and franchise development. The team also has a strong demonstrable track

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record of expansion into new markets in China. For rewarding and retaining this experienced management team Tims China has set up deep and long-vesting ESOP options.

The company is committed to providing a high level of customer service and consequently works to find and retain staff by offering existing opportunities, career growth and development.

Tims China's management team is further strengthened by the quality of their financial backers or shareholders. Tims China has still not publicly listed its stock and is backed by blue-chip shareholders with strong balance sheets. Their commitment to Tims China becomes clear with the demonstrable rollover of all existing shareholders (Tim Hortons China, 2021).

Figure 11: Tim Hortons China's Shareholders

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

f. Finance

According to Tims China's investor presentation, the company has been able to overcome challenges presented by COVID-19 pandemic in China. Tims China was able to demonstrate operating excellence by sustaining & growing sales from their existing stores since

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the onset of the pandemic.

Figure 12: Tims China sales growth

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

Consequently, the company has been able to post strong financial performance. Their ability to generate consistent cash flow and maintain strong balance sheets are supporting Tims China's expansion plans. This is best reflected in their quarterly performance in terms of

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Revenue and adjusted store EBITA.

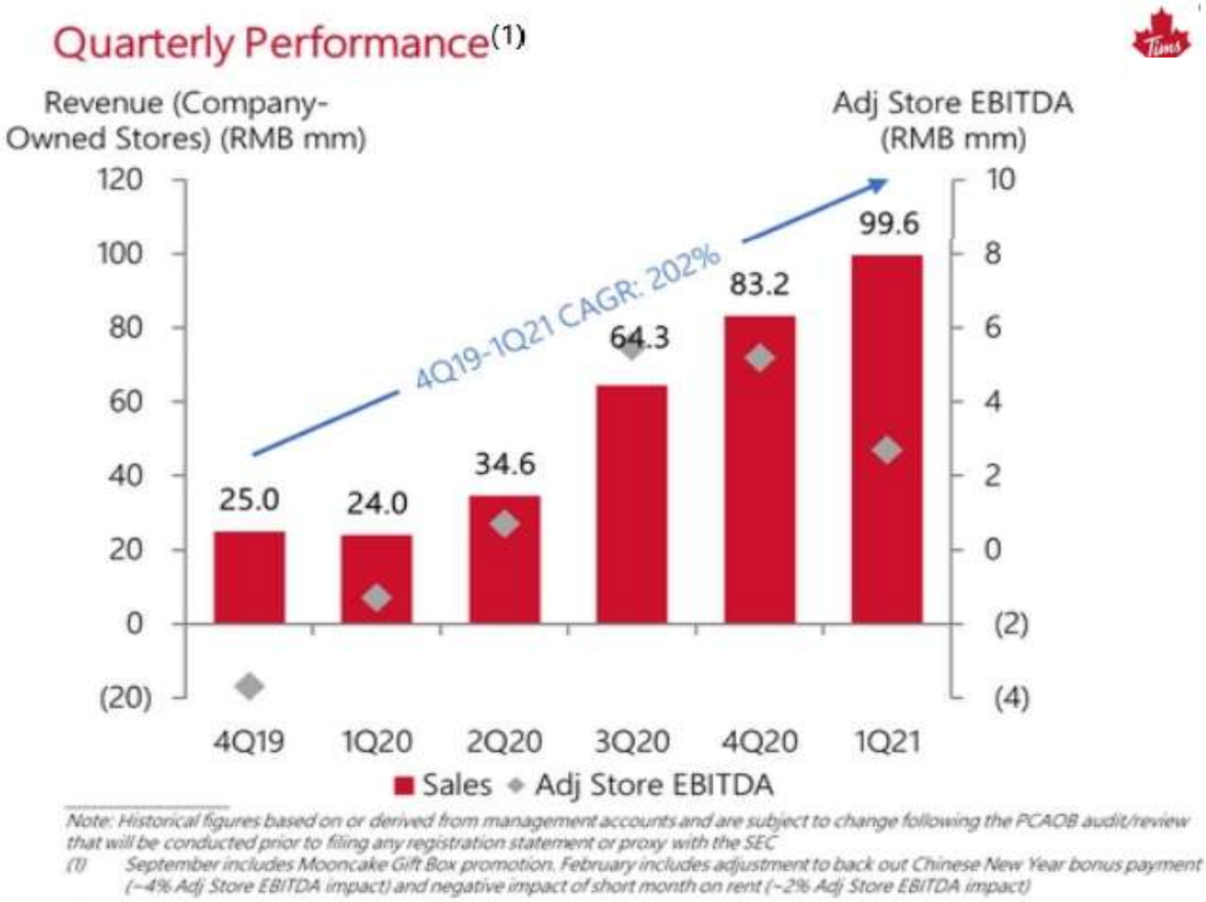

Figure 13: Tims China's quarterly performance

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

Through strong execution Tims China's management teams have been able to demonstrate operational excellence, leading to sales resilience and revenue growth. This cumulative operational & financial performance has netted the company an improved reputation and reaffirmed to investors the company's commitment to its stated business strategy (United

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States Securities and Exchange Commission, 2022)-

1) Accelerating net restaurant growth while preserving the rich heritage of our brands

2) Enhancing guest service and experience at our restaurants

   ○ Comprehensive training, improved field operations, reimaged menu options

3) Increasing restaurant sales and profitability

   ○ Critical to the success of our franchise partners and to grow globally

4) Utilising technological and digital initiatives

   ○ Loyalty programs, to interact with our guests and modernise operations

5) Efficiently managing costs and sharing best practices

As such, Tims China plans to merge with Silver Crest Acquisition Corporation to become a publicly listed company (NASDAQ: SLCR). The transaction will provide further growth capital to the company for future development and growth. The existing Tims shareholders will "roll over" their equity and own 80% of the pro forma post-closing equity (Tim Hortons China, 2021).

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Estimated Sources and Uses

Sources (US$mm)	
Existing Shareholders Rollover Equity	1,688
Cash Held in Trust [1]	345
Total	2,033

Uses (US$mm)	
Equity Consideration to Tims Existing Shareholders	1,688
Cash to Balance Sheet	315
Estimated Transaction Expenses [4]	30
Total	2,033

Illustrative Pro Forma Capitalization [2]

Shareholders	Shares (mm)	%
Tims Existing Shareholders	168.8	80.2%
SPAC Shareholders	34.5	16.4%
Sponsor	7.2	3.4%
Total	210.5	100.0%

Note: Excludes certain shares subject to future grant or forfeiture within 5 years of closing, as below:
- *14.0 million shares to be granted to Existing Shareholders if, for any 20 trading days within any consecutive 30 trading day period, the market price of shares reaches $12.50 (50%, 7.0 million shares) and $15.00 (50%, 7.0 million shares); and*
- *1.4 million shares to be forfeited by Sponsor and cancelled if there are not 20 trading days within any consecutive 30 trading day period during which the market price of shares reaches $12.50 (50%, 0.7 million shares) and $15.00 (50%, 0.7 million shares)*

(1) Assumes no redemption of public shares
(2) Excludes the impact of warrants and future management equity compensation
(3) Assumes Tim Hortons China debt-free, cash-free at closing
(4) Estimated transaction expenses of c.$30 million, exact amount to be finalized

Illustrative Pro Forma Valuation

(US$mm)	
Share Price	$10.00
(x) Pro Forma Shares Outstanding [1] [2]	210.5
Pro Forma Equity Value	2,105
Less: Assumed Pro Forma Net Cash [3]	315
Pro Forma Enterprise Value	1,790

Illustrative Pro Forma Ownership

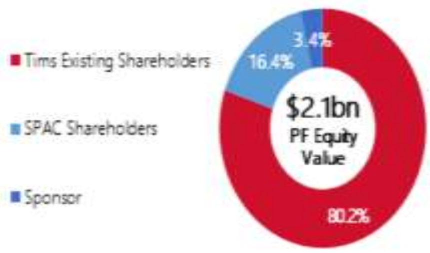

Figure 14: Tims China's equity breakdown

(Source: Tim Hortons China. (2021). Retrieved from www.sec.gov website: https://www.sec.gov/Archives/edgar/data/0001826553/000110465921105453/tm2124848d1_ex99-1.htm)

This planned transaction is expected to give the Tims China enterprise a significant valuation.

4.2 Resources

a. Tangible assets

Tim Hortons franchise has many licensed store locations that pay a fee to Tim Hortons to licence its name, image and likeness. However, the company also has several global locations

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that are owned and operated directly by the company (Thomas, 2022).

Tims China's expansion has been funded by the joint venture between Restaurant Brands International Inc. and the private equity firm Cartesian Capital Group. Consequently, all 400+ Tim Hortons store locations in China are owned by Tims China ("品牌故事-TimHortonsChina," n.d.).

For a typical Tim Hortons operation, the tangible assets would include ("Tim Hortons Franchise for Sale: (Costs + Fees + FDD) | FranchiseDirect," 2022):

Table 4: Tangible assets

Tangible Assets	Description
Specialised equipment	Machines for Tim Hortons stores (coffee brew, meat slicers, baking machines etc)
Real Estate	Purchased or leased land
Site development	Utilities and access
Building	New buildings or modifications
Supplies and inventory	Perishable and non-perishable goods

b. Intangible assets

Intangible assets for Tim Hortons and for Tims China would include ("Tim Hortons," 2022):

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Table 5: Intangible assets

Intangible Assets	Description
Branding	Conveniently priced, quality Coffee & beverages with a greater emphasis on traditional and more healthy home-cooking type foods.
Site planning, layout and design	Each store has the same “Tims” likeness
Trademarks	Trademark and brand recognition associated with products and name of the company e.g., “Tim Hortons”, “Double Double”, “Always Fresh. Always There” etc.
Preferred contracts	Long-term supply partners offering preferred delivery and consistent quality

c. Organisational Capabilities

Organisational capabilities developed over time including company culture and know-how could include (“Tim Hortons,” 2022b):

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Table 6: Organisational Capabilities

Organisational Capabilities	Description
Master Blenders	Smell & texture know-how developed over several decades to blend "green coffee" bean batches in proprietary combinations.
Master Roasters	Flavour know-how developed a proprietary roasting process involving adjusting airflow temperature and other settings.
World-class operation	Supply chain, marketing, storage, contracts, employee retention plans etc know-how developed over many decades
Culture & training	Thorough centrally guided standardised training and culture assimilation provided to all staff and employee
Community engagement	Culture of community engagement e.g. Company sponsored camping programs for kids, global week-long sales from special Smile Cookies donated to local charities, hospitals and community programs etc.
Data-driven best practices	Data gathering, analysing and decision-making used to develop best practices over many decades are shared across all units.

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4.3 Competitive advantages

In summary, when we consolidate the activities/processes Tims China has in place to run their businesses and the unique resources they have developed over time, we are able to glean the unique value Tims China creates to compete for customers. However, not all of their strengths or advantages help them compete directly with their rival peers (i.e. Starbucks, Luckin Coffee, Costa and Pacific Coffee). Listed below are Tims China's nine (9) competitive advantages:

Table 7: Activities & Resources

	Activities & Resources- Strengths	Competitive Adv. (Y/N)
1	**Global raw materials supply**	**Y** -(1)
2	**Specialised equipment**	**Y** -(2)
3	Real Estate	N
4	Advertising	N
5	**Digital partnerships**	**Y** -(3)
6	Site development	N
7	Building	N
8	Evolving menus	N
9	Experienced team	N

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10	**Strong financial performance**	**<u>Y</u>** -(4)
11	Supplies and inventory	N
12	**Branding**	**<u>Y</u>** -(5)
13	Site planning, layout and design	N
14	**Trademarks**	**<u>Y</u>** -(6)
15	**Preferred contracts**	**<u>Y</u>** -(7)
16	**Master Blenders & Rotors (proprietary know-how)**	**<u>Y</u>** -(8)
18	**World-class operation**	**<u>Y</u>** -(9)
19	Culture & training	N
20	Community engagement	N
21	Data-driven best practices	N

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5.0 Strategic Analysis

5.1 SWOT Analysis

SWOT (Strengths, weaknesses, opportunities and threats) analysis is a framework used to distil the internal and external analysis of Tims China to determine its competitive position and to use the findings to develop a strategic plan. The work done in the previous sections of CAGE analysis, Porter's five analysis and Internal processes & resources analysis will be referenced and used to feed into the SWOT analysis. The internal analysis will be leveraged in the strengths and weaknesses portions and the external analysis will help determine the opportunities and threats. SWOT analysis is typically presented in a table to provide a quick overview of the company's position. For the purposes of this report, each of the four components of SWOT will have a section dedicated to it and in summary a table will be presented ("SWOT Analysis: How to with Table and Example," n.d.).

Objective: This SWOT analysis will focus on Tims China's business overview, operations, partnerships and expansion into China and distil their strengths, weaknesses, opportunities & threats. This analysis will then help identify any gaps and recommendations.

5.1.1 Strengths

This section will describe what Tims China excels at and what makes it a strong competitor in the market. The following two questions will be answered:

What is Tims China doing well? What is Tims China's greatest asset?

One of the greatest assets Tims China has is its strong brand recognition. A simple red maple leaf is enough to communicate what Tim Hortons as a brand stands for and what the

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customer can expect. Along with strong brand recognition comes a loyal and repeat customer, in China's context-- often in the form of the urban customer base.

Another strength is Tims strong financial performance including a healthy cash flow, strong investors and a robust balance sheet. With strong financial performance, Tims China is able to take more risks like introducing more localised menu items and penetrating the market in various cities.

In addition to this, Tims has specialised equipment and master blenders and roasters to make their signature coffee flavours. This distinguishes their product quality and makes it hard for the competition to replicate.

And finally, Tims world-class operation includes robust supply chains, marketing, inventory systems, contracts, employee retention strategies and industry know-how that have been developed over many decades and adds to the list of things Tims does well.

5.1.2 Weaknesses

This section will delve into what areas Tim China needs to improve to remain competitive in the market. The following question will be answered:

What is stopping Tims China from performing at its optimum level?

Most of Tims China's weaknesses stem from its lack of market penetration in non-urban centres. For example, Tims China's brand recognition, lack of customer loyalty and supply chain constraints/limitations in non-urban centres are currently preventing its growth in these markets. This limits Tims China's growth to only urban centres.

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In addition to this, Tims China's menu lacks local flavours and menu items and menu options are limited to the western palette. Adding to this, centrally controlled menus and suppliers limit the ability to customise the menu to a domestic palette. This may position the brand as "foreign" and limit adoption by certain segments of the population.

5.1.3 Opportunities

Opportunities for Tims China refer to the *external factors outside the control of the organisation* that could give it a competitive advantage.

The fast urbanisation and increasing middle-class wealth in regional, non-urban areas in China presents itself as an opportunity. Tims can leverage this by marketing to this segment of the population by expanding into non-urban centres.

In addition to this, China is largely a Tea drinking nation, so even now large regional, non-urban market's demographics remain untapped. By expanding their tea offerings, Tims China can target the tea drinking population. Building on the previous two opportunities, Tims China can target penetration into second and third-tier Chinese cities.

5.1.4 Threats

Threats are *factors outside the control of Tims China which pose the potential to harm its position and growth* in the Chinese market.

Differences in customer disposable income to be able to afford Tim's expensive cup of coffee or speciality tea, as compared to the inexpensive homemade tea may limit the market size of coffee drinkers in China.

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In addition to this, as the market continues to grow more coffee shops are likely to enter the market, introducing additional need for maintaining a unique value proposition and agile adjustments of menu items to cater to the local palate.

Another potential threat is that shifts in the political landscape of the country can often trigger protectionism measures spurring into boycotts, bans or protests against foreign businesses operating in China.

Finally, the geographic distance between Canada and China is so great that the weight/bulk-to-value ratio is unattractive. This makes the transfer of resources including human, machinery, raw materials and utensils supplied over oceans can be expensive. Consequently, alternatives have to be found while maintaining the pricing, quality and secure supply chains. This can become challenging when competing with local franchises with established local supply chains.

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5.2 SWOT summary

The table below helps summarise the findings of the SWOT analysis described above in the simple four-quadrant framework for ease of presentation.

Table 8: SWOT Analysis Summary

Strengths	Weaknesses
• Strong Global Brand recognition and trademarks. • Loyal urban customer base. • Strong financial performance and balance sheet. • Specialised coffee equipment. • Proprietary know-how (Master Blenders & Roasters). • Global raw materials supply chain, long-term contracts. • Strong & effective digital partnerships	• Weak brand recognition in non-urban regions of China. • Limited customer loyalty in non-urban regions. • Supply chain constraint and access limitation in non-urban regions. • Menu options are limited to urban westernised palates, positioning the brand aoutsider or "foreign". • Centrally controlled menus and suppliers, limited grass-root/ localised taste feedback. Limiting Adoption.
Opportunities	**Threats**
• Fast urbanisation and increasing middle-class wealth in non-urban regions of China. • China is largely a Tea drinking nation, so large non-urban demographics remain untapped. • Deeper brand penetration into second & third tier Chinese cities, as local the "foreign" tea & coffee shop. • Expand vertically, in lieu of buying third-party tea brands, purchase "green" tea and sell brand tea. • Expand horizontally to sell pre-packed Tim Hortons brand coffee/tea beverages in machines and stores.	• Growth and expansion constraints due to limited brand recognition outside of urban areas. • The "Actual" market size of coffee drinker's limited due to low customer willingness/ability to pay for expensive coffee. • Eventual market saturation will require more investment to compete on offerings, cost and quality. • Fluid political situations may put undue pressure, impact customers or lower advantages. • Unfavourable geographical "value to weight ratio", pay resource transfer premium or find local alternatives.

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6.0 Recommendations

In this section, we will offer solutions & recommendations to counter weaknesses and threats identified in the SWOT analysis while also proposing strategies to capitalise on the company's existing strengths and pursue growth opportunities. The recommendations will be divided into three sections: (1) TOWS Framework-driven strategies (short term), (2) Medium term recommendations focusing on strengthening market position and (3) Longer term recommendations focusing on future growth areas for Tims China. (Note: Due to the expected implementation periods sections, 2 & 3 will be more subjective recommendations while section 1 will provide more direct and objective recommendations).

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6.1 TOWS Analysis

We will use the SWOT analysis data from section 5.0 to develop the TOWS matrix framework and strategies which will help us match up the Strengths with Opportunities (S-O), the Weaknesses with Threats (W-T) and so on.

Table 9: TOWS Analysis Summary

<table>
<tr><td colspan="2" rowspan="2">TOWS- Tims China</td><td colspan="2">Internal Factors (IFAS)</td></tr>
<tr><td><u>Strengths (S)</u>
S1. Strong Global Brand recognition and trademarks.
S2. Loyal urban customer base.
S3. Strong financial performance and balance sheet.
S4. Specialised coffee equipment and proprietary know-how (Master Blenders & Roasters).
S5. Global raw materials supply chain, long-term contracts.
S6. Strong & effective digital partnerships.</td><td><u>Weaknesses (W)</u>
W1. Weak brand recognition in non-urban regions of China.
W2. Limited customer loyalty.
W3. Supply chain constraints & access limitation in non-urban regions.
W4. Menu limited to “foreign” or urban westernised palates.
W5. Centrally controlled menus and suppliers, limiting grass-root creativity & adaptation.</td></tr>
<tr><td rowspan="2">External Factors (EFAS)</td><td><u>Opportunities (O)</u>
O1. Fast urbanisation of non-urban regions of China.
O2. Largely a tea drinking nation, non-urban demographics remain untapped.
O3. Limited competition in second & third-tier cities.
O4. Vertical expansion, purchase “green” or raw tea and sell under Tim’s tea brands.
O5. Horizontal expansion, sell pre-packed Tim’s products in vending machines and stores.</td><td>S-O Strategies
SO1. Curate a blended menu that would suit the local palate.
SO2. Use the brand to promote coffee as an alternative to tea while expanding in-store tea offerings.
SO3. Use substantial financial position to expand into lucrative raw tea production and sale.
SO4. Utilise Tim’s global network to offer coffee/tea beverages in external convenience stores.</td><td>W-O Strategies
WO1. Investing in expanding Tim China's brand marketing in non-urban regions to unlock brand value and increase market share.
WO2. Focus on developing products to cater to local palates and become the local "foreign" tea & coffee shop.
WO3. Promote new tea/coffee offerings and localised food products at lower prices.</td></tr>
<tr><td><u>Threats (T)</u>
T1. Saturation of urban areas by new entrants.
T2. Low customer willingness to pay premiums for coffee.
T3. Political volatility impacts customer behaviour.
T4. Geographical resource transfer is challenging due to poor “value to weight ratio”.</td><td>S-T Strategies
ST1. Use strong global Brand recognition to win over customers in areas outside the urban areas.
ST2. Use bulk purchase power to keep costs low and deliver consistent quality.
ST3. Invest in community and customer engagement.</td><td>W-T Strategies
WT1. Ally with local partners to overcome "value to weight ratio" constraints.
WT2. Expand the Hub & Spoke retail model (flagship + many smaller locations).
WT3. Engage with customers digitally with loyalty rewards, preferences & seasonal offerings.</td></tr>
</table>

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6.1.1 TOWS Summary

Please see below a consolidated summary of TOWS driven strategies - Strengths with Opportunities (S-O), the Weaknesses with Threats (W-T), Strengths with Threats (S-T), the Weaknesses with Opportunities (W-O):

SO1. Curate a blended menu that would suit the local palate.

SO2. Use the brand to promote coffee as an alternative to tea while also expanding Tim’s in-store tea offering.

SO3. Use substantial financial position to expand into lucrative raw tea production and sale.

SO4. Utilise Tim’s global network to offer coffee/tea beverages in external convenience stores

ST1. Use strong global Brand recognition to win over customers in areas outside the urban areas.

ST2. Use bulk purchase power to keep costs low and deliver consistent quality.

ST3. Invest in community engagement and customer engagement.

WO1. Investing in expanding Tim China's brand marketing in non-urban regions to unlock brand value and increase market share.

WO2. Focus on developing products to cater to local palates and become the local "foreign" tea & coffee shop.

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WO3. Promote new tea/coffee offerings and localised food products with lower prices.

WT1. Ally with local partners to overcome "value to weight ratio" constraints.

WT2. Expand the Hub & Spoke retail model (flagship + many smaller locations).

WT3. Engage with customers digitally with loyalty rewards, preferences & seasonal offerings.

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6.2 Strengthening Market Position

In the medium term, Tims China's management will need to consolidate and strengthen its market position. To do this, one recommendation would be to continue to prioritize the development of a customised menu for Chinese consumers, matching the diverse palate of various regions of China. Actively seeking customer feedback, setting up focus groups of taste testers and allowing local employees to suggest menu items are some ways Tims China can truly curate a menu that would suit the local palate all while maintaining the standardised menu items that are expected to be available in any Tim Hortons store around the world (such as coffee, timbits and donuts). Below are two screenshots of McDonald's restaurant menus being offered in India & Japan, it illustrates the strength of menus customised to the local palate.

Image 6: McDonald restaurant's India menu

(Source: McDonalds Menu (2021). Retrieved from deadpool-2.eazydiner.com website: https://deadpool-2.eazydiner.com/bengaluru/mcdonalds-brigade-road-central-bengaluru-658500/menu)

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Image 7: McDonald restaurant's Japan menu

(Source: Japanese McDonalds menu (2021). Retrieved from Pinterest website: https://www.pinterest.com/pin/japanese-mcdonalds-im-actually-lovin-it--4405090257657002)

Another area of focus for the management team is to develop strong customer loyalty. In Canada, where Tim Horton's originates from, getting a "Tims" or "Tims run" are colloquially used as a substitute for getting a cup of coffee or making a trip to Tim Hortons. This customer loyalty had to be developed over many years by consistently delivering quality products at a competitive price and serving the community through outreach programs. While Tims China must strive to uphold the same core values, employing a customer loyalty rewards system may be a good way to achieve this in the short term. This can be done through gamifying the Tims China app and offering discounts and customised offers to loyal customers based on their

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previous purchases.

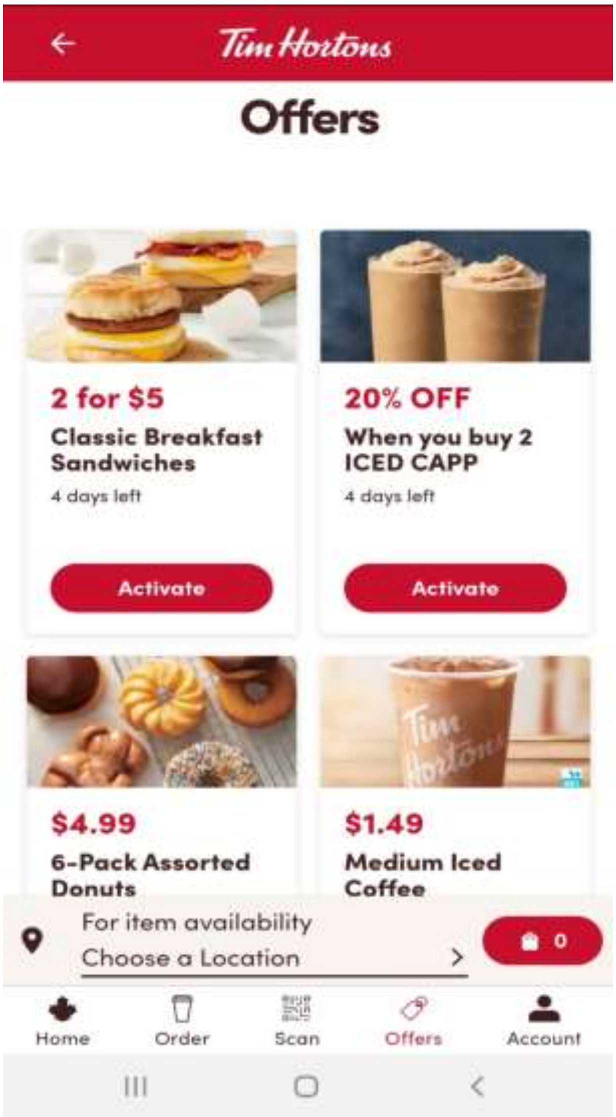

Image 8: Tim Hortons mobile app

(Source:Tim Hortons mobile app (2019). Retrieved from Tim Hortons website: https://company.timhortons.ca/ca/en/corporate/news-release.php?id=11434

Furthermore, Tims China will need to become a well-known/recognisable brand amongst the local population. To achieve this, it will need to apply resources on marketing and

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branding. As a first step, a Chinese name for Tims will need to be trademarked and placed on all the storefronts, cutlery and advertisements. This will make the brand more accessible and localised to a population whose first language is not English. This may also help the brand politically so as not to be seen as a purely Western brand but a brand that bridges two cultures.

Tims China can also focus its marketing to promote coffee as an alternative hot drink to tea meanwhile also expanding its tea offerings. In addition to this, Tims can offer a way for customers to provide feedback and actively invest in understanding what consumers suggest. This can also be done through customer engagement through in-store initiatives, social media interactions and open tasting offerings within target communities.

6.3 Growth Strategies

The third set of longer-term recommendations will focus on strategies to grow Tims China's market position.

Tims China can expand horizontally by selling pre-packaged Tim Hortons brand coffee and tea beverages in stores and vending machines. They have successfully executed this expansion strategy in a number of other markets including its home base in Canada.

Vertical expansion can also be a game changer not only for Tims China but Tim Hortons globally. Unlike horizontal expansion, Tims has not attempted a vertical expansion strategy (beyond roasting the coffee beans) to date. Instead of buying third-party tea brands, Tims can purchase "green" or raw tea and package it as Tim Hortons brand tea.

Another growth strategy is for Tims to maintain its global supply chain and contracts

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while actively looking for local alternatives. This will optimise costs and supply security.

And finally, Tims China should deepen its brand penetration into second and third-tier cities. By branding itself as a brand that merges two cultures (Chinese and Canadian) it can become accessible to customers in these cities.

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7.0 Conclusion

In conclusion, this case study takes a systematic look at Tim Hortons franchise's expansion into China, by gathering and analysing Tims China's published strategies, business overview, operations and partnerships with the ultimate goal of this analysis addressing the problem statement: Are Tim Hortons' business strategies in China sufficient to develop and sustain their business in China? Fundamentally, the answer to this is yes given Tims China's global brand appeal, quality product line and the increasing fascination with coffee in China.

However, our analysis of Tims China does identify several business/operating gaps and recommends tactical and strategic (short, medium and long-term) solutions shared in the sections above that Tims China could pursue in order to continue developing, growing and sustaining their business in China.

To fully understand and examine Tims China's business strategies we utilised various types of business analysis methods including Macro level analysis to compare Tim Horton's home country market of Canada to China-- using CAGE analysis method, Micro level food & beverages industry analysis to understand how Tims China is positioned to compete in the Chinese landscape-- using Porter's five analysis method, followed by an internal analysis of the company to examine the performance of Tim China's internal processes and resources—using Processes, Resources & Competitive advantages analysis method. These external & internal findings were then combined into a holistic Strategic analysis-- using SWOT analysis (Strengths, Weaknesses, Opportunities and Threats) method.

Next, to develop a comprehensive summary of recommendations, we break down our solutions into three categories: short-term or the most current, medium term and long-term. The

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short-term or current recommendations utilise the TOWS analysis (Threats, Opportunities, Weaknesses and Strengths) framework, which helped match the current Strengths with Opportunities (S-O), the Weaknesses with Threats (W-T) and so on. For the medium-term solutions, we recommended solutions that will help cement and consolidate Tims China's market gains by strengthening & improving its position. Then for the final set of long-term solutions, we listed recommendations that could enable continued growth and expansion (vertically or horizontally) into other lucrative areas of the food and beverage business areas where Tims China currently has limited or no significant presence.

Together, we believe this case study offers a balanced view of how far Tims China has come in terms of its stated goal of expanding into China, the strategies they have deployed to position itself effectively against its competitors and in identifying business development & sustainment opportunities for Tims China's continued growth in China.

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