The Evolution of Tim Hortons®
Make Mine a Double-Double!

What did Canadians do about their cravings for freshly made donuts before 1964? Were the donuts homemade, especially the "donut holes"- the centre portion cut out of the dough to create the traditional donut, leaving a hole in the centre; or were donuts available on selected days from the local bakery (e.g., Wednesdays and Sundays)? A visit to the local bakery after church service to savor the warm, freshly baked donuts and bread must have been like a visit to Heaven! What could be better?

However Canadians satisfied their desire for donuts prior to 1964 is one for the history books. On May 17, 1964, things changed on the donut front: Tim Hortons® (http://www.timhortons.com) opened what is considered to be its first outlet: the Ottawa Street store in Hamilton, Ontario (Joyce, 2006). After less than spectacular efforts by the first two franchisees of this outlet, in 1965, Ron Joyce took over the operation, being the first, successful franchisee of the company and of this outlet (cf. Joyce, 2006). The earlier attempts by two franchisees of the Ottawa Street store; the establishment of a donut shop in Toronto, Ontario; and a venture into the hamburger restaurant business in Toronto using Tim Horton's name (Joyce, 2006) are best forgotten.

The Ottawa Street outlet only sold coffee and donuts, with different sizes of coffee and a variety of donuts being offered. Little did Tim Horton (who began his NHL career as a Toronto Maple Leaf hockey player and ended it as a Buffalo Sabres hockey player) and Ron Joyce [a former member of the Hamilton, Ontario, police force and a Dairy Queen franchisee (Joyce, 2006)], who became the sole partners of the 3-store chain in 1967, know what the future held for the company, particularly with respect to it becoming a cultural icon of the Canadian economy. All they knew at the time was that a venture focusing solely on coffee and donuts was a relatively untested concept in Canada (see Joyce, 2006). In the U.S., Dunkin Donuts came into existence in 1950 and became a franchisor in 1955 (http://www.dunkindonuts.com).

In 1976, Ron Joyce took control of the now 40-outlet operation. Tim Horton died in a car accident on the QEW Highway between Buffalo and Toronto in 1974 while returning to Buffalo. This was also the year of the introduction of the Timbit® (i.e., the bite-sized donut hole) to the product offering (35 varieties are available today) (http://www.timhortons.com). In the years to follow, a number of other product additions were made to the market offering of the company (see Table 1).

Over time, the beverage line offered by Tim Hortons has expanded to include tea, hot chocolate, lattés, cappuccinos, soft drinks, iced drinks, milk, juice, and the infamous peach drink, as well as other items. The fountain approach to dispensing cold drinks gave way to pre-measured containers

Table 1
Chronology of Product Additions to the Tim Horton Market Offering

Year	Product Offering Addition
1964	started with coffee and donuts
1976	Timbits
1981	muffins, cakes
1982	pies
1983	croissants
1984	cookies
1985	soups and chili
1993	sandwiches
1996	bagels
1997	flavoured cappuccino
1998	re-introduction of new, improved sandwiches - 6 varieties (called “Tim’s Own”)
1999	café mocha, iced cappuccino
2003	turkey bacon club sandwich, maple pecan Danish
2005	yogurt & berries, cinnamon roll, hot smoothies
2006	chicken salad wrap, hot breakfast sandwich
2008	(hot) roast beef sandwich (limited time offer)

Note. Pre-2008 data drawn from http://www.timhortons.com. Data for 2008 drawn from (Center, 2009)

of different sizes prepared by the manufacturer (i.e., cans and bottles). Customers can also purchase cans of coffee (2 grinds), hot chocolate, and cappuccino at each Tim Hortons outlet for home or work preparation. The cans of coffee, caffeinated and decaffeinated versions, are available in two sizes. Pouches of regular coffee are also available, as is a wide variety of packaged tea bags. Besides selling directly to customers from its stores, Tim Hortons has set up an online store for its packaged coffee, tea, and hot chocolate lines and distributes cans of coffee through a limited number of grocery stores.

In 1995, Tim Hortons and Wendy's® International Inc. merged, giving Wendy's control over the now, U.S. donut operation. Even though the coffee and donut lines offered by Tim Hortons and the burger, fries, chili, and salad lines of Wendy's complemented one another in terms of "primary time-of-day" consumption, with the primary market offering of Tim Hortons being more of a morning offering and the primary market offering of Wendy's being an afternoon-evening market offering, Wendy's thought it was best to divest itself of Tim Hortons in 2006 (Joyce, 2006), so that it could focus on its traditional, primary product areas in a very competitive market. The development of breakfast, lunch, and dinner items (e.g., sandwiches, soup, chili) by Tim Hortons was probably another reason for the split, since the new products which were designed for non-morning consumption would definitely cannibalize the traditional product lines offered by Wendy's. This change in menu was particularly evident after the death of Dave Thomas, the founder of and public spokesperson for Wendy's (cf. Friend, 2009). Despite this split, the many "combo" Tim Hortons-Wendy's outlets still exist in the market.

Over the years, Tim Hortons has continued to expand. About 95% of the Tim Horton outlets are franchise operations; the remaining outlets are company owned. As of mid-June 2009, Tim Hortons operated 3,427 outlets, with 2,930 of the stores located in Canada and 527 in the U.S. (Sprinkles, 2009). Store locations are in 11 of the 50 U.S. states and in 12 of the 13 provinces/territories of Canada. A decision about entering the final Canadian territory, Nunavut, that is not blessed with a Tim Hortons is currently under review (Waldie, 2009).

Tim Hortons outlets can be found as stand-alone operations in cities and towns and along highways, as well as in airports, hospitals, universities, and shopping malls. While some of the stand-alone outlets are just drive-thru operations, where there is no "inside, sit-down"option for customers, many are combination sit-down/drive-thru operations. Tim Hortons also has a presence in Ireland and Britain, where company products are available in self-serve outlets located in selected grocery stores (Galt, 2009). The company has plans to continue international expansion, as well as doing the same in Canada and the U.S. (Galt, 2009), including recent plans increase the market presence of the company in the State of New York by entering New York City, itself, for the first time by opening 12 new locations (Coffee store chain, 2009; Tim Hortons rolls, 2009). Tim Hortons entered the U.S. market for the first time in 1981 (Florida) and had entered the western part of the State of New York in 1992 (Buffalo) (Joyce, 2006).

In addition to opening its own outlets in different markets and directly expanding its product offering, Tim Hortons has found other ways to keep growing. The recent expansion of Tim Hortons in Rhode Island, Connecticut, and Massachusetts in the U.S. involved the purchase of 42 Bess Eaton coffee and donut restaurants (http://www.timhortons.com). In addition, after a market test in the U.S., Tim Hortons has decided to engage in co-branding with Arizona-based Cold Stone Creamery (ice cream) (http://www.coldstonecreamery.com) by forming combined outlets in the U.S. and in Canada (Baar, 2009; Sprinkles, 2009; Tim Hortons and Cold Store Creamery announce, 2009; Tim Hortons, Cold Stone Creamery co-brand, 2009; Tim Hortons, Cold Stone owner, 2009, Tim Hortons and Kahala, 2009a, 2009b). This co-branding approach is similar to that tried by Baskin-Robins and Dunkin Donuts (cf. Baar, 2009; Tim Hortons, Cold Stone Creamery co-brand, 2009); KFC, Pizza Hut, and Taco Bell (cf. Tim Hortons, Cold Stone Creamery co-brand, 2009), and, of course, Tim Hortons and Wendy's. The Tim Hortons and Cold Stone Creamery combination and the Baskin-Robins and Dunkin Donuts combination involve independent firms in each case; the Tim Hortons and Wendy's combination involved merged firms; and the KFC, Pizza Hut, and Taco Bell combination involves companies owned by the same firm [i.e., direct control by Yum! Brands (http://www.yum.com) - also controls, A&W, WingStreet, and Long John Silver's]. Like the Tim Hortons-Wendy's combination, the Tim Hortons-Cold Stone Creamery combination focuses on the same primary-time-of-day consumption markets [i.e., dayparts (Baar, 2009)] - morning for Tim Hortons and afternoon and evening for Cold Stone Creamery (Baar, 2009).

An interesting move by Tim Hortons in 2002 was the decision by the company to centralize the making of baked goods (http://www.timhortons.com). For most of the product life cycle of Tim Hortons, each outlet baked its donuts and other similar items on-site. One of the problems which the company was facing with decentralized baking was the inconsistency in size of the donuts (e.g., the size of the popular Dutchie donut tended to vary across outlets); the constant difficulty of finding bakers willing to work the early-morning shift was another area of concern (Joyce, 2006). Reducing the likelihood of product inconsistency could be achieved by centralizing most of the steps in the baking process. Centralization of production also meant that an increase in the efficiency of the production process would be realized by having a greater volume being produced at a single facility. Of course, some of the efficiencies that are obtained by centralized production meant that greater transportation costs would be incurred in transporting more fragile and higher valued items great distances. Furthermore, by having a centralized baking staff, the human resource staffing issue would become less of a problem, particularly since all donuts were to be frozen prior to shipment, thereby eliminating the need for early morning baking.

A centralized baking facility (see Brantford, 2001) was established in Brantford, Ontario, located less than an hour west of the Oakville, Ontario, corporate office. At this facility, a joint venture with Cuisine de France (a supplier and manufacturer of baked goods), the donuts (and Timbits) are prepared (i.e., par-baked) and then frozen. The donuts prepared at this location are shipped to all of the Canadian and U.S. Tim Horton outlets. Once the donuts arrive at the various outlets, final baking and preparation are carried out using specially-designed microwave ovens and equipment.

As Tim Hortons expanded into other product lines (e.g., soup, chili), centralized production was the only way to ensure product consistency, a key requirement for any multi-unit fast-food operation. The development of outlets that did not have the space for baking (e.g., separate drive-thru facilities, university and hospital outlets, gas stations) also meant that centralized baking was more logical. Outlets that do not have the space for even the minimum baking facilities are supplied by other Tim Hortons outlets that are located in the same area that do have such facilities.

Unfortunately, the move by Tim Hortons to centralize production led to legal action by some of the franchisees of the company (Tim Hortons sued, 2008). The franchisees claimed that the move to a centralized baking approach required the franchisees to invest between $35,000 and $50,000 for microwave ovens and freezers in order to prepare for the conversion. The franchisees also claimed that their cost per donut increased from $0.09 to $0.20, not to the $0.12 level as initially stated by Tim Hortons. The franchisees also indicate that the conversion has resulted in a lower operating profit for the franchisees, while the profit for the corporate operation has increased.

Another major operating change for Tim Hortons was the decision by the company to become the primary roaster of the coffee used by the company, rather than have this task carried out by other roasters [e.g., Mother Parkers, Nestlé, General Foods, Tim Donuts Limited (TDL)] (Joyce, 2006). In 2009, the company indicated that it would invest $30-million to build a production and roasting facility in Hamilton, Ontario, in order to ensure the consistency of its product (Tim Hortons Inc. building, 2009). This new facility, along with a currently existing facility located in Rochester, New York, will be able to supply about 75% of the coffee needs of the company.

From its beginning, the market philosophy of Tim Hortons has been to focus on high quality fresh products, value, quality service, and community involvement (e.g., summer camps for kids, participation in kids hockey leagues) (http://www.timhortons.com). During the 2001-2002 time period, Tim Hortons adopted the "Always Fresh" slogan (Tim Hortons sued, 2008). Consistent with this operating philosophy is the policy of the company not to sell any coffee that has been sitting for more than 20 minutes, since the quality of brewed coffee tends to deteriorate relatively quickly if served from open glass pots, the brewing approach used at Tim Hortons. Since the "Always Fresh" philosophy was instituted at a time when all donuts and Timbits were baked on-site at each outlet, one could probably conclude that consumers would have applied this concept to the baked goods and all items prepared at Tim Hortons, as well. However, now that the company is serving pre-baked, frozen donuts and Timbits, does the consumer perceive such items as being "Always Fresh." In fact, do the customers even know that "only" final preparation takes place on-site. This change in baking approach is not a change embraced by Ron Joyce, who ended all financial ties with Wendy's and Tim Hortons in 2002 (Joyce, 2006). Given such a change, is it appropriate for Tim Hortons to continue to use the "Always Fresh" logo?

In conclusion, it is clear that, over time, Tim Hortons has evolved from being a simple coffee and donut shop (*Tim Horton's Do-nuts*) to becoming Canada's largest quick-service restaurant chain, facing many challenges along the way. The transition of the company from a Canadian legal entity to a U.S. registered company was part of this evolution, including the decision by the company in June, 2009, to reorganize the company as an incorporated legal entity under the Canada Business Corporations Act, thereby repatriating the company to the original country of birth, even if the reason was to take advantage of lower corporation taxes (Friend, 2009; Galt, 2009) rather than for patriotic reasons. Nonetheless, no matter how the company decides to grow and exist in the future, it will always be remembered as the place where you hear the unforgettable request of a customer, ***"Make Mine a Double-Double!"***

Focus: Need, want, consumption target markets, conflict (types: vertical, inter-type horizontal, intra-type horizontal), exercise of power (types: reward, coercive, referent, expert, legitimate), franchisor, franchisee, business-to-consumer relationship (B2C), business-to-business (B2B) relationship, market development, market penetration, product development, diversification, levels of product/store innovation (new process, new concept, new to the company, new model), depth and width of product offering, consistency of product offering, theories of retail institutional change [theory of natural selection, wheel of retailing, general-specific-general theory (accordion theory), dialectic process], direct channel, indirect channel, channel complexity, dual/multiple channels, product (retail) life cycle, merger, joint venture, co-branding, channel integration (forward, backward), economies of scale, cannibalization.

Questions:

1. Define each of the theories and concepts identified above. How does each theory and concept apply to this case, if it does? Explain.

2. Of the four theories of retail institutional change identified, based on the facts presented in the case, explain how the general-specific-general theory applies to the change in the product offering of Tim Hortons? How would inter-type conflict be relevant in this situation? How would intra-type conflict apply, given the nature of the change in the product offering of Tim Hortons? You can answer the latter two sections of this question in a general way, as well as include specific "outside" examples to support and complete your answer.

3. Using Ansoff's Product-Market Growth Matrix, explain the relevance of market penetration, product development, market development, and diversification to the situation described in the case material. [see Ansoff, Igor. (1957). Strategies for Diversification. *Harvard Business Review*, *35(5)*, 113-124.]

4. Based on the facts in the case, what level of product/store innovation applies? Explain.

5. The lawsuit filed against Tim Hortons by the franchisees reflects a conflict situation. What type of conflict applies? What type of power are the franchisees exhibiting by filing a law suit against the company?

6. Explain how the Tim Hortons/Wendy's, the Baskin Robins/Dunkin Donuts, and the Tim Hortons/Cold Stone Creamery co-branding situations each reflect a sound marketing segmentation strategy.

7. Explain how the KFC/Taco Bell/Pizza Hut combination differs in terms of the marketing segmentation strategy approach used for the other three co-branding situations identified (see Question 6)? Is one approach better than the other? Explain.

8. Explain how the company has changed the structure of the channel in which it operates from the point of view of channel integration of facilitators and primary participants?

9. If you hear a customer say, ***"Make Mine a Double-Double!"*** while in a Tim Hortons outlet, what does the customer mean?

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