

# Tim Hortons China Financial Strategy and Market Situation Analysis

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**Abstract.** The impact of COVID-19 on the coffee industry has been huge, with many coffee shops forced to close. Coffee companies are seeking to help themselves and minimize the losses caused by the epidemic. However, as the COVID-19 outbreak has been brought under control across the country. The coffee industry is getting better. This text mainly analyzes the financial strategy of Tims China and uses SWOT analysis to analyze the advantages and disadvantages of Tims China. The results of the analysis indicate that Tims currently has great brand competitiveness in the Chinese coffee market, but the status is still low and the popularity is low. It is mainly distributed in first and second-tier cities, and the number of stores is far less than other brands. Total revenue is currently in the red but has increased compared to the same period each year. The main purpose of this text is to study the current development of Tims to find its own strengths and weaknesses, so as to promote better development in the future.

**Keywords:** COVID-19; coffee; Tims China; market; SWOT.

## 1. Introduction

At the beginning of 2020, a sudden COVID-19 epidemic severely impacted many catering industries, especially the coffee industry. According to statistics, from the outbreak of COVID-19 at the end of January to the beginning of April, when the epidemic was gradually brought under control in China, nearly 70% of domestic catering enterprises suspended their stores in nearly two months. The coffee service industry, as one of the more affected segments at the beginning of the epidemic in China, had a closure rate of more than 80%. In the case of a significant decline in sales performance, highlighting the inadequacy of the existing business model of coffee chain companies [1].

In such a severe test of life and death, faced with high rent, labor, and other costs, many coffee enterprises with rapid expansion have no choice but to close a number of stores due to the impact of financial pressure, struggling to support. Many coffee enterprises are seeking self-rescue, accelerating the opening of online and offline channels, seeking diversified development paths, and minimizing the losses caused by the epidemic through diversified online sales and offline contactless distribution [2].

At present, as the COVID-19 epidemic has been brought under control in many parts of the country, the government has gradually accelerated the resumption of work, production, and school. The opening of restaurants and coffee companies has increased significantly, and the long-suppressed desire for consumption has been gradually ignited, especially in the coffee industry, which is popular among young people [3]. In the short term, the coffee market is likely to see a "retaliatory" rise in consumption; In the long run, the consumption demand for coffee by business people who return to normal life, work and study as well as young students is gradually recovering [4]. In terms of market expectation, with the continuous improvement of the coffee penetration rate, the domestic coffee market still has a large space for development in the future [5].

Therefore, it is particularly necessary to study the financial strategy and operation strategy of Tims China. In summary, this text analyzes the current operations of the coffee industry, using Tims as an example, to provide support for the company's decision-making. First, this paper examines the background and current development of Tims. Then, this paper analyzes the financial strategy and accounting performance of Tims. Finally, this paper analyzes Tims using the SWOT model and gave relevant recommendations.

## 2. Basic Descriptions of Tim Hortons

Ice hockey players Tim Horton and Jim Charade started Tim Hortons in Hamilton, Ontario, in 1964 as a hamburger restaurant following a brief foray into the food service industry. In 1967, Horton teamed up with financier Ron Joyce, and after Horton passed away in 1974, Joyce took over management of the business. The chain was increased by Joyce, who turned it into a multibillion-dollar empire. Charade walked away from the group in 1966 but then came back for a while in 1970 and 1993–1996. In Canada, Tim Hortons is growing quickly; in 2002, it surpassed McDonald's to take the top spot among fast-food providers. As of right present, it operates more than 3,300 stores across Canada and provides 22.6% of the tax income for the country's food business. Burger King and Tim Hortons reached an \$11.4 billion deal on August 26, 2014, to buy the coffee chain. On December 15, 2014, the two chains were made subsidiaries of the Canadian-American holding company Restaurant Brands International, which is controlled to a large extent by the Brazilian investment corporation 3G Capital [6].

The first Tim Hortons store in China officially opened in Shanghai on Feb 26, 2019. It is the brand's 4,850th store worldwide. Tim Hortons and Cartesian Capital Group have entered into a franchise joint venture agreement to open 1,500 stores in China over the next decade. In May 2020, Tims China received hundreds of millions of yuan in investment from Tencent. On September 29, 2022, Tims China was listed on Nasdaq under the ticker symbol "THCH" through the blank check company Silver Crest Acquisition Corp. As of September 30, 2022, there were 486 net stores in mainland China, including 454 self-operated stores and 32 franchised stores [7].

On August 1, 2022, Sinopec's Easy Joy, China's largest convenience store chain, will have three Tims China coffee shops conveniently positioned in Beijing's central business area. The recently established Tims China stores use the new "Tims Express" model, a small and effective footprint that blends seamlessly into Easy Joy stores and displays Tims China's distinctively warm style. On September 7, 2022, Sinopec's Easy Joy and Tims China announced the introduction of two co-branded ready-to-drink (RTD) coffee products. Tims China announced that their 500th coffee shop was opened on October 17, 2022. The 500th shop is situated in Dongguan, a city with a population of over 10 million in the Pearl River delta, not far from Hong Kong. The expansion of Tims China into additional cities across China is highlighted by this opening. Tims China announced a two-year cooperation with Freshippo, a grocery and fresh products retail chain owned by Alibaba Group (NYSE: BABA), on November 18, 2022. Co-branded coffee goods will be made available for purchase only through Freshippo's online platforms and more than 300 physical locations spread across 27 Chinese cities. In addition, Tims China and Freshippo will collaborate on product design, positioning, advertising, and pricing as they conduct research and development for the co-branded goods.

## 3. Balance sheet

### 3.1 Financing strategy analysis

In 2019, Tims established its first store in Shanghai and officially entered the Chinese market. Subsequently, Tims attracted the attention of a lot of investors. In 2020, Tims China received hundreds of millions of yuan of strategic investment from Tencent; Tims China completed a fresh round of financing in February 2021 that was led by Sequoia China, enhanced by Tencent, and followed by Zhongding Capital. In March 2022, Tims China reported a further round of fundraising totaling \$194.5 million [8].

|   | Year ended December 31,              |                  |                  |                 |
|---|--------------------------------------|------------------|------------------|-----------------|
|   | 2019                                 | 2020             | 2021             |                 |
|   | (in thousands except per share data) |                  |                  |                 |
|   | RMB                                  | RMB              | RMB              | US\$            |
| <b>Total revenues</b>   | <b>57,257</b>                        | <b>212,085</b>   | <b>643,372</b>   | <b>101,285</b>  |
| Company owned and operated store costs and expenses   | 76,614                               | 243,731          | 755,818          | 118,987         |
| Costs of other revenues   | 7,842                                | 5,208            | 16,731           | 2,634           |
| Marketing expenses  | 8,020                                | 16,986           | 50,317           | 7,921           |
| General and administrative expenses   | 51,067                               | 79,366           | 174,963          | 27,544          |
| Franchise and royalty expenses  | 4,727                                | 8,592            | 18,800           | 2,960           |
| Other operating costs and expenses  | 439                                  | 2,713            | 2,135            | 336             |
| Loss on disposal of property and equipment  | —                                    | —                | 1,546            | 243             |
| Impairment losses of long-lived assets  | —                                    | —                | 1,002            | 158             |
| Other income  | (196)                                | (3,339)          | (3,476)          | (547)           |
| <b>Total costs and expenses, net</b>  | <b>148,513</b>                       | <b>353,257</b>   | <b>1,017,836</b> | <b>160,236</b>  |
| Operating loss  | (91,256)                             | (141,172)        | (374,464)        | (58,951)        |
| Interest income   | 2,272                                | 511              | 316              | 50              |
| Interest expenses   | —                                    | —                | (1,902)          | (299)           |
| Foreign currency transaction gain / (loss)  | 1,156                                | (2,399)          | (1,302)          | (205)           |
| Changes in fair value of convertible notes, excluding impact of instrument-specific credit risk | —                                    | —                | (5,577)          | (878)           |
| <b>Loss before income taxes</b>   | <b>(87,828)</b>                      | <b>(143,060)</b> | <b>(382,929)</b> | <b>(60,283)</b> |
| Income tax expenses   | —                                    | —                | —                | —               |
| <b>Net loss</b>   | <b>(87,828)</b>                      | <b>(143,060)</b> | <b>(382,929)</b> | <b>(60,283)</b> |
| Less: Net Loss attributable to non-controlling interests  | (174)                                | (1,060)          | (1,208)          | (190)           |
| <b>Net Loss attributable to shareholders of THIL</b>  | <b>(87,654)</b>                      | <b>(142,000)</b> | <b>(381,721)</b> | <b>(60,094)</b> |
| Basic and diluted loss per ordinary share   | (877)                                | (1,416)          | (3,340)          | (526)           |

**Fig. 1** Prospectus

(source: <https://www.foodaily.com/articles/28488>)

According to Silver Crest, Tims China's revenue from 2019 to 2021 was 57.257 million yuan, 210 million yuan and 640 million yuan, respectively. As can be seen from Fig.1. 2021 will be the fastest year for Tims China, with its revenue surging 203%, more than three times of 2020. But net losses have also multiplied [9].

Data show that from 2019 to 2021, the net loss of Tims China was 87.828 million yuan, 140 million yuan and 380 million yuan respectively. The net loss in 2021 increased more than 2 times compared with that in 2020, and the total loss in 3 years exceeded 600 million yuan.

|   | For the three months ended or as of |              |              |              |              |              |              |
|---|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Mar 31, 2021                        | Jun 30, 2021 | Sep 30, 2021 | Dec 31, 2021 | Mar 31, 2022 | Jun 30, 2022 | Sep 30, 2022 |
| Total stores  | 159                                 | 217          | 280          | 390          | 424          | 440          | 486          |
| Company owned and operated stores                             | 150                                 | 206          | 268          | 373          | 403          | 419          | 454          |
| Franchised stores   | 9                                   | 11           | 12           | 17           | 21           | 21           | 32           |
| Same-store sales growth for system-wide stores                | 41.6%                               | 26.5%        | 6.5%         | 8.2%         | 4.4%         | -6.1%        | 8.1%         |
| Same-store sales growth for company owned and operated stores | 40.3%                               | 25.5%        | 6.6%         | 8.8%         | 5.5%         | -5.3%        | 7.5%         |
| Registered loyalty club members (in thousands)                | 2,947                               | 3,865        | 4,770        | 5,969        | 6,907        | 7,532        | 8,862        |
| Adjusted store EBITDA (Renminbi in thousands)                 | 3,271                               | 5,296        | 4,432        | 14,468       | -21,050      | -40,279      | 19,352       |
| Adjusted store EBITDA margin                                  | 3.3%                                | 4.1%         | 2.6%         | 6.8%         | -10.0%       | -24.5%       | 6.7%         |

**Fig. 2** Key operating and financial data

(source:<https://ir.timschina.com/news-releases/news-release-details/tims-china-announces-unaudited-third-quarter-2022-financial>)

As shown in Fig.2, during the three months ending September 30, 2022, total revenues were RMB305.7 million (USD43.0 million), an increase of 67.9% from RMB182.1 million in the same period of 2021.

For the three months ending September 30, 2022, there were a total of 46 net new shop openings (35 company-owned and managed stores and 11 franchised stores). As of September 30, 2022, there were 486 stores across the whole system, up from 440 on June 30, 2022, and 280 on September 30, 2021 (454 company-owned and operated stores and 32 franchised stores).

For the three months ending September 30, 2022, company-owned and managed stores saw same-store sales growth of 7.5%, up from 6.6% in the same quarter of 2021.

As of September 30, 2022, there were 8.9 million registered loyalty club members, an increase of 85.8% from 4.8 million as of the previous year.

For the three months ended September 30, 2022, adjusted store EBITDA was RMB19.4 million (USD2.7 million), a 336.6% increase from RMB4.4 million in the corresponding period of 2021.

During the three months ended September 30, 2022, the adjusted store EBITDA margin, which measures adjusted store EBITDA as a proportion of our revenues from company-owned and managed shops, was 6.7%, up 4.1 percentage points from 2.6% in the same period of 2021 [10].

## 4. Market conditions

There are huge opportunities in China's coffee market, and the competition at the lower end of the market is fierce at all pricing levels, with familiar representatives on every rung of the ladder. High-end Starbucks and Costa, mid-end Luckin and Manner, low-end Lucky Coffee and convenience store, etc. Therefore, this section uses SWOT to analyze the market situation of Tims.

### 4.1 Strengths

First of all, Tim Hortons is priced in line with the consumer profile of young people, unlike its top competitor, Starbucks, which is perceived by consumers as being expensive. Second, Tims attaches great importance to the cultivation of talents and invests a lot of energy in the cultivation of excellent employees. From the promotion mechanisms of the headquarters management to the incentive measures of front-line clerks, a large number of talented and active employees are utilized. Third, Tims has a complete product matrix and offers consumers a wide selection of combination packages. This is a level of care that competitors don't have. Tims' Product Portfolio: coffee, doughnuts, bagels, pizza, tea, sandwiches, baked bread, cream cakes, etc. In the end, 99.5% of Tims Coffee's stores are franchised, Tims always publishes discount programs, and consumers sign up for their mini-programs to become members of the bundle in order to receive discounts and offers.

### 4.2 Weaknesses

Compared with Starbucks, Tims has been in the Chinese market for just over three years, and the number of stores is far from comparable to Starbucks and Luckin. Baked goods occupy an important position in the product matrix of Tims, but the shelf life is short, which means that the baked goods cannot be sold every day, increasing the expenses of the enterprise. And Tims has a low cash flow ratio. The current model of Tims indicates that the amount of cash flow is small, so the ability to bear market risks is weak, which indicates that Tims may face the risk of bankruptcy due to a cash flow shortage in the future.

### 4.3 Opportunities

Online marketing opportunity Online marketing is becoming more and more important for enterprises, and consumers are becoming more and more accustomed to shopping online. Tims can continue to optimize the small program and actively join the takeout platform, making full use of

network marketing, live delivery, KOL marketing, and other ways to increase revenue. With the gradual liberalization of epidemic prevention and control, the recovery of the consumer market is an opportunity. Tims has the opportunity to expand its business, increase consumer stickiness, and grow its fan base through offline stores and online linkages with multiple marketing campaigns to increase interaction with customers.

#### 4.4 Threats

First, industry competition has increased. Companies often like to compete with each other by fighting price wars. If Tims does not hurry to reduce their own operating costs through scale effects and upgrading technology, it is likely to lead to a decrease in revenue and an inability to develop its own price advantage, thus the growth rate will stagnate and eventually will not be able to compete in the market. Secondly, geopolitical threats. As a multinational company, Tim Hortons is highly likely to be the victim of national politics, as they incur additional costs due to competition between countries and even face the risk of closure.

### 5. Suggestion

Tims should first focus on innovation and should actively come up with new ideas, establish innovative marketing approaches, as well as build a set of product strategies suitable for the current market. It should also focus on technology research and development, continuously improve products, enhance service quality, ensure innovation, and enhance the ability to meet customer needs so as to maintain market competitiveness. Also, attention should be paid to listening to customers' voices. This will provide a more accurate understanding of customer needs, help the company continuously improve its products, enhance service quality, and effectively increase its competitive advantage in the market. Tims can also expand its market by using technology platforms, enhancing customer experience, and strengthening online marketing.

At the same time, Tims might as well focus on expanding its brand influence in order to enhance the company's visibility, achieve market expansion and develop its potential. Product positioning is very important for Tims, a brand's ethos and the sense of atmosphere it brings is the emotional factor behind the success of the business numbers. Tims brings high-quality affordable coffee with a unique cultural ethos-- like the red maple leaf, like the Starbucks banshee siren -- In the end, it is more critical that consumers recognize Tims as much as they recognize Canada Goose. In addition, Tims should also focus on good cooperation with partners as well as be prepared to face the new market environment in order to cope with future changes. Tims need to do a good job of "suppliers sitting on the price", "suppliers do not supply on time", "supply chain broken" and so on all possible problems, and do a good job of targeted contingency plans to reduce losses.

### 6. Conclusion

Tims has a certain international fame as a legendary North American coffee. It will take some time for it to develop in the Chinese market. After financial analysis, it was found that the company's current financial situation is not optimistic and it is not profitable in the Chinese market for the time being. The loss is mainly due to the epidemic and the rise of upstream raw materials, Tims China's positioning is rather vague and fails to occupy the minds of consumers, most consumers do not have a high degree of recognition of this "exotic" product. After market analysis, Tims is expanding rapidly in the Chinese market, but the scale is still not as large as other coffee brands. Tims should focus on expanding its brand influence in order to enhance the company's visibility, make position the product, and get the consumer's approval.

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