

# *The Formation of Differentiation and Scale Patterns of Multinational Brands*

## *—Taking Tim Hortons China as an Example*

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**Abstract:** In recent years, China's coffee market has been in a state of fierce competition, and in addition to brands such as Starbucks, which have long occupied a large market share, some new brands are also actively exploring their own paths of development. Among them, Tims Hortons China ("Tims China"), as a coffee brand from Canada, whose entry into China's coffee market really started in 2019, but according to the "2023 China's Urban Coffee Development Report," Tims China has, in just four years, already become the No. 3 coffee shop chain brand in China. The rapidity of its development path has caught the attention of many. In this paper, we will explore how Tims China, as a foreign coffee brand, has been able to position itself in the fiercely competitive Chinese coffee market through a strategy of scale and differentiation, and has been able to grow and expand quickly. By summarizing Tims' development strategy, we can provide references and lessons for the development of the business.

**Keywords:** Tims China, Scale, Localization, Differentiation

## **1. Introduction**

Tim Hortons is a globally renowned coffee chain brand, born in the small town of Hamilton next to Toronto and founded by the legendary hockey player Mr. Tim Horton. As Canada's national coffee brand, Tim Hortons created Tims China in 2018 and opened its first Chinese store in Shanghai in 2019, which started its way into the Chinese market [1]. At the time, the coffee market in China was dominated by Starbucks, along with strong competition from coffee brands such as Luckin Coffee. Despite the fierce competition from major brands in the coffee market, China's coffee market still has huge potential, and people's demand for coffee is on the rise, as well as their demand for coffee quality. Under the fierce market environment, Tims China is still able to obtain multiple rounds of financing, and as the main body of the U.S. Nasdaq listed again in September 2022, becoming the second listed company after Luckin Coffee, whose main business is the coffee market in China, the strategy adopted behind it is worthy of in-depth exploration.

As Yongchen Lu, CEO of Tims China, said, "Tims seeks scale with differentiation, which means both differentiation and scale. A brand that relies on differentiation can be long-lasting, but at the same time it must also have scale, and the combination of the two creates a very valuable brand."

Scale in this context refers to the need for a product to be able to sell in large volumes, thus acting as a scale effect. Differentiation means that the brand needs to have its own identity to be able to compete in a highly competitive market [2]. In order to achieve this goal, Tims China, as a foreign brand, is striving to enter the Chinese market and start the process of localization while retaining its own characteristics, using a combination of localization and differentiation to promote the brand's position in China's fiercely competitive coffee market [3].

In the following, we will elaborate on and summarize the two aspects of scale and differentiation, respectively.

## **2. The formation of a scale pattern**

Tims China has developed a certain market size mainly through the cluster strategy. It also uses product localization, supply chain localization, personnel and investment localization to further expand its market size and achieve scale effects.

### **2.1. Adoption of a clustering strategy to increase market density**

Tims China has set a goal: We anticipate the successful opening of 2,750 profitable stores by 2026. As of September 2023, Tims China is present in more than 50 cities in China and has opened more than 700 stores, and this number will continue to grow. The number will continue to grow. Tims China has opened more than 700 stores in more than 50 cities in China by September 2023, and this number will continue to grow [4]. The stores are centered in large first-tier cities and are located in locations where trade and commerce are thriving, targeting high-demand segments of the population, and Tims China continues to increase the density of its stores in order to offer convenience to customers and bring the brand into the daily lives of the people in the local communities, while increasing brand awareness.

Tims China has also created four different types of stores to cater to different lifestyle scenarios, namely flagship stores, classic stores, "Tims Go" stores, and "Tim Express" stores. Flagship "Golden Maple" stores are the largest and are usually located in high traffic and high visibility locations. As the most elaborately decorated stores, they also play an important role in promoting the brand. Flagship stores usually have their own expanded menus and host co-branded events with other brands. Classic "Maple" Stores are the dominant type of store, offering Tims China's classic coffee and baked goods. Compact "Tims Go" Stores are built to address "grab and go" and digital occasions, this type of store focuses on providing convenience, with smaller store sizes, and is characterized by flexibility and multiple locations. Innovative "Tims Express" Stores occupy less than 20 square meters and feature a franchise layout that is embedded in other franchises such as convenience stores. Each of these four store types is adapted to different scenarios, further increasing the brand's market density.

### **2.2. Localization of products**

As a multinational brand, Tims China needs to improve its products in order to meet the tastes of the Chinese public [5]. Tims China has created 'Jasmine Tea Latte', Peach Flavored Buffalo Milk Latte, Fresh-brewed Coffee with Bamboo Flavor, Blueberry and Peach Flavor Smile Bagel, etc. by combining Chinese tea and coffee. In recent years, China's coffee market has been characterized by the "beverageization" of coffee, which has led Tims China to launch Raw Coconut Cold Brew Coffee and other products that give coffee the taste of a beverage and make coffee more acceptable in China. In addition, due to the sweet tooth of most North American consumers, the more popular doughnuts in the region have been reduced in sugar since entering the Chinese market to meet the current demand for a less sugary, healthier diet. In addition to this, Tims China has created a community targeting a younger group to attract attention. Examples include Special Offers during Chinese Valentine's Day,

co-branding with a local animation studio and co-branding with local artists. This also increases brand awareness.

### **2.3. Localization of the supply chain**

Raw materials required for Tims China's daily production typically include coffee beans, dairy products, bakery and food ingredients, and packaging materials. Tims China has established a strong local supply chain in China, except for the roasted coffee beans it uses, which are imported from abroad. All other inputs are sourced in China, including fresh produce and dairy products. Tims China has also developed Tier 1 and Tier 2 suppliers in order to minimize the risk of a single supplier [6].

For warehousing and distribution, Tims China selects third-party distribution center operators with extensive networks in China that have a proven track record and maintain long and stable cooperation.

For marketing, Tims China has done well to expand its new retail model and utilize its e-commerce platform to drive sales growth. For example, Tims China has provided more choices to its customers by launching a number of Out-of-store coffee products and Retail products, including Latte flavor biscuit. At the same time, it launched events to help market its products, such as organizing Market champion for bagel festival, which also led to a significant increase in sales of bagels. Through e-commerce platforms such as Douyin, Tims China has launched a series of campaigns and live broadcasts to help customers better understand the Tims China brand, such as the "tastes of summer" campaign on Jitterbug in July 2022, which has also greatly increased the brand's visibility. "Tims China- themed pages and search tags on Douyin garnered nearly 400 million online visits during the campaign and we registered sales of over RMB20 million on Douyin in just 30 days [1]."

In addition, Tims China has also established strategic cooperation with local brands Easy Joy and Freshippo by opening their own sales windows in their stores in order to promote in-store sales through their sales networks. At the same time, Tims China has also adopted a dual-platform sales model online and offline, which has greatly contributed to the growth of sales. "In 2022, in-store sales, mobile ordering for self pick-up and delivery accounted for approximately 21.0%, 31.8% and 47.2% of our revenues from company owned and operated stores, respectively [1]."

### **2.4. Localization of personnel and investment**

From Tims China's latest annual report, it can be seen that two Chinese companies, SCC Growth VI Holdco D, Ltd. and Tencent Mobility Limited, have a shareholding of 9.04% and 12.34% respectively, with Chinese companies controlling more than one-fifth of Tims China's capital. In terms of the selection of management personnel, the Board of Directors has also selected experienced personnel to participate in the management of Tims China's day-to-day business affairs. For example, Yongchen Lu, Chief Executive Officer and Director of Tims China, was previously CFO of Burger King China, and the company's Chief Financial Officer, Dong Li, has extensive experience in capital markets and financial management, having served as CFO of Coors and Himalaya, among other companies. Li Dong, the company's Chief Financial Officer, has extensive experience in capital markets and financial management.

Tims China utilizes local human resources in order to better integrate into the Chinese market, understand local needs, and thus promote the localization of its own brand.

## **3. The formation of a differentiated pattern**

In order to differentiate its coffee brand, Tims China has innovated its business model through the use of digital and innovative technologies, differentiated its pricing to highlight the strengths of its brand, and taken on social responsibility with a focus on ESG.

### **3.1. Digital Technology and Information Systems**

Tims China's digitalization has been integrated into all aspects of the company's operations. When selecting store locations, Tims China utilizes digital tools to determine the foot traffic of a location as well as using data to determine the number of target customers in the vicinity and the customer capture rate, making location selection more accurate and efficient. In terms of brand operations, Tims China utilizes a membership system to understand the needs of each customer by understanding their spending habits, and then conducts accurate marketing. In terms of store operations, Tims China can now conduct automatic daily, weekly and monthly inventory of each store's turnover, as well as automatic turnover forecasting and intelligent manual scheduling. At the same time, using applets and e-commerce platforms, Tims China has also realized the combination of online and offline sales to help customers make purchases more conveniently, and the number of Digital Orders in Q3 2022 accounted for 82.6% of the total number of orders in Q3.

### **3.2. Differentiated pricing combined with high quality**

As a newcomer, Tims China needs to differentiate itself from its competitors in terms of product and marketing strategy. First of all, as a coffee brand, Tims China's core product is the quality and flavor of its coffee. As a global brand, Tim Hortons has a good and stable relationship with coffee farmers under its large-scale and large brand influence, which enables Tims China to obtain high-quality coffee beans at a reasonable price, thus guaranteeing the quality of its coffee. On this basis, Tims China discovered through research that consumers demand for good taste, one-stop, cost-effective catering, and that few coffee shops can chain, standardize, and brand this model. Tims China then launched the classic "Coffee Plus" concept, combining coffee and warm food at a favorable price, such as the classic Coffee & bagel combo for RMB 19.9. According to its latest report, Orders with beverages and food sells about twice as much as Orders with food only, which confirms the viability of this marketing approach.

At the same time, Tims China has the ability to make freshly roasted products in a way that cafes don't, which allows it to gain customers' trust in food safety and differentiate itself from other coffee brands.

### **3.3. Environment, Social and Governance**

In terms of the environment, Tims China is actively exploring new modes of green retail, opening the first green test store themed on coffee grounds, using a new type of environmentally friendly panels made of "straw mixed with coffee grounds" as the main material of the store, such as seats made of coffee grounds and coffee grounds finishes on the roof of the shed, etc., to combine art and environmental protection, and the concept of green recycling. The concept of green recycling will be combined with art and environmental protection, and the power of nature will be demonstrated with palpable food. At the same time, Tims China also launched the Bring Your Own Cup Reduction Campaign, calling for a reduction in the use of disposable paper cups.

In terms of social responsibility, Tims China always puts food quality and safety first. It utilizes digital technology to accurately track each ingredient and efficiently implement expiration date management, production management and inventory management. Tims China also takes food safety as a key indicator to measure its management performance, which has enabled Tims China not to encounter any major customer complaints about food safety so far. Tims China carries on Tim Hortons' ongoing Smile Cookie charity program. "For every Smile Cookie sold, Tims China donates one yuan to the 'Children's Competency Education Program', initiated by the Adream Foundation." For the 2023 Chinese Valentine's Day, Tims China donated 1.1 yuan for each selected beverage

purchase to a fund for stray animal rescue. This not only realizes the care of stray animals, but also provides a unique Tanabata charity ceremony.

In terms of governance, Tims China has an experienced management team and also adheres to a number of guidelines, all of which are disclosed in detail at the end of the annual report [7].

#### 4. Conclusion

As a multinational brand entering an already very competitive market, Tims China has demonstrated a successful model for us. Utilizing its differentiated scale strategy, Tims China has grown rapidly in the Chinese coffee market and has become one of the top 10 most popular coffee brands in China. According to the results of the study, Tims China's pattern of combining the strategies of scale and differentiation has further expanded its brand influence. As far as the two strategies of scaling and differentiation are concerned, they are complementary to each other. The strategy of scale can expand the market scale, reduce the cost of the enterprise, and improve the efficiency of the enterprise, which provides the capital and market base for the implementation of the differentiation strategy of the enterprise. At the same time, the differentiation strategy can further expand the brand's influence and brand advantage, so as to further develop the scale pattern. In terms of strategy implementation, Tims China is also able to keep pace with the times and innovate continuously, and it takes an inclusive attitude to accept new matters to promote its own development while assuming social responsibility.

Overall, Tims China's earnings continue to improve, and its pattern of differentiated scale is taking shape. "All of our efforts aim to enhance our brand awareness, strengthen our emotional connection with customers, and ultimately drive sales and profit." As Yongchen Lu said, "The Chinese market is huge, but we think China's coffee is just getting started. "Tims China has a huge potential to grow in China, and we believe its brand influence will expand further. This paper examines the rapid growth of Tims China only from the perspectives of scale and differentiation. However, the factors leading to the company's rapid development are diversified and comprehensive, and are not limited to these two perspectives. Meanwhile, the data used in this article are the latest 2022 Annual Report and Q3 2023 Earnings Presentation that Tims China has reported, and the data has a certain lag. In the future, we will explore more factors contributing to Timbers China's development, combine them with the latest data, and then summarize our experience to provide lessons for brand development.

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