The Power of Branding: How Tim Hortons Edges Out Starbucks

Description

Take Stock *is the Motley Fool Canada's* ***free*** *investing newsletter. To have future editions delivered directly to you, simply* [***click here now***]*.*

Dear Fellow Fools,

I'm going to let you in on a little secret in this week's Take Stock. Ready? No matter what the talking heads or marketing machines that drive the world's largest mutual fund companies might have you believe, *finding great companies is not just about crunching numbers.* To be completely honest, anyone that studied math beyond Grade 4 can perform the required number-crunching that goes into a typical company's financial analysis.

The real magic is in making sense of those crunched numbers — in truly understanding why they are as they are. And to do this well, you must go beyond the numbers.

One of the qualitative variables we Fools spend a lot of time thinking about is a company's competitive edge. This edge can come in many forms — for example, the network effects that benefit **Facebook** and provide **eBay** with its leading position in online auctions, or the superior distribution and logistical capabilities that have made **Wal-Mart** and **Amazon.com** into global successes.

In this week's edition, I'd like to explore another variable that lends itself to delivering the edge that we so crave — the power of a brand.

What's in a brand?

A brand is what's known as an intangible asset. Unlike a piece of machinery or a building that are generally affixed with market-bearing prices, brands are somewhat esoteric when it comes to their valuation. That's because the brand relationship represents the emotional tie between a consumer and the brand, and emotions are a tough thing to value (I've learned this one the hard way — just ask my wife!).

Strong brands have strong emotional ties to their consumers, and those ties tend to be very difficult for competitors to undo.

Because of their emotional link, strong brands tend to be the first thing that comes to mind when potential customers consider a product. A game of word association will show why:

Smartphone. **Apple**. Fast food. **McDonald's**. Running shoes. **Nike**. Soft drinks. **Coca-Cola**. Coffee. **Tim Hortons** (TSX:THI, NYSE:THI). (Wait a second … coffee = Tim Hortons?)

You could go to the four corners of the Earth and get the same answer for the first four items above. However, coffee's association with Tim Hortons doesn't travel nearly as well, making the fact that this Canadian institution was recently named the *world's* 61st most widely revered brand by APCO Insight a massive accomplishment. Especially when you consider that the global brand most closely associated with coffee, **Starbucks**, ranked as the world's 96th most widely revered brand in the same study.

Tim Hortons' positioning on this list had very little to do with the company's earnings power, dividend history, or financial strength. APCO used a method known as "Emotional Linking," which attempts to gauge the strength of emotional attachment associated with a particular brand.

Though counting cars in a drive-thru at 7 a.m. on a Saturday morning doesn't appear to be one of the "Emotional Linking" variables APCO used, the dedication we Canadians show to Tim Hortons is exactly why it placed where it did on the list.

Such customer dedication gives Tim Hortons one of the strongest competitive advantages in the Canadian corporate landscape, and it's something you'll miss if you focus exclusively on the numbers.

More dominant Canadian brands

The only other Canadian company to garner the same kind of international attention is **Thomson Reuters** (TSX:TRI, NYSE:TRI), which ranked 47th in Interbrand's "Best Global Brands 2013" list. Unlike APCO, Interbrand's work is focused on attempting to articulate the contribution of a brand directly to business results. (Tim Hortons was not among the top 100 in Interbrands' list; Starbucks ranked 91st.)

Interbrand's proprietary methodology valued the Thomson Reuters brand at $8.1 billion, which would account for almost half of the company's $17 billion book value.

If we confine ourselves to Canada's borders, *Canadian Business* magazine has also put together a ranking of its top Canadian brands. Given the international recognition that Tim Hortons' brand has garnered, it's no surprise that Canada's favourite coffee shop sits atop of the list. Rounding out the top five were **Westjet**, privately held McCain Foods, **Canadian Tire**, and Quebec-based pharmaceutical chain **Jean Coutu**.

When *Canadian Business* opened up the rankings to international companies operating within Canada, Tim Hortons fell to No. 10 — **Walt Disney** took over the top ranking. Incidentally, Walt Disney also ranked 1st in the APCO list described earlier. Clearly, Disney's brand offers an ironclad competitive advantage.

Foolish Bottom Line

Pull up the long-term stock charts for companies with powerhouse brands and you're almost certain to see rich rewards for long-term investors. A competitive advantage, which a strong brand provides, helps put the odds on your side when investing. Of course, while it's an important focal point, I don't want to imply that it's the *only* factor that matters.

But the next time you find yourself trolling through a company's numbers, remember to do more than just calculate a bunch of ratios and growth rates. Don't just settle for "what" the numbers are. Figure out the "why" as well.

Be sure to follow us on [Twitter] and [Facebook] for the latest in Foolish investing.

'Til next time … happy investing and Fool on!

Sincerely,

Iain Butler

Chief Investment Advisor
Motley Fool Canada

Disclosure: Iain Butler does not own shares in any of the companies mentioned. David Gardner owns shares of Facebook, Amazon.com, Apple, Starbucks, and Walt Disney. Tom Gardner owns shares of Starbucks and Facebook. The Motley Fool owns shares of Amazon.com, Facebook, eBay, Apple, McDonald's, Nike, Starbucks, and Walt Disney.

CATEGORY

1. Investing

Category

1. Investing

Date
2025/08/27
Date Created
2013/10/25
Author
tmfohcanada