This Visa Card May Give Tim Hortons an Earnings Boost

Description

Earlier this year, **Tim Hortons** (TSX: THI)(NYSE: THI) announced an agreement to launch a co-branded credit card with the **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM). While originally planned to launch in May 2014, the Tim Hortons Double Double Visa Card was finally launched earlier this month.

What do investors need to know?

It aligns with current strategy

In early March, Tim Hortons identified five key enablers that are critical to its success. The credit card partnership addresses three of the five enablers in that it is driven by consumer insights (credit card data, in this case), has differentiated innovation because it is multi-functional, and leverages technology for advantage by being easy to use.

The other two enablers — having engaged employees and making a true difference — are more corporate-centric rather than customer-centric.

It's more than just loyalty

While the Double Double credit card should drive mind share for consumers, the key objective for Tim Hortons remains to gain a better understanding of its customers through data.

Currently, Tim Hortons lags behind its quick-service restaurant peers by double-digits in many categories, including a 45% difference in average bill size for evening snacks and 32% for afternoon snacks.

The credit card would enable Tim Hortons to increase its spending among existing customers.

Growth and opportunity

Tim Hortons generated an impressive $3.3 billion in revenue for the 2013 fiscal year.

While notable, it still has significant opportunities for growth in Canada, as management estimates that the total market size is $22.2 billion, broken out into three distinct categories: “charge”, customers who are on the run and just want to eat or get a quick caffeine fix; “connect”, customers who want to spend time on location and bond with other individuals; and “crave”, customers who want a quick afternoon or evening snack to boost energy.

Of the three, the “connect” category represents the biggest opportunity for growth, at 40% of the market. This is followed by “crave” and “charge” at 35% and 25% of the market, respectively.

The Double Double Visa Card should enable Tim Hortons to test new product offerings in order to upsell existing customers and drive incremental traffic.

Keep it simple

The biggest opportunity for Tim Hortons may be its biggest risk.

As it tries to expand its product offerings to cater to more customers, it may over-complicate the menu, causing a delay in customer decision making, resulting in lower throughput.

Tim Hortons may learn something from **McDonald’s**. After years of adding menu items in order to broaden tastes, its management team stated earlier this year that a complicated menu has led to slower service, leading to turned off customers and also a failure to attract new business.

While investors should applaud Tim Hortons for trying to expand product offerings to increase average dollar spending, perhaps the biggest opportunity remains in focusing on menu simplicity and the customer experience.

Ultimately, Tim Hortons is a dominant brand that resonates with many Canadians. This competitive advantage should continue to allow Tim Hortons to reinvest in the business as it tries to expand in the U.S. While it may try to cater to other customers by expanding its product offerings, perhaps simplicity remains the menu item of the day.

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