



All-Day Breakfast Won't Be the Solution to Tim Hortons's Problems

Description

It worked so well for **McDonald's Corporation** ([NYSE:MCD](#)) that **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) is looking to do the same.

"The demand is loud and clear," Tim Hortons' president Alex Macedo told the *Canadian Press* May 30. "Any time we bring up the idea of breakfast at any time, the response is very favourable and very strong."

So, there you have it, straight from the horse's mouth. Tim Hortons plans to grab a bigger piece of the breakfast market to make up for the market share it lost to McDonald's after the restaurant with the golden arches reformulated its house blend of coffee in 2009.

This is the same Alex Macedo who was airlifted into Tim Hortons in December from Burger King to work the same magic he delivered over four years heading up the burger chain's North American business.

If there's anyone who can turn around the Tim Hortons brand, it's the guy who took a floundering Burger King franchise and lit a fire under it by simplifying its operations, reducing waste, focusing on fewer, more innovative product launches, and generating better returns on its marketing spend.

In the four years, Macedo was president of Burger King North America, Burger King's global revenues increased by just 6.4% to US\$1.21 billion in 2017. However, it was Burger King's adjusted EBITDA, which grew by 36% to US\$903 million, that really stands out; for every US\$1 increase in revenue, Burger King generated an additional US\$3.65 in adjusted EBITDA.

It's no wonder that Restaurant Brands's majority owner 3G Capital is known as a major [cost cutter](#).

Breakfast will stop the leak at Tim Hortons — for a time

When McDonald's brought in all-day breakfast in the U.S. in 2016, its overall business was underperforming with years of declining sales. Coming up on two years serving all-day breakfast, McDonald's is now testing breakfast catering in the Orlando area.

"You would be surprised how many big orders we get for teachers' breakfasts or meetings," said Sue Martin, owner and operator of three McDonald's restaurants in Orlando. "This is just putting it into an easier package."

So, you've got Tim Hortons doing a 12-store [pilot](#) in southern Ontario, while McDonald's is now serving bagels (a big offering in Tim Hortons locations) and potentially could roll out a catering program in the next 12-24 months.

I don't think there is any doubt that the introduction of an all-day breakfast will help Tim Hortons in the short term, but long term, it's not going to solve the biggest issue at the company, which is a complete lack of faith in the brand from consumers and a distrust of Restaurant Brands's management by franchisees.

Consumers feel the company has cheapened the product in the quest for greater profits, while franchisees believe they're the ones bearing the brunt of this quest for increased profits.

The future is dependent on lawsuit going away

At the end of April, I'd [suggested](#) that the Cold War between Restaurant Brands and its franchisees was beginning to melt; Alex Macedo went coast to coast, meeting with franchisees to explain the company's vision of how it sees their relationship playing out in the months and years ahead.

That's definitely a good start, but until the Great White North Franchise Association drops its lawsuit against the company, there is a real risk in owning QSR stock, especially given how much debt it has. If Burger King or Popeyes falters, earnings will fall off a cliff, making its stock far more expensive than it already is.

Compared to a couple of months ago, I believe the risk has diminished somewhat, but not because of any all-day breakfast announcement. Rather, it's because the company finally realized it had to play nice or else.

Yes, all-day breakfast will work, but it's not going to be Tim Hortons's saviour.

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