Restaurant Brands’s Newest Strategy for Boosting Tim Hortons Sales: Re-Inventing the Drive-Thru

Description

Struggling sales growth is something that’s plagued **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) from even before the pandemic. Tim Hortons in particular was always doing well, but growing the popular Canadian coffee shop chain was a different story altogether. In 2019, comparable sales (which exclude new locations) for Tim Hortons were down 1.5%, and the year before that they were up a modest 0.6%. Even Burger King’s same-store sales rose by a modest 3.4% last year. Its Popeyes brand, which is the smallest in terms of total restaurants, was the only brand generating strong revenue numbers, with its comparable sales up over 12% in 2019.

Restaurant Brands has looked at many different ways to boost Tim Hortons’s sales. It’s looked at expanding the brand into other countries, coming up with a kids menu, and consumers can now even buy Timbits cereal at supermarkets. But that hasn’t been enough to offset the impact of the coronavirus pandemic this year, let alone grow sales.

In every quarter this year, same-store sales at Tim Hortons have been down by more than 10%. In the first quarter, which was up until the end of March, they were down 10.3%. In the second quarter, that number fell to a 29.3% decline, as shutdowns during the period levelled many businesses. In the most recent quarter, which Restaurant Brands released on Oct. 27 for the period up until the end of September, Tim Hortons’s same-store sales fell 12.5%, even though the economy was showing signs of recovery. The only brand that was positive in Q3 was Popeyes, which reported same-store growth of 17.4%, while Burger King’s numbers declined 7%.

Is changing drive-thrus the solution?

One of the ways that Restaurant Brands is now looking to give its numbers a boost is by changing as many as 10,000 drive-thru locations across North America for all three of its brands. The company will use digital screens that will integrate loyalty programs, and they’ll even try and predict what you’ll order. To speed up drive-thrus, customers will also be able to pay when placing their orders.

This latest move reeks of a company that looks to be grasping at straws. If new products can't strengthen sales numbers, it's unlikely that a new drive-thru will, either. If you've been to a Tim Hortons drive-thru, you know that customers have lots of patience, as long lines, especially during the pandemic, aren't uncommon. And while loyal Tims customers will make their regular purchases, it's debatable whether a predictive screen will be worth the cost of developing the technology and putting it into place.

Is Restaurant Brands a buy?

At a time when many businesses are slashing costs to try and weather the storm that is the coronavirus pandemic, Restaurant Brands is making the odd decision of spending money to re-invent a drive-thru model that arguably isn't broken. Long lines amid the pandemic may be problematic, but that's also because many people aren't dining in anymore; this is not a problem that you'd expect to persist over the long term.

Year to date, shares of Restaurant Brands are down 16%, but investors are still paying close to 30 times earnings for a company that's struggling to grow. The stock is overpriced, and investing in a new drive-thru likely isn't going to make things any better. Investors are better off looking at other growth stocks instead.

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