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**Burger King Tim Horton's Merger**

The Canadian icon is selling out to Burger King and its ruthless Brazilian owners. Why that's a dangerous move.

To hear stock market analysts and industry gurus gush over the proposed US$12.5-billion merger between Tim Hortons and Burger King this week, one might wonder if they were hopped up on double-doubles and honey crullers. What started with a shocking late Sunday news report that the two food chains were in talks quickly rose to a swelling of adulation for the corporate union and what it might mean to Tim Hortons' future. The deal offers "huge upside" for the coffee chain's U.S. expansion, noted one management prof. Consultants were soon envisioning Tim's kiosks in Burger King's thousands of restaurants across the U.S. But why stop there? "Could you have a Tim Hortons and a Burger King across the street from each other in South Africa?" a person close to the merger talks mused to Forbes. "Absolutely."

World domination, Timmy's style.

Investors hardly needed convincing. Even before seeing the details of the merger, which the companies say will "create a new global powerhouse" in the fast-food sector with a combined US$23 billion in sales, Tim Hortons share price exploded. The revelation that Warren Buffett--the Oracle of Omaha and a man regarded as the most astute investor in America--is chipping in to finance the deal has only made it more enticing to the market. As Maclean's went to press Tuesday, Tim Hortons' market capitalization--the total value of its outstanding shares--stood at close to $11 billion, a 40 per cent jump over what it was just a week ago.

It certainly has all the elements of a tasty narrative, made all the more remarkable by the geopolitical peculiarities of the proposed deal. When Tim Hortons last fell prey to a giant U.S. corporation--that being Wendy's, which absorbed and operated the iconic chain from 1995 to 2006--Canadians watched in horror as lawyers shuffled paperwork to relocate Tim Hortons to the tax haven of Delaware. (It was repatriated to Canada in 2009.) Yet this time around Burger King, backed by its largest shareholder, a Brazilian private equity firm called 3G Capital, plans to locate the holding company that will control the two chains squarely on Canadian soil. Critics in America claim this is an effort to lower its tax bill to Uncle Sam, but Burger King executives vehemently deny that change and insist the deal is purely about unlocking growth at the two companies.

So Burger King wins. Tim Hortons wins. Canada wins. What's not to like?

Plenty, once you move past the hype. Because once you do, it becomes clear just how bad this merger could turn out to be for Canada's beloved coffee chain. For starters, it's not immediately obvious what either side stands to gain. According to Tim Hortons, the purpose of the deal is to "leverage Burger King's worldwide footprint and experience in global development to accelerate Tim Hortons' growth in international markets." That's code for breaking into the U.S. market in a big way, a strategy that Tim Hortons has battered itself silly pursuing for nearly two decades, with minimal success. And yet Burger King, the third-largest burger chain in the U.S., behind McDonald's and Wendy's, has had a woefully checkered history when it comes to growing its own business at home. Likewise, if Burger King hopes to capitalize on Tim Hortons' phenomenal success in Canada, the fact is the coffee chain is showing worrying signs that it has maxed out its growth here. At this point Burger King doesn't even plan to sell Tim Hortons coffee at its restaurants, raising yet more questions about the benefits of the merger.

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For 3G, this is just the latest in a series of shrewd deals. Led by billionaire Jorge Paulo Lemann, a former Brazilian tennis champion, 3 G also worked with Buffett to put together a US$23-billion deal to buy ketchup maker Heinz last year. Canadians will remember that deal as having led to the sale of a 105-year-old plant in Leamington, Ont., throwing hundreds out of work. And Lemann was at the centre of international brewer InBev's $52-billion takeover of Anheuser-Busch, maker of Budweiser beer, back in 2008.

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THE FIRST VERY Tim Hortons, a converted gas station in Hamilton's industrial north end, opened for business on May 17,1964, a few weeks after the man named on the yellow sign won his third Stanley Cup with the Toronto Maple Leafs. Fifty years and 4,500 stores later, the company narrative is now engrained in the Canadian consciousness: the Hall of Fame hockey star and his police-officer partner who created not only a coast-to-coast coffee behemoth, but a slice of national pride.

At Timmy's--where a double-double is one drop java, one drop patriotism--the average customer doesn't see a multi-billion-dollar corporation thirsty for profits. They see a piece of themselves. Every heart-tugging commercial (the new immigrant at the airport, Timbits hockey, the underprivileged kid off to summer camp) only reinforces that sacred connection. Competitors can only dream of such fierce product loyalty: the sense, however contrived, that to sip Tim Hortons is to be Canadian.

But myth and reality are two very different things, and the company has certainly endured its share of bumps on the road to success. Yes, the Tim Hortons story is a classic tale of persistence, hard work and a bit of luck, but at its core--underneath all the folksy Canadiana--is a massive, modern-day corporation most Canadians don't equate with their image of the brand. A corporation ultimately ruled by shareholders, not patrons. A corporation with a history of bitter executive rivalries and nasty lawsuits. And a corporation where "always fresh" baked goods means "frozen and reheated" (and manufactured by a Swiss company, not a Canadian one).

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Alan Middleton, a marketing professor at York University's Schulich School of Business, argues Tim Hortons' U.S. expansion was hamstrung by a lack of brand awareness south of the border--hence the name change to Tim Hortons Cafe and Bake Shop--and what appears to be a general reluctance among Canadian companies to truly dive head-first into the ultra-competitive U.S. market place. "Doing business in the U.S., particularly in retail and food service, is massively dependent on price dealing and marketing communication--ad spending," he says. "Canadian companies tend to be a bit risk-averse when it comes to getting involved in that."

Burger King should be able to provide Tim Hortons with a bigger platform to make its voice heard south of the border. The question is whether its new owners are capable of figuring out the right message to broadcast. "They really need Tim Hortons to be successful outside of Canada for this to make sense, and this Burger King management team, other than their financial engineering side, I don't see them as being very sharp on the marketing side," Horan says.

Like Canadian Tire, so much of Tim Hortons' success in Canada can be attributed to its Canadian-ness, it's easy to forget it's not all that different from other coffee shops. And unlike McDonald's, whose American roots are a selling point around the world, there are almost no Canadian companies who have done well internationally by trading on their association with the Maple Leaf--with the sole exception of parka-maker Canada Goose, presumably because Canadians are thought to know something about surviving bone-chilling winter weather. Coffee? Not so much.

The concern is that if the effort fails, it will be Tim Hortons that ends up paying the steepest price. 3G is not known for being a patient investor and, despite helping to pen a "commitment to Canada"--including a vow to maintain Tim Hortons' charity and community programs and not to change restaurant-level employment numbers--the Brazilians can be expected to train their sharp pencils at the head office in Oakville, Ont., at the first sign of trouble, if not before. "They're renowned for finding short-term ways to screw extra money out of businesses to get better margins," Middleton says. "If they try to enforce that on Tim's, it could have a negative effect."

As an example, Middleton points to the dozen or so new menu items that Tim Hortons adds every year--like lasagna and cheesecake donuts. That willingness to experiment could be curtailed if 3G is looking for easy ways to cut costs. "Over time that reduces the currentness of Tim's proposition to people," he says. Worse still, if the Burger King turnaround runs into trouble, or if Tim Hortons' own expansion plans falter, 3G won't hesitate to squeeze as much money out ofTim Hortons as it possibly can. This could come at a time when Tim Hortons is battling a host of hungry rivals, from Starbucks to McDonald's to Subway. After all, this is the same group of investors--3G and Buffett--that didn't blink when it closed its operations in Leamington, Ont., rendering the town's "tomato capital of Canada" moniker little more than a cruel joke.

Tim Hortons fans are unlikely to show up at the drive-through to find nothing but static on the intercom, of course. But if the deal fails to live up to lofty expectations, the long-term impact on Tim Hortons' customers will likely manifest itself more like a slow-growing cancer. Fewer new products. Less innovation. A pullback in community involvement. Basically, all the things that made Tim Hortons so successful in the first place. "If things get tough, this could be like diluting the coffee," says Horan. Middleton is more blunt: "The danger is being killed by the death of a thousand cuts."

Who knows? Maybe in another 10 years after things go terribly wrong, Burger King will spin off its coffee chain and we'll get our Tim Hortons back. Again.