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Commentary

Guess Who's Skating Into Town?

Robert Passikoff, Jul 14, 2009 03:02 PM

Tim Hortons Inc., the company founded in 1964 by NHL hall-of-famer Tim Horton, former hockey player for the Toronto Maple Leafs, the New York Rangers and the Buffalo Sabres, just started serving its premium coffee and fresh baked goods for the first time in New York City. It's entering the New York City market with 12 new locations, including 10 in Manhattan.

Tim Hortons has more than 500 locations in the U.S. and sells about 2 billion cups of coffee annually. With 3,000 stores in Canada, it accounts for more than seven of every 10 cups of quick serve coffee sold in Canada, but Manhattan poses a challenge with an already over- caffeinated market. Both Dunkin Donuts and McDonald's have more than 100 locations within five miles of each other, while Starbucks has more than 80.

But it's not all about the real estate. Something else drives customers, more than convenient locations. It's the "something else" that showed up in our metrics three years ago, allowing us to predict the decline of Starbuck's before anyone would believe it. Let's just say here that it's a lot more centered on customer experience than it is what corner you're standing on.

This is how the brands currently rank in the annual Brand Keys Customer Loyalty Engagement Index:

1. Dunkin' Donuts

2. McDonald's

3. Starbucks

4. Krispy Kreme

Should the new team worry current players? Well, for the six months that ended in February, Dunkin' had posted a 9% growth in system-wide sales and a 4% increase in U.S. same-store sales. For that same period, Dunkin' Donuts had total sales of $1.55 billion, and offered such new items as caramel iced coffee and an expanded rollout of scones.

But McDonald's is expanding the coffee portion of its business in the U.S. and Canada too, and has installed McCafé mini-coffee shops featuring recreational coffee beverages at more than 10,000 U.S. restaurants It will test its in-store McCafé coffee shop concept in Canadian locations later this year. McDonald's also recently launched a promotion for its Premium Roast coffee in Canada and, this week, McDonald's began a U.S. summer promotion called Mocha Mondays that gives customers a free iced or hot mocha beverage at participating stores.

Meanwhile, Starbucks, once first in our rankings, reported reductions in net revenues, comparable store sales, operating income, operating margin, and net earnings during Q2 2009, and is continuing with plans to close about 800 company-owned stores in the U.S. this year. But it's offering ice cream now, and via Facebook is promoting its ice cream by offering 20,000 pints of it free each day, at a rate of 800 per hour. This offer ends on Sunday.

Krispy Kreme isn't faring a whole lot better. It slipped slightly for the entire system, of which company-owned stores account for 29%, and same-store sales are down 2.4% for combined company-owned and non- company-owned -- and that's after closing what supposedly were its "bad" stores. At the company's annual meeting, Krispy Kreme says it's planning to test "proprietary" ice cream in stores in cones, cups and shakes. And a doughnut sundae.

Advice for Tim Hortons? Well, hockey great Wayne Gretzky once noted, "Some people skate to the puck. I skate to where the puck is going to be," and the same is true about engendering loyalty. If you have predictive consumer metrics, you always know where consumer values are going to end up. And winning and keeping customers is a goal to which every brand should aspire.

Editor's note: If you'd like to contribute to this newsletter, see our editorial guidelines first and then contact Nina Lentini.