

Tim Hortons to team with ice cream chain

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In what one industry expert called “an odd couple,” coffee shop giant **Tim Hortons Inc.** is marrying its mid-priced coffee and sandwiches with the upscale **Cold Stone Creamery** ice cream in 100 U.S. test stores.

Both chains are racing to draw more customers as cash-strapped consumers scale back on eating out in one of the toughest economic downturns in decades. And Tims, the dominant coffee chain in Canada, has felt the added pinch of financial losses at its U.S. stores, prompting it to shut 15 locations in New England.

“It’s a little bit of an odd couple,” said Richard Talbot of Talbot Consultants International Inc. “I think they probably both need help. But it’s a bit funny. ... It does seem a bit of an odd couple – not so much with the product but with the pricing.”

Cold Stone, which runs more than 1,300 stores in 50 states, is known for high-end, high-fat ice cream mixed on a granite slab with a variety of toppings. Acquired by **Kahala Corp.** in 2007, it is looking for ways to broaden its base.

But selling premium ice cream can be a hard sell during recessionary times, particularly in the United States, where the economic slump has hit even harder than in Canada, Mr. Talbot said.

Still, Kevin Blackwell, chief executive officer at Kahala, said a three-month test of two stores in Rhode Island led to a double-digit percentage jump in sales. The companies are developing menu items that incorporate products from both restaurants.

He said that existing Cold Stone Creamery and Tim Hortons locations in northern states will be remodelled to offer both chains’ offerings at the same counter.

The restaurants are testing product combinations, including Tim Hortons coffee with a scoop of Cold Stone’s French vanilla ice cream and a muffin a la mode.

The restaurants are expected to open in the next 90 days in the northern United States, stretching from Maine to Michigan. The companies will work with franchisees to build Cold Stone stores within 50 Tim Hortons locations, while another 50 of the coffee shops will go into the ice cream parlours. The renovations are expected to cost

about \$100,000 per location, a company official said.

“Cold Stone’s highest traffic volume occurs in the evening, while Tim Hortons’ highest traffic volume occurs in the morning and afternoon. The complementary day-parts will increase our customer bases and drive additional revenue for our franchisees,” said Lee Knowlton, chief operating officer of Kahala.

Joining forces with a higher end partner is a riskier move for Tims, moving into more uncharted territory, Mr. Talbot said. Still, executives at Cold Stone Creamery have said it has held up well in the recession, mainly because customers who have cut back elsewhere still want to indulge in a tasty treat, even if a little less frequently.

But the union of Cold Stone and Tims may not be enough to help Tims’ bid to take on Dunkin’ Donuts Inc. and other big U.S. rivals, observers said. Tims has had a very deliberate and slow expansion strategy in the U.S., where it has 500 stores, starting at border towns and moving to other states in the north.

David Clanachan, chief operations officer for Tim Hortons, U.S. and International, said the marriage of the two brands will expand the customer bases for both brands.

» With files from wire services

TIM HORTONS (THI)
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