

# Burger King and Tim Hortons win the battle for breakfast domination

✘ Burger King has conquered Tim Hortons for \$ 11.4 billion in cash and stock thanks to the contribution of hamburger connoisseur and finance wizard Warren Buffett. The merger of these companies will become one of the world's largest and most powerful fast food chains. Upon completion of the merger, the newly formed parent company will have 18 thousand restaurants in more than 100 countries and revenues of \$ 23 billion, making it one big world of fast food. There has been much speculation as to the motivations for the union. One of the most popular suggests that Canada's lower business tax rate played a big role in persuading Burger King to look for partners north of the US border. Apart from his business acumen, Buffet has earned a reputation for supporting democratic and progressive causes, including the idea that those taking home higher incomes should pay more tax. In the case of Tim Hortons, Buffet has allowed his investment instinct to operate unencumbered by civic responsibility. Through the Tim Hortons acquisition, the Miami based Burger King plans to establish the headquarters for the newly formed blend of donuts and burgers – after all, there exists the 'Luther Burger', which does away with the sesame seed, placing the patty between a glazed donut – in Ontario, reducing the tax burden from the nominal all-American 40% to the Canadian 27%. Mr. Buffett was heard rebuking the stern reaction of the transaction from the White House, quoting Doug and Bob Mackenzie saying "take off, eh!"

Canadian authorities had their own concerns in approving the iconic and much beloved Canadian brand's transfer to foreign hands. More than a business, Tim Horton is an Institution in Canada and is as popular in Vancouver as it is in Toronto or

Montreal. It is no less a symbol of Canada than the Olympic ice hockey team. In response, the two companies, while sharing the parent company 51% controlled by Brazil's 3G Capital Management (Burger King's owner); the two brands will operate independently. However, the Burger King's quest for a more regal tax regime only partly explains the transaction. The two fast food groups clearly have complementary businesses and goals: Burger King wants to expand and Tim Hortons offered a well established international coffee and donut empire. What's a King to do but to take it over? Tim Hortons, for its part, has now found a powerful ally to help it spread in the United States, where it is still weak. The 'King' can also help Tim Horton take advantage of his vast international presence.

Mr. Buffett, moreover, has enjoyed a profitable relationship with 3G Capital. Last year they pulled USD\$ 23 billion out of their coffers to buy HJ Heinz, king of the ketchup makers, in a transaction that has served as the model for the one involving Tim Hortons from the 9% yield to the business management remaining in 3G Capital's hands. Finally, and unrelated to the urban legend that would have Tim Horts adding nicotine in coffee to make it more addictive, there is a more cultural inspiration for the caffeine fueled marriage of the burger and the donut. In the United States, there has been a fast food war over breakfast. Just last May, Burger King delivered a powerful hit, by including burgers in its breakfast menus. The goal is for customers to start their day in the way that suits them, savoring the barbecue flavor of their burgers and sandwiches if they wish or choosing one of its breakfast classics. As part of the breakfast strategy, Burger King also introduced a 'Chicken and Waffle' Sandwich, featuring a waffle and topped with sliced □□chicken breast. These initiatives reflect the fact that fast food chains are targeting ever more niche breakfast customers, increasing the range of food far beyond the classic pancakes and coffee.

The Burger King-Tim Hortons merger may have also dealt a big

blow to rivals Taco Bell and McDonald's, which have been struggling to boost breakfast service sales. The 'King' has finally managed to wipe the smirk off of Ronald McDonald's face. The Golden Arches have responded, a bit too late, by stretching the time slot dedicated to breakfast last spring, all but groveled, trying to seduce the public by offering free coffee during a much hyped two-week period. In March, Taco Bell announced the introduction of a breakfast menu in a TV ad campaign mocking Ronald McDonald, showing the famous clown enjoying breakfast served in Taco Bell restaurants. The menu features including a waffle taco. The latter is a waffle folded like taco, topped with egg, cheese, sausage or bacon. As a sauce, the brand offers a 'lightly' sweetened sauce to pour over the sandwich. And then there are Starbucks, Dunkin' Donuts, all of which have invested in the breakfast market war. There is no word on whether Tim Horton's famous 'Timbits' will change name to King's Bits...