



Restaurant Brands International Inc. Tells Franchisees to Trust it

Description

Where there's smoke, there's fire.

The relationship between **Restaurant Brands International Inc.** ([TSX:QSR](#)) ([NYSE:QSR](#)) and its franchisees got a little messier June 19 when it was announced the Great White North Franchisee Association (GWNFA), a group of frustrated Tim Hortons franchisees, had filed a proposed class-action lawsuit against its franchisor.

"The claim was filed because RBI failed to adequately respond to legitimate questions about its use of advertising funds collected from Tim Hortons franchisees," stated the GWNFA. "Litigation was not our preferred option. It became the default option due to RBI's lack of transparency and unwillingness to answer important questions put to it in writing."

Lack of transparency

Essentially, the GWNFA is claiming that the \$700 million franchisees have paid to the brand's national advertising fund (3.5% of gross sales) since 3G acquired Tim Hortons in December 2014 have been improperly used by the company to the detriment of franchisees.

Tensions between franchisees and management have been heating up for a while now. This acrimony between the two shouldn't come as a surprise to investors given 3G Capital's [reputation](#) for driving margins higher by doing whatever it takes.

The hiring of Terry Connoy in April, who spent more than 20 years as the executive director of the **Canadian Tire Dealers Association**, should have been the first sign to investors that things were about to get messy.

"For over 50 years, the success of Tim Hortons in Canada has been driven by the hard work, passion and deep community engagement of its franchisees," said Connoy in his hiring announcement. "The GWNFA was formed to ensure this hard work and the iconic Tim Hortons brand is not further compromised under this new ownership."

Management goes silent

The next indication the gloves would come off was at Restaurant Brands International's June 5th annual shareholders meeting when senior management refused to answer questions from franchisees in the audience after CEO Daniel Schwartz's prepared remarks.

"I was shocked and I was disappointed," said J.J. Hoey, a long-time Tim Hortons franchisee who currently owns 13 locations.

Once it became apparent that the company refused to treat the concerns of the GWNFA seriously, a potential class-action lawsuit was inevitable.

Out with the old

Another concern of the franchisees is a perceived desire by management to push aside smaller owners in favour of big ownership groups to further reduce its costs while increasing profits.

That might be great news for shareholders, but it does little to ensure a community-based franchise system remains in place across the country.

Restaurant Brands International, not surprisingly, denies the allegations made by the GWNFA.

"We vehemently disagree with and deny all the allegations that have been made about our business and the brand," Tim Hortons Canada president Sami Siddiqui said in a letter to franchisees. "It is very unfortunate that certain owners have chosen to make these public accusations given that we have offered to let any owner come in and review the numbers with us, line by line, as we have done in the past."

Bottom line

Restaurant Brands wants franchisees to trust it. Frankly, that would be a mistake, so I'm glad that the franchisee association is launching this class-action lawsuit.

This situation could get a lot worse. If so, I'd watch for Burger King and Popeye's franchisees to also take a closer look at where their money's spent.

If they're also disappointed, you can expect the company's share price to unravel in a hurry.

Don't say I didn't warn you.

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Date

2025/08/18

Date Created

2017/06/20

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