



## Restaurant Brands International Inc.: Why the Latest Battle Isn't a Big Deal for Investors

### Description

The dispute between **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) and the Great White North Franchisee Association (GWNFA) has caused many investors puzzled as to what they should do with their shares as the upcoming battle intensifies.

The franchisees aren't happy with Restaurant Brands's management team's way of operating, and they've made their distaste very public with the media. Franchisees are free to voice their concerns, but they have no right to breach a legal contract by leaking classified information to the media.

Restaurant Brands is taking legal action against a group of franchisees which supposedly leaked classified information, and if Restaurant Brands wins the case, the voice of franchisees will likely be silenced.

Fellow Fool contributor Will Ashworth seems to think that investors should be worried about the franchisee dispute and that issues could spread to the company's other brands, Burger King or Popeyes.

"The problem with cutting costs and gouging franchisees is, eventually you run out of levers to artificially increase profits, at which point, sales growth is the only option available," said Mr. Ashworth.

I do not think that the management team is "artificially" increasing profits. They're firing on all cylinders across all areas! International expansion, innovative new menu items, the use of tech to drive same-store sales, and growing its other two brands at a global scale.

While the management team does all of this, they're ensuring operations are running in the most efficient manner possible, and I don't see anything wrong with that. In fact, it's quite remarkable that the management team can juggle so many initiatives while ensuring smooth and efficient operation of its existing locations.

Sure, Restaurant Brands's management team is aggressive when it comes to cutting costs and squeezing the most juice out of the lemon. Eventually, there won't be any more juice to squeeze, and

further cuts won't result in meaningful improvements, but the team at Restaurant Brands will recognize this and they'll react accordingly. They have an impressive track record and a wealth of experience, so there's no reason to believe that the team will drive the company into the ground through its "cheapness."

Tim Hortons's same-store sales (SSS) have taken a hit on the chin of late, but that's no reason to believe that this is the start of a long-term downtrend. And to blame the SSS decline on the recent dispute is jumping to conclusions.

Even if the franchisee dispute is the reason for the decline, the management team is smart enough to adjust and adapt to make locations appealing again to customers. Tim Hortons is arguably Canada's top brand after all, and the many of the locations I go to are still packed with customers who may not know or care about disputes between the owners and its franchisees.

The management team doesn't have private jets or many of the other executive perks that come with the job. They're making personal sacrifices for the sake of delivering the maximum amount of long-term value for shareholders. The management team clearly expects the same of its franchisees, but they won't have it.

Minimum wage is going up in select markets, and that means profitability will inevitably take a hit. Franchisees will complain about lower profitability and claim that it's not fair, but let's be realistic. Being a franchisee comes with risks too, just like being an investor. You can't expect the management team to "protect" franchisees from such trends. Sacrifices are going to need to be made, and in the end, it'll be either the franchisees or investors that will complain.

### **Bottom line**

Franchisee associations allow individual franchisees to have a voice, but it appears that the GWNFA is a poorly structured association that's doing more harm than good. The GWNFA is finally getting a date in court, but, unfortunately for them, I think Restaurant Brands will be the winner.

Franchisee issues are nothing new in the fast-food business. Don't make an impulse decision based on an event that will have little to no impact over the long term.

Stay smart. Stay hungry. Stay Foolish.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

**Category**

1. Investing

**Date**

2025/08/24

**Date Created**

2017/10/05

**Author**

joefrenette

default watermark

default watermark