Restaurant Brands International Inc. Is Investing to Improve its Relationship With Franchisees

Description

The dispute between **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) and Tim Hortons franchisees has been the talk of the town of late. Fellow Fool contributor Will Ashworth seems to think that the company is treading on thin ice with the whole public debacle and that Restaurant Brands CEO Daniel Schwartz isn't dealing with the situation properly.

There's no question that franchisees are upset, and if the situation isn't handled properly, prospective franchisees may choose to do business with another brand. It's an embarrassing situation for Restaurant Brands, but I believe it's a short-term issue that'll likely be resolved over the next few quarters. The long-term thesis is still intact, and I don't think such a battle will do any harm to the brand when all is said and done.

Shares of Restaurant Brands have been rather rocky following the release of the company's latest earnings report, which saw incredible strength from Burger King with organic EBITDA growing 16%. It was truly a terrific quarter for the burger giant, but all the attention seemed to be focused on Tim Hortons and underwhelming same-store sales numbers.

Is the recent franchisee dispute hurting numbers at Tim Hortons?

Management is known as a relentless cost cutter, and franchisees were fed up with receiving the short end of the stick. Restaurant Brands has actively taken steps to repair the relationship with its franchisees in the recent quarter, and that's the reason for the organic EBITDA declines at Tim Hortons.

"The slight decline at Tim Hortons was due primarily to a price reduction on supplies sold to its franchisees and an increase in costs. While these items depressed earnings in the current quarter, they represent an investment in improving relationships with Tim Hortons' franchisees." said Bill Ackman in a letter to Pershing Square shareholders.

Poor new menu items also didn't help Tim Hortons for the quarter

The underwhelming sales on Tim Hortons's new line of espresso-based beverages and lunch items also contributed a sub-par quarter. Menu innovation is hit and miss sometimes, but it's important to remember that such misses are nothing to worry about, since management will likely replace such unpromising items with other new items, which may better suit the tastes of customers in a given season.

A new Cinnabon line of beverages and holiday-themed goods are coming up, and I think these will be absolute hits, unlike the new offerings from previous quarters. Such holiday-themed items will allow Tim Hortons to better compete with the likes of **Starbucks Corporation** for the upcoming holiday season.

Bottom line

Tim Hortons took a one-two hit to the chin for the last quarter, but that's no reason to be worried. A repaired relationship with franchisees is an investment worth making over the long term. In addition, the quarter's new menu items were duds, but that's another short-term issue that's an easy fix, especially with better menu items coming out of the pipeline for the holidays.

Tim Hortons is a strong brand with pricing power, so I do not believe customers will dodge the chain for a prolonged period because of marginally increased prices, especially if management can deliver promising new products going forward.

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
2025/08/23
Date Created
2017/11/23
Author
joefrenette