The Bad News at Tim Hortons Is Rolling Over the Rim

Description

How many stories do investors have to read about **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) and its poor business practices before deciding enough is enough?

Evidently, a lot.

The most recent lousy press comes via the daughter and son of Tim Hortons's co-founders Tim Horton and Ron Joyce. According to media reports, Jeri-Lynn Horton-Joyce (daughter of Tim Horton) and Ron Joyce Jr. (son of Ron Joyce), owners of a Tim Hortons franchise in Cobourg, Ontario, are cutting paid breaks and paid benefits of its staff to offset higher costs from a rising minimum wage.

Before the minimum wage hike to $14 per hour on January 1, 2018, and a second hike to $15 to take effect in a year's time, the franchisees were paying for employees to take breaks and 100% of their benefits.

Fast forward to today.

Employees no longer get paid breaks, and those with less than five years' service will be required to pay 75% of the cost of their benefits; those with more than five years' service will have to cough up 50% of the costs.

"That was a big benefit for the people who work at Tim Hortons, because it's not a great-paying job," one of the Cobourg employees told *CBC.* "The benefits are what kept me there. Now you are going to make me pay that. I don't understand why you can take it away. Sounds like you are penalizing your staff because the government is trying to help your staff."

Darn straight

The move by the founders' kids is nothing more than a cash grab; Restaurant Brands, in my opinion, has a moral and ethical obligation to intervene.

Consider the average employee was making $13 per hour before the hike. Let's say that employee works 40 hours per week. That's $27,040 annually over 52 weeks before taxes and deductions. Typically, benefits represent an additional 20-50% of an employee's annual wage, which means at the high end, they would cost the franchisee $13,520 per year.

So, prior to the minimum wage hike, the average employee working 40 hours cost the franchisee approximately $40,560. Given the implementation of these cuts in conjunction with the wage hikes in 2018 and 2019, a 40-hour employee will cost them $32,500 in 2018 and $34,580 in 2019, a two-year savings of $14,040 without taking into consideration employee breaks, which will no longer be paid.

Apparently, other incentives offered previously have been withdrawn, such as working on your birthday and working six months without a sick day.

The franchisee blames both Tim Hortons's head office and the provincial government for failing to provide financial assistance during the transition. However, the $2 minimum wage hike is being implemented over 24 months. That's a cost of $173 per employee per month, or approximately 40 minutes in wages paid out per day, the same amount of unpaid breaks for a nine-hour work shift.

In other words, it's a wash before taking into consideration employees are now footing 50-75% of the benefit costs.

Tim Hortons naturally wants no part of this situation

"Almost all of our restaurants in Canada are independently owned and operated by small business owners who are responsible for handling all employment matters, including all policies for benefits and wages, for their restaurants," Tim Hortons corporate media relations told *CBC* in an email. "Restaurant Owners are expected to comply with all applicable laws and regulations within their jurisdiction."

I find it hard to believe that Restaurant Brands management had no input into Horton-Joyce and Joyce Jr.'s decision to cut benefits. Given the poor relationship that already exists between franchisees and franchisor, not to mention the particular notoriety of the Cobourg store's owners, there's little doubt in my mind this is being driven by head office.

Restaurant Brands's management is playing a giant game of Russian Roulette.

Desperate to appease franchisees given the cost hikes they've dumped on them over the past two years, Restaurant Brands, in conjunction with other stakeholders, has come up with the idea of cutting benefits to help return some of those losses.

The only problem?

The people who can least afford to lose — the staff — are going to be the ones left holding the bag, while Horton-Joyce and Joyce Jr. enjoy the warm weather at their Florida home.

Anyone who cares about the working man will steer clear of Restaurant Brands stock.

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