Has Tim Hortons Lost its Lustre?

Description

Managing franchisees is a difficult job, one that **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) knows all too well about. The company has come into conflict many times with its franchisees over the years, and things are not getting any easier. Earlier this year, Tim Hortons, which is one of the company's key brands, saw one of its locations draw the ire of its customers after telling employees it would be taking away benefits after rising minimum wages started to take effect.

Most recently, one of the coffee chain's franchisees had been told his licence would not be renewed and that the store would need to transition to a new owner. The franchisee had been very critical of Restaurant Brands and its operation of Tim Hortons, alleging, among other things, that national advertising money had been misused, and he was also part of a class-action lawsuit against the company.

Iconic brand acquired in 2014 by a company known for its cost cutting

The company that owns Restaurant Brands, 3G Capital, makes aggressive cost-cutting efforts a part of its strategy when it comes to acquisitions, but that is not without consequences. Many Tim Hortons franchisees have complained that individual owners are being saddled with more costs, so the parent company can maximize its margins. The Great White North Franchise Association, which represents a significant number of Tim Hortons franchisees, has sent a letter to the Canadian government outlining a list of issues that franchisees have had with the new owners, and that has prompted an investigation into the matter.

This dilemma underscores the problem with trying to manage and unify so many franchisees, and why Restaurant Brands presents a risk to shareholders. On the one hand, the business wants to maximize its bottom line and keep shareholders happy. However, on the other hand, if franchisees are not happy, that could present problems in finding the good, stable management that the franchisor needs in order for its locations to be successful and contributing.

This is especially important as Restaurant Brands looks to expansion into other parts of the world. A bad reputation could make it hard to land new franchisees, especially given the investment that individual owners will need to make, as there is already risk inherent to simply becoming a franchisee.

Brand loses value among Canadians

Tim Hortons was a once revered and proud Canadian company, but now its reputation has started to falter. Earlier this month, a ranking of which companies were most admired in Canada came out; Tim Hortons, which came in as high as fourth last year, dropped all the way down to 50th.

Why this should matter to investors

In the past six months, Restaurant Brands has seen its stock fall 17%, as concerns about the company continue to weigh. It's further proof that investors need to look at qualitative components to a business as well as quantitative and can't simply expect that cost cutting will come without any consequences. The real danger for Restaurant Brands is that while it may be able to shave some costs from its bottom line, it could lose even more sales from a top line that has already been struggling to find growth.

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