Things Just Continue to Get Worse for This Iconic Canadian Brand

Description

Earlier this year iconic Canadian coffee and donut chain Tim Hortons, its franchisees, and parent company **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) found themselves in hot water following a public outcry in response to the company's plan to deal with mandatory minimum wage increases**.**

A few months after that, Tim Hortons' franchisees have filed a lawsuit alleging that they are being treated unfairly by Tim Hortons' parent company, Restaurant Brands International (RBI).

What are the chances that growing tensions inevitably end up in an outright sale of the Tim Hortons' brand?

One has to wonder how long the contention between Tim Hortons' franchisees and its owners will drag on for.

Keep in mind that Brazilian private equity firm 3G Capital bought Tim Hortons back in 2014 for US$12.5 billion.

That deal followed 3G's purchase of fast-food giant Burger King in 2010 and the buyout of world-famous ketchup maker H.J. Heinz in partnership with Warren Buffett in 2013.

However, 3G is also well known for its aggressive cost-cutting practices led by a team of Harvard-educated investors.

So when it was announced that 3G would be taking over Canada's leading coffee house, many wondered if would have any impact on the iconic brand's home-cooked vibe.

At the time of the transaction, then-CEO Marc Caira claimed that "Tim Hortons will still be Tim Hortons. We will still be the company of the Timbit and of the Double Double" and that there was no threat to the company's existing business model.

However, the latest lawsuit being spearheaded by Great White North Franchisee Association-U.S., which owns nearly half of the Tim Hortons locations in the United States, claims that franchisees are being overcharged by RBI for everyday supplies and inventory.

For example, lawyers representing the franchise group are claiming its clients are being forced to pay US$104.08 more per case of bacon and US$23.85 more for cases of soda than what a competitor like fast-food chain **Wendys Co** (NASDAQ:WEN) would be required to pay.

And because the company's franchisees are required to purchase these supplies direct from RBI, the additional charges are basically like an additional royalty charged to the company.

Granted, the management team at 3G have earned their reputation as shrewd business people, and it could just be that the latest development is a convoluted negotiation tactic.

Back in 2014, Quiznos franchises engaged in a similar lawsuit and ended up with a US$206 million settlement.

Even if the current dispute results in a similar fate for RBI and the franchisees end up being reimbursed for their losses, when taken in light of this spring's earlier controversy, one has to wonder if maybe the glory days at Tim Hortons are coming to an end.

Time to move on?

Not only has Tim's faced very serious competition from Seattle-based **Starbucks Corporation** (NASDAQ:SBUX) in recent years, but now the market is seeing an influx of independently owned coffee houses.

Unless its Ivey-league managers can figure out to squeeze even more juice out of the proverbial lemon , it may be that Restaurant Brands International decides to part ways with the investment and sells Tim Hortons to a new ownership group.

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