Tim Hortons franchisees seek price increases to offset rising wages

By Marina Strauss
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Some Tim Hortons franchisees, saying they're already being pinched by their parent company, are pushing it to approve price hikes to help cover the cost of pending minimum wage increases in Ontario and Alberta.

The Great White North Franchisee Association, which was formed in March by unhappy franchisees to fight parent Restaurant Brands International Inc.'s laser focus on efficiency, says in a letter last week it is concerned RBI is failing to help restaurant owners ease the pain of increased wage expenses and other rising costs.

The letter, obtained by The Globe and Mail and sent to RBI top executives, says the association wants assurances the parent company "will be raising prices before these labour increases come into effect," starting in October in Ontario and also spreading to Alberta and potentially British Columbia.

"You need to understand that fixing store profitability is urgent," says the Sept. 7 letter to Daniel Schwartz, chief executive officer of RBI, and Sami Siddiqui, president of Tim Hortons in Canada. It urges RBI to stop overcharging franchisees for their food and other supplies and help restaurant owners become more efficient.

There are signs RBI is considering such price increases and other measures to offset steeper labour costs.

Those signs are based on information its officials have provided to some franchisees. The Oakville, Ont.-based company joins a growing bevy of others that are grappling with the spectre of higher minimum wages and feeling the pressure to find ways to mitigate steeper expenses partly by raising prices and risking losing some customers.RBI did not respond directly to a question about whether it would boost prices. "We remain committed to working collaboratively with our restaurant owners on initiatives designed to not only drive their profitability, but to also help deliver great guest [customer] experiences every day," spokeswoman Shannon Hall said.

But in an e-mail to Toronto area franchisees on Sept. 7, RBI official Greg Hiltz says it is exploring "a multifaceted approach that will likely include taking [increasing] price, examining costs, and looking at operational efficiencies that will allow you to run lower costs.

"We realize that owner profitability is the backbone of our system and we are presenting our plans for the wage increase to your advisory board later this month," writes Mr. Hiltz, who leads franchisees in Central Canada. "You will not be alone during this transformational period and you can expect that you will get further details on changes at" its convention starting Nov. 7.

The rift has been growing between RBI and some franchisees over what they say are rising costs it is passing on to franchisees in the form of higher prices they have to pay RBI for their supplies – everything from cups to coffee – resulting in lower franchisee profits and better profits for the parent. Now, some restaurant owners say higher wages threaten to push them to the brink.

Franchisee labour costs make up roughly 30 per cent or less of restaurant owners' costs and that proportion could jump to as much as 43 per cent under new minimum-wage rates once payroll taxes and increased wages to higher-earning employees are taken into account, the association warns. "Store owners simply cannot absorb these costs without some intervention on RBI's part," it says.

RBI has denied it has raised its supply costs to franchisees since it acquired Tim Hortons in late 2014, apart from commodity-price or foreign-exchange increases.

Mr. Hiltz says in his e-mail, obtained by The Globe, that operating margins of 442 restaurants in his area declined 1.48 per cent to 12.48 per cent in 2017 from a year ago. "This is something we're not happy about and working to rectify for you but there is no easy, silver-bullet solution." He says labour expenses were the biggest driver of the cost differences.

However, other franchisees are managing to improve their labour expenses and margins, he says. One franchisee recently had labour costs as low as 21.72 per cent of expenses and a stellar 21.89 per cent operating margin, he says.

He urges franchisees to get training on the automated Clearview employee-scheduling tool that some restaurant owners say is helpful, but can't be relied on completely because of shifting local events and weather conditions.

John Gordon, principal at restaurant adviser Pacific Management Consulting Group in San Diego, said labour cost increases will be painful for franchisees and may require price increases.

He said typically customers stop coming to restaurants when they raise prices more than 3 per cent. "There's a lot of potential price sensitivity."

RBI could resolve disputes over franchisees' supply costs by setting up a non-profit co-operative supply chain, borrowing from the playbook of RBI's sister chain Burger King, Mr. Gordon said. But RBI probably would oppose such a move because it would lose control and potentially profits, he added.

Tim Hortons raised the price of some of its hot drinks and breakfast menu items a "slight" amount in early August because of "operational costs," it said in a message to customers. (Small and medium coffee prices rose 4 cents and a large by 6 cents; breakfast sandwiches increased 30 cents to $2.99; substituting a pop for a coffee added 80 cents to a combo's price, although pricing varied by regions, franchisees say.)

In Ontario, minimum hourly wages of $11.40 are set to rise to $11.60 by October, $14 by Jan. 1 and $15 by 2019. In Alberta, hourly minimum wages are set to increase to $15 by next year from $10.20.

The franchisee association says even beyond wage increases, restaurant owners in Quebec and Manitoba are being forced to raise wages to entice people to work for them. "We believe that this is not just an Ontario, Alberta and B.C. issue," its letter says.

It urges RBI to act on its commitment to improve franchisees' profits. "While RBI keeps racking up profits, Tim Hortons' franchisees continue to struggle with profitability." In many cases, restaurant owners are "on the verge of being in default, if not bankruptcy."

It acknowledges RBI has made some progress in reducing some costs to franchisees, but "not near enough."

Donald Schroeder, association spokesman and a former CEO of Tim Hortons, said in an e-mail to The Globe that franchisees are concerned about the negative impact that wage increases will have on students and first-time food-service workers if companies cut employee counts.

He said franchisees "have always been reluctant to take a price increase because of the impact on their loyal customers." However, the increased labour combined with rising food and paper costs "will put our store owners in an almost untenable position." He said the association aims to work with RBI to address the problems.

The association points to RBI's switch this year to Ecolab from Diversey as supplier of cleaning supplies for franchisees, which has resulted in their cleaning costs having almost doubled from 2016, it says in its letter. "We have been offered significantly lower pricing by another provider," it says. "If RBI is serious about improving the profitability for owners it could start by allowing the owners to pursue their own deals for cleaning supplies. Either that, or significantly lower the prices it charges for Ecolab … Get your people to negotiate a better deal for us."