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Protecting the brand under pressure: Navigating QSR franchisee bankruptcies

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With QSR franchisee bankruptcies on the rise, franchisors need real-time monitoring, strong agreements, and a restructuring playbook.

What's the impact?

- Rising costs, soft traffic, and tight margins are driving QSR franchisee distress and bankruptcy risk.
- Franchisors should monitor late payments, deferred maintenance, remodel delays, and vendor complaints as early warning signs.
- Strong franchise agreements, qualified replacement operators, and early restructuring counsel can help protect brand value.

The recent economic environment has been punishing for QSR franchisees. Food and labor costs are up more than 30% since 2019; interest rates remain elevated; consumer traffic has softened; and margins in this space run 3 to 5% before taxes. The result? Even large, well-capitalized franchisee groups are buckling under pressure. Franchisors cannot afford to be caught unprepared.

The casualty list is growing. Starboard Group, a 72-unit Wendy's franchisee, filed Chapter 11 in November 2023, blaming post-COVID consumer shifts, rising costs, and higher interest rates. Three major Burger King franchisees (Meridian Restaurants, Toms King, and Premier Kings, collectively operating hundreds of units) all filed in 2023. Consolidated Burger Holdings, a 57-unit Burger King operator, followed in April 2025 after the franchisor declared defaults on all franchise agreements over incomplete remodels, with $179,000 in cash and $77.9 million in total liabilities. Most recently, since the start of 2026, a 130+ unit Popeyes Louisiana Kitchen franchisee, a 77-unit Hardee's franchisee, a 43-unit Subway franchisee and a 53-unit Applebee's franchisee, in addition to several other smaller franchisee systems, all filed bankruptcies.

Franchisors should be watching for the early signs of distress, including late royalty payments, deferred maintenance, incomplete remodels, declining unit volumes, and vendor complaints. By the time a franchisee files, the brand damage is already done. Prior to a filing, franchisors can work with a distressed franchisee to determine what options there are for a particular unit. What are the pressures that franchisee is facing and what can be done, if anything, to rectify those shortcomings? Do lease or royalty structures need to be modified? Is financing necessary to address short-term liquidity issues? Often, discussions between the franchisor and franchisee can allow the parties to work collectively to emerge as a stronger entity.

However, if none of those methods are sufficient to resolve a franchisee's challenges, the good news is that franchise agreements typically give franchisors meaningful leverage to protect their rights and interests, including termination rights, the ability to require de-identification, and the right to approve or block transfers. Each of these can be an effective tool when dealing with a less cooperative (or less successful) franchisee.

Even after bankruptcy is filed, an alert franchisor can protect its brand and secure favorable outcomes. The NPC International workout is an excellent example on how to approach distressed franchisees. NPC filed in July 2020 with nearly $1 billion in debt. Wendy's did not sit on the sidelines. The company organized a consortium bid with pre-qualified franchisees, actively participated in mediation, and ultimately facilitated the sale of all NPC Wendy's locations to approved operators. The bankruptcy court approved a combined $801 million sale in January 2021. Only 7 of their 395 Wendy's restaurants closed permanently. That outcome required planning, a network of replacement operators, and a franchisor willing to invest time and capital in the restructuring process.

The practical takeaways are straightforward. Franchisors should (i) monitor franchisee financial health in real time, not quarterly; (ii) keep their franchise agreements tight on default and transfer provisions; (iii) maintain a roster of qualified operators who can acquire locations quickly; (iv) engage restructuring counsel before the filing hits; and (v) take a hard look at whether their own remodel and capital requirements are pushing borderline franchisees over the edge. The franchisors who come through this cycle strongly will be the ones who treated distress as a system risk worth preparing for.

Nixon Peabody's Corporate team helps franchisors assess distress risk, structure strategic solutions, and protect brand value through workouts, transactions, and restructurings.

We partner with clients to anticipate challenges, preserve optionality, and move quickly when franchisee distress threatens system stability.

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