Hostess Brands have been in the hearts and bellies of American culture since the 30's. It's safe to bet that they're aren't too many adults or kids that haven't sunk their teeth into the sweet, gooey, creme-filled sponge cake known as the Twinkie…or a Ho Ho…or a Devil Dog…or one of my childhood favorites, the pretty, pink, coconuty-marshmallowy Sno Ball.

The story begins in 1919, when the world was introduced to what we now know as the Hostess® CupCake. It's perhaps the first and most significant moment in the history of snack cakes. Six years later, Continental Baking wanted to add a line of cakes to sell alongside a hot little item they were making called Wonder® bread. This new line of sweet treats became known as Hostess and the quintessential snack brand was born.

In 1930, Continental hit the sponge cake gold mine when Jimmy Dewar invented Twinkies®. On the way to a marketing meeting, Dewar, saw a billboard for Twinkle-Toe Shoes…and the Twinkie was born. At two for a nickel, popularity skyrocketed and it soon became Hostess' best-selling snack cake.The first Twinkies were quite different from the ones we know. For one thing, they were made with banana cream filling, not vanilla. But in World War II, there was a banana shortage, and vanilla became the standard flavor. The eggs, milk and butter in early Twinkies gave them a shelf life of only two days. Dewar had his salesman replenish store shelves every other day, but the practice was expensive and the need for a longer shelf life led to many changes in the

Twinkie recipe throughout the years. As with most preserved, packaged foods in modern times, the shelf life is now a mind-boggling 25 days.

Even with the iconic popularity and success, on November 16, 2012, the company officially filed bankruptcy for the third time in a decade, seeking permission to close its business and sell its assets. Hostess, then known as Interstate Bakeries, first filed for bankruptcy in 2004, and blamed Americans' shift to low-carb foods for its decline.

Analysts said don't hate the sugar, hate the game. Many critics believe the company's persistently higher labor costs, management and accounting problems and stagnant innovation were the culprits. The company stayed in bankruptcy for more than four years, a long stretch for court-sheltered reorganization. Hostess Brands grappled with a steep debt load, high labor costs and rising costs for commodities including sugar and flour.

Workers blamed the troubles on years of mismanagement, as well as a failure of executives to invest in brands to keep up with changing tastes. The company said it was weighed down by higher pension and medical costs than its competitors, whose employees weren't unionized. Union workers began a strike not long after the bankruptcy filing in 2012. Hostess said the bakery union strike had crippled its ability to produce and deliver products at several facilities, and it had no choice but to give up its effort to emerge intact from bankruptcy court.

The Bakery, Confectionery, Tobacco Workers and Grain Millers International Union accused Hostess in a statement of making unreasonable demands, including wage and benefit cuts of roughly 30 percent for workers, while top executives of the company received large pay raises.

Critics point to a number of failures. From an article in the WSJ,

Hostess kept a lot of debt on its books—$774 million in secured obligations when it exited Chapter 11 the first time—and didn't anticipate the depth of the recession or that commodity prices would spike, combining to crimp sales, according to court documents and people close to Hostess.

Hostess was slow to update old production systems and keep pace with competitors offering newer, healthier foods, in part because of its inability to invest.

Hostess posted an unaudited loss of about $341 million on roughly $2.5 billion in sales in the year ended last May. Though Americans are keen to talk about Twinkies—which *have gained an aura of mythical, if kitschy, indestructibility—they seemed less interested in eating them. Unit sales of the snack were flat in the 52 weeks ending Feb. 19, according to SymphonyIRI Group, a Chicago-based market research firm.*

To appeal to more health-conscious Americans, Hostess launched a line of whole-grain breads called Nature's Pride that the company says has been selling well, but it is a small product line compared with rival offerings.

Pundits and news sources have laid the blame for Hostess's demise squarely at the feet of unions and their contracts. But a close examination reveals that if the workers were to agree to work for free the company would probably not have survived; all the strike did was hasten the inevitable.

Many are quick to point to "greedy unions" in these situations, but it must be pointed out that in collective bargaining both sides come to an agreement that they believe that everyone can live with. Unions represent the wishes of their members, and it is only human nature to ask for as much as they can get in negotiations. Companies have the responsibility to share financial information with the unions, and should hold back when unions ask for more than the company feels it can comfortably provide.

In the end, labor costs proved insurmountable, a situation that has been complicated by years of deal-making. The bulk of the work force belongs to 12 unions, including the International Brotherhood of Teamsters and the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union. The combination of debt and labor costs hurt profits. The company posted revenue of $2.5 billion in the fiscal year 2012, the last available data. But it reported a net loss of $1.1 billion, largely from bankruptcy costs.

So in the end, why did Hostess die? While it could be lack of product innovation, I'm convinced, as Fortune Magazine writer, David Kaplan wrote last summer, *"the Hostess story is a microcosm of larger economic and political issues on the national stage, including the perils of debt and the inertia of unions on workplace reform."* If Hostess had come up with a fabulous, new, healthy product line two years ago, perhaps that would have helped things shift. As Kaplan writes, Hostess had *"two root problems—a highly leveraged capital structure that had little margin of safety, and high labor costs."* A line of fabulous new products could not have solved those deep problems.

But junk food junkies fear not…last year, Hostess staged the "Sweetest Comeback in the History of Ever". After acquiring most of the brand's assets for $410 million, the new owners, Metropoulos & Co. and Apollo Global Management, faced a host of challenges preparing for the relaunch. The Metropoulos brothers have aimed to do for Twinkies what they have done with Pabst Blue Ribbon—reposition the brand to a new generation of customers while retaining die-hard fans.The company did quite a bit of downsizing, reducing the number of factories from 11 to four, the number of employees from 19,000 to 1,800, and outsourcing its entire distribution system. With operations slimmed down, all that was left was to reintroduce the brand to consumers.

The “new” Hostess is gearing their marketing campaign towards what consumers were anticipating after the shut down…the product coming back to the supermarket shelves. Geared toward a young demographic, specifically, young males and the not-so-health conscious. The buzz was generated on social media as well, with the launch of an interactive campaign to attract user-generated content called *"Prepare your cakeface"*. The campaign asks fans to record Vine videos of themselves preparing for the return of their favorite treats and the site FeedYourCakeFace.com has had more than a thousand hits. It remains to be seen whether Metropoulos's “Midas Touch” will translate to the golden sponge cake of Twinkies, but one branding expert said that as long as the owners do not stray too far from its core strength, anything is possible.

The new owners have no doubt that consumers will continue to fill up on the tasty little cakes. It’s in our DNA as humans, to be drawn to the not-so-healthy, yet uber-delicious combination of sugar/fat/flour. Hostess will live on in American culture, and continue to make the bellies of junk food junkies, fat and happy. In the aftermath of the Hostess Management vs. Union catastrophe, the brand still came out a winner, making the workers who lost their jobs the real tragedy.

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Credits (Wall Street Journal)