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Hostess shuttering doors, ending era of iconic brands

Hostess CEO says strike was fatal blow for bankrupt company and that it is too late to fix it. Nearly 600 could lose jobs in Schiller Park and Hodgkins bakeries.

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Fear not for the Twinkie. In all likelihood it will outlive us all.

The same cannot be said for Hostess Brands, the bankrupt baker responsible for Twinkies, Wonder Bread and other goods. The company said Friday it has asked a bankruptcy judge for permission to go out of business and lay off 18,500 workers, blaming a labor strike by members of the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union.

In the Chicago area, Hostess employs about 300 workers making CupCakes, HoHos and Honey Buns in Schiller Park. Hostess also has a bakery in Hodgkins, where 325 workers make Beefsteak, Butternut, Home Pride, Nature's Pride and Wonder breads. The company's connection to Chicago is more than crust or frosting deep: the Twinkie was invented in the Chicago area in 1930.

"We deeply regret the necessity of today's decision, but we do not have the financial resources to weather an extended nationwide strike," Gregory Rayburn, Hostess' chief executive, said in a statement.

Texas-based Hostess, which has about \$2.5 billion in sales, said it had suspended operations at all of its 33 plants around the United States as it moves to start liquidating assets. The expectation is that other baking companies or investors will scarf down the brands, giving its products a good chance at a new life under different ownership.


"We'll be selling the brands and as much of the infrastructure as we can," said company spokesman Lance Ignon. "There is value in the brands."

Gary Stibel, founder of the New England Consulting Group, said "the jury's still out," on the company's future, adding that the firm may be able to "work something out in the eleventh hour."

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"There's a lot of activity going on," said Stibel, who added that his firm is involved in the conversations, but not representing Hostess. "Let's just say there are a lot of folks who are going to be working over the weekend."

Stibel said the only thing for certain is that "these brands aren't going anywhere."

"In the final analysis, these brands will return," he said. "Tylenol came back, Coke came back, and many of (the Hostess brands) will do better once this is over with."

Among the company's other brands: Ho Hos, Ding Dongs, Sno Balls, Donettes, Dolly Madison Zingers and Drake's snack cakes.

The closure of Hostess plants creates a complication for other companies, including Supervalu Inc., parent of the Jewel supermarket chain. Hostess was the contract baker for Supervalu's private label Essential Everyday breads, sold in Jewel.

"It is possible that in some markets there may be some shortages of Essential Everyday, but we are quickly working to implement our contingency plan," spokesman Mike Siemienas said.

The dispute that closed Hostess focused on cost-cutting efforts by a company that has been in bankruptcy for all but three of the past eight years. Plagued by high labor and pension expenses, the company had sought numerous concessions from workers and needed more.

Hostess said the bakery union strike that began last week 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 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.

"The crisis facing Hostess Brands is the result of nearly a decade of financial and operational mismanagement that resulted in two bankruptcies, mountains of debt, declining sales and lost market share," said Frank Hurt, the union's president. "The Wall Street investors who took over the company after the last bankruptcy attempted to resolve the mess by attacking the company's most valuable asset – its workers."

The Teamsters Union, which also represents 6,700 workers at Hostess Brands plants, had settled an earlier labor dispute with the company.

"The Teamsters Union tried everything in its power during the company's most recent financial difficulties to shape an outcome that would put Hostess on strong footing to be viable and preserve jobs," said Teamsters General-Secretary Ken Hall, in a statement. "Unfortunately, the company's operating and financial problems were so severe that it required steep concessions from a variety of stakeholders but not all stakeholders were willing to be constructive."

Hostess, a vintage favorite, had lost some ground with customers. From May 2012 to the same month in 2011, sales of Twinkies slipped 0.8 percent, Ding Dongs fell 8.7 percent and Ho Ho's tumbled 6.3 percent, according to analysis from research group Mintel.

The company ceded its top position in the pre-prepared cupcakes and brownies segment to McKee Foods, whose sales increased 1.8 percent, largely on the strength of its Little Debbie brand. Smaller

rivals such as Bimbo Bakeries and Give and Go also poached customers from Hostess, as have private label offerings from grocery stores, according to Mintel.

The Hostess shutdown announcement sent shock waves through the country Friday, causing Americans to begin hoarding Ding Dongs and bemoaning their fading childhoods.

Chicago-area convenience stores reported that they'd sold out of Twinkies — some within an hour after opening. At the Walgreens adjacent to the Wrigley Building on Michigan Avenue, Twinkies were gone before 9 a.m. Friday.

Other Hostess products were flying off the shelves too. Those single serving pies that magically require no refrigeration? No more blueberry.

Salina Gonzalez made a beeline for the Hostess section at the Target at 1940 W. 33rd St. Friday afternoon.

With three sons marching behind her, the Pilsen woman smiled at seeing a few boxes of Twinkies still on the shelves.

She grabbed one. But sons Alex, 6, Noah, 9, and Nicolas, 11, were seeing no part of those treats.

"I'm picking these up for my grandmother. She had me come get some Twinkies for her," Gonzalez said.

Tribune reporter Julie Wernau and freelancer Cheryl V. Jackson contributed to this report.

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