The Twinkie Returns, With Less Baggage

.

By JULIE JARGON

Familiar snacks like Twinkies and CupCakes, shown, are returning but the business behind them has been overhauled. As more than 50 million Twinkies start making their way to stores next week, the first order of business for the 83-year-old brand's new owner is to let customers know a classic is back.

Twinkies return to stores next week, and the first order of business for the brand's new owner is making sure customers know a classic is back. Jason Dean reports on Lunch Break. Photo: AP.

But behind the return of the familiar cream-filled sponge cake is a leaner operation, free of the union contracts and the $1.3 billion in debt that saddled the brand's previous owners. With that clean slate, the new owner and chief executive, C. Dean Metropoulos, plans to launch an ambitious growth plan and avoid the problems that led to two Chapter 11 bankruptcies, the last of which ended in liquidation.

In his first interview about the company's strategy, Mr. Metropoulos said the new Hostess Brands LLC, based in Kansas City, Mo., will be focused on innovation, efficiency and getting more Twinkies in more places. Wherever you find a Snickers bar or M&Ms, you should be able to find a Twinkie," he said.

Some workers who are returning to the company are being paid significantly less than they were before the bankruptcy. The previous distribution system involved roughly 6,000 drivers—all with union wages and pension benefits—delivering products to stores and placing them on shelves. The old Hostess distribution was governed by complicated work rules that required drivers to deliver bread and cakes on separate trucks, adding costs. Those delivery routes also reached only 50,000 of the country's roughly 150,000 convenience stores, and left some pockets around the country entirely without Twinkies.

Now Mr. Metropoulos is using third-party drivers to deliver products to retailers' warehouses, which he said will enable big expansion. He expects to reach a total of about 110,000 convenience stores by year-end—and to start reaching dollar stores, club stores, drug stores and vending machines, where its products previously were absent. Mr. Metropoulos's workforce isn't unionized and he is moving to automate and improve the capacity of the plants, while eliminating products that sold poorly or were only sold regionally, such as jelly doughnuts and Strawberry CupCakes.

The old Hostess had approximately 19,000 employees, many of whom worked on brands such as Wonder Bread that Mr. Metropoulos's group didn't buy. The new Hostess is planning to have about 1,800 workers when it is fully staffed in the next couple of months. The International Brotherhood of Teamsters declined to comment. The Bakery, Confectionery, Tobacco and Grain Millers International Union didn't respond to requests for comment.

Mr. Metropoulos also nixed approximately 600 outlet stores that Hostess used to operate, where soon-to-be-stale products were sold at a discount. He said those competed with nearby convenience stores selling the items at full price, so he and his partners didn't buy the outlets, which closed in November.

A bankruptcy judge in March granted Hostess permission to sell most of its snack cake brands to Mr. Metropoulos's private-equity firm, Metropoulos & Co., and Apollo Global Management LLC, APO -0.58% for $410 million, following liquidation proceedings that began in November. The two firms wouldn't disclose their ownership stakes in the new Hostess, which also cranks out snacks including CupCakes, Ho Hos, Ding Dongs, Zingers, Suzy Qs and Sno Balls.

McKee Foods Corp., maker of Little Debbie snack cakes, bought the former Hostess's Drake's brand coffee cakes and other desserts, while Flowers Foods Inc. FLO +0.48% and other buyers split the Hostess bread brands.

The 67-year-old Mr. Metropoulos has been involved in 78 consumer acquisitions in the last 25 years, including Pabst Brewing Co. in 2011. A spokeswoman said his deals' average return on investment exceeds 44%. The old company also was weighed down by debt, preventing it from investing in its 11 plants, all the while rivals operated more automated, efficient bakeries.

The owners purchased four of those plants and are investing $100 million to upgrade them. They plan to spend another $75 million to $80 million to open a fifth plant next year.

The debt and hefty pension obligations that the old Hostess faced also prevented it from investing in product innovation or marketing. Consumers seeking healthier products abandoned Twinkies, while those who still wanted indulgent treats grew bored of the same old assortment. With lower overhead, Mr. Metropoulos said he can now afford to spend money on research and development.

"There's no question we want to innovate around flavors and textures," Mr. Metropoulos said.

He's already invested in making some of the existing products richer tasting. For example, the company reformulated the CupCakes with dark chocolate rather than milk. Those and other subtle product changes have led to a 9% increase in ingredient costs that Mr. Metropoulos said will be offset by production efficiencies.

The new Hostess also plans to pour money into marketing. A multimillion-dollar marketing campaign dubbed "The Sweetest Comeback in the History of Ever" will tout the Twinkie's return via outdoor banner ads, a Hostess food-truck tour and social media.

Mr. Metropoulos said he and his sons, Daren, 30, and Evan, 32, who will be involved in promoting the brands, also will likely use "guerrilla" marketing techniques. Celebrity pitchmen are likely.

After Metropoulos bought Pabst, it enlisted comedian Will Ferrell to pitch Old Milwaukee beer. Pabst has also focused on promoting its regional brews, such as Lone Star, in Texas, whose sales have increased 26%, on average each year since 2011, according to a spokeswoman. Professional wrestlers endorsed Chef Boyardee, a brand Mr. Metropoulos revived before selling it and other packaged foods to ConAgra Foods Inc. CAG -0.62% in 2000 for $2.9 billion.

Mr. Metropoulos said he expects to quickly achieve sales of $1 billion, equal to sales the products had prior to liquidation, and that he expects the business to be profitable in the first year of operation.

But first, the Twinkies have to reach their destinations. "I worry about it all the time," said Mr. Metropoulos, who said he got far more orders than he anticipated.

In addition to the 50 million Twinkies that will be shipped to 100,000 stores in the first two weeks of the launch, Hostess has gotten orders for nearly 40 million Hostess CupCakes and 6 million bags of Donettes, which are small donuts. The four bakeries are running two shifts a day, seven days a week to fulfill the orders.

"I do have concerns" about glitches, he said. "We have living people making products with lots of ingredients and trucking firms we have to rely on, but we feel confident."

In coming months, he said, Hostess will also start developing healthier products. Mr. Metropoulos said they could include whole grains, come in the form of lower-calorie snack packs, be gluten-free or contain stevia, a natural sugar substitute.

"Those are the categories we're exploring," he said.

Write to Julie Jargon at julie.jargon@wsj.com