In this issue of Premium Procurement Bulletin…

[Case Study] Hostess Makes a Comeback After Rebranding

In 2012, Hostess filed for bankruptcy. At that time, the company announced that it would no longer manufacture Twinkies or many of the brand's other goodies. This caused an uproar, and the little spongy cakes started flying off the shelves. Hostess has since completed major rebranding and is finally making a comeback.

Situation: Hostess Gets New Management

Image via Flickr by Christian Cable

A few months after Hostess filed for bankruptcy, Metropoulos & Co. and Apollo Global Management acquired most Hostess assets for $410 million. Then they relaunched production of Twinkies, Sno Balls, Ding Dongs, and other Hostess goodies.

In 2013 Hostess brands underwent extensive downsizing to get back to profitable margins. The company went from 11 factories down to four and cut employees from 19,000 to only 1,800. The company also made a move to outsource distribution completely.

Under new management, Hostess turned to Bernstein-Rein, an advertising company, to come up with a marketing campaign to reintroduce Hostess products to the market. The agency came up with "The Sweetest Comeback in the History of Ever" campaign. The new management could have gone in so many different directions. Instead of launching new products, however, the company decided to rebrand by saying, "We're back!"

Approach: Hostess Targets the Bread Industry

Image via [Flickr] by Elvert Barnes

Hostess achieved success with "The Sweetest Comeback in the History of Ever" campaign, and the company simultaneously streamlined its production and eliminated the burden of pension costs and union contracts. Instead of resting on that success, however, Hostess made the choice to shift gears and target the bread industry as well. The company set the goal of bringing back Wonder Bread and Nature's Pride, with sandwich bread, hot dog buns, and hamburger buns.

Flowers Foods was the first major bidder to acquire bread assets from Hostess brands. The bakery firm bought Wonder Bread, Nature's Pride, Home Pride, Merita, and Butternut bread brands for $360 million. These assets included 20 bakeries and 38 depots.

Hostess and its partners still need to complete extensive work in order to make the brand's bread products profitable once again. but the brand saw success with Twinkies and plans to do the same with Wonder Bread. To do so, Flowers Foods must position Wonder Bread and other products as the healthy and affordable option for consumers. The company will most likely target kids and people who enjoyed Wonder Bread as kids, since a similar method worked for Twinkies.

Impact and Advantage

Hostess brands have undergone significant transformation since filing for bankruptcy in 2012, including new management, downsizing, and rebranding. As a result, consumers fondly remember these products from their childhoods and want to enjoy them again. If Flowers Foods follows the lead of Metropoulos & Co. and Apollo Global Management, Wonder Bread may be able to make a comeback similar to the one that Twinkies achieved.

This narrative reveals how going back to the fundamental basics of a successful business, with streamlined production, optimized labor and labor contracts, and efficient distribution, can turn things around even after a bankruptcy filing. Consumers should be able to enjoy Twinkies, Ding Dongs, and now Wonder Bread for years to come.

Can the Truck Driver Shortage and Image Be Turned Around?

More than 7 million Americans make up the domestic trucking industry. However, commercial shipping needs are growing quickly, and the industry continues to have a difficult time finding new drivers to replace the ones that retire. Numerous factors contribute to the shortage of truck drivers, but one of the biggest is the negative image of truckers. Many wonder whether the trucking industry can turn itself around.

Trucking Isn't a Desirable Career

Image via Flickr by elvissa

Many people don't find the trucker lifestyle appealing. TruckingTruth.com reports, "I think the typical image of a truck driver includes a middle-aged male who is tired, dirty, and hasn't showered in a week." On top of that, truckers often have to work odd overnight hours and spend significant time away from family. These factors have given truckers a bad image in the U.S., so it's no wonder that trucking isn't the first industry that people turn to for a career.

Initiatives to Reinvent the Trucker Image

Truckers have not always had a negative image. After all, in the 1970s, truckers were known as "Knights of the Road" who would rescue people when they needed a ride or when they were stranded on the side of the road. The industry recognizes that truckers now have an image problem, and some new initiatives want to reinvent that image.

An advocacy group known as Trucking Moves America Forward aims to modernize the trucker image. Kevin Burch heads the group and is also vice chairman of the American Trucking Association and president of Jet Express in Dayton, Ohio. Burch urges truckers to take pride in their own jobs in order to start transforming the way that others view the trucking industry. Additionally, the group helps make tools available to improve advertising campaigns and social campaigns.

Combatting the Truck Driver Shortage

Image via Flickr by Benurs - Learning and learning...

Another initiative that aims to grow the trucking industry and improve the trucker image is the reduced driving age. In some states, people as young as 18 can become freight truck drivers. Congress is still trying to determine whether this poses too high of a safety risk, but the trucking industry is optimistic that young truck drivers will be able to haul freight across state borders in the near future.

Baby boomers are retiring in large numbers, which is one of the reasons for the truck driver shortage. Studies predict that by 2017, America could be in need of 250,000 new truck drivers to meet shipping demands. Reducing the truck driver age requirement would help combat the truck driver shortage because it increases the pool of eligible operators. It's a viable option for young people who do not want to spend money on college and instead enter the workforce early at a decent wage.

Much still needs to be done to improve the truck driver image in the U.S. in order to increase the number of people interested in joining the industry. However, the Trucking Moves America Forward initiative and a reduced driver age should help. If not, businesses in all industries will start seeing higher shipping costs across the nation.

Farming Technology Is Rapidly Developing

In recent years, farmers have been looking for ways to increase production while using fewer resources and decreasing their environmental impact. For farmers, technology offers myriad solutions. Sensors can measure soil and water composition, drones can spread fertilizer, and GPS systems can direct robotic tractors to harvest crops. Farming technology is rapidly developing, and it will continue to transform the food procurement industry.

Investors Have an Eye on Farming Technology

Image via Flickr by Mobilus In Mobili

New York Times writer Steve Lohr reported that venture capitalists have invested more than $2.06 billion in farm technology startups since the beginning of 2015. The investment numbers were similar for 2013 and 2014. All of this money is going toward developing technology to improve efficiency in relation to monitoring and harvesting crops.

Even though extensive new agricultural technology is available, many farmers have been hesitant to spend money on it. After all, crop prices have been low, which means farmers haven't seen profits as significant as they used to receive. Plus, technology has a way of going obsolete quickly, so many farmers are careful not to upgrade too quickly at the risk of losing money.

Right now, startup farming technology companies are catering to farmers that have money to spend. This could change in the near future, however. Technology has a way of becoming cheaper the older that it gets.

Developments in Farming Technology

Image via Flickr by Lima Pix

Farm technology startups are focusing extensive resources on the potential uses of drones. These remote-controlled machines can go out into the field, take aerial views, and deposit data onto a computer. They can pinpoint insect infestations, fungus problems, and other common crop issues. Additionally, drones can be programmed to spray pesticides through computerized mapping.

Tractors can also be programmed through computerized mapping and GPS technology. President of Global Commodity Analytics & Consulting Mike Zuzolo told US News, "Guidance technology has become so good it's allowed farmers to work at night and allowed the computer to follow paths they can't see with their eyes." This allows farmers to do more work during more flexible hours.

Ground and water sensors represent another important development in farm technology. Sensors allow farmers to monitor the moisture in the soil more closely. This means farmers can calculate the ideal amount of water for their crops without producing waste. In the past, farmers would water based on timers. Now they can water based on need.

Sensors can do a lot more than monitor moisture in the ground, though. For instance, famers can use sensors to better understand the carbon, pH, and residual nutrients in the ground. This allows for more customized crop fertilization.

If farm technology can achieve an affordable price, more farmers will start to adopt the available options. The goal of farm tech is to enable farmers to spend less money on monitoring and harvesting crops while transfering these cost savings to the consumer. Decreased environmental impact and more organic food could also result from adopting new technology. Farm tech is an up-and-coming field that could drastically change the food procurement industry.

A Look at Why Ocean Cargo Rates Are Falling Fast

In 2015, ocean cargo rates for contracts on major East-West routes saw a sharp decline. As a result, carrier profits have been suffering. Contract rates have fallen because of lower fuel costs, more carrier competition, and surplus vessel capacity. Take a look at what this means for the transportation industry now and in the future.

Supply Vs. Demand

Image via [Flickr] by aushiker

The biggest reason that ocean cargo rates have fallen is carrier competition. In 2015 there was a major influx of new container ship vessels with massive capacity, especially on the Far East to Europe trade routes. This has created a situation where there is more supply than demand. Container ships are struggling to meet capacity because there are so many ships. This has caused ocean cargo carriers to lower their rates in the hopes of gaining customers based on reduced prices.

The Drewry Benchmarking Club has been monitoring the situation and states that between May and August there was a 7 percent decrease in contract rates. This reflects a huge drop in a normally stable market.

The Future of Ocean Cargo Rates

Analysts predict that the ocean cargo rates will eventually catch up, but not while more container ships are still joining the market. Phillip Damas, a director at Drewry Benchmarking Club, said, "We expect contract rates to fall further through the remainder of this year, given falling fuel costs and continued overcapacity in the market."

Peter Sand, Chief Shipping Analyst at BIMCO stated, "Striking the right level of supply to match the actual demand for transportation on this key container ship route has proven impossible recently. The reactivation of almost the entire idle fleet during the autumn, in combination with the continued inflow of new ultra-large container ships, has developed a situation where overcapacity sours the freight market."

Image via Flickr by numberstumper

Additional Factors to Falling Ocean Cargo Rates

The decline in ocean cargo rates is not due entirely to high capacity and low demand. Low fuel costs are also to blame. Fuel costs vary by season and market conditions, but there was a sharp decrease in the price of fuel in 2015 overall. This seems like good news for cargo ships, but it has actually allowed smaller carriers to compete better and cause larger carriers to lose business. Prior to the decline in ocean cargo contract rates, carriers were granting temporary reductions in contract rates just to gain more businesses due to this new competition.

Another factor that has contributed to the decrease in ocean cargo rates is China's export market. China's economy has been slowing for a few years now. The nation is no longer the only preferred place to go to outsource the production of goods. Many countries are looking for solutions closer to home. Smaller countries like Thailand are also becoming bigger exporters of goods. Ocean cargo carriers are readjusting routes to accommodate these changes, which further affects contract rates.

Ocean cargo carriers are suffering, but consumers are seeing lower prices on goods. The demand will eventually catch up to supply, but this will take more time.

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