From Hill, C. and Jones, G., 1998. Strategic Management, an Integrated Approach, 4th edition. USA Houghton Mifflin Co.

CASE 13

Tootsie Roll Industries, Inc.

This case was prepared by Sharon Ungar Lane and Alan N. Hoffman of Bentley College.

Tootsie Roll's good fortunes are an accumulation of many small decisions that were probably made right plus bigger key decisions, such as acquisitions, that have been made right, and a lot of luck.

—*Mel Gordon, CEO Tootsie Roll, 1993*

IN ODUCTION

Toc e Roll Industries, Inc., a niche candy maker, has ten been voted one of *Forbes* magazine's "2C 3est Small Companies of America." A topqu y producer and distributor of Tootsie Rolls her candy, Tootsie Roll Industries maintains a ercent market share of the taffy and lollipop seg nt of the candy industry, and sales have incre d each year for the past nineteen years. The wc 's largest lollipop supplier, the company produc approximately 16 million lollipops and 37 mil n individual Tootsie Rolls a day.

EA LY HISTORY

In 96 Leo Hirschfield, a young immigrant from Au a, set up a small shop in Brooklyn, New York, to ke candy from a recipe he had brought from Eu e. As he rolled the sweet, chewy chocolate car ies, his thoughts wandered to his young daughter lara "Tootsie" Hirschfield, and he named his ne confection the "Tootsie Roll." He wrapped the To sie Rolls individually in paper to keep them cle and sanitary and priced them at a penny each.

Th ase is intended to be used as a basis for class discussion rat than as an illustration of either effective or ineffective har ing of the situation. This case was prepared by Alan N. Ho nan, Bentley College. Reprinted by permission.

Hirschfield's Tootsie Rolls were an immediate success, and demand quickly outpaced supply. Hirschfield realized he would need more capital to promote and expand his business. After just one year, he merged his operation with a local candy manufacturer, Stern & Saalberg, which incorporated eight years later and in 1917 officially changed its name to the Sweets Company of America.

From 1922 to 1966, the Sweets Company of America set up manufacturing facilities around the United States to meet growing demand for Tootsie Roll products. Having captured America's sweet tooth with the Tootsie Roll, the company expanded its product line in the 1930s, developing a series of companion products such as the first soft-centered lollipop, the Tootsie Pop, which had a Tootsie Roll center and a hard candy outside.

In 1962 Ellen and Melvin Gordon took over as president/chief operating officer and chief executive officer/chairman of the board, respectively. In 1966 the Gordons changed the company name to Tootsie Roll Industries, Inc., and opened a large manufacturing facility in Chicago (which subsequently became the company's world headquarters). In the late 1960s, Tootsie Roll began exploring foreign markets, establishing a subsidiary in Mexico and licensing a firm in the Philippines to produce and distribute Tootsie Rolls. After a positive response in both these countries, the company expanded to Canada in 1971.

Amazingly enough, as the Tootsie Roll celebrates its one hundredth birthday in 1996, the candy still tastes exactly the same as it did when it was first hand-rolled by Leo Hirschfield. The company's success, as nineteen consecutive years of record sales and fourteen consecutive years of record earnings confirms, is based on strong consumer awareness of the Tootsie Roll brand name and strategic acquisition of other well-positioned and highly recognized brand names to leverage its existing operations. The Gordons own 66 percent of the voting rights and 47 percent of the company's stock and continue to control the company, which remains exclusively a candy company making the very best quality candy for the market it knows best.

THE CANDY INDUSTRY

The largest manufacturing sector in the United States, the processed food and beverage industry, is composed of two primary divisions: lower value-added and higher value-added food processors. Higher value-added processors, such as candy manufacturers, make retail-ready, packaged, consumer brand-name products that have a minimum of 40 percent of the industry shipment value added through sophisticated manufacturing. Candy is a $20 billion retail industry worldwide and accounts for about one-third of the dollar value of the snack-food market (the largest segment of the higher value-added division). Tootsie Roll Industries occupies a niche market within the Standard Industrial Classification (SIC) code 2064 (candy and other confectionery products). The U.S. confectionery market generates approximately $9.7 billion in annual sales.

Candy is not yet a "mature" industry in the United States. The compound annual growth rate for candy in the past ten years has been close to 6 percent a year, a very solid gain in an industry that is supposedly mature. In fact, within the chocolate confectionery subcategory, the United States ranks eleventh in the world in per-capita consumption and fifth in the world in growth since 1980. Based on current demographics, many analysts believe that there will be further growth for confectioneries. A "baby boomlet" is on the way, significantly increasing the teenage population. By the time the population bulge peaks in the year 2010, it will top the baby boom of the 1960s in both size and duration. According to government statistics, the percentage of children between the ages of five and fourteen will rise during the 1990s, increasing from 14.2 percent of the population in 1990 to 14.5 percent in the year 2000. This trend will serve as a strong foundation for increasing consumption of confectionery products through the end of the century. Nevertheless, spending for food and drink as a percentage of all personal consumption is declining in the United States, and most manufacturers recognize that future opportunities lie in using profits from domestic sales to penetrate foreign markets.

Many U.S. producers now use complex processing methods and efficient, automated manufacturing operations, which yield comparable quality at lower cost, and are finding a growing international market for their products. Despite recessionary economic conditions and reduced discretionary income, foreign consumers purchase U.S. higher value-added foods and beverages because U.S. products compare favorably with similar products made elsewhere, offering equal or better quality at a lower price. Today, the top five importers of U.S. products are Japan, Canada, Mexico, South Kor[ea], and the Netherlands. Foreign demand for U.S.-produced higher value-added products (including candy) has increased since 1993, thanks primarily to the rapid growth of the middle class in developing and emerging nations and to the growth of new markets in the former Soviet bloc nations.

However, the candy industry has recently faced several industry curbs. New nutritional labeling requirements were imposed by the Food and Drug Administration in 1990 to regulate serving size, health messages, and the use of descriptive terms such as *light* and *low fat*. The Federal Trade Commission also developed stringent sale-date requirements and strict guidelines for documenting environmental claims on packaging. These new regulations were imposed under costly, disruptive, difficult-to-meet deadlines and posed a particular threat to many foreign food and beverage processors, which are not accustomed to such extensive product analysis and disclosure. For Tootsie Roll, this major packaging revision was costly and involved detailed laboratory analysis and package modification of every item the company produces.

Candy is still a treat for all ages. People who loved Tootsie Rolls when they were children of[ten] buy them for their children, and thus the Toots[ie] Roll perpetuates itself. The baby-boom generation grew up with Tootsie Roll products; therefore, name recognition is very high among this group. While parental purchases may increase due to brand recognition. The baby boomers are becoming increasingly concerned with their health and their children's. As a result, baby boomers are purchasing less candy for themselves and their children. Thus, as people become more health and weight conscious, their demand for sugar-based products decreases. Additionally, as this consumer group gets older, their concern for dental health becomes greater. Candy has been identified as a major cause of dental decay, and hard, sticky, or chewy snacks, such as Tootsie Rolls, cannot be eaten by people who have had various kinds of dental work. Also, some parents do not buy candy because they are concerned that sugar causes hyperactivity in some children.

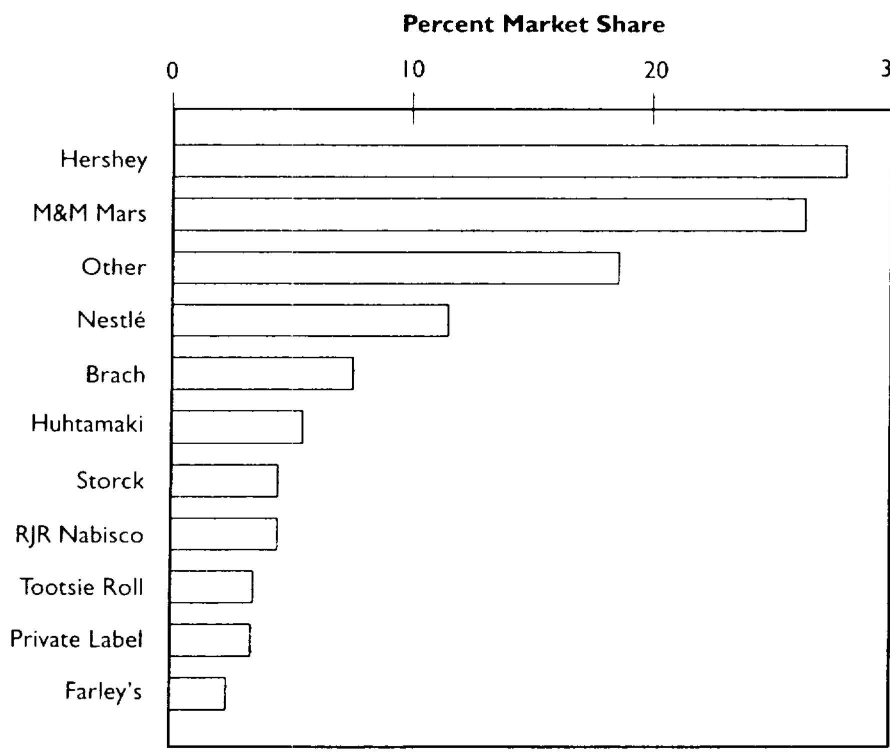
Children are Tootsie Roll's primary target market. Children ages six to seventeen create the greatest demand for confectionery products. According to a study by the Good Housekeeping Institute, candy is the second most requested snack food among six to twelve year olds; only ice cream is higher in demand. In fact, this age group spends $60 billion of their own money annually, with two-thirds of this spending on candy, snacks, and beverages.

TOOTSIE ROLL—1996

Tootsie Rolls are unique and occupy a niche of the candy market that includes taffies, lollipops, and chewing gum. Tootsie Roll Industries' competition is other candy and ready-to-eat snack food manufacturers. Tootsie Roll Industries commands 2 to 3 percent of the overall market as the eighth largest candy manufacturer following Hershey, at 27 percent; M&M Mars, at 25 percent; Nestlé, at 10 percent; Brach, at 6 percent; Huhtamaki, at 4 percent; Storck, at 3 percent; and RJR Nabisco, at 3 percent (see Figure 1). Although Tootsie Roll has captured only 2 to 3 percent of the total candy market, it continues to be the leader in its own segment, in which it maintains a 50 percent market share. Tootsie Roll's strengths are brand loyalty, established shelf space, state-of-the-art manufacturing facilities, and the fact that there are fixed price ceilings for candy products. Also, as the United States becomes a more nutrition-oriented society, Tootsie Rolls have another advantage because they contain no cholesterol and have less saturated fat than other leading candy bars.

FIGURE 1

Top Ten Candy Brands—
Five-Year Average
Market Share



Tootsie Roll uses many suppliers for sugar, corn syrup, cocoa, and milk and adapts to fluctuations in commodity prices by changing the formula and size of its products to keep total costs relatively constant. For example, Tootsie Roll can substitute corn syrup for some of the necessary sugar, thus decreasing its dependency upon a given commodity or supplier. Tootsie Roll also reduces and controls costs by owning its own refinery. The company can thus buy raw sugar and make, rather than buy, processed sugar, decreasing its dependence on processed sugar suppliers. When natural disasters affect the availability or price of one of its ingredients, such as sugar or cocoa, as did floods along the Mississippi River in 1993, the company usually decreases the size of its product to keep the selling price constant.

Tootsie Roll Industries' vertically integrated structure supports its drive for competitiveness, keeping total costs down and maintaining its leading edge in technology. In addition to the sugar refinery, Tootsie Roll owns its own advertising agency, so that commissions flow back to it. The company also makes the sticks for its lollipops, has a print shop for color printing, and owns a machine shop where new machinery is built and existing machinery rebuilt. Tootsie Roll Industries also constantly upgrades its manufacturing equipment to maintain the utmost efficiency.

Tootsie Roll's objectives, which have made it one of America's strongest companies, are, and have always been:

1. Run a trim operation.
2. Eliminate waste.
3. Minimize cost.
4. Improve performance.

To be competitive in the candy world market, where margins are limited, one must produce top-quality candy highly efficiently. Tootsie Roll has spent millions of dollars on state-of-the-art expansion and automation of their five production facilities (Illinois, Massachusetts, New York, Tennessee, and Mexico). Much of its equipment is designed specifically for Tootsie Roll. As Mel Gordon, CEO and chairman of the board of Tootsie Roll Industries, explains, "Anybody can buy machinery and in that way become state-of-the-art, but if you develop your own adaptations to the machinery so that it runs faster and runs better for your products, or you develop in-house machinery that does what nobody else in the market can do, then you're ahead of state-of-the-art. We've strived in the last 15 years to be ahead of state-of-the-art." However, the one aspect of its operations the company has not been able to control is the power of its packaging material suppliers. Increased demand has led to dramatic price increases in paper, board, plastics, and foil. To insulate itself from price fluctuations, Tootsie Roll has, whenever possible, negotiated fixed price contracts with its packaging suppliers.

ACQUISITIONS

Because Tootsie Roll Industries often generates more cash than it needs for internal growth, it can therefore consider complementary acquisitions. Following strict criteria, such as a strong brand name and a preference for nonchocolate (such as hard candies and chewy candies) over chocolate so as not to compete in its own niche, Tootsie Roll has made several key acquisitions of proven brands to expand its product line, increase its shelf space, and spur growth. As President Ellen Gordon explains, "We add new lines only when it benefits our product in quality and efficiency."

Two of Tootsie Roll's earliest acquisitions (1972) were the Mason Division of Candy Corporation of America, which makes such well-known products as Mason Mints, Mason Dots, Mason Licorice Crows, and Mason Spice Berries; and the Bonamo Turkish Taffy Company. In 1985 Tootsie Roll acquired Cella's Confections, which makes chocolate covered cherries; in 1988, it acquired the Charms Company, thereby becoming the world's largest manufacturer of lollipops. Charms' principal product, the Blow Pop, a lollipop with a bubble gum center, makes a nice complement to the highly successful Tootsie Pop. Shortly after the acquisition of the Charms Company, Mel Gordon observed, "We specialize in hard candies such as Tootsie Pops and Blow Pops and all the flat pops that Charms makes. That's a big niche for us, to be the world's largest manufacturer of pops. Also, we're in chewy candy with the Tootsie Roll and the growing Frooties and Flavor Roll lines. We feel that in those two areas we have a certain dominance and we'd like to keep our expertise focused in those areas."

In November 1993 Tootsie Roll purchased the chocolate and caramel division of the Warner-Lambert Company, which makes the popular brands Junior Mints, Charleston Chew, Sugar Daddy, Sugar

Bab… and Pom Poms. The acquisition of these ne…es places Tootsie Roll Industries in more di… re…npetition with other major chocolate manu-fact…rs, such as Hershey and M&M Mars, and pro-vid… with a number of new products that clearly com…ement its "chewy" candy product lines. Over the…rs Tootsie Roll has carefully and selectively acq…ed seventeen popular candy brands, enlarging its n…e in the candy and other confectionery seg-men…f the higher value-added products market.

DIS…RIBUTION/ADVERTISING

Toot… Roll Industries uses more than 100 public and…ntract brokers to distribute its products to near…15,000 customers. To market the newly ac-quir… Warner-Lambert brands more effectively, Toot-sie R… created new packaging for them, which re-sem…s the packaging of its more established Tootsie Roll…oducts, and capitalized on the synergies of Warr…-Lambert products with its existing lines.

I…addition to using its distribution network to in-crea… sales of Warner-Lambert products, Tootsie Roll is pu…ing those products generally associated with mov…theaters, such as Junior Mints, into mainstream retai…utlets: convenience stores, grocery stores, drug ch…and warehouse club stores. Convenience sto…nd supermarkets have traditionally been the dom…nt candy retailers, but recently they have been osi…sales to discount stores and drugstore chains. Righ…ow, all four venues share equally in confec-tion…y sales. However, most candy purchases are im-pul…buys made while waiting in line at a store, and sinc…many supermarkets have switched to candy-free…les, impulse sales are reduced. As impulse-sales opp…tunities are diminished, the customer must sear…for the product. A consumer is unlikely to un-dert…e a search unless desire is heightened through adve…ising. Parents are the target market that adver-tiser…nts must reach. However, marketing efforts of-ten…nd to focus on children, who are not always the pur…asers. These eager consumers purchase thro…gh and with the acceptance of their parent.

…otsie Roll has most recently focused its sales effo…s on the more rapidly growing classes of trade suc…as warehouse clubs. In the candy industry, it is diff…ult to gain shelf space, particularly when com-peti…g with large companies such as Hershey and M&…Mars. It appears that Tootsie Roll has begun to m…ke progress toward this objective. Tootsie Roll…are beginning to appear in warehouse stores, such as Sam's, BJ's Warehouse, and Costco, with large packages of traditional Tootsie Rolls and bags of multicolored Tootsie Roll pops.

Candy regularly shows the strongest gains from promotion and merchandising, clearly evident by the significant increases in candy sales during major holi-day periods—Valentine's Day, Easter, Halloween, and Christmas. In fact, candy has shown a stronger re-sponse to promotions than any other snack category.

The third quarter has always been the strongest for Tootsie Rolls, due to increased Halloween sales. However, Halloween is changing. Grocery retailers report that there is a noticeable shift in consumers' behavior because of concern for children's safety. In the last several years, Halloween celebrations have moved from the streets, trick-or-treating door to door, to indoor parties sponsored by schools, churches, and more recently enclosed shopping malls, thereby reducing purchases for candy that used to be given to those who trick-or-treat. Also, parents have been reluctant to purchase any prod-ucts that could be easily tampered with, particularly at Halloween. The way Tootsie Rolls products are packaged creates a potential concern. Unsealed, in-dividually wrapped products can be tampered with and are thus negatively affected by an incident such as the 1982 Tylenol poisoning. In fact, Tootsie Roll sales suffered in the wake of that national scare.

While Tootsie Roll's 100-year history has con-tributed to its wide product recognition, a tradition of national advertising begun in the early 1950s on television programs such as *The Mickey Mouse Club* and *Buffalo Bob* has successfully made *Tootsie Roll* a household name, establishing its domestic market. Advertising continues to be regularly placed in both electronic and print media, although the Tootsie Roll and Charms brands are well known. As Ellen Gordon puts it, "it's important to keep them in front of the public." In Tootsie Roll's memorable 1970's advertising campaign, "How Many Licks?" a little boy asks a wise owl, "How many licks does it take to get to the Tootsie Roll center of a Tootsie Pop?" Con-sumers became actively involved as they tried to answer the question for themselves. Although the company has had several successful advertising cam-paigns since then, it currently spends very little on advertising (approximately 2 percent of sales, con-centrated on television), relying instead on nostalgia and their 100-year-old brand. Internationally, how-ever, aggressive advertising programs support the brands in Mexico as well as in the Pacific Rim mar-kets and certain Eastern European countries.

THE GORDONS

Tootsie Roll Industries, Inc., has been run since 1962 by the husband-and-wife team of Ellen Gordon, president and chief operating officer, and Melvin Gordon, chairman of the board and chief executive officer. The couple owns 47 percent of the company stock, most of which was inherited by Ellen Gordon, whose family has been Tootsie Roll's largest shareholder since the early 1930's.

Ellen and Melvin Gordon have been working together since the 1960s. They are quick to state that they have an open-door policy, but they often do not attend annual meetings, saying that they already know what has happened. Together with five other executives, they plan all of the company's marketing, manufacturing, and distribution strategies, but the Gordons alone determine Tootsie Roll's corporate vision by controlling strategic planning, decision making, and the setting of corporate goals. Ellen, aged 64, and Melvin, aged 75, have no immediate plans to retire and insist they want to continue working, though on a number of occasions, they have expressed the desire to have one of their four daughters (none of whom currently works for Tootsie Roll) take over the management of the company. "We hope that our children or the management that we are building up in the company will be able to run the company someday," the Gordons claim, but they have no definite strategic plan for passing on the succession.

Tootsie Roll's strong performance and superior balance sheet should make it a prime target for a takeover, but the Gordons' determination to maintain control over Tootsie Roll Industries may be one reason why Wall Street has shown little interest in the company (see Figure 2 and Tables 1 and 2). The majority of Tootsie Roll's voting stock, 66 percent, is controlled by the Gordons, and the couple says it has no intention of selling the company. Ellen Gordon explains, "We're busy making Tootsie Roll products and selling them. We're kind of conservative, and we don't make projections."

Although Tootsie Roll does not intend to sacrifice long-term growth for short-term gains, its strategy has simply been to focus on making Tootsie Rolls rather than on preparing forecasts or strategic planning. Over the years, several key acquisitions have enhanced Tootsie Roll's product line, but these acquisitions have generally been made as opportunities have presented themselves within its niche market, not necessarily as part of a well-thought-out strategic plan. The Gordons remain arrogant in their view of the market. As Ellen Gordon repeatedly states, "No one else can make a Tootsie Roll."

Recently, Tootsie Roll Industries took advantage of an opportunity related to the location of its headquarters in Chicago. The lease on their 2.2 million-square-foot facility in Chicago was due to expire, and the landlord was not willing to renew it. Tootsie Roll faced the possibility of relocating to a less expensive territory, because with a low-ticket item such as candy, every penny counts. However, the company did not wish to relocate. At the same time, the city did not want Tootsie Roll

FIGURE 2

Tootsie Roll Industries—Five-Year Net Income History

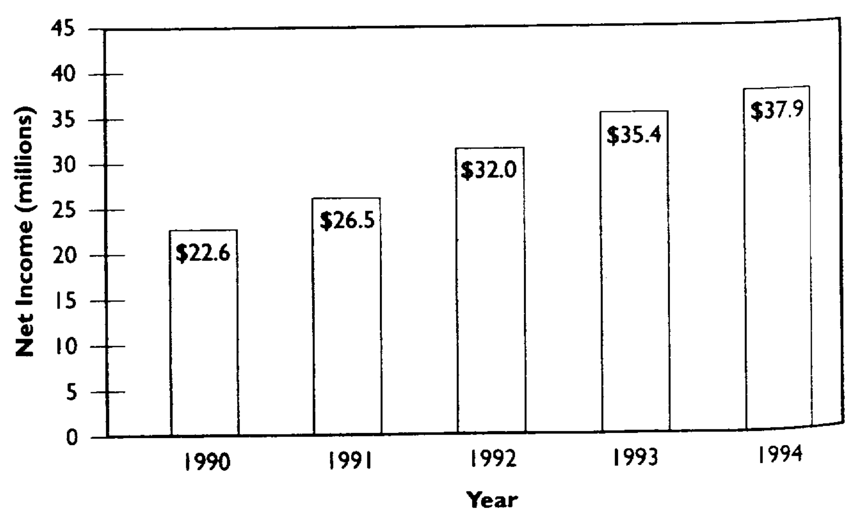


TABLE I

Tootsie Roll Industries, Inc., and Subsidiaries
Consolidated Statement of Earnings and Retained Earnings
(in thousands except per-share data)

	For the year ended December 31,		
	1994	1993	1992
Net sales	$296,932	$259,593	$245,424
Cost of goods sold	155,565	133,978	127,123
Gross margin	141,367	125,615	118,301
Operating Expenses:			
Marketing, selling, and advertising	44,974	40,096	38,958
Distribution and warehousing	20,682	17,655	16,959
General and administrative	13,017	12,837	13,186
Amortization of the excess of cost over acquired net tangible assets	2,706	1,510	1,265
	81,379	72,098	70,368
Earnings from operations	59,988	53,517	47,933
Other income, net	1,179	4,193	3,989
Earnings before income taxes	61,167	57,710	51,922
Provision for income taxes	23,236	22,268	19,890
Net earnings	37,931	35,442	32,032
Retained earnings at beginning of year	96,647	90,285	83,507
	134,578	125,727	115,539
Deduct:			
Cash dividends ($.42, $.35, and $.27 per share)	4,580	3,769	2,947
Stock dividends	22,235	25,311	22,307
	26,815	29,080	25,254
Retained earnings at end of year	$107,763	$ 96,647	$ 90,285
Earnings per common share	$3.50	$3.27	$2.95
Average common and class B common shares outstanding	10,848	10,848	10,848

Industries to leave, because it feared the resulting rise in unemployment. Thus, Ellen Gordon was able to leverage the firm's 850 jobs into a lucrative package of incentives to stay headquartered in Chicago. The deal signaled a national trend: small companies are more likely to get big tax concessions and other perks as city economies increasingly depend on them. The Gordons' negotiations garnered $1.4 million in state and local tax exemptions over the next fifteen years, a $20 million low-interest rate loan to buy the Tootsie Roll plant, $200,000 in job training funds, and the creation of a state enterprise zone located in the plant for tax breaks on machinery and utilities. In turn, the Gordons agreed to add 200 workers over five years and to start a loan program for employees to buy homes in Chicago.

Tootsie Roll has remained an independent company for its 100-year history, and Ellen Gordon feels that their independence has been a great strength. "As we have grown beyond a small entrepreneurial company, we have been able to retain some of our entrepreneurial philosophy and way of doing business." The Gordons are determined to continue as an independent company "for generations to come," but Ellen claims, finally, that the key to their success is " . . . fun. Whenever I tell people I work in a confectionery company, there's always a smile. That's very important—the magic of candy."

TABLE 2

Tootsie Roll Industries, Inc., and Subsidiaries
Consolidated Statement of Financial Position
(in thousands except per-share data)

	December 31, 1994	December 31, 1993
Assets		
Current Assets:		
Cash and cash equivalents	$ 16,509	$ 1,986
Investments held to maturity	45,861	54,217
Accounts receivable, less allowances of $1,466 and $2,075	22,087	20,656
Inventories:		
Finished goods and work-in-process	16,704	17,186
Raw materials and supplies	12,464	12,108
Prepaid expenses	3,094	3,667
Deferred income taxes	2,168	2,094
Total current assets	118,887	111,914
Property, Plant, and Equipment, at cost:		
Land	6,672	4,231
Buildings	26,982	25,347
Machinery and equipment	109,438	107,685
Leasehold improvements	6	10
	143,098	137,273
Less—Accumulated depreciation and amortization	57,450	50,574
	85,648	86,699
Other Assets:		
Excess of cost over acquired net tangible assets, net of accumulated amortization of $9,966 and $7,260	98,668	101,375
Other assets	6,880	3,952
	105,548	105,327
	$310,083	$303,940
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable to banks	$ —	$ 22,601
Accounts payable	6,124	6,259
Dividends payable	1,219	1,026
Accrued liabilities	17,046	17,919
Income taxes payable	1,872	3,057
Total current liabilities	26,261	50,862
Noncurrent Liabilities:		
Deferred income taxes	7,716	6,364
Postretirement health care and life insurance benefits	4,993	4,498
Industrial Development Bonds	7,500	7,500
Term notes payable	20,000	20,000
Other long-term liabilities	3,152	2,373
Total noncurrent liabilities	43,361	40,735

GLOBAL OPPORTUNITIES

The United States accounts for 90 percent of Tootsie Roll's sales; the remaining 10 percent of Tootsie Roll's products are sold in foreign markets. (See Figure 3 for a five-year sales history.) Mexico is Tootsie Roll's second-largest market, and Canada is third. However, because U.S. consumer spending

TABLE 2 (cont.)

	December 31, 1994	December 31, 1993
Shareholders' Equity:		
Common stock, $.69-4/9 par value—25,000 shares authorized—7,306 and 7,069, respectively, issued	5,074	4,909
Class B common stock, $.69-4/9 par value—10,000 shares authorized—3,542 and 3,465, respectively, issued	2,459	2,406
Capital in excess of par value	132,997	111,108
Retained earnings, per accompanying statement	107,763	96,647
Foreign currency translation adjustment account	(7,832)	(2,727)
	240,461	212,343
Commitments	—	—
	$310,083	$303,940

for food and drink as a percentage of all personal consumption is declining, Tootsie Roll and other candy manufacturers have begun to recognize that future growth opportunities lie in using domestic profits to penetrate foreign markets.

Tootsie Roll needs to increase its sales and distribution internationally to continue to grow as the market moves toward maturity. As trade barriers decrease, Tootsie Roll's opportunities to expand internationally are growing, especially because foreign demand for U.S. produced higher value-added products, including candy, has increased significantly since 1993. The predicted reduction or elimination of the European Community's confection tariffs and variable levies on ingredient composition may also facilitate export growth into Eastern Europe. (See Figure 4 for a five-year foreign sales history.)

Tootsie Roll Industries has begun slowly and cautiously working toward worldwide market penetration, targeting export growth to the Far East and Europe, where per-capita confectionery consumption is 40 percent higher than it is in the United States. Tootsie Roll currently holds licenses in several countries and regions including the Philippines, Colombia, Europe, the Far East, and Latin America. In addition, the company opened a sales office in Hong Kong in 1992 for sales to China, Korea, and Taiwan, and it exports products to the Middle East, Eastern Europe, and Central and South America. However, this international activity remains a very small percentage of Tootsie Roll's total sales.

Since the Gordons are not getting any younger, the future of Tootsie Roll candy depends on several key decisions they will make over the next few years. Perhaps the time has come for Mel and Ellen to think ahead while they are still on top.

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FIGURE 3

Tootsie Roll Industries—
Five-Year Sales History

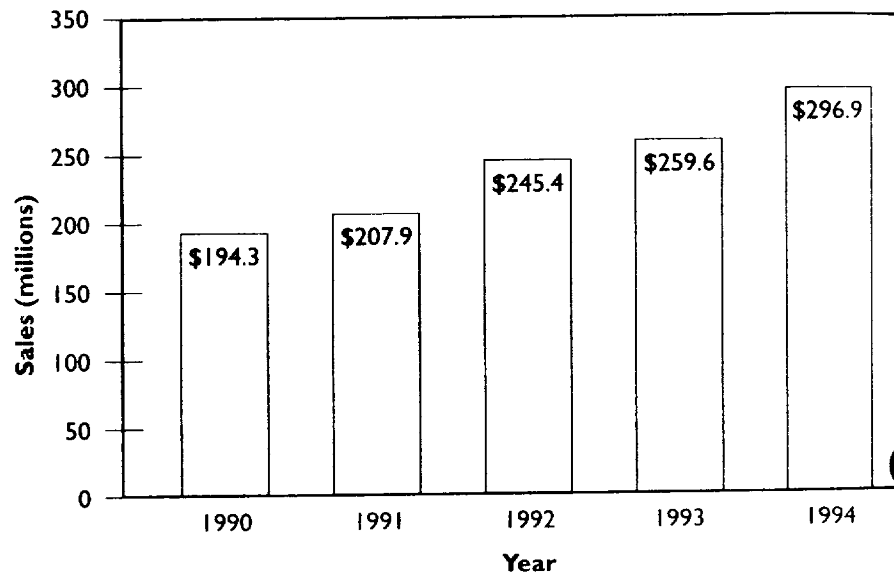

FIGURE 4

Tootsie Roll Industries—
Percent Foreign Sales