CASE SYNOPSIS HERSHEY'S

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BACKGROUND IN BRIEF

The Hershey Company (Hershey's) was found by a candy-manufacturer, Milton Hershey in 1894. It was first located in Lancaster, Pennsylvania. The early slogan for Hershey was "A palatable confection and a most nourishing food." The firm history can be divided into four main categories: getting started (1894-1916), expanding and innovating (1917-1938), going to war (1939-1948) and growing globally (1949-present). The following timeline (Table 1) is going to illustrate the important events at Hershey.

Table1: Timeline of Hershey

Year	Event
<1894	Milton Hershey owns Lancaster Caramel Company. The Hershey Chocolate Company was a wholly owned subsidiary to produce sweet chocolate as a coating for the caramels.
1894	Hershey's was set up and powdered cocoa had manufactured.
1895	Hershey's was manufacturing 114 kinds of chocolate in different sizes and shapes.
1896	A milk-processing plant was built on family farm to have onshore production.
1899	Formula to produced milk chocolate had developed.
1900	Mass production is used to maintain low unit cost.
1907	Product line expands. Hershey's KISSES chocolates were produced.
1921	Machine wrapping was introduced.
1963	Hershey's acquired the H.B. Reese Candy Company.
1970	First consumer advertisement appears in 114 newspapers.
2002	The Milton Hershey Trust School plans to sell Hershey, but withdraws offer.

CURRENT SITUATION

Hershey's is now focusing on introducing new products frequently and taking advantage of growth opportunities through acquisitions of different companies. This can expand its market with diversified products. The international division of Hershey exports their products and maintains licensing agreements with partners all over the world. It offers more than 80 brand names of confectionery products.

Hershey's acts as a leader in quality chocolate and non-chocolate confectionery and chocolate related grocery products in North American manufacturer. It is also a leader in the gum and mint category with good reputation.

The company currently has stores over 70 countries worldwide. There are 14,000 employees and the net sales have over $6.6 billion. China and Mexico are Hershey's key international markets and it will focus the competitive advantage in US and Canada.

MISSION, GOALS & STAKEHOLDERS

MISSION:

Hershey's stated mission is: *"Bringing sweet moments of Hershey happiness to the world every day."*

GOALS and OBJECTIVES:

- To spread awareness and increase sales of product
- To promote the health benefits of Hershey Chocolate
- To produce different chocolate flavours with best price for target markets

Hershey's has four main values to support its goals and objectives. First, it is open to possibilities.

STAKEHOLDERS:

Hershey's operations and decisions will affect different group of people and the following table (Table 2) is going to introduce how stakeholders will be influenced.

TABLE 2: Organizational Stakeholders

Stakeholder Group	Group Demands / Attributes
Product Market · Farmers · Customers · Communities	Farmers of the cocoa are the main suppliers for Hershey. Cocoa is the main source to make chocolate and the sales of Hershey will affect the supply of cocoa. The price of the products will influence the amount of chocolate purchased by customers and communities.
Capital Market · Investors · Business partners	The profit and revenue of Hershey will affect stakeholders in the capital market. Investors and business partners concern about the profit earned by Hershey since this is directly affect their own return. The more revenue Hershey made, the more return the stakeholders can get.
Organizational · Employees · Managers	The decision made by Hershey will directly influence the stakeholders in the organizational market. Employees and managers will need to follow the decisions made by the company and work aligns with company's goals and objectives.

EXTERNAL ANALYSIS

GENERAL ENVIRONMENT:

Demographic

Ethnic Mix: Switzerland is the top chocolate lovers which consumes 22.36 pounds per year while North America ranks 11^{th} with 11.64 pounds per year. In the top 20 chocolate consumption countries, 16 are from Europe. This shows that Europe is a big market for Hershey's.

Geographic distribution: The geographic distribution is huge as there are more than 90 Hershey's worldwide. It issues licensing to other countries so as to expand its market. Each market has unique products to supply own country so that local responsiveness can be achieved.

Economical

The net sales of Hershey have increasing these years. The 5-year compound growth rate is 6.1% and the earnings per share of 2011 had increased 5.5% compared with 2011. Also, there is an increase demand in dark chocolate, which require more cocoa to produce, due to the health benefits. It would drive up the price of cocoa because of the deficit.

Political

Currently, there is no regulation concerning price control and no support for cocoa production by the government. Since the chocolate prices are soaring, it is expected that there will be government price control on raw materials of chocolate and price support for cocoa production. Concerning sugar production, it is expected that the US federal government will spend $300 million on purchasing excess sugar as by law, the government has to buy excess sugar if the price drops below a certain level.

Socio-cultural

People show higher preference in chocolate in festival periods, especially in Valentine's and Christmas period. The demand of chocolate in developed countries like Europe and North America is expected to be improved in these festivals. About the forecast of chocolate demand, it is expected that there will be a rise in grindings in North America as chocolate consumption gets back on track after poor performance in chocolate market in 2012.

Technology

Concerning knowledge resources, lower sugar price in the States drives Canadian manufacturers out of the country and manufacture in the States. This makes local chocolate retailers a higher chance to import chocolate instead of purchasing local ones. On one hand, this benefits chocolate manufacturers with lower input cost in the States; On the other hand, this makes lives of American sugar producers more difficult as price of sugar is too low.

Global

The price of cocoa butter, which is one-fourth of ingredient cost of chocolate, have increased 80% recently due to poor weather in the Ivory Coast and Ghana, which produce almost half of the world's cocoa beans. This leads to shortage of cocoa beans and, thus, drives up the selling price of chocolate. Besides, West Africa, which produces 70% of cocoa beans, is expected to suffer from dry weather and this affects the harvest of cocoa beans.

INDUSTRY ENVIRONMENT:

Porter's Five Forces

Bargaining power of suppliers: High

The bargaining power of suppliers is high because the resources are differentiated. There are only few substitutes of these raw materials with limited suppliers. They rely on suppliers to deliver high quality cocoa that meet food regulations and consumer taste test. Cocoa beans are grown in areas with tropical climate. These areas often at risk for natural disasters, such as hurricanes, that can reduce the number of suppliers quickly and dramatically at any time.

Bargaining power of buyers: Low to Moderate

It is because the chocolate and cocoa products are differentiated. The chocolate industry has several large players, such as Hershey's, Purdy, Mars and Nestle; they have strong brand identification and customer loyalty, which increase buyers' switching cost. Also, buyers do not have complete information about the products and the market. Customers do not have strong capital investment and hence there would not be a credible threat of backward integration.

Threat of new entrants: Low

Consumers have strong brand loyalty for Hershey's products. Therefore, switching to different products may be costly. Also, large capital is required in the industry. Production equipment, labor, raw materials, research and development, advertising and marketing lead to high cost. High switching cost creates additional testing and research for new entrants to ensure right quality, safety and taste. Lastly, there are many government regulations for food products.

New players need to go through the scrutiny of government regulations and inspections, which is costly. These barriers will decrease the number of competitors to enter into the chocolate industry.

Threat of substitute products and services: Moderate to High

Flavourings are one of the substitutes. Customers can use flavourings for industrial and cooking use instead of using chocolate and cocoa products. Moreover, buyers can consume alternate snacks. The confectionary industry faces intense substitutes such as non-chocolate snacks, candies, potato chips, ice cream and fruits. Since many consumers see chocolate as unhealthy, many customers will switch to consume substitute products.

Intensity of rivalry among competitors in an industry: High

The chocolate industry has multiple industry leaders, which lead to intense rivalry. With multiple industry leaders that are equally balanced competitors with similar size and products offering, many of them create new product lines and actively participate in advertising wars.

The chocolate industry has high fixed cost and storage costs. Equipments are required to produce chocolate and raw material such as milk and chocolate must be kept at a proper temperature and humidity, which lead to high fixed and storage costs.

COMPETITOR ANALYSIS:

The three competitors of Hershey's are Purdy's, a local Canadian chocolate company, Meiji, a Japanese food company, and Nestle, a Switzerland-based chocolate company (see Table 3).

TABLE 3: Competitor Analysis

	Purdy's	**Meiji**	**Nestle**
Future Objectives	Each and every employee plays an integral role in the Purdy's operation and is equally committed to creating quality product	It will continue working to widen the world of "Tastiness, Enjoyment, Health and Reassurance" and endeavour to always be there to brighten its customers' daily lives	To be recognized as the world leader in Nutrition, Health and Wellness, trusted by all its stakeholders, and to be the reference for financial performance in its industry.
Current Strategy	Partner with local Canadian companies to source supplies throughout the cocoa harvest supply chain	By integrating technologies, knowledge, and ideas from these fields, new value that is useful for customers of all ages is created	Create alignment for people behind a cohesive set of strategic priorities that will accelerate the achievement of our objectives

Assumptions	Reputation as a quality chocolatier	Utilize network in Japan and overseas	Long-term thinking
Capabilities	· Manufacturing, designing, marketing, distributing and merchandising capabilities · Environmentally friendly: reduce solid waste emissions by 47.2%, i.e. 112.3 tones of carbon dioxide in 2011	Wide range of products catering different age groups' needs · Confectionery business unit · Dairy business unit · Healthcare and nutritional business unit · International business unit	· A combination of hard-to-copy advantages throughout the value chain, built up over decades. · Inherent links between great products and strong R&D, the broadest geographical presence and an entrepreneurial spirit, as well as great people and strong value
General Notes	Leading Chocolatier in Canada, with 63 stores in British Columbia, Alberta and Ontario.	It is the member of the Meiji Group in charge of the food business.	The world's leading nutrition, health and wellness company

STRATEGY

BUSINESS LEVEL STRATEGY:

Hershey's successfully uses the integrated cost leadership and differentiation strategy, allowing Hershey's to adapt quickly and recognize the opportunities provided by the latest technology while competing against its rivals in the industry. To reduce costs of production, Hershey's builds manufacturing sites in countries with cheaper labours such as India, China, Brazil and Mexico. The recent upgrades of distribution and administrative facilities in Hershey's, PA, make Hershey's supply chain more efficient and cost-effective. To improve differentiation, it aggressively invests R&D department in the emerging and current markets. Hershey's has a portfolio of representative brands to satisfy customers in different market segments.

CORPORATE LEVEL STRATEGY:

Hershey's uses the related constrained diversification strategy in their confectionery industry. There are five core brands globally, which results in their most profit such as Kisses, Reese's Hershey's, Jolly Rancher and Ice Breakers. This strategy focuses its resources on manufacturing, marketing and reducing duplicate expenditure. In the unrelated diversification strategy, Hershey's acquired small independent pasta companies since the mid-1960s such as Ronzoni and America Beauty. This increases market share and strategic investment in other high-return industry. Hershey's acquired the Mauna Loa brand in 2004, which was the world's largest processor of macadamia seeds. This backward integration allows the company gain its input at the lowest cost consistent with their integrated cost leadership or differentiation strategy. On the other hand, Hershey's is considering the idea of Hershey's store in forward integration. In April 2010, Hershey's announced plans to open six stores in Singapore within three years.

INTERNATIONAL STRATEGY:

Hershey's is using the transnational strategy to achieve local responsiveness and global efficiency. In order to stay competitive, Hershey's is expanding its business internationally with focus on China, Mexico, Brazil, and Canada market. By developing its international market share, its goal is to increase revenue by 50 percents to $10 billion by 2017. For market similar to US, such as Canada market, Hershey's uses standardized strategy to produce products with consistent quality. Products and services offered in these markets are manufactured centrally at few locations. For other markets, Hershey's strategy is to expand through partnership, acquisition, and joint ventures with foreign companies. This strategy allows Hershey's to better understand the local market and helps it to localize and provide products that cater to the domestic tastes. In order to adapt the local market in China, Hershey's not only signed agreement with Lotte Company but also opened a new R&D facility to redesign its products and aid promotion and distribution. In addition to the North American markets, Hershey's now owns operations in over 90 countries. It develops strategic alliance with Barry Callebaut, Lotte, and Godrej Beverages and Foods that helps it to improve its global presence.

COOPERATIVE STRATEGY:

Hershey's invests intensively in community programs in West Africa that aim to reinforce cocoa sustainability. Hershey's, along with its private and public partners, invested heavily in agriculture practices that can double the yield of the cocoa farm. CocoaLink, a farmer outreach programs, is used to reach the farmers with valuable information through mobile phones on improving farming practices, farm safety, child labor, health, crop disease prevention, post-harvest production and crop marketing. In addition, Hershey Learn To Grow Farm Program provides local farms in Ghana with important information on sustainable cocoa farming. This program is developed with Source Trust, a non-profit organization, to improve farmers' living standards as well as assisting government of Ghana to eliminate child labor issue. The launch of these programs help Hershey's to not only improve farmers' living condition but also ensure long-term cocoa sustainability.

STRATEGIC CHALLENGES

LOSS OF CENTRALIZED CONTROL:

Hershey's is using licensing and acquisition to expand internationally. These enhance global efficiency and expand internationally; however, decisions will become decentralized in each country. Hershey's loses control over product quality, marketing and distribution even this is the easiest way to expand worldwide. Hershey's may need to consider other entry mode in order to maintain centralized control with local responsiveness.

HEALTH ISSUE:

Nowadays, people are getting more concerned about their health. People will consume organic products to maintain a healthy lifestyle. However, chocolates are considered as junk food as it will possibly cause obesity. This may reduce consumption of chocolate and, hence, affect Hershey's sales. Although some researches show that dark chocolate is beneficial to people's health, some of them will still have preconception and consider chocolate as unhealthy. Hershey's may need to further advertise in order to reduce public's prejudice towards chocolate.

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