RECOMMENDATIONS REPORT: THE HERSHEY COMPANY

Prepared for:
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Milton S. Hershey founded The Hershey Company in 1894 in Hershey, Pennsylvania. Hershey’s is the leading chocolate producer in the industry, with 30.5% of the market. Largely due to Hershey’s exceptional marketing strategies and tactics, it sells under 80 different brands to over 70 countries around the world. The most iconic brands Hershey’s owns are Hershey’s Kisses, Kit-Kat’s, Reeses, Almonds Joys, Twizzlers, and Ice Breakers.

The Hershey Company’s main competitors are Mars Inc. and Nestle. Together these companies hold 34.3% of the market share. Mars sells under brands such as M&Ms and Snickers, and has the next highest hold on the market after Hershey’s. Nestle is an international company with only one third the market share as Hershey’s, but none the less threatens Hershey’s.

Hershey’s is strongest in its brand awareness and loyalty. Brand loyalty allows Hershey’s to changes prices without much consequences on loss of customers, which will benefit it when Hershey’s costs go up and is forced to raise its prices. Brand awareness is good if a consumer is given a choice between an unknown brand and Hershey’s. Awareness will bring the consumer to Hershey’s chocolate because familiarity is generally chosen over the unknown. Other major strength is its Micromarketing because it allows customers a creative choice and allows Hershey’s to use their product as marketing tool for other companies. The company’s last strength is how it stays with the times; marketing appropriately with trends and holidays.

The company does not have many weaknesses in terms of its marketing. However, it does have a strong dependence on the US. Hershey’s has an opportunity to expand in marketing to China by using the companies new investment, Shanghai Golden Monkey, as a way into the Chinese market. Expanding in China, also gives Hershey’s an opportunity with the rest of Asia as well. Another opportunity is that Hershey’s can change its pricing strategy to a high/low marketing strategy. The strategy will allow the company to minimize costs on rising price of sugar and to keep up health trends and worries about high sugar content.

Main main threat facing Hershey’s is its competitors advertisements. M&M has a yearly spot on the Super Bowl, however Hershey’s does not participate in those commercials. M&M and Snickers well known TV ads could drive Hershey’s marketing attempts to the side, making Hershey’s a less desired brand than Mars inc.

Hershey’s needs to use its advantage in its brand loyalty to implement the opportunity of changing its pricing strategy to a high/low pricing strategy. Then the company will need to advertise its new image of health and fun to make competitive ads to Mars Inc. After Hershey’s follows these recommendations on marketing, the practice will be stronger, and so will the company.
The Hershey Company
Prepared by Ari Schjelderup

Introduction

Everyone knows what a chocolate kiss is; a charming joke, and a delicious treat. Reese’s, Kit Kat, and Almond Joys, are all chocolate brands that people remember, and they all belong to the Hershey Company. Hershey’s is the largest chocolate manufacture in North America largely due to the company’s excellent marketing tactics. It sells and markets to 70 countries and sells over 80 brands. It is mostly known for its variety of chocolate bars, baking goods, chocolate syrups, and beverages, but it also sells under Twizzlers, and Ice Breakers brands.

Hershey’s was founded in 1894 by Milton S. Hershey in Hershey, Pennsylvania. Hershey’s holds 30.5% of the market share, making it the leading chocolate producer. Mars Inc. and Nestles are Hershey’s top two competitors, which together hold 34.3% of the market. The rest of the market, 35.2%, is made up of smaller companies. Hershey’s main strengths in marketing are brand awareness and brand loyalty, micromarketing, and keeping up with the times with all its marketing. However, Hershey’s mainly focuses on marketing to the United States, and is not as popular in other countries, which is a weakness in the company. Hershey’s opportunities are to expand in Asia, and to change their pricing strategy. Lastly, Hershey’s threats to its marketing are its competitors well known TV advertisements.

The company faces problems with health concerns and possible cost rises by sugar costs. If Hershey’s does not keep up its good marketing tactics, change its pricing strategy, and create popular commercials, Hershey’s could see some losses in the upcoming years.

Strengths

**Brand Awareness and loyalty**

The Hershey’s Company has over 80 brands that include many popular and classic candies. The most popular brands have strong brand equity and are sold to a variety of different types of customers which helps Hershey’s revenue be stable. These attributes also allow Hershey’s to introduce new brands easily into the market.¹

Hershey’s Kiss’s, Twizzlers, Reese’s peanut butter cups, Kit-Kat, and the Hershey Bar all have the pleasure of being on the top ten candies of all time, according to the *USA Today* POP Candy. Whitney Matheson, author of the article, refers to the Hershey Bar as “Classic. Perfect. No

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improvements necessary.” Hershey’s is a strong brand because consumers see Hershey’s as a classic candy, which means there is strong brand loyalty. Because consumers see Hershey’s as a classic, people stop checking prices before purchasing. This gives Hershey’s an excellent advantage in case it needs to raise prices. Because of brand loyalty, even if Hershey's charges more per candy bar, sales should not drop.

Brand Loyalty keeps customers, which, according to Karl Stark and Bill Stewart, it is more important to try to keep customers than get new ones. However, because of brand awareness, even disloyal customers know Hershey’s name. Although a consumer might switch to another brand for no obvious reason, they still know Hershey’s brand. If a consumer is given a choice between brand names they have never heard of, or Hershey’s, they will likely choose Hershey’s because it is familiar. Therefore, brand awareness gives it an advantage over small, not well known, brand names in the industry.

Hershey’s company mostly consist of brands that are not associated with the main Hershey’s logo. Reese’s, Kit-Kat, and others, are all owned by Hershey’s, but no one can know by just looking at the wrapper. Each main brand of Hershey’s has strong brand awareness without association of the other brands. The company’s main brands are split off into other brands such as Reese’s Pieces. The main brands supporting Hershey’s gives it strong pillars that hold up the company’s weight. Meaning, each brand stands on its own, dependent of the other brand associations, which keeps the company running even if one pillar falls. If one brand gets a bad association that causes it to fall out of the market, the average consumer will not associate that brand with all of Hershey’s company. So, even if one brand falls, the rest can keep working to make up for the loss. Hershey’s excellency demonstrates that segregated brands, with strong brand names, is a great asset to the company.

**Micromarketing**

Micromarketing is the practice of marketing to the local level. Rather than minimal marketing to a large amount of people, micromarketing is excessively marketing to a small target audience. Hershey’s can accomplish this by tailoring products to customers wants. Hershey’s micromarkets by offering custom Hershey bars to its customers. Hershey’s main web page has a section dedicated to sell personalized candies. It offers predesigned arrangements with its top brands for weddings, baby shower, birthdays, and holidays. These options allow customers to easily find something that fit their needs. Hershey’s website also offer another step up in the customization options. The “Personalized Bar” allows customers to add a personal picture and

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message to a standard size Hershey’s bars. The customer has the option of a pre designed theme for the wrapper, a personalized picture in the shape of their choice, and a message with personalized font and color. Hershey’s own website’s personalization acts as a strength for the company, however, Hershey’s partnership with WH Candy allows for its customers to have an even great level of freedom with their design specifications.

WH Candy (Wrapped Hershey’s) has sold personalized Hershey’s chocolates for twenty years. It allows a much higher amount of customization for the wrappers because, rather than having pictures slapped middle of the Hershey logo, as the Hershey’s website does, WH Candy puts wrappers over the Hershey wrappers themselves. This keeps the chocolate branded, which is good for advertisement and authenticity, but it allows total creative freedom for the customer.

Because customized chocolates can not be mass produced, it costs a lot more to make than a standard Hershey’s bar. However, demand for each selection is smaller than a standard bar, so customers will pay a higher price for customization. Hershey’s does not sell as many custom bars, but the marginal revenue pays off. Rather than selling a large amount of chocolate for a small price, like Hershey’s does for most products, the custom bars earn the company revenue by selling few number of products for a high price. Which shows that Micromarketing is a strong marketing strategies for Hershey’s.

**Keeping Current and Honest Marketing**

Hershey’s 2013 annual reports emphasize how the company keeps up with the times in the marketing and pricing. The company’s annual report could be bias of course, but looking at the Hershey’s website, it it easy to see that Hershey’s stays on top of things. Every holiday Hershey’s ensures that it uses many marketing techniques to advertise the company and its brands. First off, past history of the Hershey’s website shows that every holiday Hershey’s stays current with holiday themed chocolates and candies. Over the past month, for instance, as Easter approaches, the Hershey’s website features its “Hershey’s candy coated milk chocolate eggs” on its homepage with the caption “Every bunny’s favorite.” The company is also sure to get its products placed in holiday themed aisle at supermarkets and grocery stores every year.

The company keeps current with trends in pricing as well. Hershey’s makes sure it charges the “right price,” meaning it keeps a competitive price. However, Hershey’s will not back down from any past commitments it has made, which keeps it an honest company. If Hershey’s make a deal on one price, but changes prices the next, it while honor the price decision, which can sometimes

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cost the company money\textsuperscript{8}, but the reliability of the company saves customers. When the carbohydrates became a health issue, Hershey’s imminently started developing more low sugar candies and chocolates. Stays with the time, marketing appropriately, and being honest while doing so, is a strong part of the company.

**Weaknesses**

**American Dependence**

Although Hershey’s sells to over 70 countries 80% of its sales and marketing are done in North America. Mars inc. is not an internationally traded country, however it has many associated companies such as Mars China that sells the same many of the same brands. Nestle is an international country that is the leading confectionary brand in many countries around the world. Nestles might have only about one third of the market share that Hershey’s has in the US right now, but where Hershey’s revenues are in the 7 billions, Nestles is in the 100 billions, and it has the leverage to expand by in the US market.\textsuperscript{9} Compared to its top two competitors, it is easy to see that Hershey’s American dependence is a weakness.

Mars is the second largest chocolate producer after Hershey’s in America, with 24.2% of the market.\textsuperscript{10} Since Hershey’s is so dependent on the American market it does not have the leverage to compete against Mars and Nestle around the world. Hershey’s is trying to expand, and obviously selling to 70 different countries was no easy accomplishment. However, the company’s dependence is holding it back.

**Opportunities**

**Expansion in Asia**

Early this year, Hershey’s bought an 80% stake from Shanghai Golden Monkey, a company that focuses on milk chocolate, candy, and gum. From American standards China’s tastes in candy is a little strange, but for the Chinese a standard Hershey’s bar is not the most appetizing treat. Chinese candy tends to be more sour, fruity, or chewy. Hershey’s is trying to research popular candy choices by the Chinese so it can target consumers throughout China. Hershey’s hold on Shanghai Golden Monkey gives them the potential to expand its brand in China and more of Asia. Hershey’s has the opportunity to conduct more primary and secondary research so the company can develop new brands that would work well with the Chinese market. Hershey’s


\textsuperscript{9} “The Hershey Company,” n.d, Mergent Online, accessed on March 5, 2014.

connections with Shanghai Golden Monkey gives Hershey’s an easier entry to the Chinese chocolate and candy market which means Hershey’s can develop a test market in one store in China to test new products before expanding.

According to a Chinese chocolate industry report, the chocolate market has slowed down from last year, but it is still growing at a decent rate of 12%. Hershey’s can use this as an advantage to help grow the market. Wedding chocolates and gift packages are popular in China, and the country reports expect Hershey’s to keep a dominance in that part of the market.\(^{11}\) Hershey’s can use its dominance to expand in other special events such as birthdays and holidays. Expanding in a specialized field will also increase regular product sales when Hershey’s sells its products regularly throughout China’s stores.

**High/Low Pricing Strategy**

During the great recession demand for confectionery goods dropped drastically. Demand has risen, and now annual growth rate for chocolate is back into a positive percent rate. The growth rate for chocolate is 1%, which compared to candy’s industry growth rate of 3%, is low\(^{12}\). Over the past five years the demand for sugar has been declining due to the US population’s increasing health concerns for sugar.\(^{13}\) This means that milk and white chocolate sales is suffering, however, a SWOT analysis written in 2009 for the Hershey Company states that “increasing health awareness among consumers is leading to higher demand for low carbohydrate and low calorie foods worldwide.”\(^{14}\) Which gives Hershey’s the opportunity to to sell more dark chocolate and other goods that customers perceive as healthier.

To increase profit from healthier products Hershey’s has the opportunity to use a pricing strategy called High/Low Pricing. This strategy is where a product is set low to draw people in and make them feel like they are saving money.\(^{15}\) By advertising lower prices for dark chocolate (or low sugar products) consumers will be drawn in by the price reduction. Hershey’s would appear to be promoting healthier products which would give it a good image, and their all sales would go up. Costumers who are not health conscience might be willing to pay the extra price for the milk chocolate because of the taste. Even if costumers who would have chosen milk chocolate choose the discount chocolate instead it would be worth the it because of the gains made on extra sales.

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Threats

Advertisements by Competitors

We all know the talking M&Ms from TV. Who could forget the giant M&Ms with arms and legs with interesting personalities? Snickers has some humorous commercials as well, one included the famous actor and comedian Robin Williams. There usually involves a grumpy character that turns back to normal when they take a bite of a Snicker’s bar with a motto of “you’re not you when you’re hungry.” Commercials let us know that Starbursts are “unexplainably juicy” and that skittles allow you to “taste the rainbow.” These brands’ well known advertisements pose a threat to Hershey’s.

Hershey’s commercials are happy and joyful with a cute slogan of “life is delicious.” However, compared to the popular candy commercials, Hershey’s is lacking. Mars company, who owns M&Ms and Snicker’s, definitely has the advantage over Hershey’s in advertising. Advertising, is a way of branding, which Hershey’s does very well, however if Mars continues to do its branding as well as it has recently, there is great threat. When Mar’s brand associates its brands well with their commercials and consumers increasingly choose Mars brands over Hershey’s, it will be hard for Hershey’s to keep up its well known brand.

Recommendations

High/low Pricing Strategy

According to industry reports, sugar prices will decline this year, but then increase in the next few years. Since sugar is the key ingredient in most candies, and a huge ingredient in chocolate, it affects Hershey’s immensely. Additionally, there are health concerns with sugar and fat that are threatening future sales. Due to this, Hershey’s needs to change its pricing strategy to sell less sugary goods and more sugar free goods. First, Hershey’s needs to raise its prices in high sugar products. The company will not suffer greatly in sales, even with a price raise, because of its customer loyalty. The customers Hershey’s looses to competitors will be made up for by the marginal price revenues made on the price increase. There may be fewer sales, but revenue should remain roughly the same.

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Next, Hershey’s needs to decrease the price of healthier products and low sugar products. Making this step means implementing the high/low pricing strategy. Taking all of Hershey’s brands that have both high and low sugar products, and splitting price based on health benefits, will change the buying patterns. Customers who previously preferred high sugar products might switch to the cheaper, but healthier, choice. The high/low pricing strategy works because when customers see that low sugar candies are cheaper, customers will compare the price to the high sugar candies and reason with themselves to buy more. Even if customers are not attracted to the cheaper products, sales signs or price announcements will draw the customer into Hershey’s products. After this step, revenue will fall from the high sugar products to the dark chocolate and low sugar candies.

Fewer sales in high sugar candies will lower Hershey’s costs, saving it an increasing amount of money as sugar prices rise. Demand for dark chocolate has increased in the past few years due to health concerns, and with a price decrease from Hershey’s, the company will become even more popular. Industry reports expect the price of cocoa to fall this year then gradually rise in subsequent years, just like sugar. Hershey’s 2013 annual reports suggest that cocoa is a tricky product because it is unpredictable with how well it grows or if it gets dies. If there is crop decease or failure, the price of cocoa will rise. When cocoa prices rise, all chocolate producers will be forced to raise their prices for all their chocolates, milk or dark. Therefore, cocoa price changes should not effect the competition. As long as dark chocolate is cheaper by comparison to milk, and low sugar candy is cheaper than high sugar candy, the price of cocoa will not greatly effect Hershey’s.

Hershey’s does not need to implement this strategy in all of the countries it sells in, or in all of its brands. Hershey’s should only implement the strategy in the top health concerned countries where low sugar candies and dark chocolate’s demand is increasing. The USA is one of them, which is most of Hershey’s business, but even in the states, Hershey’s does not need to implement the strategy everywhere. The US is a big country, and Hershey’s will need to follow trends and make test price changes around the states to see where there is most success. Not all products will be able to use the high/low pricing method in this way. The brands need to be priced on their sugar and fat content, and some brands can be priced against another brand. For example, if Almond Joys appear healthier in the eyes of the consumer, then Hershey’s can price Almond Joy’s cheaper and Kit Kat’s higher. However, it will be more practical to price Kit Kat Dark and Kit Kat Milk Chocolate with the high/low strategy.

Health concerns are likely to stay the same or get worse, due to the trends in the past two decades and in scientific research that is bringing light to the health problems of sugar. Therefore, Hershey’s can wait to implement the pricing strategy till right before sugar prices are expected to

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19 ibid

rise in 2015. Hershey’s will be taking advantage of cheap sugar, then take advantage of consumer trends.

**Advertising**

Hershey commercials are cute and friendly, but if it does not step up its game, Hershey’s will continue to be outshone by its competitors. If Hershey’s implements the pricing strategy, it can be complemented by advertising Hershey’s concern for health and happiness. Not only will Hershey’s be able to advertise that “life is delicious,” it can advertise that life can be delicious and healthy. However, Hershey’s target audience is not always interested in hearing about health. Even if the customers would choose the healthier choice in the end, when they are watching TV they could respond more to friendly commercials. The company needs to target its commercials to different audiences. Adults are more concerned with health, and children are more likely to like high sugar products. For health concerned customers, a commercial should be played in the middle of the day to target stay-at-home moms or dads.

Hershey’s also needs fun loving commercials for when a family or children are watching the commercial. These commercials should not mention anything about health; they just need to be entertaining to get consumers longing the product. Hershey’s needs a character, such as M&M does, or commercials that follow similar plot lines, like Snickers. Hershey’s should pick one brand that is not as popular and create commercials that can leave strong impressions over years of similar commercials. Hershey’s can also build on the commercials it has now; all it needs to do is start adding connections between the commercials and its brands.

The super bowl is the top ranked advertising event in the US, and it is one of the top watched events. The most well known chocolate industries to advertise at the super bowl is Mars, which is well known for its M&M commercials. Hershey’s commercials have not appeared in the Super Bowl. Nestle has made appearances to advertise Butterfingers and even a Nestle Kit Kat. Hershey’s needs to make a competitive commercial so it can advertise on the top watched event, where watchers look forward to the commercials as much as the game. By the 2015 Super Bowl Hershey’s needs a fun loving, emotional, or funny commercial to win the hearts of the audience.

**Conclusion**

Hershey’s is a successful company with many marketing strengths, but it also has its weakness, threats, and opportunities. The strong brand name will help when Hershey’s is forced to raise prices due to sugar price increase, but also when it implements the pricing strategy to increase dark chocolate sales. Therefore, the company should change the pricing strategy to a high/low pricing strategy to adapt to the market trends and cost increase.

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The company faces the threat of its competitors Mars Inc. and Nestle, an international company. Both companies have a smaller share of the American chocolate industry than Hershey's, but Mars and Nestle have the potential to expand immensely. With Mars' famous M&M and Snicker commercials and Nestle's Butterfinger commercials, Hershey's faces the threat of losing customers and the market to its competitors. To keep its handle on the market, Hershey's needs to create well-known commercials by making memorable commercials for the 2015 Super Bowl. When The Hershey's Company implements the new pricing strategy and creates memorable commercials, the company's marketing will be stronger, which will make the whole company more successful.
Bibliography


*“The Hershey Company,” n.d, Mergent Online, accessed on March 5, 2014.


