Current Readings

Alber, Laura. "The CEO of Williams-Sonoma on Blending Instinct with Analysis." *Harvard Business Review* 92.9 (2014): 41–44. *Business Source Premier*. Web. 5 Sept. 2014.

Courtney, Hugh, Dan Lovallo, and Carmina Clarke. "Deciding How to Decide (Cover Story)." *Harvard Business Review* 91.11 (2013): 62–70. *Business Source Premier*. Web. 5 Sept. 2014.

Hon, Alice H. Y., Matt Bloom, and J. Michael Crant. "Overcoming Resistance to Change and Enhancing Creative Performance." *Journal of Management* 40.3 (2014): 919–941. *Business Abstracts with Full Text (H. W. Wilson)*. Web, 5 Sept. 2014.

Martin, Roger L. "The Big Lie of Strategic Planning." *Harvard Business Review* 92.1/2 (2014): 78–84. *Business Source Premier*. Web. 5 Sept. 2014.

Priem, Richard L., John E. Butler, and Sali Li. "Toward Reimagining Strategy Research: Retrospection and Prospection on the 2011 AMR Decade Award Article." *Academy of Management Review* 38.4 (2013): 471–489. *Business Source Premier*. Web. 5 Sept. 2014.

Rosenzweig, Phil. "What Makes Strategic Decisions Different (Cover Story)." *Harvard Business Review* 91.11 (2013): 88–93. *Business Source Premier*. Web. 5 Sept. 2014.

Weaver, Gary R., Scott J. Reynolds, and Michael E. Brown. "Moral Intuition: Connecting Current Knowledge to Future Organizational Research and Practice." *Journal of Management* 40.1 (2014): 100–129. *Business Abstracts with Full Text (H. W. Wilson)*. Web. 5 Sept. 2014.

Endnotes

1. Kathy Kiely, "Officials Say Auto CEOs Must Be Specific on Plans," *USA Today*, November 24, 2008, 3B.
2. Peter Drucker, *Management: Tasks, Responsibilities, and Practices* (New York: Harper & Row, 1974), 611.
3. Alfred Sloan, Jr., *Adventures of the White Collar Man* (New York: Doubleday, 1941), 104.
4. Quoted in Eugene Raudsepp, "Can You Trust Your Hunches?" *Management Review* 49, no. 4 (April 1960): 7.
5. Stephen Harper, "Intuition: What Separates Executives from Managers," *Business Horizons* 31, no. 5 (September–October 1988): 16.
6. Ron Nelson, "How to Be a Manager," *Success* (July–August 1985): 69.
7. Bruce Henderson, *Henderson on Corporate Strategy* (Boston: Abt Books, 1979), 6.
8. Robert Waterman, Jr., *The Renewal Factor: How the Best Get and Keep the Competitive Edge* (New York: Bantam, 1987). See also *BusinessWeek*, September 14, 1987, 100; and *Academy of Management Executive* 3, no. 2 (May 1989): 115.
9. Jayne O'Donnell, "Shoppers Flock to Discount Stores," *USA Today*, February 25, 2009, B1.
10. Richie Brand, "Nolan Richardson Scored a Championship Career," *Investor's Business Daily* (November 14, 2014): A3.
11. John Pearce, II, and Fred David, "The Bottom Line on Corporate Mission Statements," *Academy of Management Executive* 1, no. 2 (May 1987): 109.
12. Jack Marshall, "Online Ads Lure Cash, But Losses Still Mount," *Wall Street Journal* (August 18, 2014), B1.
13. Mike Esterl, Karishma Mehrotra, and Valerie Bauerlein, "America's Smokers: Still 40 Million Strong," *Wall Street Journal* (July 16, 2014), B1.
14. Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 1 (February 1989): 91.
15. G. L. Schwenk and K. Schrader, "Effects of Formal Strategic Planning in Financial Performance in Small Firms: A Meta-Analysis," *Entrepreneurship and Practice* 3, no. 17 (1993): 53–64. See also C. C. Miller and L. B. Cardinal, "Strategic Planning and Firm Performance: A Synthesis of More Than Two Decades of Research," *Academy of Management Journal* 6, no. 27 (1994): 1649–1665; Michael Peel and John Bridge, "How Planning and Capital Budgeting Improve SME Performance," *Long Range Planning* 31, no. 6 (October 1998): 848–856; Julia Smith, "Strategies for Start-Ups," *Long Range Planning* 31, no. 6 (October 1998): 857–872.
16. Gordon Greenley, "Does Strategic Planning Improve Company Performance?" *Long Range Planning* 19, no. 2 (April 1986): 106.
17. Adapted from www.des.calstate.edu/limitations.html and www.entarga.com/stratplan/purposes.html
18. Victoria Neufeldt, ed. *Webster's New World Dictionary*, 4th ed. (Hoboken, NJ: Pearson, 1998). Pearson purchased this dictionary from Simon & Schuster in 1998, but sold it to IDG Books in 1999.
19. Frederick Gluck, "Taking the Mystique Out of Planning," *Across the Board* (July–August 1985), 59.

THE COHESION CASE

The Hershey Company, 2015

BY FOREST R. DAVID AND MEREDITH E. DAVID

www.hersheys.com, HSY

Headquartered in Hershey, Pennsylvania, Hershey Company is the largest chocolate producer in North America and a confectionary leader worldwide, with over 80 brands, annual revenues over $7 billion, about 20,000 employees, and operations in about 80 countries. Hershey offers chocolates as well as other candies, mints, and chewing gum. Notable products include Hershey Kisses, Mr. Goodbar, Twizzlers, Jolly Ranchers, Ice Breakers, and, what may be the best-selling candy bar on the planet—Reese's, a Hershey brand that recently became an official sponsor of ESPN college football game day. Hershey is currently expanding globally with strategic emphasis on markets in China and Mexico, but the company still derives more than 85 percent of its revenue from the United States. In 2015, Hershey introduced the following new products: Kit Kat White Minis, Hershey's Caramels, Ice Breakers Cool Blast Chews, Reese's Spreads Snacksters, and Graham Dippers.

Hershey's net income for the first quarter (Q1) of 2015 declined 3.1 percent to $244 million from Q4 of 2014. Hershey's Q1 2015 revenues in China declined 47 percent. In response to this downturn, Hershey shifted its strategy in China to combat slower consumer spending by focusing on smaller rather than the largest cities, increasing its e-commerce offerings, and decreasing its reliance on hypermarkets. Also for Q1 of 2015, Hershey's advertising expenses increased 8 percent, but its selling and marketing expenses increased about 15 percent. Analysts have turned pessimistic about Hershey meeting its 20 percent sales growth guidance in China for calendar year 2015. The company's sales rose 3.5 percent to $1.94 billion for Q1 of 2015. Hershey has retail stores in New York City, Chicago, Niagara Falls, Shanghai, Dubai, Singapore, and Hershey (PA).

History

In 1894, Milton Hershey of Lancaster, Pennsylvania, decided to coat his popular caramels with a sweet chocolate. This venture was actually Mr. Hershey's third attempt in the confectionary business. In a 1927 interview, Mr. Hershey shared some advice from his mother that he attributed to his success: "When you tackle a job, stick to it until you have won the battle." Mr. Hershey was never an advocate of heavy advertising, instead telling anyone who would listen that providing a quality product is the best advertising in the world. A personal motto in Mr. Hershey's office read "Business is a matter of human service."

By 1900, Hershey was producing chocolate not only for caramel coatings but also in bars and other shapes, including the world famous Hershey's Kiss in 1907. A defining feature of Hershey from early on was its assembly line systems that lowered the unit cost of chocolate to a level that most everyone could afford. The 1950s through 1980s saw great growth for Hershey from acquisitions. Most notably was the 1956 acquisition of Reese Candy Company, which produced the world-famous Reese Peanut Butter Cups that had always used Hershey's chocolate to coat its peanut butter cups. After formally changing its name to Hershey Foods Corporation in 1968, Hershey acquired marketing rights to the English firm Rowntree Mackintosh; Y&S Candies, famous for Twizzlers; and Peter Paul/Cadbury's USA confectionery operations. Peter Paul's most notable products include Almond Joy and Mounds Bars. In 2012, according to *Advertising Age* and Euromonitor International, the Hershey's Reese's brand was the No. 1-ranked candy in America, with annual sales of $2.6 billion. Globally, Reese's stood at No. 4.

Hershey's net sales for the fourth quarter of 2014 totaled $2.01 billion, but fell short of the $2.07 billion estimated by analysts. That was the sixth quarter over the past two years that Hershey's sales underperformed. However, the company's sales were higher than the prior year, partly due to Hershey acquiring the Shanghai Golden Monkey based in China. Acquiring the firm in China more than doubled Hershey's revenue derived from that country. On December 30, 2014, Hershey entered into an agreement to divest its Mauna Loa macadamia nut business, $68 million annually, to Hawaiian Host, Inc.

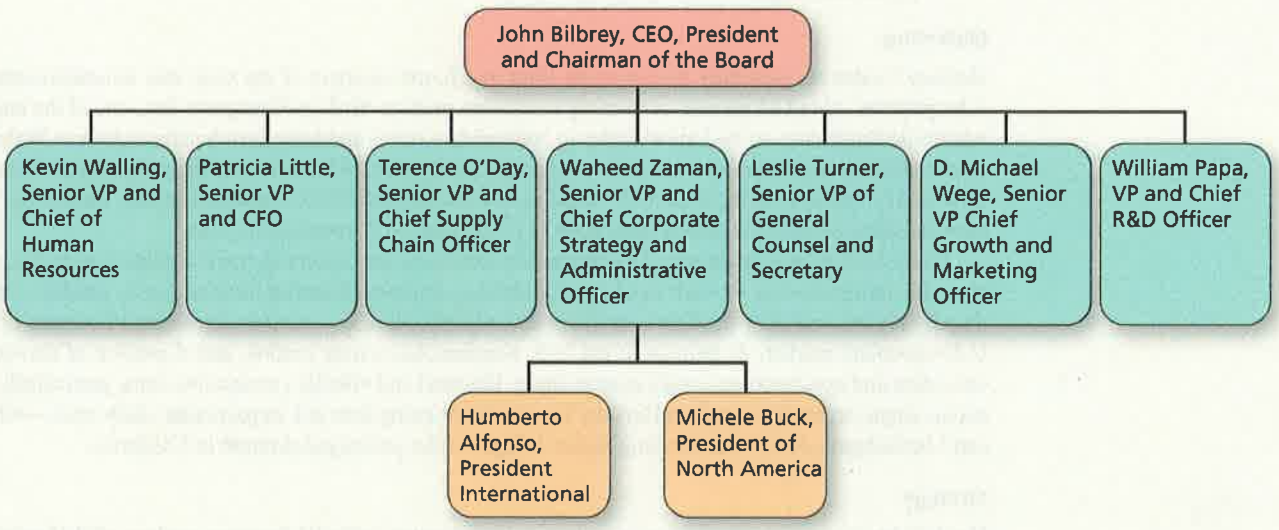
In early 2015, Hershey acquired KRAVE Pure Foods, Inc. for about $300 million. KRAVE is a maker of beef jerky and other high-protein snacks. Hershey made the move reportedly to tap rising interest in meat snacks, and to further the company's reach in making foods that consumers want to snack on. Hershey says the estimated $2.5 billion U.S. meat snacks category is growing at a double-digit pace. Founded in 2009, KRAVE generated about $35 million in sales in 2014. Hershey plans to operate KRAVE as a stand-alone business within its Hershey North America division; KRAVE's founder, Jon Sebastiani, continues to lead the business as President of KRAVE.

Internal Issues

Organizational Structure

Hershey has 10 top executives, as illustrated in the organizational chart given in Exhibit 1. Notice there are two segments: North America and International, with those executives reporting to the Chief Corporate Strategy and Administrative Officer. The North America segment includes only the USA and Canada. The Hershey Board of Directors is comprised of 11 members, each serving terms that expire annually.

EXHIBIT 1 Hershey's Organizational Chart



Vision/Mission

Hershey's vision statement reads: "We bring goodness to the world through great tasting snacks. One smile, one moment, and one person at a time." The company's mission statement reads as follows: "Bringing sweet moments of Hershey happiness to the world every day."

Social Responsibility

Hershey is one of the most socially responsible companies in the world and has won numerous accolades, including membership on the Dow Jones Sustainability Index and membership on The Civic 50. Hershey often ranks among the top corporations for improving the communities in which it operates. Hershey's website gives extensive narrative, numerous pictures, and many videos that substantiate the company's social responsibility efforts. For over 100 years, Hershey has been well known for owning and operating the Milton Hershey School, originally for orphan children. Today, the Milton Hershey School is the nation's largest and wealthiest boarding school for needy children, with $7.5 billion in assets for 1,900 students. Hershey spends about $110,000 a year per student, according to its nonprofit IRS tax filing—more than the nation's most expensive and elite prep schools.

In response to growing consumer demand for healthier, natural food and menu transparency, Hershey is replacing high-fructose corn syrup from its candy products as part of its efforts to use "ingredients that are simple and easy to understand." Rival Nestlé is removing all artificial flavors and FDA-certified colors from its chocolate candy, replacing them with ingredients from natural sources—a move that Nestlé says affects more than 250 products and 10 brands.

Hershey's latest Corporate Social Responsibility (CSR) Report (issued in early 2015) highlights advances the company made in 2014 on business ethics, environmental sustainability, ingredient transparency, and simple ingredients. In particular, the report revealed that in 2014, Hershey achieved 30 percent use of certified cocoa, putting Hershey ahead of schedule to hit its 2015 goal of 50 percent. Hershey has pledged to use 100 percent certified and sustainable cocoa in all chocolate products by 2020. Hershey also helped establish CocoaAction, a precompetitive industry collaboration seeking to align the cocoa sustainability efforts of the world's largest cocoa and chocolate companies to improve farmer productivity, address child labor challenges, make basic education available, and improve gender parity in cocoa production. In addition, the report stated that Hershey reduced its waste per pound of product by 1.4 percent and reduced packaging waste by a cumulative 1.75 million points through 26 companywide initiatives; reduced greenhouse gas emissions in United States distribution and logistics by 4.75 percent from 2013 baseline; and achieved zero-waste-to-landfill status at the El Salto, Mexico, facility, one of eleven Hershey facilities to achieve this milestone. In recognition of the company's many accomplishments, CEO J. P. Bilbrey was honored as a 2014 Responsible CEO of the Year by *CR Magazine*. Other 2014 notable honors for Hershey include:

Selected to Dow Jones Sustainability World and North America Index for second consecutive year
Obtained 100 percent on Corporate Equality Index
Recognized for environmental achievements by being named No.46 out of 400 in the Newsweek Green Rankings

Marketing

Hershey's sales are generally higher in the third and fourth quarters of the year, due to holiday-related sales patterns. About 25 percent of Hershey's sales are made to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores and mass merchandisers such as Walmart stores. Hershey has increased its overall candy, mint, and gum (CMG) market share in the United States in 2014 to 31.4 percent, an increase of 0.3 share points compared to 2013. Hershey's selling, marketing, and administrative (SM&A) expenses decreased $21.5 million, or 1.1 percent, in 2014.

Since consumption patterns of confectionery products are becoming more similar worldwide, one strategic option moving forward would be for Hershey to report financial information by product, rather than by region, and alter the firm's structure accordingly. Hershey accounts for about 44 percent of the U.S. chocolate market, 21 percent of the U.S. nonchocolate candy market, and 5 percent of the world chocolate and nonchocolate candy market share. Elevated and volatile commodity costs, particularly for cocoa, sugar, and dairy, may hurt Hershey's profitability going forward. In particular, dairy costs—which can't be hedged—have been trending higher in light of the prolonged drought in California.

Strategy

Hershey has recently embarked on a multiyear joint venture with 3D Systems, makers of 3-D printing technology, to start producing new confectionary products using this technology. 3D Systems currently produces two 3-D printers capable of making chocolate. The firm's ChefJet is priced around $5,000 and prints single-colored candy much like a plain Hershey candy bar. The ChefJet Pro, priced at around $10,000, can produce multicolored candies. Both printers are capable of printing complex candy designs at a rate of one inch per hour and sizes up to 8 inches by 10 inches by 14 inches. Some analysts, however, do not believe 3-D printing is an option for confectionaries until 2020 due to slow production and high cost factors. The technology will be affordable enough to produce specialized candies for Valentine's Day and other holidays around that time but still not affordable enough for mainstream production.

Recently, Hershey purchased Brookside-branded candy, famous for its dark-chocolate–covered candies with fruit-juice centers such as pomegranate and blueberry. Hershey purchased Shanghai Golden Monkey Food in 2014. In that year, Hershey began distribution of acquired confectionery and protein-based bean curd snacks into the China modern trade. For all of 2014, Hershey's chocolate sales in various countries grew, including China (12% vs. 7% prior year), Mexico (2% vs. 7% prior year), and Brazil (1% vs. 5% prior year).

With the KRAVE acquisition in 2015, and with the company's vision statement, Hershey's strategy is to broaden its product line more by adding healthful snacks to complement its numerous types of chocolate and nonchocolate candies. Since protein snacks are growing rapidly in popularity globally, the KRAVE acquisition may be the first of many for Hershey in that line of business. The acquisition represents one of the first times Hershey has taken a big step outside confectionery.

Hershey's 2014 international net sales increased nearly 15 percent, including a net sales contribution of approximately 7 percent, or $54 million, from Shanghai Golden Monkey Food Joint Stock Co., Ltd. (SGM). Excluding SGM and the unfavorable foreign currency exchange impact, Hershey's international net sales increased approximately 10 percent in 2014.

Segments

Hershey's primary operations and markets are in the United States. The percentage of total Hershey net sales outside of the U.S. was 17.5 percent for 2014, 16.6 percent for 2013, and 16.2 percent for 2012. The percentage of total consolidated assets outside of the U.S. was 35.4 percent as of December 31, 2014, and 19.4 percent as of December 31, 2013. Although Hershey does not report sales and income by product category, the company keeps internal records by three product segments: Chocolate, Sweets and Refreshments, and Snacks and Adjacencies. The Chocolate category consists of fancier options such as acquired Cadbury, traditional products such as Mr. Goodbar and Hershey's Kisses, and Dagoba organic chocolates. Twizzlers, Jolly Rancher, PayDay, and others are included under the Confectionary Products umbrella. Breath Savors, Bubble Yum, and Icebreakers fall under Sweets and Refreshments, and Hershey's baking chocolates and syrups are included under Snacks and Adjacencies. Hershey also offers a full line of sugar-free products. Many Hershey products are naturally gluten free and kosher in nature.

Hershey's sales and income by geographic region are given in Exhibit 2. North America accounted for 85.6, 86.8, and 87.5 percent of the company's sales in 2014, 2013, and 2012, respectively. Note in Exhibit 2 that Hershey's income from outside North America has declined steadily. All sales and income from Hershey stores are included in the International and Other segment.

EXHIBIT 2 Hershey's Net Sales and Income (in millions)

	2014	2013	2014
Sales			
North America	$6,352.7	$6,200.1	$5,812.7
International and Other	1,069.1	946.0	831.6
Total	7,421.8	7,146.1	6,644.3
Income			
North America	1,916.2	1,862.6	1,656.1
International and Other	40.0	44.6	51.4
Total	$1,956.2	$1,907.2	$1,707.5

Source: Based on Hershey's 2014 *Form 10K*, p. 25.

Finance

Hershey reported a 3.9 percent increase in revenues in 2014 to $7.42 billion, whereas company earnings increased about 7 percent overall from the prior year. The company's international net sales increased nearly 15 percent, including the negative impact of foreign currency exchange rates and positive contribution of about $54 million from Hershey's acquisition of Shanghai Golden Monkey in China.

Hershey has gained market share in every measured channel three years running, even after raising prices on many items 10 percent over the same period. In fact, Hershey has produced higher earnings every year but two since 2000. With a 34 percent market share in North America, Hershey instituted an 8 percent price hike in late 2014 on most of its chocolate products, partly in response to higher cocoa prices. The company's most recent income statements and balance sheets are provided in Exhibits 3 and 4, respectively. Note the steady increases in both revenues and net income.

EXHIBIT 3 Hershey's Income Statements (in thousands, except per share amounts)

	2014	2013	2012
Sales	$7,421,768	$7,146,079	$6,644,252
Costs and expenses			
Cost of sales	4,085,602	3,865,231	3,784,370
Selling, marketing, and administrative	1,900,970	1,922,508	1,703,796
Business realignment and impairment	45,621	18,665	44,938
Total costs and expenses	6,032,193	5,806,404	5,533,104
Income before interest and taxes	1,389,575	1,339,675	1,111,148
Interest expense	83,532	88,356	95,569
Income before taxes	1,306,043	1,251,319	1,015,579
Income taxes	459,131	430,849	354,648
Net Income	846,912	820,470	660,931
Net income per share	3.91	3.76	3.01
Dividends paid per share	2.04	1.81	1.56

Source: Based on Hershey's 2014 *Form 10K*, p. 45.

EXHIBIT 4 **Hershey's Balance Sheets (in thousands)**

	2014	2013
Assets		
Cash and Cash Equivalents	$ 374,854	$ 1,118,508
Short-Term Investments	97,131	—
Accounts Receivable—Trade (Net)	596,940	477,912
Inventories	801,036	659,541
Deferred Income Taxes	100,515	52,511
Prepaid Expenses and Other	276,571	178,862
Total Current Assets	2,247,047	2,487,334
Net Property, Plant, and Equipment	2,151,901	1,805,345
Goodwill	792,955	576,561
Other Intangibles	294,841	195,244
Other Assets	142,772	293,004
Total Assets	**$ 5,629,516**	**$ 5,357,488**
Liabilities and Stockholders' Equity		
Short-Term Borrowings	$ 635,501	$ 166,875
Accounts Payable	482,017	461,514
Accrued Liabilities	813,513	699,722
Accrued Income Taxes	4,616	79,911
Total Current Liabilities	1,935,647	1,408,022
Long-Term Debt	1,548,963	1,795,142
Other Long-Term Liabilities	526,003	434,068
Deferred Income Taxes	99,373	104,204
Total Liabilities	**$ 4,109,986**	**$ 3,741,436**
Stockholders' Equity		
Preferred stock shares issued: none in 2014 and 2013		
Common stock, shares issued: 299,281,967 in 2014 and 299,281,527 in 2013		
Class B common stock, shares issued: 60,619,777 in 2014 and 60,620,527 in 2013		
Additional paid-in capital	754,186	664,944
Retained earnings	5,860,784	5,454,286
Treasury stock: 138,856,786 in 2014 and 136,007,023 in 2013	(5,161,236)	(4,707,730)
Accumulated other comprehensive loss	(358,573)	(166,567)
Stockholders' equity	1,455,062	1,604,834
Noncontrolling interests in subsidiaries	64,468	11,218
Total stockholders' equity	1,519,530	1,616,052
Total liabilities and stockholders' equity	**$ 5,629,516**	**$ 5,357,488**

Source: Hershey's 2014 *Form 10K*, p. 47.

Competitors

The chocolate industry is dominated by five companies: (1) Hershey, (2) Nestlé, (3) Mars, (4) Lindt & Sprungli AG, and (5) Tootsie Roll Industries. Europe, the United States, and South America account for 54, 32, and 8 percent of total chocolate and nonchocolate candy revenues, respectively, or a dominant 94 percent. Thus, there is much room for expansion by these firms into developing nations whose disposable incomes are increasing, especially nations in Asia and Africa, but also in South America. A comparison of competitors is provided in Exhibits 5 and 6. Note that Mars dominates in nonchocolate candy. Also note that Nestlé is about 10 times larger than Hershey.

EXHIBIT 5 Hershey versus Rival Firms, Market Share (percent)

Product Type	Hershey	Mars	Nestle	Others
USA Chocolate	37	28	5	*30
USA Nonchocolate Candy	21	35	2	42
Global Chocolate and Nonchocolate Candy (non-USA)	5	14	9	**72

Source: Based on information at IBIS and a *Wall Street Journal* article on 2-18-15, p. B6. Numbers are rounded.

* Lindt & Sprungli AG contributed about 10 percent of others market share.

** Mondelez International Inc. and Ferrero SpA contributed 11 and 8 percent market shares, respectively.

EXHIBIT 6 Hershey versus Rival Firms

	Hershey	Nestlé	Tootsie Roll	Industry Avg.
# Employees	20,800	333,000	2,000	1,730
$ Revenue	7.5B	105.47B	541M	3.79B
$ Revenue per Employee	360,575	316,000	270,500	219,000
$ Net Income	840M	11.15B	62.6M	3B
$ Market Capitalization	20.7B	242B	2.08B	675M
% Operating Margin	0.19	0.15	0.15	0.05
Earnings per Share	3.76	3.49	1.03	–0.11

Source: A variety of sources.

Nestlé S.A. (stock symbol = NSRGY)

Headquartered in Vevey, Switzerland, Nestlé is a large food-processing company with 2014 revenues of 96.2 billion U.S. dollars (USD) and a net income of $15.14 billon. According it its website, Nestlé proclaims to be the top global company with respect to nutrition, health, and wellness by providing customers with nutritious and great-tasting food and beverage choices. Nestlé's mission statement is simply "Good Food, Good Life." The company produces a wide array of products ranging from baby foods, chocolate, coffee, juices, dairy, ice cream, pet care, and more. Notable chocolate products include Butterfinger, Crunch, Aero, KitKat, and Toll House chocolate chips. Wonka is also owned by Nestlé and includes Nerds, Sweetarts, Spree, Laffy Taffy, Runts, Gobstopper, Fun Dip, and many other sugary candy options. In 2013, Nestlé reported chocolate sales of $8.5 billion Swiss Francs ($8.5 billion USD) and sugary confectionary sales of 1.2 billion Swiss Francs ($1.4 billion USD). Total chocolate and sugary confectionary sales were around 10 percent of total company revenues. Total sales derived from (1) the Americas, (2) Europe, and (3) Asia, Oceania, and Africa were 44, 28, and 28 percent, respectively.

Nestlé is much more diversified than all of its chocolate competitors, except for Mars, and continues to expand its brands. Recently, Nestlé paid $12 billion to acquire Pfizer Nutrition to bolster its market share in the child nutrition market, as well as Pamlab, a U.S.-based health-care products company. In February 2014, Nestlé sold an 8 percent stake in French cosmetics firm L'Oreal and is currently planning a large share buyback of its own stock. Analysts anticipate that Nestlé will sell its remaining 23 percent stake in L'Oreal. One potential company it might try to acquire is Ferrero, an Italian firm known for producing the chocolate hazelnut spread Nutella. Analysts estimate the value of Ferrero would be around $22 billion USD.

Nestlé and Google agreed in 2014 to name Google's new Android operating system KitKat after Nestlé's world-renown chocolate wafer candy. No money changed hands on the agreement. Google benefits by having more than 50 million specially wrapped KitKat bars in 19 different nations, including the United States, where Nestlé licenses KitKat to Hershey. The 50 million KitKat bars are timed to be released with the launch of Google KitKat. The special wrappers lead consumers to Google-affiliated websites where they can win prizes such as the Google Nexus 7, and credits to spend at Google Play.

Mars, Inc.

Mars is the second-largest candy manufacturer in the United States and the third-largest privately held company in the United States according to *Forbes.* Headquartered in McLean, Virginia, and having annual sales over $30 billion, Mars, like Nestlé, is well diversified with six business units consisting of chocolate, drinks, food, symbioscience, pet care, and Wrigley chewing gum. Mars blockbuster chocolate brands include Snickers, Milky Way, M&Ms, Dove, Bounty, 3 Musketeers, Starburst, and Skittles, among others. The annual revenue of Mars in 2014 was about $35 billion—more than 50 percent higher than in 2007, largely due to the firm's 2008 acquisition of Wrigley. Since patenting recipes is difficult and producing chocolate is secretive, Mars does not allow visitors to its kitchens in its factories and facilities. Mars' first blockbuster product back in 1923 was the Milky Way candy bar, still a big seller today.

Market researcher Euromonitor International recently reported that Mars' market share in the United States rose to 28 percent from 24 percent. To further battle Hershey, in 2014, Mars opened a new 500,000 square-foot chocolate factory in Topeka, Kansas, at a cost of $270 million. The factory cranks out more than 8 million miniature Snickers candy bars and 39 million peanut M&M's every day.

Like Nestlé, Mars advocates global sustainability of the cocoa resource but has received criticism in recent years over purchasing cocoa from West African farms that use child labor. Mars is also one of the world's biggest producers of dog food and pet-care products. Mars' Wrigley division produces chewing gums, confectionery products, and a variety of other products ranging from Uncle Ben's rice to Pamesello grated cheese and Flavia coffee. Mars' pet-food brands include Pedigree, Greenies, Sheba, and Whiskas. Interestingly, chocolate is Mars' second-largest business globally, behind pet care.

Lindt & Sprungli AG

Headquartered in Switzerland, Lindt purchased U.S.-based and privately held Russell Stover in 2014 for an unreported amount, making Lindt the third-largest chocolate company in the United States (with a 10 percent market share), behind Hershey and Mars, and ahead of Nestlé. With the Russell Stover addition, Lindt acquired over 70,000 drugstore outlets for their products in the United States and Canada. Lindt also currently owns Ghirardelli Chocolate, based in San Francisco. Interestingly, Lindt is taking a slightly different strategic path than Hershey, Mars, and Nestlé. Although many top chocolate brands are betting on emerging markets such as China and India that have growth rates over 15 percent, Lindt is betting on North America with growth rates of less than 2 percent in chocolate sales. Lindt cites the main reason for sticking with the United States and Canada are they are safer markets and still will be three times larger chocolate markets than both China and India combined, even as far out as 2018. Lindt also specializes in higher- and middle-end chocolates and these products are not cost-effective options for many of the customers in China and India.

Tootsie Roll Industries (stock symbol = TR)

Headquartered in Chicago, Illinois, Tootsie Roll Industries' CEO and Chairman, Melvin Gordon, died at the age of 95 in January 2015. Gordon, with his wife, Ellen Gordon, who inherited control of the company from her father, were married for 65 years and together created one of the most secretive corporate cultures among publicly traded companies in the United States. The Gordons rarely gave interviews; indeed, they shunned media attention, issued only scant quarterly earnings reports, and tightly restricted visits to its headquarters on Chicago's South Side. An analyst once said, "I think the only way you can get a tour of Tootsie Roll's manufacturing plant is by jumping over the fence and sneaking in."

Over the decades, the Gordans acquired other well-known candy brands, assembling a portfolio of similarly time-worn-but-profitable names, including Charms Blow Pops, Sugar Babies caramels, Junior Mints, and DOTS gumdrops in addition to the eponymous chocolate chews that made Tootsie Roll famous. Tootsie Roll reported earnings of $12.9 million in Q1 of 2015, down from $15.0 million the prior year. The company's sales were $105 million in Q1 of 2015, down from $106 million the prior year. Tootsie Roll Industries became the world's largest maker of lollipops when it bought the Charms Company in 1988. The company later acquired Sugar Daddy and Junior Mints and, in 2004, Concord Confections, adding Dubble Bubble and Wack-o-Wax to the candies it produces. The company was well-known for its commercials. It claims to have received more than 20,000 letters from children trying to answer a question posed by an owl in a 1970s commercial: How many licks does it take to reach the center of a Tootsie Pop?

Tootsie Roll's brands, as well as its real estate assets in Chicago, and the fact that Gordon's children are not directly involved in the business, make the company an attractive firm to acquire, perhaps for Hershey Company, Mars, or Nestlé. Ellen Gordan, age 83, is the largest Tootsie Roll shareholder, and was even prior to her husband's death. The Gordon family holds a controlling stake in the company. Tootsie Roll trades at about 20 times its profit and has about 2,000 employees. That gives it a higher price tag than any other similar-sized public candy maker target in the last decade, even before accounting for a premium. Tootsie Roll's shares rose 8 percent to a 17-month high of $33.28 following the announcement of Mr. Gordon's death, but by May 2015, shares were back down to $30.

Ferrara Candy Company

Ferrara, not to be confused with Italy-based Ferrero maker of Nutella and other chocolate products, was founded in 1908 in Chicago and is a rapidly growing American candy company. Top products include Atomic Fireball, Lemonhead, Now&Later, Fruit Strip, and Boston Baked Beans. The firm has one plant in Mexico and produces almost exclusively nonchocolate candy. Total revenues in 2009 were $563 million, growing to over $1 billion by year end 2013. Ferrara, a rapidly growing company, generally finances through equity over debt to help improve credit ratings.

External Issues

Hershey is replacing high-fructose corn syrup in some of its products with sugar, making the firm a high-profile example of the move away from high-fructose corn syrup that may fuel weight gain and diabetes. Examples of Hershey products that use corn syrup include Almond Joy, Fifth Avenue, Take 5, and York; the American Medical Association has said there is not enough evidence to specifically restrict the use of the syrup. The Corn Refiners Association recently hired market-research firms Mintel and Nielsen to study perceptions of sweeteners, and reported "67% of consumers agree that moderation is more important than specific sweetener types." In the food and beverage industry, soda accounts for a majority of the market for high-fructose corn syrup. Interestingly, Hunt's ketchup is an example product that switched to more sugar but then switched back to corn syrup, seeing no change in the sales of Hunt's. The Food and Drug Administration has denied requests by some companies to have their sweetening agent renamed "corn sugar" on nutrition labels. Chocolate sales in the United States are increasing about 3 percent annually, compared with a 2 percent increase for total packaged food. The chocolate increases are recorded despite a trend toward more healthful eating.

Due to growing consumer demand for healthier food, Nestle SA recently removed artificial flavors and colors from its Crunch and Butterfinger candy bars and other chocolates in the USA. Nestle USA is the first major U.S. candy manufacturer to remove such artificial ingredients, such as Red 40, Yellow 5, and vanillin. For example, natural vanilla flavor is replacing vanillin in Crunch bars, and annatto is replacing artificial food colorings.

Cocoa Prices

When Hershey was founded over 100 years ago, chocolate was generally considered a luxury for the rich and out of the grasp of lower-income customers. Mr. Hershey changed this, at least with respect to U.S. customers, by creating an automated assembly line system and competing on economies of scale. Some 100 years later, once again, chocolate demand is on the increase. This time, however, the increase in demand is not from falling chocolate prices like it was 100 years earlier but rather from millions of new consumers in emerging worldwide markets being able to afford increasingly higher-quality chocolates that require better and higher percentages of cocoa. Unlike other crops, such as corn or soybeans, cocoa is more difficult to produce and cocoa prices are expected to rise substantially moving forward, according to the International Cocoa Organization (ICO).

Typically, cocoa trees take as many as 10 years to mature, and many of today's trees are old, not yielding the same number or quality of beans. Farmers are also switching to more profitable crops, even as the price of cocoa approaches $3,000 per ton. Analysts estimate the cocoa price would need to be $3,500 per ton to maintain current production rates from farmers. In fact, the ICO expects the demand to production ratio to be the highest ever by 2018, since it started keeping records in 1960. In 2013 alone, worldwide consumption of cocoa beans was up 32 percent from 2012 and Chinese demand is projected to rise 5 percent annually through 2018. To help combat the new demand, Mars and Nestlé have spent millions to educate farmers in West Africa on proper techniques and in developing new types of cocoa trees. The Ebola virus outbreak in West Africa threatened hundreds of cocoa farms.

North American–based Blommer Chocolate Company is a top cocoa processor and one of the main suppliers to Hershey and other chocolate-producing companies. Blommer is expanding its processing capacity to meet strong U.S. chocolate demand. Nevertheless, chocolate companies are facing tough choices that include raising prices, reducing portion sizes, or even using less cocoa in its products. As early as 2006, Hershey started using substitutes for cocoa butter in the production of Krackel and Mr. Goodbar, which resulted in the firm having to change the label "milk chocolate" to "made with chocolate" or "chocolate candy" to comply with the Food and Drug Administration (FDA) protocols for the labeling of chocolate food items. Hershey, however, is now switching both Krackel and Mr. Goodbar back to solid milk chocolate, meaning the bars will contain at least 10 percent cocoa per FDA regulations to be called *milk chocolate.* Also hurting Hershey are lower grain prices used in potentially substitute snack products such as pretzels, cookies, and other snacks.

Potential Taxes and Health-Minded Public

There is a growing awareness worldwide of the dangers of unhealthful eating, especially when it comes to sugars, processed foods, and animal fats. Many different governments (local, regional, and national) have increased (or plan to) taxes or have flat out banned unhealthy items. Taxes are viewed by governments much like tobacco taxes as a way not only to curb citizens' consumption but also as an additional means of revenues. For example, Connecticut recently proposed a 2 percent additional tax on all soda, suggesting it would provide $144 million in annual revenues and reduce soda consumption in the state. New York City has banned most sugary drinks 16 ounces and larger from being served. The Navajo Nation, the largest American Indian Reservation in the United States with 300,000 members, is proposing a tax of up to 7 percent on fatty snacks and soda, up from the current level of 5 percent, and excluding healthful food items from taxation. Former NBA star Yao Ming is campaigning in his home country of China to promote healthier eating and exercise habits. Mexico recently passed legislation to significantly tax both sugary drinks and high-calorie items such as candy, and in 2012, Peru, Uruguay, and Costa Rica banned all junk food from public schools, including candy bars. Many other nations in Latin America require red or yellow circles around sugar content on the packaging of items, depending on their sugar content. All of these actions and trends are a threat to Hershey.

Increasing obesity is a major problem among the world's population. Processed sugar negatively impacts the body by increasing chances of tooth decay, obesity, and diabetes, and additionally can significantly increase one's chances of getting heart disease and even cancer. Scientific tests reveal that sugar is basically a food for cancer cells and people who drink 2 soft drinks a week are 87 percent more likely to develop pancreatic cancer. For comparison, a Hershey Milk Chocolate bar contains 24g of sugar, a Hershey Dark Chocolate bar contains 21g of sugar, and a can of cola contains around 39g of sugar. Sugar is also believed to be damaging to one's skin, looks, and overall mood. Moving forward, Hershey could consider increased marketing of dark chocolate, which contain good antioxidants, but is much higher in saturated fat than milk chocolate and contains high levels of sugar. Sugar-free candy has also been linked to cancer and weight gain, partly because artificial sweeteners are not healthy.

Panera Bread Company is removing 150 artificial ingredients from its kitchens by 2017. The types of ingredients being eliminated at Panera include artificial sweeteners, preservatives, and artificial flavor enhancers. Food companies are increasingly eliminating unnatural and unhealthy ingredients. For example, Kraft Foods Group is replacing the artificial orange colorings in its macaroni and cheese product with natural colorings made from spices like turmeric and paprika. PepsiCo is replacing its artificial sweetener aspartame used in Diet Pepsi with sucralose. Dunkin' Donuts is removing titanium dioxide, a whitening agent used in sunscreen, from its powdered doughnut recipes, but only after an environmental advocacy group said it found nanoparticles in the company's white powdered sugar through independent laboratory tests. The environmental group says nanoparticles, such as titanium dioxide, could cause damage to cells and tissues.

Conclusion

Developed in partnership with 3-D Systems (stock symbol = DDD), Hershey Company's new 3-D printing gives consumers nearly endless possibilities for personalizing their chocolate. Hershey has a new 3-D exhibit and 3-D chocolate printer (the most advanced model in operation today) on display at Hershey's Chocolate World Attraction in Hershey, Pennsylvania.

An analyst once said that "strategic planning is more about deciding what strategies not to pursue than it is about deciding what to do." This may be especially true for Hershey Company, which has many good options. Most nations of the world would be pleased to see Hershey extend their product lines into their country. Even in the United States, customers desire to see new Hershey products introduced annually. Hershey could continue to acquire firms in the healthful snacks business such as KRAVE, or acquire firms in the candy business, such as Tootsie Roll Industries, or simply grow more organically by building manufacturing plants and distribution facilities globally. There are more than 150 countries on the planet where Hershey products are still not available. Most people in those countries would welcome chocolate.

Hershey needs a clear strategic plan going forward. Develop a strategic plan that will enable the company to meet its many obligations, not only to the 1,900 girls and boys at the Milton Hershey School but also to its thousands of shareholders who expect to see the company grow both revenues and profits annually.