GLOBAL MARKET STRATEGY IN THE CONFECTIONERY INDUSTRY: THE CASE OF HERSHEY FOODS CORPORATION

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A PLAN B PAPER

Submitted to Michigan State University

in partial fulfillment of the requirement

for the degree of

MASTER OF SCIENCE

Department of Agricultural Economics

Spring 2001
ABSTRACT

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This study uses Hershey Foods Corporation as a case to demonstrate how to formulate global product strategy to penetrate growing international markets. In recent years, confectionery markets have been growing around the world. Hershey Foods Corporation, the North American confectionery leader, however, has been experiencing some setbacks in international expansion. This study uses the global strategy framework (Yip, 1992) to analyze the strategic position and resources of Hershey Foods Corporation, and to diagnose confectionery industry globalization potential. The focus of the study is the formulation of global product strategies for Hershey's future expansion into strategically important markets. Benefits and costs of a global product strategy and the organizational ability of Hershey Foods Corporation to implement a global product strategy are also evaluated.
Dedicated to

My mother Liu, Yuying, to my father Zhang, Kaiyin, and my sister Zhang, Yan

For all their unconditional support and inspiration during my overseas study.
ACKNOWLEDGEMENTS

I would like to express my sincere appreciation to all those faculty, staff, colleagues and friends who assisted in the completion of the paper. I am deeply indebted to my major professor, Dr. Christopher Peterson, who provided continuous and valuable academic guidance and financial support during my two years of study. I also would like to express my appreciation to Dr. David Weatherspoon, who reviewed this manuscript and served on my guidance committee.

Thanks also to my colleagues and friends, Youssouf Camara, Amy Damon, Kelley Cormier, Carlo Russo, Lorie Srivastava, and Lulama Traub. I sincerely appreciate their patience with my English, their believing in me, and their spiritual support. Their friendship enabled me to cope with pressure and frustrations in my two-year study, and to accomplish my academic goals.
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Chapter 1  Introduction

Confectionery has grown from ancient delights to a US$21 billion industry in the United States. The U.S. confectionery market leader, Hershey Foods Corporation, also has grown from a small chocolate company in the countryside of Pennsylvania to the leader of the North American markets. In recent years, confectionery markets have been growing worldwide. However, Hershey is experiencing difficulty in taking advantage of global growth. As a result of this concern, Hershey needs to reevaluate its strategies in order to seize the present global opportunities.

1.1  Background Information

1.1.1  History of Confectionery

Human's desire for something sweet to eat goes back to primitive times and has grown into a $21 billion confectionery industry in the United States. The industry produces a universal food product using ingredients from many parts of the world. From the cacao tree plantations of tropical climates, to the cane and beet sugar field, to the cornfields of the Middle West, to the fruit and trees in many parts of the world, to the roots and herbs area, to the dairy lands in most countries, candy strongly affects agricultural producers and their markets. Modern machines, skilled workers, and executive, scientific and distributive techniques combine to meet the great demand for confectionery products.

The recorded history of confectionery can be traced back to ancient Egyptians, Romans, Greeks and Chinese. Nevertheless, the confections made at that time would seem strange compared to modern candies. Ancient Egyptians made candy from flour and
crude starch, sweetened with honey, with additions of spices and sweets. By combining honey with flour paste and fruits, ancient Romans and Greeks also enjoyed their confections. Records dating back to ancient China show that the people made a variety of hard candy by boiling barley and water to a hard consistency, spinning it into sticks and then rolling these in toasted sesame seeds. At that time, candy was a luxurious treat that only a few could afford.

The increased availability of sugar transformed candy from an ancient delight into a major modern industry producing a relatively low-cost food that millions of people could enjoy. Candy evolved from ancient forms produced in ancient origins to a modern industry centered in Europe. Venice had long acquired sugar through trade with the East. In the 13th century, Venetians had a virtual monopoly on the European sugar trade. They were also the first to improve sugar-refining methods. Eventually refineries sprang up in Italy, Germany, Spain, England and Brazil.

The first confectioners in America were the Dutch backers of New Amsterdam, later called New York. At the beginning of the 20th century, there were about 1000 manufacturers in the United States. They employed 27,000 workers and the total annual sales were $60,000,000 (Minifie 1989). Equipment until the 1900s consisted chiefly of kettles, hand cutters, starch boards, shallow trays, and hand printers. The majority of these were quite primitive. The introduction of European candy manufacturing inventions modernized the candy industry in the United States. These inventions enabled mass production of candy at a lower cost, improved the sanitary conditions of candy manufacturing by eliminating work previously done by hand, and increased production to meet the ever-increasing demand for candy.
World War I fostered mass production of candy and revolutionized the industry. Almost every candy-making process, from the preparation of raw materials to the packaging of the final product, was transformed to continuous operation. Candy became a nationally recognized food, and its evolution from a mere delicacy to a world commodity was complete. World War II also fostered many improvements in the candy industry. Methods to help preserve candy flavors and freshness were developed and are still in general use or advanced stages of development today.

Considering all the changes that have affected candy production and made it more widely available, candy throughout history has never lost its consumer base.

1.1.2. History of Hershey Foods Corporation

In the United States, Hershey and chocolate are synonymous. Hershey Foods Corporation is the largest U.S. producer of chocolate and non-chocolate confectionery products and the company markets more than 50 brands worldwide (Hershey Foods Corporation Annual Report 1999).

Milton Hershey established the Hershey Chocolate Company around 1900, after selling his caramel-manufacturing business. The company was located in the rich Pennsylvania countryside where there was a plentiful supply of fresh milk. After much experimenting, Hershey developed his own method for making milk chocolate. The Hershey Almond Bar and Hershey Milk Chocolate bar first appeared in 1894, and one of the most popular items, Hershey's kisses, was introduced in 1907.

Hershey's business prospered during World War II. The firm produced a specially formulated chocolate bar for the U.S. government that would not melt in a soldier's pocket, but would sustain that soldier if no other food was available. About 500,000 bars
were produced each hour, twenty-four hours a day at the Hershey factory. The Hershey Company experienced healthy growth at the close of World War II (Broekel 1982).

However, after World War II, under the conservative leadership of Percy Alexander Staples, the Hershey Corporation had been through years of stagnation. The company missed ideal opportunities to expand into European markets, lost its market leadership position to Mars and had difficulties sustaining new product entries (Zimmerman 1993).

It was also during this period that Hershey started to restructure management and recruitment of talented young people for positions as junior executives. The 1960's was the first time that Hershey Foods Corporation recognized the need for more professional marketing and sales talents. The company introduced its first full national advertising program in 1970 (Zimmerman 1993).

Hershey expanded both its domestic and international market shares through acquisitions. Since the mid-80s, Hershey has bought a dozen popular brands. As of April 18, 1999, Hershey held the leading position in both U.S. chocolate and non-chocolate confectionery markets with a market share of 42.9% and 17.2%, respectively. After Hershey completed a 96% interest sale of its pasta business in January 1999, the company is now left with two major divisions: Hershey Chocolate North America and Hershey International (Hershey Foods Corporation Annual report 1999).

Hershey Chocolate North America produces and markets many favorite American brands, such as, Almond Joy and Mounds candy bars, Cadbury's cream eggs candy, and Hershey's Cookies'n' Creme candy bars. This division holds not only the leading position in the US confectionery market, but also the Canadian baking chips and sundae toppings
markets. In addition, it holds the number two position in the expanded chocolate bar segment in Canada and in the chocolate confectionery and flavored milk drink categories in Mexico.

Hershey International markets Hershey's branded confectionery and grocery products in over 90 countries worldwide. It sells traditional Hershey's chocolate and grocery products, as well as Hershey's Extra Creamy Milk Chocolate, which is designed specially to meet the taste preference of international consumers. Hershey's branded products also are available through licensing agreements with partners in South Korea, Japan, Philippines and Taiwan.

The company's ten-year compounded growth rate was 7.42% for sales, 4.77% for net income, and 6.79% for total assets. As of December 31, 1998, the corporation employed 14,700 full-time and 1,500 part-time employees (Hershey Foods Corporation Annual Report 1999).

1.1.3. Current Situation of Confectionery Industry

In recent years, confectionery markets have been growing worldwide. Opportunities range from the mature markets of Western European and the U.S. to the emerging markets of Asia Pacific, Eastern Europe and South America. Per capita consumption in the US has risen from 17.7 pounds in 1974 to 25.5 pounds in 1997 (US Department of Commerce). From 1993 to 1997, the total growth rate of candy sales was about 17.5% (IRI Infoscan 12/29/97). In 1997 confectionery sales growth doubled that of the overall food market's growth.

Internationally, between 1993 and 1997, Vietnam (10.5%), Brazil (9.1%), Ireland (5.8%), China (5.7%) and the Czech Republic (5.4%) were the leading per capita
confectionery consumption growth markets in volume (Candy Industry 07/98). Data-monitor, a strategic market analysis company, forecasts that the confectionery trading pattern will expand further into regions such as Eastern Europe, Brazil and China.

Ranked first among snack categories and third among food categories in 1998, the U.S. confectionery industry is a highly concentrated industry which is becoming increasingly global. Eight firms account for 85% of market share (Hershey Foods Corporation Annual Report 1999). Among these firms, several of the leading confectionery companies are foreign-owned, but maintain or own manufacturing facilities in the United States. In 1997, the U.S. chocolate manufacturers’ trade deficit increased by 52% to $44 billion dollars despite domestic chocolate exporters increasing their global presence by 10% (Candy Industry 01/99).

1.2 Problem Statement and Objectives:

In spite of current domestic and international opportunities discussed above, Hershey has been experiencing some inadequate performance. Starting from the fourth quarter of 1998, Hershey’s stock closing price has performed below that of the average stock on the S&P500 for the first time in the past five years. In addition, as confectionery giants based in established mature markets are exporting and manufacturing in emerging markets, such as, Eastern Europe and Asia, Hershey is absent from this heated international competition, focusing mainly on domestic and North American markets (Brenner 1999).

Ignoring the high product development costs and the difficulty of making market share gains, Hershey is still introducing new products to capture market share in the
mature North American markets. Hershey has one of the best innovation records in the industry with three successful introductions in the United States and Canada during the 1980s—Skors (1983), BarNone (1987), and Symphony (1989) (Yip, 1991). But this success has not been transformed into international success.

In contrast to the other major players, Hershey does not rely on a few core, global brands to build market share in new markets. For example, in Mexico, the joint venture Hershey entered with National de Dulces in 1966 produces 12 Hershey products and Hershey International exported an additional 14 brands (Yip, 1991). Mars’ approach of direct control of manufacture and reliance on only a few standardized products has been more successful. Mars’ market share surpassed Hershey’s in the very first year it entered the Mexican market (Yip, 1991).

The purpose of this paper is to address the globalization issues faced by Hershey Foods Corporation. The paper attempts to evaluate the industry conditions (market, cost, government, and competitive drivers) that provide Hershey with the potential for using global product strategy.

1.3 Research Questions

As the North American confectionery leader, Hershey only ranked fifth in global sales in 1997, far behind its archrival Mars (Travel Retailer International 1998). Hershey continues to focus primarily on the North American market while major US confectionery producers are competing with European confectionery giants in growing overseas markets and reaping benefits from industries and technologies developed abroad.

The following questions then arise:
1. As to Hershey’s overall strategic posture: a) What are the strategic resources of Hershey Foods Corporation?; b) How does Hershey position itself in the industry?

2. What product strategy should Hershey take to best utilize its industry globalization potential and to penetrate international confectionery markets?

3. What are the benefits/costs of a global product strategy for Hershey?

4. Does Hershey have the organizational ability to implement a global product strategy?

1.4 Structure of the Paper.

Chapter 2 describes the methodology used in this study: a global strategy framework. Different components of this framework are discussed and their respective contributions to this research are justified.

Chapter 3 examines Hershey Foods Corporation's strategic position and resources by analyzing its strengths, weaknesses, opportunities and threats, and overall core strategy.

Chapter 4 examines the confectionery industry’s globalization potential and provides an overview of international confectionery markets. Four groups of industry globalization drivers are analyzed, and international markets are selected according to their globally strategic importance to Hershey Foods Corporation.

Chapter 5 discusses Hershey Foods Corporation's global product strategy. Ideal product strategies for Hershey’s selected international markets are suggested. Hershey’s current uses of product strategy are critiqued, and recommendations for change are
proposed. The benefits/costs of global product strategy and the organizational ability to implement this global strategy are evaluated.

Chapter 6 summarizes the findings of the paper, reviews recommendations for Hershey Foods Corporation's international markets penetration, critiques the framework, and points out areas for further research.
Chapter 2  Global Strategy Framework

The methodological framework used in this study is Yip’s global strategy framework (1992). Five components of the framework are: 1) position and resources of business and parent company, 2) industry globalization drivers, 3) global strategy levers, 4) benefits/costs of global strategy, and 5) organization’s ability to implement a global strategy. These various components are discussed and their uses in this framework are justified.

2.1 Description of the Framework

The old models of multinational strategy are primarily "multi-domestic" in nature. Hout, Porter and Rudden (1982) defined a global industry, in contrast to a multi-domestic industry, as one in which a firm's competitive position in one country market is significantly affected by its competitive position in other country markets. The recommended response (Porter, 1986) is a combination of concentration and coordination of value-added activities. Bartlett and Ghoshal used a somewhat different definition. In their view, a "transnational" industry is one in which businesses are driven by simultaneous demands for global efficiency, national responsiveness and worldwide learning.

Building on a conceptual framework for competition in global industry (Porter, 1986) and the industrial organization link to competitive strategy (Cave, 1980), Yip set out a framework that systematically relates global strategy choices to global industry condition. This study will use Yip's global strategy framework to analyze globalization
potential of the confectionery industry and discuss global strategy choices for Hershey Foods Corporation, the leader of the U.S. confectionery market.

Figure 2-1 shows Yip's global strategy framework for diagnosing and developing globalization strategy as adapted for this study. This framework starts with the discussion of position and resources of the business and parent company. Attractiveness of globalization strategy is firm specific. Resources and position of a company have direct effect on the extent of the use of global strategy. Another important influence to the use of global strategy is industry globalization drivers. These drivers (underlying market, cost, government and competitive drivers) are externally determined by industry conditions or by the economics of the business, and they create the potential for a worldwide business to achieve the benefits of global strategy. Industry global strategy levers are choices available to a worldwide business. Companies possessing different resources and influenced by different industry globalization drivers use different global strategy levers (global market participation, global products, global location of activities, global marketing and global competitive moves). In order to achieve the benefits of a global strategy and avoid the costs, managers have to set their global strategy levers appropriate to the industry globalization drivers and also appropriate to the company's position and resources. The organization's ability (structure, management, culture, and people) to implement the formulated global strategy affects how well benefits can be achieved. It also affects how ambitious the global strategy should be, and conversely the desired global strategy affects how the organization should be structured and managed.
2.2. Data

This study uses data primarily from secondary sources. Information for the confectionery industry and Hershey Foods Corporation was gathered through trade journals, industry reports, company web sites, the FAO web site, the World-Bank web site and electronic library resources at Michigan State University. Interviews were also
conducted with representatives of both the National Confectionery Association and Hershey Foods Corporation.

It should be noted that data were collected according to the various analyses undertaken in this study. For SWOT and core strategy analyses, the following data were collected: company product line, market share, expenses on advertising and promotion, compensation program, growth rates of retail sales, financial statistics, acquisition lists, manufacturing capacity, information system, industry concentration ratio, competitive situation, global revenues for firms within the industry, distribution channels, consumption trends and government regulations. For the assessment of industry conditions, the data needed were information on customer need, global customers and channels, marketing, global scale economies, differences in country costs, product development costs, trade policies, technical standard, marketing regulations, exports and imports, global competitors. In addition, information on tastes and preferences, incomes, distribution channels and trade policies of different regions was also gathered. The results and conclusions from the first two analyses were used to formulate product strategy for Hershey Foods Corporation.

2.3. Analytical Methods

Yip's global strategy framework is adapted to guide this study, which involves the following analyses: 1) Position and resources of business and parent company are examined in order to assess a company's capability (strengths, weakness, opportunities and threats) and core strategy. This helps to build up a solid foundation for further discussion of a global strategy; 2) Industry globalization drivers are analyzed to diagnose
the confectionery industry globalization potential; 3) \textit{Global strategy levers} are discussed to evaluate the choices that are available to a worldwide business (this study in particular focuses on one of the levers, global products); 4) the \textit{benefits and costs} analysis allows the evaluation of a global strategy; and, 5) \textit{organizational factors} are examined to assess a company's ability to implement a global strategy. All of these steps from Yip's framework are applied to the case of Hershey Foods Corporation.

2.3.1. Position and Resources of the Business and Parent Company

In order to build a solid foundation for discussing global strategy, a rigorous look at a company's core strategy, analyzing strengths and weakness, opportunities, and threats is necessary (Yip, 1991). This study uses SWOT analysis and core strategy analysis to do this.

SWOT analysis is based on the assumption that an effective strategy derives from a sound "fit" between a firm's internal capabilities (strengths and weaknesses) and its external situation (opportunities and threats) (Pearce and Robinson 1994).

This study uses competitive forces (Porter 1986) and change forces (Peterson) to identify opportunities and threats of Hershey Foods Corporation. The competitive forces framework argues that the ultimate profit potential of an industry is determined by the collective strength of five basic forces: the threat of new entrants, the bargaining power of suppliers, the threat of substitute products or services, and the competition among current rivals. Whatever their collective strength, a corporate strategist's goal is to find a position in the industry where his or her company can best defend itself against these forces, or can influence them in its favor.
Aside from the five competitive forces, there are also changes of major trends that will either provide opportunities or pose threats to a firm. The change force method focuses on analyzing changes in the following areas: buyer demand, long-term market growth rate, product and marketing innovation, technology and the speed which it spreads, regulatory influences and government policy, business risk, economy and increasing globalization of the industry. Less change corresponds to less threats, but probably fewer opportunities. Greater change corresponds to more threats, but probably more opportunities (Peterson).

A firm’s strengths and weaknesses are analyzed through the following functional categories: marketing resources, financial resources, human resources, operations/production resources, management/leadership resources, organization resources, and information resources (Peterson). Firms are not likely to evaluate all factors as potential strengths or weaknesses. Instead, to develop or revise a strategy, managers would prefer to identify a few factors on which its success is most likely to depend.

The SWOT analysis provides a foundation for the examination of the firm’s strategic position and resources. Based on SWOT analysis, a firm’s overall core strategy is then discussed. Academic researchers define core strategy somewhat differently. Pearce and Robinson define core strategy as the combination of generic strategy (cost leadership, differentiation, and focus) and fourteen derived grand strategies varying in risk levels. Thomson and Strickland propose similar generic strategies, and then define alternative courses of actions for companies in different environments and with different degrees of diversification as their core strategy. Yip specified core strategy as business definition,
strategic thrust, sources of competitive advantage, value-adding activities and competitive strategy. Peterson groups core strategy into five categories: customer value/competitive advantage, strategic initiative, strategic scope, industry role and vertical coordination.

The different categorizing of core strategy builds on the general understanding of strategic choices, i.e., firms need to select core strategy to create one of two basic types of competitive advantages: cost or differentiation. Therefore these core strategies are homogeneous in nature. Peterson's grouping provides a reasonable approach to guide this study and is discussed in detail.

The first component of core strategy as defined by Peterson, customer values/competitive strategies, is similar to generic strategy. A firm's ultimate strength or weakness is determined by its control over either cost or differentiation relative to its competitors (Porter, 1986). Four types of strategies to create customer values are derived from this notion: cost leadership, differentiation, focus, and total innovation. The second component, strategic initiatives are a firm's choices ranging from grow, maintain/defend to reposition, retrench, and exit. When defining the third element, strategic scope, firms can choose to manage either a single/dominant business or diversified product lines. They can also choose to develop their business lines either internally or through external merger/acquisition. In terms of the fourth element, industry role, firms usually position themselves as leaders, adapters, challengers or loners. Finally, firms use different vertical coordination strategies, varying in the intensity of control over transactions, to coordinate their behaviors with suppliers and buyers (Peterson). These five elements cover a firm's overall strategic choices to position itself and develop its competitive advantages, and therefore build a solid foundation for further discussion of a firm's global strategy.
2.3.2. Industry Globalization Drivers

Global strategy theory argues that industries differ in their globalization potential because of underlying industry conditions (Porter, 1986; Morrison, 1990). In the case of global strategy, these conditions can be called industry globalization drivers. Various researchers have identified different types of industry globalization drivers: globally common customer needs (Levitt, 1983); cost drivers, such as global scale economies (Porter, 1986) or technological and advertising intensity (Kobrin, 1991); government drivers, such as the absence of trade restrictions (Doz, 1979); and competitive drivers, such as cross-country subsidization (Hamel and Prahalad, 1985). The drivers identified in the literature can be grouped into four categories: markets, cost, government, and competitive drivers (Yip, 1989 and 1992). Together, these four sets of drivers cover all the critical industry conditions that affect the potential for globalization. While other groupings are possible, these four distinguish among the fundamental sources (market or cost, etc.) of the drivers; therefore, they help managers to identify and deal with them more easily. Drivers are primarily uncontrollable by a worldwide business. As illustrated in figure 2-2, each industry has a level of globalization potential that is determined by external drivers.

Market globalization drivers depend on customer behavior, the structure of distribution channels, and the nature of marketing in the industry. Cost drivers depend on the economics of the business. Government globalization drivers depend on the rules set by national governments. Competitive drivers depend on the actions of competitors. Each group of drivers is different for each industry and can change overtime. Therefore, some industries have more globalization potential than others, and these potentials change
across time. Recent changes, such as, convergence of lifestyle and tastes, accelerating technological innovation, have increased the globalization potential of many industries, and spurred the interest of managers to pursue a global strategy (Yip 1992).

Figure 2-2 Industry Globalization Potential

Source: Adapted from Yip (1989, 1992)

2.3.3 Global strategy lever: Global product strategy

Globalization strategy is multidimensional. There are five such dimensions: market participation, products/services, locations of value-adding activities, marketing, and competitive moves. This study focuses on the most commonly identified feature with global strategy: product strategy.

Developing products that satisfy market needs are the essential requirement of an effective strategy. The products or services a company chooses to sell to the selected targeted market constitute the basis for development of the company's world-wide
marketing programs and determine the company's role in the world market, in relation to both customers and competitors.

In a multi-local product strategy, the products and services offered in each country are tailored to local needs. In a global product strategy, the ideal is a standardized core product that requires a minimum of local adaptation (Yip 1992). Proponents of the global product strategy argue that in a world of growing internationalization, the key to success is the development of global products and brands (Levitt, 1983). However, others point to the numerous barriers to standardization, and suggest that greater returns can be obtained from adapting products and marketing strategies to the specific characteristics of individual markets (Fisher, 1984; Kotler, 1985; Vedder, 1986). Nevertheless, standardization occurs along a continuum. The benefits of global product can be achieved by standardizing the core product or a large part of it, while customizing peripheral or other parts of the product (Yip 1995). The extent to which products/services should be standardized depends on industry globalization drivers.

Keegan's discussion of global product strategy widened the standardization discussion and identified three global strategy alternatives: extension, adaptation, and creation. The strategy alternatives are a function of the product need satisfied, conditions of product use (consumer preferences and purchasing power), and ability to buy products. Based on the three strategy alternatives, six strategies are formulated: dual extension, product extension-communication adaptation, product adaptation-communication extension, dual adaptation, product invention, and dual extension with price invention (Table 2-1). Each strategy has been applied by companies to different situations (Keegan
This study uses Keegan's product strategy matrix to evaluate Hershey Foods Corporation's product strategy and formulate recommendations.

Table 2-1 Global Product-Communications Mix Strategic Alternatives

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Product function or need satisfied</th>
<th>Conditions of product use</th>
<th>Ability to buy products (as % of base case)</th>
<th>Product strategy</th>
<th>Communication Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Same</td>
<td>Same</td>
<td>100</td>
<td>Extension</td>
<td>Extension</td>
</tr>
<tr>
<td>2</td>
<td>Different</td>
<td>Same</td>
<td>100</td>
<td>Extension</td>
<td>Adaptation</td>
</tr>
<tr>
<td>3</td>
<td>Same</td>
<td>Different</td>
<td>100</td>
<td>Adaptation</td>
<td>Extension</td>
</tr>
<tr>
<td>4</td>
<td>Different</td>
<td>Different</td>
<td>100</td>
<td>Adaptation</td>
<td>Adaptation</td>
</tr>
<tr>
<td>5</td>
<td>Same</td>
<td>Different</td>
<td>25</td>
<td>Invention</td>
<td>Create</td>
</tr>
<tr>
<td>6</td>
<td>Same</td>
<td>Same</td>
<td>Limited Financial Resources</td>
<td>Extension</td>
<td>Extension</td>
</tr>
</tbody>
</table>

Adapted from Keegan, 1995

2.3.4 Benefits and Costs of Globalization

Industry globalization drivers allow the use of global strategy to gain various types of benefits: cost reductions (Kogut, 1985a), improved quality of products or programs (Yip, 1989), enhanced customer preference (Levitt, 1983), or increased competitive leverage (Hout et al. 1982; Hamel and Prahalad, 1985). Globalization, however, can also incur significant management costs through increased coordination, reporting requirements, and even added staff. Globalization can also reduce management effectiveness in individual countries if over-centralization hurts local motivation and morale. In addition, each global strategy lever incurs particular drawbacks. Product standardization can result in a product that does not fully satisfy customers anywhere.

The most successful worldwide strategies find a balance between over-globalizing and under-globalizing. The ideal strategy matches the level of strategy globalization to the globalization potential of the industry.
2.3.5 Organization Factors that Affect the Implementation of Global Strategy

Based on industrial organization theory, strategy choices and outcomes are significantly determined by industry conditions. In the case of global strategy, these conditions are industry globalization drivers, as defined earlier. In a "perfect" world, that of traditional economic theory, industry factors of industry globalization drivers would be the only determinants of strategy. But in a world of company heterogeneity and human actors, this linkage from industry to strategy must be moderated by other factors, including organization structure, management processes, human resources, and corporate culture. In particular, these other factors can delay or change the global strategy that should be adopted given industry drivers. Thus, there will be a gap between the optimal global strategy and the strategy achievable by a multinational company. The organization section in this framework addresses this gap. Organization factors, such as structure, management process, people, and culture (Figure 2-3), clearly affect how well a desired global strategy can be implemented, probably more so than for most other types of strategy (Prahalad and Doz, 1987; Ghoshal 1987; Bartlett and Ghoshal, 1989).

In summary, the global strategy framework allows some flexibility to incorporate the analysis of the position and core strategy of a company such as Hershey Foods Corporation. Following this framework, Hershey Foods Corporation’s resources and position are evaluated using SWOT and Core Strategy analysis. Confectionery industry conditions (market, cost, government, and competitive drivers) that might favor the use of global strategy are diagnosed, and the aspect of global product strategy is discussed. In addition, the benefits/costs and the organizational aspects that affect the implementation of Hershey’s global strategy are examined. As the Hershey case is examined, the
relevance and effectiveness of this particular combination of Yip's framework supplemented by Peterson's and Keegan's methods will be tested.

Figure 2-3 Elements of Global Organization

Source: Adapted from Yip, Loewe, and Yoshino (1988)
Chapter 3 Analysis of Position and Resources

This chapter develops the first component "positions and resources of business and parent company" of Yip's global strategy framework using SWOT and core strategy analyses. SWOT analysis examines the environment Hershey is operating in, and summarizes Hershey's key strategic issues. Based on SWOT analysis, Core Strategy Analysis evaluates Hershey's current core strategy and proposes a future core strategy that addresses Hershey's strategic issues.

3.1 SWOT Analysis

3.1.1. Performance Evaluation:

Hershey Foods Corporation is the leader of the U.S. confectionery industry. Its sales have been growing in recent years. However, the growth rates of both its sales and net income have declined. In 1998, Hershey's sales growth rate of 3.1% compared with 7.8% in 1997 failed to meet stockholder expectations (Security and Exchange Commission 1999). The corporation's inadequate performance was reflected in its stock prices. Starting from the fourth quarter of 1998, Hershey's stock closing prices have been performing below that of the average stocks on S&P500 for the first time in the past five years (Figure 3-1).

In their 1999 annual report, Hershey Foods Corporation attributes their weak performance in international markets as one major reason for the decline of its stock prices. Other reasons cited in their report are the overall decline of food industry stocks and increases in input prices.
More recently, a technology rollout problem in 1999 delayed Hershey’s shipments to its retailers and dropped Hershey’s third quarter earnings by 19% over 1998. One reason for the delays was Hershey’s lack of adequate facilities. Despite healthy consumer demand for Hershey’s confectionery products, sales of the corporation were still down 12% from the previous year (Wall Street Journal 10/26/99).

In addition, as U.S. confectionery leader, Hershey is facing intense competition from many other multinational, national, regional and local firms (Packaged Facts 08/96).

The above performance-related problems indicate that Hershey has some strategic problems to address. The following section analyzes Hershey’s strengths, weaknesses, opportunities, and threats, and then presents Hershey’s important strategic issues.

3.1.2. Hershey Foods Corporation’s External Environment

The U.S. confectionery industry enjoyed an overall annual growth rate of 4-6% in the last five years (1993-1997) (Candy Industry 07/99). This was an incredible growth
number for a relatively mature market. "Competitive forces" and "change forces" are used to identify the opportunities and threats that Hershey is facing in this market.

3.1.2.1. Competitive Forces

Potential of entrants. The likelihood of potential entry into the confectionery industry is very low. The manufacturing of chocolate is highly automated, and requires an initial investment of at least several million dollars (Yip 1992). The capital-intensive nature of the confectionery industry builds up a high entry barrier.

In addition, the confectionery industry is a highly concentrated industry, which makes the profitability of new firms uncertain. The top four firms, Hershey, Mars, Nestle, and R. Stover controlled 72% of the market share in 1998 (Figure 3-2). Confectionery giants enjoy production and marketing cost advantages. According to Candy Industry Report, when the costs in many ingredient categories escalated in 1998, small-sized manufacturers reported an average 33% ingredient cost increase, compared to a 9% increase for mid-sized companies and a 6% increase for large companies.

Brand identity increases the barriers of entry as well. The candy industry is characterized with high brand identity. The top ten brands keep occupying retailing space, and retailers have less interest to market unknown brands (Candy Industry 07/99).
Figure 3-2: 1998 U.S. Total Confectionery Market Share

Rivalry. The rivalry in the mature U.S. confectionery industry is intense.

Domestically, the major competitors, namely, Hershey, Mars and Nestle, keep expanding their influence in the seasonal market and competing in both market share and packaging.

In 1996, Hershey filed a lawsuit against Mars claiming that the packaging for peanut butter M&Ms is similar to that used for its Reese's products (Candy Industry 12/97).

Internationally, confectionery giants are expanding and competing worldwide. According to a report in Planning Review (1991), each of the major chocolate producers gained a large percentage of its chocolate revenues outside its “home” country: Nestle 98%, Jacobs Suchard 95%, Cadbury-Schweppes 50%, M&M Mars 50%, and Hershey, the least, with 10%.

Buyers’ Power. There are two kinds of connected buyers for confectionery: retailers and consumers.
Retailers' power. Consumers usually buy candies at supermarkets (19%), but the mass merchandisers' slice of the confectionery pie has increased steadily over the past five years. In 1999 they garnered 37% of the candy sales (Professional Candy Buyer 8, no3 05/2000). This shows that consumers are changing their purchase decisions toward the retailers that are more price-sensitive. The bulk volume purchased by mass-merchandisers gave these retailers more power to bargain with confectioners.

Consumers' power. An individual consumer does not have great bargaining power over confectionery giants. In 1997, when the input cost rose for confectioners, they passed the cost increase to consumers. Consumers in the U.S. paid 30 cents more for a pound of confectionery products than they did in 1987 (Candy Industry 01/99). However, aggregate consumer demand had a significant influence on confectioners’ profitability. Hershey’s sales of chocolate candy bars less than 3.5 ounces were down 3% and bars more than 3.5 ounces are down 1.3% in 1997 because of the increase in bar prices (Candy Industry 01/99).

Suppliers' power. The major inputs for the confectionery industry are sugar, cocoa, milk and Nutmeat. These agricultural commodities are less differentiated, therefore suppliers have less power against confectioners. However, the price of sugar in the U.S. is subject to price supports under the Federal Agriculture and Improvement Reform Act of 1996. Due to import quotas and duties imposed to support the price of sugar established by that legislation, US confectioners have to pay 22 cents per pound of sugar versus 5 cents per pound paid by confectioners in the rest of the world (Candy Industry 07/99).
Substitutes. In recent years, manufacturers in other snack categories have enticed consumers with candy flavors or candy-filled products. Consumers are given alternatives such as cookies, premium ice cream, bakery snacks, and fruit snacks to satisfy their sweet tooth. Consumers are becoming more and more health conscious. Consequently, the demand for healthier snacks has been growing. Consumers prefer snack cereal bars as their breakfast instead of candy, and mothers usually consider ice cream and fresh fruit cakes healthier than candy for their kids (Candy Industry 07/99). With the increase in the demand for candy substitutes, the retailing space for candy is shrinking. Encroachment from many competitive snack categories has reduced the amount of candy available at checkouts.

In summary, the likelihood of new entrants and the final consumer buyers’ power in the confectionery industry are low, which explains in part the overall medium to high profitability of the confectionery industry. Suppliers’ power, especially sugar suppliers’ power, is enforced by the U.S. government subsidy programs. Competitors in the highly concentrated industry are a few but their capacities are in balance with each other, thus intensifying competition. The emergence of substitutes for confectionery has brought a real “headache” for confectioners in recent years. Overall, the industry’s profit potential would appear to be declining, or at least, threatened.

3.1.2.2. Change Forces

Change in buyer demand. Changes in demographics, consumers’ life styles, and incomes keep shaping the environment of the confectionery industry.

Although American consumers still enjoy sweet treats, an increasing number of the aging population demand healthy foods. The chocolate portion of US confectionery
sales was flat in the past years. Furthermore, growth in the confectionery industry is coming from non-chocolate and functional candy (Candy Industry 01/99).

Consumers are becoming more price-conscious than brand conscious. In 1997, the increase in the prices of chocolate bars immediately led to a sales drop for confectioners' chocolate bars. In addition, the polarity of income was witnessed by the faster growth rate (10%) of gourmet boxed chocolate category in 1998 (Professional Candy Buyer 7, 01/99).

Long-term market growth. The U.S. confectionery market has grown steadily since the early 1990s. The non-chocolate category, however, grew much faster than the chocolate category. In 1998, the candy industry saw its biggest gains in the non-chocolate categories for the year ended 4/17/99, with dollar sales reaching $1,423.2 million, up 5.3% from the previous year. The second-largest gains were in sales of chewing gum, which grew to $590.0 million in sales. Chocolate candy saw sales gains of 2.5% for the period to $2,430.3 million (Candy Industry 07/99).

Product and market innovation. Confectioners are innovating new low-fat products to meet consumers' changing taste. For example, Mars innovated Mars Lites, which has almost the same taste as the regular chocolate bar (Retail World August 31-September 13,1998).

Regulatory influences and government policy. Sugar prices are under government support since the 1930's. This put domestic confectioners at a cost disadvantage. One of the hopes that US confectioners have now is the Sugar Program Reform Act. The approval of this act will reduce sugar prices and end price supports after 2002 (Candy Industry 07/99).
*Increasing globalization of the industry.* The confectionery industry is becoming more and more globalized in recent years. Emerging oversea markets are growing rapidly. In 1997, domestic exporters of chocolate increased their global presence by 10%. The most promising opportunities for the US lie in Central and South America, along with East Asia (Candy Industry 01/99).

The analysis of Hershey's external environment can be summarized through the description of the opportunities and threats suggested by the competitive forces and change forces.
3.1.2.3. Opportunities and Threats

**Opportunities**

US confectioners have three opportunities: *innovation in the low-fat and functional candy category; change of government sugar policy; and emergence of global markets.*

*Innovation.* The candy industry needs to innovate constantly to meet consumer demand. Consumers increasingly view candies, foods and drinks as imparting functional elements, rather than strictly refreshment. Confectionery giants have kept innovating and extending product lines to meet this demand. For example, Mars extended its famous line to deliver low-fat Mars Lite. In addition, time-starved consumers want convenience as well. Mars spent $50 million to advertise a metabolized bag with resealable zipper offering consumers freshness, convenience and portability.

*Government Policy.* The U.S. government’s sugar price support put domestic confectioners at a cost disadvantage. Confectioners are making efforts to end the government interference with their input prices. An industry-friendly provision of the Sugar Program Reform Act was introduced in May of 1998. This provision was intended to reduce support prices and eliminate the support after 2002 (Candy Industry 07/99).

*Emergence of international markets.* Opportunities for confectioners are present internationally, ranging from the mature markets of Western Europe and the U.S. to the emerging markets of Asia Pacific, Eastern Europe and South America. Between 1993 and 1997, Vietnam (10.5%), Brazil (9.1%), Ireland (5.8%), China (5.7%) and Czech Republic (5.4%) were the leading confectionery consumption growth markets (Candy Industry
As a recent report from *Confectionery Production* indicates, the confectionery trading pattern will expand further into regions such as Eastern Europe, Brazil and China.

**Threats**

The "competitive forces" and "change forces" analyses point out that the greatest strategy threat for the confectionery industry is the *change in consumers' life style toward low-fat and healthy food*. Candy products, especially chocolate, are known to be rich in fat. Although sugar-free and functional products are becoming popular, these are not easy markets for candy makers to break into. First, manufacturing difficulties for replacing sugar have presented the biggest challenge for confectioners. Second, consumers want their food to contain more attributes but with the same taste. Consumers would prefer to eat sugarless versions of their favorite confections only if they taste the same as the confection with sugar. Confectioners are struggling to invest in R&D in order to provide tasty functional candy. Third, consumer understanding of the term "functional" is poorly developed. The Health Focus survey conducted in 1998 indicates that 80% of consumers never heard of the term "functional". Finally the word Sugar-free is traditionally associated with diabetics, which deters some consumers from purchasing.

*Secondly, the emergence of candy substitutes is taking away market share from candy.* Healthy snacks are competing with candy in taste, packaging, retailing space, and healthy attributes. Consumers have been given a myriad of non-candy alternatives with candy flavors to satisfy their desire. Competitive categories have hijacked candy-eating occasions by offering perceived "healthier alternatives" for breakfast, lunch and dessert. In addition, portability of other foods has grown at a faster pace than candy. Some retailing space of candy was reduced by other snacks.
These non-candy products also offer consumers a broader choice and thus increase their bargaining power against confectioners. Once the price for chocolate bars increased, consumers could find candy substitutes with ease.

The most immediate threat to the confectionery industry's future comes from the US government. Governmental interference in sugar pricing has left a bitter taste in the mouth of confectioners for years. "If something isn't done soon, our industry has to find other ways to cope with this situation," says Sal Ferrara, chairman of National Confectionery Association, "Our industry employees can compete against anyone, but forcing us to buy raw sugar at 22 cents per pound puts us at a tremendous disadvantage."

International competition is another critical threat. The domestic confectionery industry's deficit in 1998 showed the competitive capacity of foreign confectioners. The origin of confectionery is in Europe, and European giants are competing with US confectioners in both the U.S. market and international markets. Furthermore, US government subsidy of sugar prices puts US confectioners at a competitive disadvantage. Confectioners from Canada and Mexico are able to purchase sugar at world prices, then ship lower priced products into the US, and thereby undercut the price of US products (Candy Industry 07/99).

Opportunities and Threats Synthesis

The above analysis showed that the confectionery markets have both great opportunities and significant threats (Table 3-1). Change in consumer's taste, income, lifestyle, government regulation, and globalization of the confectionery industry can all be threats and opportunities for the industry. To which extent these factors are opportunities or threats depend on how Hershey responds to the changes.
Table 3-1: Confectionery Industry Opportunities and Threats

<table>
<thead>
<tr>
<th>Threats</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in consumers’ life style</td>
<td>Innovation</td>
</tr>
<tr>
<td>High substitutes</td>
<td>Cancellations of sugar price support</td>
</tr>
<tr>
<td>Government regulation</td>
<td>Emergence of global markets</td>
</tr>
<tr>
<td>Global competition</td>
<td></td>
</tr>
</tbody>
</table>

As discussed above, consumer demand represents the key challenge for the confectionery industry. Only when confectioners overcome difficulties to provide consumers with appealing products can they fully exploit their biggest opportunities for a successful future.

A change in sugar price regulation would have a great impact on the profitability of US confectioners. Furthermore, in the heated international competition, only if Hershey develops global competitive skills, will global markets become an opportunity to the corporation. Otherwise, this is a great threat for the US domestic giants as foreign competition expands.

3.1.3. Hershey's Internal Environment

After the evaluation of Hershey Foods Corporation’s external environment, we need a closer examination of the corporation’s internal strengths and weakness. This will reveal those factors most under the corporation’s control. The following sections provide an outline of such strengths and weaknesses.
3.1.3.1. **Strengths**

*Marketing Resources.* Hershey is strongly associated with an image of high quality and a broad and deep product line. Hershey manages more than fifty brand in the domestic market and has built up a number of leading brand names. Among the top ten brands ranked by dollar sales in 1998, five of them belong to Hershey (Snack Food & Wholesale Bakery 06/99). These leading brand names also create opportunities for Hershey's product line extension, and in some cases, royalties for its use on products made by others. Hershey licensed its stable of well-known brand names, including Hershey's and Reese's, to other companies for use on products ranging from cereals to ice cream (Standard and Poor's 1998).

*Human Resource Management.* Hershey has a strict standard to measure performance and an improved compensation program. Hershey's management team benchmarks are Earning Per Share, Free Cash Flow, and Economic Value Added (Hershey Foods Corporation Annual Report 1997). Its managers' compensations are tied to these benchmarks. In addition, Hershey broadened its employee compensation program in 1996. The program was changed from Key Employee Incentive Package to HSY growth, under which Hershey granted its eligible employees one time 100 stock options and made its employees become owners for the first time. This partly explained the increase in Hershey's sales. In their annual report of 1997, Hershey's CEO attributed the sales growth to employees' effort. Hershey's employees have good morale in terms of improving Hershey's product quality and lowering cost.

*Innovation.* Hershey dedicates itself to expanding market share in the mature North American markets by introducing new brands. Hershey had one of the best
innovation records with three successful introductions in the United States and Canada during the 1980s: Skor (1883), BarNone (1987), and Symphony (1989) (Yip, 1991). Hershey’s managers proudly assert that they have the industry’s largest inventory of new products. In 1996, Hershey’s successful launch of TasteTations brought a 65% retail sales increase for this product (Chicago Tribune 02/98). In addition, Hershey also keeps innovating in merchandising, which made its retail grow at 5.6% greater than the category growth (Hershey Foods Corporation Annual Report 1998).

Hershey advertises its products by sponsoring entertainment activities, especially movies and sports. In 1997, Hershey sponsored Jurassic Park and increased its seasonal candy sales (Adweek 05/18/98).

Financial Resources.

Hershey Foods Corporation in general has strong financial performance. Its profit margins ranged between 6.8% and 7.7% from 1996 to 1998, slightly above the industry average of 7.0%. The corporation’s return-on-assets ratios increased from 8.6% in 1996 to 10.0% in 1998. Its total asset turnover ratios also increased from 1.25 to 1.3 during the same period, higher than the industry average 1.10. Its return-on-equity ratios also increased and stood well above the industry average of 13.0%. One major concern about Hershey’s financial performance is the corporation’s use of debt. Hershey’s equity multipliers in the period of 1996-1998 were 2.74, 3.86, and 3.26 respectively, which all were higher than the industry average of 1.9. These multipliers indicate that Hershey used a larger percentage of debt to finance its operations (Figure 3-3).
### Figure 3-3: Hershey's Du Pont formula

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>Industry Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIAT ($million)</td>
<td>273</td>
<td>336</td>
<td>341</td>
<td></td>
</tr>
<tr>
<td>Sales ($million)</td>
<td>3989</td>
<td>4302</td>
<td>4436</td>
<td></td>
</tr>
<tr>
<td>Assets ($million)</td>
<td>3185</td>
<td>3291</td>
<td>3404</td>
<td></td>
</tr>
<tr>
<td>Equity ($million)</td>
<td>1161</td>
<td>853</td>
<td>1042</td>
<td></td>
</tr>
<tr>
<td>Profit Margin</td>
<td>6.8%</td>
<td>7.8%</td>
<td>7.7%</td>
<td>7%</td>
</tr>
<tr>
<td>TAT</td>
<td>1.25</td>
<td>1.31</td>
<td>1.30</td>
<td>1.1</td>
</tr>
<tr>
<td>ROA</td>
<td>8.6%</td>
<td>10.2%</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>EM</td>
<td>2.74</td>
<td>3.86</td>
<td>3.27</td>
<td>1.9</td>
</tr>
<tr>
<td>ROE</td>
<td>23.5%</td>
<td>39.4%</td>
<td>32.7%</td>
<td>13%</td>
</tr>
</tbody>
</table>


3.1.3.2. Weaknesses

Hershey's most serious weakness is its international expansion strategy. Historically, most of Hershey's acquisitions occurred in the domestic market, while the majority of its divestiture is in international markets. Mars beat Hershey almost in everyone of Hershey's international markets. Hershey has tried to sell its products in Mexico for decades; Mars's market share surpassed Hershey in the very first year it entered the Mexican market. In Japan, Mars also surpassed Hershey. Although Hershey exports to 90 countries, exports accounted for only less than 4% of its 1997 total sales. In addition, Hershey is the only confectionery giant that has no manufacturing factories outside the U.S (Brenner 1999).

*Management Leadership.* Hershey's management lacks an international mindset. The company has little knowledge of world markets (Brenner, 1999). Its Vice President, appointed in 1993 and in charge of its international operations, does not speak a second language. "How can they really have hopes for global expansion when he can't even
communicate?" questioned Jeffery, a current consultant in the industry. In 1998, Hershey's experienced big change in its management. Recently, eight top managers were removed (Hershey Foods Corporation Annual Report 1999). It will take some time for the corporation to adjust to changes and react to markets.

Production Efficiency. Hershey's packaging and handling distribution costs are quite high. According to Hershey's Annual report of 1998, there are some higher packaging, handling and distribution costs associated with their thematic merchandising strategy. The higher distribution costs related to the diversity of Hershey's product line continued to exert pressure on Hershey's gross margin.

In addition, Hershey's manufacturing capacity is falling behind market demand for its new products. ReeseSticks, introduced in 1998, has been a very successful market for Hershey. However, Hershey does not have enough manufacturing capacity to produce all the usual package types (Product Alert 29, no. 11, June 14, 1999). Furthermore, Hershey's recently emerged technology-related problems delayed the corporation's shipments and caused its earning to drop by 19%. One major reason for this delay is Hershey's lack of adequate facilities (Wall Street Journal 10/26/99).

Summary of Strengths and Weaknesses (Table 3-2)

Hershey has been successful in product innovation. Its efficient human resource management gives employees incentives to improve product quality, lower cost and provide satisfying customer services. The corporation enjoys leading brand names, which enables it to reap profits from product line extension and royalties. Its strong financial position has been evidence of its good performance in the above areas. Although Hershey
has these strengths, Hershey’s weak performance in international markets reveals concerns related to globalization and management leadership as discussed above.

Table 3-2: Strengths and Weakness of Hershey Foods Corporation

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Resources</td>
<td>Globalization</td>
</tr>
<tr>
<td>Innovation</td>
<td>Management Leadership</td>
</tr>
<tr>
<td>Human Resource Management</td>
<td>Production</td>
</tr>
<tr>
<td>Financial Resources</td>
<td></td>
</tr>
</tbody>
</table>

3.1.4. Strategic Synthesis

This section provides a synthesis of both the internal and external analysis for Hershey Foods Corporation and formulates strategic issues that the company must address.

Core Competencies and Competitive Advantages

In the mature domestic confectionery market, Hershey’s key competencies are its ability to maintain dominant market share in both chocolate and non-chocolate confectioneries and its capabilities in product innovation. These are also Hershey’s key competitive advantages over rivals.

Scenario analysis for Hershey’s future

To analyze where Hershey’s strengths and opportunities reinforce each other and where its weaknesses and threats reinforce each other, a scenario analysis for Hershey’s
future is conducted. Each of the scenarios represents a possible future for Hershey (Table 3-3).

Table 3-3: Three Scenarios for the Confectionery Industry

<table>
<thead>
<tr>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“Bitter Candy”</strong></td>
<td><strong>“Mild Candy”</strong></td>
<td><strong>“Sweet Candy”</strong></td>
</tr>
<tr>
<td>1. Consumers prefer candy substitutes to candy</td>
<td>1. Consumers show strong interests in purchasing functional candy.</td>
<td>1. Increased demand for “functional candy”</td>
</tr>
<tr>
<td>2. Input prices are under government support</td>
<td>2. Intensity of competition remains.</td>
<td>2. Hershey enjoys competitive advantage globally</td>
</tr>
</tbody>
</table>

The first scenario is a “bitter candy” scenario, where Hershey’s external threats and its internal weaknesses reinforce each other. This causes a significant decline in the company’s performance. Under this scenario, health-conscious consumers prefer candy substitutes to candy; government is still supporting sugar prices; competition from global confectionery giants is intense and takes market share from Hershey worldwide. All the above factors will cause the decline in both Hershey’s sales and market share.

The second scenario is a “mild candy” scenario. In this scenario, the combination of positive and negative changes of external and internal environment leads to a gradual extension or even enhancement of Hershey’s performance. Although sugar government support and global competition are still present, innovation of functional products gains consumer acceptance. Hershey is able to gain its profits by focusing on US domestic markets.
The third scenario is a sweet candy scenario. The fundamental external and internal changes are all toward Hershey's advantage. Sugar price support legislation is ended; Hershey not only holds the leading market share in US domestic market, but also successfully expands globally. In this scenario, the sales of Hershey grow significantly due to the rapid demand growth of emerging markets. Hershey is able to compete with global giants and reap the benefit of technology developed abroad.

**Nature of Change**

The SWOT analysis suggests that Hershey's external opportunities outweigh its threats, and the corporation's internal weaknesses outweigh its strengths (Figure 3-4) Hershey should make internal changes, such as adopting a global focus, cost control and management team reform to overcome its weakness and assure a successful future. However, currently Hershey is still focusing on mature domestic markets. It would appear that some significant turnaround in internal strategy is needed to move Hershey into the aggressive quadrant.

**Figure 3-4: Hershey's SWOT Analysis Diagram**
Key Strategic Issues

The following lists the crucial strategic issues faced by Hershey Foods Corporation:

How can Hershey innovate its confectionery products to appeal to the health concern of consumers? The increase in consumer demand is the key to Hershey's future success. Although functional candy markets are fuelling confectionery market growth, there are still problems about manufacturing and consumer acceptance.

How can Hershey effectively expand globally to explore the growing opportunities in the global confectionery markets? American confectionery markets, although growing, are mature markets and are going to reach their saturation point. Meanwhile overseas markets in East Europe and Asia present abundant opportunities for established confectioners worldwide. Compared to being the market leader in the US candy market, Hershey has experienced failure in its global expansion. Therefore, identifying obstacles to its global expansion is a key to Hershey's future development.

How can Hershey make effective internal management changes and cost control improvements to take advantage of the opportunities present? Innovation will be a competitive advantage only when the cost of innovation can be covered by its benefits. Hershey should reinforce its cost control to enjoy sustainable advantage in its product innovation in US confectionery markets. In addition, the company should assemble a strong management team to assure the sustained development of the corporation.
3.2 Core Strategy Analysis

3.2.1. Discussion of Desired Accomplishments

A company's desired accomplishments are formulated in its mission/vision and objective statements.

1. Mission/vision statement

The mission/vision statement specifies a firm's ultimate aims, and provides a unity of direction for managers. An effective mission statement shows the belief of an organization, communicates its values effectively, and inspires employees of all levels. Consequently, the evaluation of a company's mission/vision statement is the first step in a strategic planning process. Hershey's mission/vision is stated as follows: "Our mission is to be a focused food company in North America and selected international markets and a leader in every aspect of our business."

Hershey's mission/vision statement clearly communicates the strategic scope and industry role of Hershey's business: "to be a focused food company" and "a leader in every aspect of our business". In addition, the statement inspires Hershey's employees in terms of understanding shared expectation and stimulating employees at all levels to achieve this goal. Hershey has been committed to expanding its US confectionery market share and has become the U.S. market leader since 1988 (Brenner 1999). This indicates that Hershey Foods Cooperation is truly willing to live up to the mission/vision statement. However, the statement of "selected international markets" fails to give Hershey's managers enough incentives to expand the corporation's business globally. Hershey should state its ultimate aim as "to be a world confectionery leader," which is more inspiring to its management team.
Overall, Hershey's mission/vision statement is an effective statement of its ultimate aims. After the ultimate aims are specified, a firm needs specific benchmarks for evaluating its progress in achieving its aims. Providing such benchmarks is the function of a company's objectives.

2. Strategic Objectives

Hershey's objective is stated as: "Our goal is to enhance our number one position in the North American confectionery market, be the leader in US pasta and chocolate-related grocery products, and to build leadership positions in selected international markets." This objective is doable, challenging, measurable and consistent with its mission.

"To enhance our number one position in the North American confectionery market" is doable. The SWOT analysis showed that Hershey's key strengths are its leading brand names and its innovation capability in domestic market. These two attributes help Hershey hold the leading position in US confectionery markets.

"To build leadership positions in selected international markets" is challenging. Hershey's main weakness is its poor performance in international markets such as Mexico, Canada, and Japan. While opportunities abound overseas, taking advantage of these opportunities is challenging for Hershey. The objective is measurable. The company’s market shares can measure “leading position” in both North American and international markets. Clearly, Hershey's objective statement is consistent with its mission as a "leader in every aspect" of the confectionery business.

However, Hershey's relatively effective objective statement is outdated. In January 1999, Hershey completed the sale of its pasta business, thereby contradicting its objective
statement "be the leader in U.S. pasta" business. Hershey's new objective should be "to enhance our number one position in the North American confectionery market, and build up our confectionery leadership worldwide."

In general, Hershey has effectively communicated its mission and objectives, even if changes in emphasis are warranted.

3.2.2. Hershey's Current Core Strategy

Hershey's mission and objectives have resulted in the company's current core strategy. A detailed analysis of this core strategy is warranted (Table 3-4).

<table>
<thead>
<tr>
<th>Table 3-4: Current Core Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Value</td>
</tr>
<tr>
<td>Strategic Initiative</td>
</tr>
<tr>
<td>Industry Role</td>
</tr>
<tr>
<td>Strategic Scope</td>
</tr>
<tr>
<td>Vertical Coordination</td>
</tr>
</tbody>
</table>

*Customer value.* Hershey is carrying out a quality/features or differentiation strategy to create customer value. Under this strategy, a firm delivers superior quality goods for a broad market. Profits come from premium prices charged for truly differentiated products. Hershey holds the largest market share in US confectionery industry. Among the top ten confectionery brands in retailing space, five of them belong to Hershey Foods Cooperation. Hershey claims that its products "appeal to all ages." These are all evidence of Hershey's superior quality products for a broad market. In addition, Hershey effectively communicates the uniqueness of its products to customers.
Hershey's annual report indicates a retail growth rate of 5.6% in 1998, which was driven by its creative selling, marketing and merchandising techniques.

*Strategic initiative.* One of Hershey's objectives is "to enhance our number one position in North American market". In order to secure its leading position, Hershey has to grow and outpace the growth of the overall U.S. confectionery markets. In fact, according to SEC fillings, Hershey's ten-year compound growth rate is 7.42% comparing with 4-6% growth rate of the confectionery industry in general. The other element of Hershey's current strategic initiative is "reposition". In January 1999, the corporation completed the sale of a 94% majority interest of its US pasta business to New World Pasta, LLC.

*Strategic Scope.* After Hershey completed the sales of its pasta business, it regained its dominant-product scope. In the process of becoming a confectionery-line giant, Hershey acquired many confectionery firms to expand its US confectionery market shares. For example, in the 1990's, Hershey Foods Corporation acquired half a dozen leading brands (Table 3-5).
Table 3-5 Hershey Foods Corporation's Acquisitions in 1990's

<table>
<thead>
<tr>
<th>Date</th>
<th>Acquisition Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1991</td>
<td>Acquired Gubor Schokoladen GmbH and Gubor Schokoladenfabrik GmbH chocolate business from H. Bahlens Keksfabrik KG</td>
</tr>
<tr>
<td>May 1992</td>
<td>Acquired an 18.6% interest in Freia from Orkla</td>
</tr>
<tr>
<td>March 1993</td>
<td>Acquired Il Pranzo D'oro Corporazione, Inc.</td>
</tr>
<tr>
<td>Dec. 1995</td>
<td>Acquired Henry Heide, Incorporated a confectionery company which manufactures a variety of non-chocolate confectionery products.</td>
</tr>
<tr>
<td>Dec. 1996</td>
<td>Acquired from an affiliate of Huntamaki, the international goods company based in Finland, Huntamaki's Leaf North America confectionery operations</td>
</tr>
</tbody>
</table>


*Industry role.* Hershey has been holding the largest market share in the US confectionery industry since 1988. The Corporation consistently innovates to be the "first mover" in every line of confectionery products. When the demand for low-fat candy increased, Hershey launched *Sweet Escape* and benefited from the increased sales. Although in recent years Hershey is facing difficulties with its stock, the leading position still helped Hershey secure sales growth.

*Vertical coordination.* Hershey's coordination activities involve coordination with suppliers and buyers. Hershey's products are sold primarily to supermarkets, mass merchandisers, grocery wholesalers, drug stores, wholesale clubs, and convenience stores throughout the United States, Canada and Mexico. The company's products are sold in over two million retail outlets in North America. In order to coordinate with these buyers, Hershey uses a combination of open market and contract carriers to deliver its products from distribution points to its customers (Packaged Facts 08/96).
Hershey's major inputs are cocoa, sugar, corn sweeteners and dairy products. Hershey usually attempts to minimize the effect of input price fluctuations by entering futures, forward and options contracts (Packaged Facts 08/96).

The core strategies current implemented by Hershey present some significant advantages and disadvantages. The pros and cons of Hershey's current strategy are as follows.

**Pros:**

1. The quality/features strategy benefits Hershey with profits from a broad market. This strategy uses Hershey's strengths of innovation and marketing to appeal to changing consumer tastes.

2. A growth strategic initiative enhances Hershey's leading position in the U.S. confectionery industry and increases the corporation's profits and sales.

3. Focusing on dominant products can make Hershey rely on "what they do best," and reap the higher margin from their expertise in confectionery manufacturing.

**Cons:**

1. Targeting a broad market can divert Hershey from its focus. Due to resource restrictions, Hershey may be able to appeal to all ages but it may not be able to be the best choice for all ages.

2. Hershey's "broad" markets and "grow" initiative still leave the rapid growing international markets uncovered. In recent years, overseas confectionery markets have grown rapidly. Being absent from these growing international markets suggests missing the opportunities of reaping long-term profits overseas.
The above pros and cons analysis indicates that Hershey's current core strategy could benefit from some changes. The next section provides recommendations for a new core strategy.

3.2.3. Recommendations for a new core strategy

**Customer value.** Hershey Foods Corporation should maintain its current quality/features strategy to operate its basic chocolate business. Meanwhile, the corporation should also add a niche market strategy for its new domestic business development, i.e., functional candy and high-end chocolate in the mature US market. In 1998, gourmet boxed chocolate grew at a rate of 10% Functional candy, another niche, also showed a persistent growth trend. Retail confectionery sales in the U.S. are estimated at $23 billion, with functional confectionery sales comprising between $280 million and 1.7 billion of that. Furthermore, by 2003, total confectionery sales should reach $27 billion, with functional confections totaling about $1.1-1.3 billion (Candy Industry 03/1999). Successfully offering tailored value and serving the niche markets will significantly enhance Hershey's sales.

Opportunities are abundant overseas for US confectionery giants. The most promising markets are Central and South America, along with East European and East Asia. In order to seize these opportunities, Hershey should take a quality/features strategy to market its confectionery products to broader international markets.

**Strategic initiatives.** Hershey should reposition itself to become a niche player in both high-end and functional candy categories. Meanwhile, Hershey should also maintain/defend its traditional categories, which can be used as Hershey's cash cows to
finance its niches. In the growing international confectionery markets, the only way Hershey's business can succeed is to adapt to these international markets.

*Industry Role.* In both domestic and international markets, Hershey still should keep its role as leader of the confectionery industry. Another possibility Hershey may take as its industry role in international markets is to be a “challenger.” Due to the existence of established international giants, when Hershey enters a new international market, it starts challenging the established competitors by offering unique tastes.

*Strategic scope.* Strategic scope remains the same as before. No matter in international markets or in domestic markets, Hershey is still functioning in a dominant product business--confectionery. The reason that we do not recommend Hershey to diversify its business is because the SWOT analysis indicate that the potential growth of emerging international markets and niches in domestic markets make diversification unnecessary at the current stage. In addition, trying to make too many changes at the same time may be overwhelming for the corporation. The outcome could be that Hershey fails to do any of them well.

*Vertical coordination* Hershey's position in the value chain favors spot markets and specification contracts. The large number of scattered suppliers and buyers make both of Hershey's asset specificity and errors of coordination relatively insignificant. Therefore, Hershey should maintain its current vertical coordination strategy with its suppliers and buyers.
The recommended new core strategy has its merits and demerits as well.

Pros:
1. Focus on the faster growing niches in the domestic mature markets will enable Hershey to innovate effectively to appeal to the targeted high-income and health-conscious consumers.
2. Global expansion will finally enable Hershey to exploit the growing potential of international markets

Cons:
1. New core strategy requires large amounts of capital and human resource for product innovation and global expansion.
2. Operating in global markets will bring more uncertainties to the corporation.

The proposed new core strategy provides an answer to Hershey’s strategic issues. Focusing on the fastest growing functional candy and high-end chocolate categories is to appeal to the health concerns of consumers and to appeal to the changes in consumer’s tastes. This focus strategy answers Hershey’s first strategic question: "How can Hershey innovate its confectionery products to appeal to the health concern of consumers?"

Quality/Features strategy in international markets answers Hershey’s second strategic question: "How can Hershey effectively expand globally to explore the growing opportunities in the global confectionery markets?"

Focus on niches, quality reinforcement, cost control and global expansion provide the answer for Hershey’s third strategic issue, how to “make effective internal management changes and improve its production efficiency to take advantage of the opportunities present.”
3.3. Conclusion

SWOT analysis showed that Hershey operates in an environment characterized by both great opportunities and significant threats. The major opportunities include changes in consumer's demand toward functional candy and the emergence of international markets. The key threats present are intense competition from global competitors and large varieties of candy substitutes. Hershey's internal strengths such as leading brand names, innovation, and effective human resource management can help the corporation seize its opportunities. However, its weaknesses such as high cost of production, domestically focused management leadership, and low profit margins for operations in international markets, will eventually force Hershey to change. In order to assure its future development, Hershey has to provide answers for the strategic issues that this analyses raises.

The core strategy analysis section discussed answers for Hershey's strategic issues by evaluating the corporation's desired accomplishments and core strategies.

Hershey' ultimate goal is "to be a leader in every aspect of our business." Thus, Hershey is set up to "enhance our number one position in North American markets, and build up a leading position in selected international markets." In general, Hershey effectively stated its mission and objective, which is reflected in its current core strategy.

Hershey has carried out a quality/features strategy to enhance its leadership. In addition, the company used growth and reposition strategies because it decided to be a dominant-product company. Hershey used spot markets and contracts as its coordination institutions with its suppliers and buyers.

The current strategy is consistent with Hershey's mission/vision, but it has
advantages and disadvantages. Under the recommended new strategy, Hershey retains its current strategic scope and vertical coordination strategies. Its customer value and strategic initiative strategies differ in different markets. In the domestic market, Hershey should target rapid growth high-end and functional candy niches in order to reposition itself to grow niches while maintaining the historic quality/features market. On the other hand, in international markets, quality/features strategy is recommended to supply superior quality products to broader and diversified markets worldwide.

The recommended strategy's pros outweigh its cons and answer Hershey's strategic issues raised in Section I.

"How can Hershey innovate its confectionery products to appeal to the health concern of consumers?" Focusing on the fastest growing niches, functional candy and high-end chocolate categories, is to appeal to the health concerns of consumers and to appeal to the changes in consumer's tastes. The niche strategy answers Hershey's first strategic question.

"How can Hershey effectively expand globally to explore the growing opportunities in the global confectionery markets?" Quality/features strategy in international markets answers Hershey's second strategic question.

“How can Hershey make effective internal management changes and improve its production efficiency to take advantage of the opportunities present?” Focus on niches, quality reinforcement, cost control and global expansion provides the answer for Hershey's third strategic issue.

Overall, international expansion was identified as a significant weakness of the corporation. Failing to overcome this weakness will force Hershey to face intense
competition from its global competitors at home and abroad.
Chapter 4  Assessment of Global Confectionery Industry Conditions

This chapter applies the “industry globalization drivers” component of Yip’s framework (Figure 2-1, p.11) to analyze the industry globalization conditions of the confectionery industry. Furthermore, regional market analysis is developed to build up the foundation for market selection. The evaluation of globalization drivers indicates that the confectionery industry is characterized by strong industry conditions for globalization (e.g., common customer need, high product development cost). An analysis of the international confectionery market situation further reveals that opportunities exist in several different regional markets.

4.1 Diagnosis of Globalization Drivers of Confectionery Industry

The likelihood that a global strategy will be effective depends on four sets of conditions: market, cost, government regulation, and competitive. These conditions are also called industry globalization drivers (Yip 1992). Overall, the confectionery industry is characterized as having strong globalization potential. The further examination of individual drivers will suggest key sources of globalization.

4.1.1 Market Drivers


*Common customer needs.* Common customer needs allow product standardization and make it easier to penetrate into different markets. This applies to the confectionery industry in that candy appeals to people around the world. According to findings of scientists at Massachusetts Institutes of Technology, sweet or fatty substances can
stimulate pleasure signals of certain cells of the hypothalamus portion of the brain. The major confectionery product, chocolate, derives about 50 percent of calories from sugar and about 50 percent from fat, a combination unequaled among food. This combination makes chocolate accepted as readily in Malaysia and Mexico as it is in America, despite the nations’ divergent cuisines.

In addition, chemically speaking, the melting point of chocolate is slightly below body temperature due to its content of cocoa butter. When chocolate is put into mouths, cocoa butter dissolves first and distributes the rest of the chocolate ingredients over the taste buds in quick succession, starting with the sugar. This makes chocolate a universal delight for people.

Consumers worldwide purchase confectionery for a variety of uses. In the mature markets of Western Europe and North America, candies are purchased on a regular basis as snacks. In Asia-Pacific markets, candies have a strong gift association and are usually purchased as gifts during certain festivals. As for Eastern European and Latin American markets, chocolates are preferred as treats. Consumers, given the lower income level in these markets versus mature markets, usually purchase candies as treats.

In the past decade, with rising incomes in a number of developing countries, worldwide consumption of confectionery has been growing significantly. For Asian countries, where the lactose intolerance seems to have a negative effect on candy consumption, the growth number is still significant. In 1997, Vietnam, India and China recorded the fastest growth rates in the Asia/Pacific region, with 21%, 11% and 10% respectively (Figure 4-1). Common customer need has contributed to the success of many globally standardized products, such as Mars’ well-known brands, M&M and Snicker.
Global customers and channels. Global customers often demand global products and services, which create the need and potential for product standardization. The confectionery industry has global customers in a sense that many consumers buy candy as a gift for others or for themselves while traveling abroad. The ease of customizing confectionery also encourages purchases by travelers. Such purchases help to establish global standards in perceived quality and taste of confectionery (Yip 1992).

Global or regional channels of distribution give producers incentives toward marketing uniformity. The main distribution channels for the U.S. confectionery industry are almost all local or national, but not global. Supermarkets account for 20-25% of retail sales, convenience stores 15-20%, mass merchandisers 15%, chain drugstores 12%, and warehouse clubs 4% (Packaged Facts, 1996). But some international expansion and
globalization of channels has occurred. Wal-Mart, one of Hershey Food Corporation’s major distributors, opened operations in China. Safeway, another U.S. chain, operates stores in Canada, Britain, Germany, and Saudi Arabia (Yip, 1991). These global channels may expand the international scope of confectionery manufacturers while reducing the costs of distribution.

*Transferable Marketing.* Marketing elements such as advertising and brand names are transferable when the nature of the buying decision requires little adaptation. The nature of the buying decision of confectionery favors transferable marketing. Candy can be advertised as either tasty food or as fun to eat for children around the world. The satellite TV and other media influence consumers in different countries. For example, the global success of the movie "E.T." in which Reese's Pieces were the appealing extra-terrestrial's favorite gave Hershey Foods the opportunities to promote that product worldwide. Hershey's archrival Mars sponsored the Olympics and World Soccer Cup to increase its global exposure.

Confectioners also realized the benefits of global branding. Major confectioners merchandise their leading brands around the world. M&M changed the name of a chocolate bar it sells in the United Kingdom from Marathon to Snickers, the name it uses in the U.S. Hershey started global branding strategy in 1997, marketing its six core brands, Hershey's Kisses, Nuggets, Cookies 'n' Crème, Hershey Syrup, Pot of Gold and Reese's, worldwide (Hershey Foods Corporation Annual Report 1999).

Overall, market drivers provide strong incentive for the confectionery industry toward globalization. The common appeal of confectionery products to consumers
worldwide, the increasing globalization of distribution channels, and the similar nature of buying decisions of confectionery products all favor the use of global product strategy.

4.1.2. Cost Drivers.

Among cost globalization drivers, global scale economies, high product development costs, fast-changing technology, and differences in country costs have the most effect on the need for global products and services (Yip 1992).

*Global scale economies.* High manufacturing economies of scale in an industry encourages global market expansion, globally standardized products, and globally centralized production. The making of confectionery is highly automated, involving heavy machinery and large containers that usually require an initial investment of at least several million dollars (Yip 1991). Confectioners can lower their total costs significantly by manufacturing on a large scale. Major confectioners are all consolidating their production. In 1991, Nestle consolidated its U.S. manufacturing into one single entity to enhance its U.S. marketing position and reduce costs. In July 1995, Cadbury, acquired Allan Candy, and in July 1996 acquired Neilson Cadbury (a licensed manufacturer of Cadbury brands) for UKPd108m. The parent merged the two acquisitions into one company, integrating chocolate and sugar confectionery operations in pursuit of economies of scale (Candy Industry 07/96).

*Product development cost.* In the confectionery industry, successful new products are difficult to develop due to the finite number of available ingredients and narrow range of consumer preferences. Confectioners in the U.S. on average introduce 150 new items each year, and two-thirds of them are actually line extensions. Recipes that lead to widely popular new products are rare (New Product News). In addition, consumer testing and
developing the total marketing package are very costly and characterized by high failure rates (Yip 1991). This encourages confectioners to expand the markets for existing brands rather than develop different products for different countries.

**Differences in country costs.** Differences in country costs can provide a strong spur to globalization. Concentration of activities in low-cost or high skill countries can increase productivity and reduce costs. Confectionery production does not require hard to find skills (Yip 1991). So confectioners have options for plant locations to lower costs. In recent years, the emergence of newly industrialized countries provides confectioners with production capability and low labor costs. For example, confectionery giants M&M Mars, Nestle, Cadbury Sweeper and Warner-Lambert all built operations in China to exploit the low labor cost and market growth potentials.

In general, cost drivers in confectionery markets also favor the use of global product strategy. The high initial investment makes it more profitable for confectioners to manufacture on a global scale; high development costs make sense for confectioners to develop or market global products rather than national ones; and, the emergence of industrialized countries with low cost attracts confectioners to manage their value chain activities globally.

4.1.3. Government Drivers.

The strength of government globalization drivers depends on the effect of rules set by national governments regarding trade, activities by foreign firms and marketing regulations (Yip 1991).

**Trade Policies.** Host governments can use a number of methods to affect globalization potential: import tariffs and quotas, non-tariff barriers, export subsidies,
local content requirements, currency and capital flow restrictions, ownership restrictions and requirements on technology transfer.

Trade barriers present a significant issue for confectionery makers. As impulse-purchasing products, consumers are price-sensitive to confectionery products around the world. Five cents imposed by government duties may prohibit purchases by consumers. Nevertheless, trade policies are changing to favor globalization. In 1987, Japan reduced its tariff on imported chocolate from 20% to 10%. Korea and Taiwan followed suit. The European Union in theory eliminated all remaining internal trade barriers on chocolate, while retaining its 12% duty on imports from outside the European Community (Yip 1991).

Compatible Technical Standards. Differences in technical standards among countries affect the extent to which products can be standardized. Government restrictions in terms of technical standards can make or break efforts at product standardization. U.S. confectionery producers can meet food regulations in most countries. Japan, however, prohibits sale of chocolates containing U.S.-approved additives BHT and TBHQ. The U.K. and Ireland allow the substitution of 5 percent vegetable oil in place of cocoa butter. Recently the European Union followed suit (Candy Industry 03/2000). Such regulations have a significant effect on multinational confectioners' design of global products.

Marketing Regulations. Different countries have different regulations regarding marketing mix such as advertising and packaging. For example, comparative advertising and lotteries are forbidden by a number of countries, such as, China. When creating advertisements for or extending advertisement into these markets, confectioners have to
limit their uses of these themes. In addition, different countries also have different 
requirements for packaging and labeling. For example, the latest industry standard for 
confectionery in China issued in 1992 requires that, when both Chinese and English 
descriptions are present, the Chinese characters should be larger than the English words. 
Confectioners need to take into consideration these market regulations when making their 
global moves.

Overall, government drivers are increasingly favoring world trade and the use of 
global product strategy. Reduction or elimination of trade barriers and the compatibility 
of US technical standards to most of the international markets both motivate 
confectioners to use global product strategy and expand into broader international 
markets. Further, following market regulations of different countries does not pose a 
significant challenge for confectioners.

4.1.4. Competitive drivers.

Competitive globalization drivers (high exports and imports, competitors from 
different countries, interdependence of countries and globalized competitors) raise the 
globalization potential of an industry and spur the need for a response on the global 
strategy levers (Yip 1992).

Exports and Imports. The most basic competitive driver is the level of exports 
and imports (Yip 1992). The increases of exports and imports in the confectionery 
industry make companies from different countries interact with each other, and therefore 
make the use of global strategy more necessary. In 1995, U.S. candy imports jumped to 
23% in value to US $618 millions and exports fell almost 8% to US $405 millions. 
Canada is the most important foreign market for the U.S., receiving over 40% of
American exports. Mexico comes second with a 14% share (Packaged Facts 08/96). East European counties, Asia/Pacific countries and the nations of South America are all promising growth markets for U.S. confectioners (Figure 4.1.4, 4.1.5 in the appendix). Major Multinationals are fighting for market share in these markets by using global strategies to different extents, which will be illustrated in the following sections.

**Globalized Competitors.** Competitors pursuing global strategy pressure the industry as a whole to globalize, and force particular companies to match competitors' strategy. Almost all of Hershey's key competitors have significant sales from international markets. Mars and Nestle are global market leaders followed by Belgium-based Ferrero, maker of Tic Tac and the Roche bar. As U.S. confectionery market leader, Hershey only ranks fifth in terms of global market sales in 1997 (Travel Retailers International 11/98). In order to promote strong long-term growth, the company needs to match its competitors' use of global strategy and develop new international markets.

**Competitors use global strategy.** The more competitors use different dimensions of global strategy (global market participation, global product development, marketing, location of value-added activities, and integrated competitive moves), the more necessary it becomes for a company to match them.

Major competitors of Hershey Foods Corporation all use global product strategies to a certain degree. Nestle probably makes the most use of global product strategy. The company follows world confectionery market trends closely and develops products to meet customer need worldwide. For instance, in the 1980's, Nestle realized there was a worldwide demand for consumer specialty chocolate. The company developed "Noir," a

Mars also makes considerable use of global products. The company has grown through global expansion by marketing about the same range of products around the world. Mars’ management expects every product to earn much higher sales than its competitors do. For most candy companies, if a product can generate annual sales of $20 to $30 millions, it is considered a blockbuster, whereas Mars measured every newly introduced products against the success of Snickers, which sold $400 million annually (Brenner 1999).

In addition, as major players in the confectionery industry concentrate production in medium to large-sized plants to capture economies of scale, production is concentrated in fewer countries, and thus interdependence among countries and the need for a global strategy to manage it will increase (Yip 1991).

In summary, competitive drivers strongly support the use of global product strategy. High imports and exports to US markets make it necessary for companies to pursue global strategies to compete and interact with each other; globalized competitors push the industry as a whole to globalize; and, major competitors’ use of global product strategy further require others to match them.

4.1.5. Conclusions

In summary, market and competitive conditions provide the strongest drivers for the confectionery industry to use global strategy. Government drivers are changing toward favoring world trade, and cost drivers do not pose significant barriers for confectioners to globalize their production. As a result, the confectionery industry is
characterized with a strong potential for globalization, and leading firms in the industry all use global strategy to a certain degree.

4.2 Overview of International Confectionery Markets

Given that the industry has strong globalization drivers and potential, gathering information on specific international markets becomes the imperative first step for multinational confectioners' use of global strategy. This section examines the changing patterns in major international confectionery markets and discusses multinational companies' strategies in penetrating these markets.

In recent years, the growth picture in international confectionery markets has shifted significantly, revealing new and different trends. Economic changes have affected consumer confidence and expenditure in some Asian markets. As western European markets mature in growth terms, companies are looking for new ways to capitalize on growth niches. Eastern Europe as a whole has shown the highest regional growth in per capita consumption of confectionery between 1993 and 1997 with nearly a 3% compound annual growth rate. Brazil offers one of the greatest opportunities in South America with per capita consumption growth at a category annual growth rate (CAGR) of 9.1 percent between 1993 and 1997 (Candy Industry). Vietnam (10.5%), Brazil (9.1%), Ireland (5.8%), China (5.7%) and Czech Republic (5.4%) have been the leading confectionery consumption growth markets between 1993 and 1997 (Candy Industry 07/98).

Although some of the growth rates can be explained by external factors, such as rising populations and disposable income, effective marketing by leading companies has been the principal driver in stimulating consumption in most of the countries. Chupa Chupa, Ferrero, Ricola and Warner-Lambert have seen the positive results of adopting
global brand strategies with multi-country tactics. Smint, Tic Tac, Ricola and Certs have managed to penetrate a wide diversity of country markets in the sugar confectionery category by exploiting core marketing capabilities and the synergies associated with global branding (Candy Industry 07/98).

Major international markets are grouped into the following regions: Asia-Pacific, the mature markets of Western Europe, the emerging markets of Eastern Europe, and Latin America. Each of the following subsection discusses the market conditions in each of these regions.

4.2.1 Asian/Pacific Markets.

Home to more than half of the world’s population, Asia has the largest growing consumer markets. The growth in these markets has been influenced by the following factors.

*Increases in incomes*: More working women and extended family living arrangements contribute to the increase of family disposable incomes. In addition, Asia's newly created middle class has proven to be both a catalyst for, and a by-product of, the region’s growth of the last decade. The increase in middle-class income has been a contributor to the increase in overall consumption, and that in turn has promoted further economic growth. In 1996, the Asia/Pacific confectionery market reported an increase in consumption to an all-time high of US $16.5 billion (Candy Industry 97/11).

*Dominance of sugar confectionery*: In most Asian markets, the consumption of sugar-based products, such as, boiled sweets and chewing gum, far exceeds consumption of chocolate confectionery. According to official estimates, sugar-based confections
account for 50 percent or more of total confectionery consumption in five major Asian countries (Table 4-1).

<table>
<thead>
<tr>
<th>Country</th>
<th>Sugar Confectionery Consumption as % of Total Confectionery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>90%</td>
</tr>
<tr>
<td>Philippines</td>
<td>70%</td>
</tr>
<tr>
<td>South Korea</td>
<td>60%</td>
</tr>
<tr>
<td>Japan</td>
<td>50%+</td>
</tr>
<tr>
<td>China</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: Candy Industry 97/11

This phenomenon can be explained by two factors, climatic condition and dietary traditions. With temperature averaging 27-33C in the Pacific Rim, climatic conditions result in the shelf life of products with high chocolate content to be much shorter than hard sugar candies. This is further reinforced by the fact that a large number of point-of-purchase sites for confectionery in Asian countries are not air-conditioned. Therefore wholesalers and retailers prefer merchandising sugar confectionery to chocolates. In addition, chocolate consumption has not traditionally been part of the Asian diet. Chocolate has a strong gift association in most Asian markets, a factor that also causes the seasonality of chocolate consumption, for instance, weddings and the New Year are the peak seasons of chocolate consumption (Candy industry 11/97).

Variations of markets: Across the Asia/Pacific region, there are significant variations in confectionery consumption. Japan and South Korea are sophisticated, mature and largely self-contained markets. These two markets have high per capita
consumption relative to the regional average. Singapore and Hong Kong are small, import-served, developed markets that may be microcosms of the regional confectionery potential. Taiwan, a considerably large market, can be considered within the same category as the above two countries due to similar consumption levels and the heavy dependence on multinational suppliers. Malaysia, Indonesia, the Philippines, and Thailand are underdeveloped with no strong tradition of confectionery consumption but with large populations and significant potential. The last four markets, together with China, India, and Vietnam are perceived to have the greatest growth potential in the region.

Reduction of import duties: The establishment of the Association of Southeast Asian Nations (ASEAN) has facilitated trade in Southeast Asian countries. The association members have approved implementation of the ASEAN Free Trade Agreement (AFTA) to liberalize and increase regional trade. Most import duties will be lowered to zero to five percent by 2003 (Richmond 1997). The reduction of trade barriers will reduce the prices of imported confectionery products. As a result, multinationals could increase both manufacturing and marketing activities in this region.

Instability of financial markets: Emerging markets often carry a higher level of risk than mature markets. The Asian financial market crisis decreased consumers’ expenditure and confidence, which is likely to shift marketing focus towards more stable growth markets. Nevertheless, regional confectioners believe that these issues will be short-lived, although the extent of long-term changes in unemployment is as yet unknown. In addition, not all-regional markets have been damaged by the economic impacts. China, for instance, appears to have escaped regional effects. China’s economic
fundamentals, combined with high marketing expenditure from competing companies, have led to impressive growth. Targeting the southern and eastern higher income areas, companies have been building share in this vast market (Candy Industry 07/98).

Multinationals have been taking different strategies to cope with different market situations in the Asia/Pacific region. Due to the volatile financial markets in some Asian countries, Cadbury, Nestle, Lotte, and Warner-Lambert are likely to shift their strategic focus from more aggressive market penetration to more defensive share retention in the short-term.

In contrast, the financial crisis has not seriously affected the Chinese market. Chinese consumers have the desire and ability to buy a variety of brands, local and foreign, mass market and premium. Therefore, many companies have gained a foothold in the Chinese chocolate market. Cadbury gained 38 percent value share of the countlines segment in 1997 and Nestle 20 percent. Ferrero had 55 percent of value share of boxed and Guylian 10 percent, Lindt & Sprungli 25% of novelties, and Mars 65 percent of straightlines (Candy Industry 07/98)

4.2.2. Mature Western Europe

Western Europe markets have a different set of dynamics and opportunities from less developed markets. Companies usually take defensive strategies, while looking for new niches.

The aging and health-conscious consumers in mature markets demand more sugar-free confectionery and low fat chocolate. Sugar-free gum appears to be at the peak of its growth at around 95% penetration levels. Following developments in gum, other
sugar-free products are also increasing their share of the sugar confectionery category (Candy Industry 07/98).

North European markets have higher levels of sugar-free penetration compared to the south due to successful positioning and product innovation. Nevertheless, the extent of penetration is likely to be limited by one key factor. At present, children consume the majority of regular sugar confectionery, whereas adults consume more sugar-free confectionery. Although European adult populations are larger with more disposable income, they consume fewer confections than do children. This should be kept in mind by multinational confectioners that target the regional markets (Candy Industry 07/98).

Another pattern that confectioners should be aware of is that competition in these mature markets has intensified. A few important players, such as, Nestle, Phillip Morris, and Mars, dominate mature European chocolate confectionery markets. Future acquisition opportunities may be much more limited. Nevertheless, a growing number of joint venture and networking operations will develop between companies that operate in diverse sectors. The sugar confectionery sector, on the other hand, is seen as still highly segmented and fragmented, with numerous independent firms strong in their domestic markets but weak elsewhere. A certain degree of consolidation in the sugar confectionery marketplace is therefore viewed as inevitable (Candy Industry 07/98).

4.2.3. Eastern Europe

Eastern Europe has attracted many confectionery companies since the implementation of market economies. The market for chocolate and confectionery products in Central and Eastern Europe, including Russia, the Ukraine and the Baltic
States, was estimated at $9.1 billion in 1995. Steady growth has been projected for the
next several years as economic conditions improve and personal incomes increase.

*Traditions of Chocolate Consumption.* Chocolate confectionery has a long history
in Eastern European countries. Several Eastern European countries were home to firms
with long traditions and experience in the manufacture of chocolate and confectionery
items. These firms, such as, E. Wedel in Poland, Krasny Oktyabr and Red October in
Russia, and Cokoladovny in Czechoslovakia, had well-established products and high
name recognition and appeal within their particular home markets, and in some cases,
well beyond.

86% of people in Poland regularly buy chocolate and related products despite the
per capita consumption still being low at 3.4 kg per capita compared to 5.3 kg in the USA
and about 8 kg in Germany and the UK (International Food Ingredients 05/99). Russians
are renown for their preference for chocolate products. With annual chocolate sales of
500,000 tons a year, Russia is already the third largest market in Europe after Germany
and Belgium (Financial Times London Edition 05/95).

*Liberal Political Environment.* The restructure of centrally-planned economies in
Eastern European countries provide favorable political conditions for multinational
confectioners to target this region of 400 million under-served consumers.

Before privatization, state-owned confectionery firms produced goods people
actually desired, and with secured markets and no competition, these firms typically
generated healthy revenues for their government. Like most other state-owned firms,
however, confectioners could rarely produce enough of what people wanted. Demand
exceeded what the enterprises could supply given the resources allocated to them by
inflexible state plans. As a result, the chocolate and confectionery markets in this region were considered under-supplied.

With the fall of the communist regimes beginning in 1989, the privatization of state-owned enterprises was a central element of the economic transformation efforts undertaken in this region. Food and confectionery producers were among the better performing firms in these economies and were among the first enterprises to be privatized. Most of the governments actively sought out strategic western investors. Privatization by partial sale to a foreign multinational was the dominant method of privatization for chocolate and confectionery firms across the region. One study estimated that 95% of changes in ownership of enterprises in the confectionery sector in Eastern European between 1990 and 1995 involved foreign investment (Euro Food 12/95).

*Emergence of Russian Middle Class.* Russia has a large and well-educated population of 150 million. Russian domestic savings have increased in 1994 from Rbs 5,000 billion in January to Rbs 20,000 billion by November. According to a study by Mckinsey, the management consultants, at least 30 percent of the population earns more than $200 a month. What really attracts the western consumer products company is the emergence of a prosperous middle class. Typical of Russia’s new and growing middle class are machine operators at Coca-Cola’s Moscow bottling plant earning $600 per month. Because the costs of housing, public transport and other essential services are still subsidized by the governments and are relatively low, a high proportion of middle-class’s incomes is available for discretionary spending, such as, expenditure on confectionery. In addition, the middle class is chiefly clustered in the big cities, which makes it easier to target potential customers. The Moscow region contains 11 million consumers,
representing a bigger concentration of people than in the Czech Republic (Financial Times London Edition 05/95).

Consumers’ preferences for western food. The Eastern European consumer market is taking on a recognizable western flavor, although average incomes are still much lower than in Western Europe. Consumers in this region are very price-conscious and consumer tastes are less sophisticated. Among the middle classes, however, there is far more awareness of the health risks and benefits of certain types of food.

Russia’s demand for imported consumer-ready products is strong after decades of centralized procurement practices and non-convertible currencies. In 1996, U.S. exporters held about 12% of the Russian consumer-ready products market (Reid 1997). Russian consumers overwhelmingly prefer western goods, imported or locally made, to products made by Russian companies. Russians seemingly prefer the sugary chocolate of manufacturers, such as Mars and Cadbury, to the more bitter chocolates from Germany and Belgium (Financial Times London Edition 05/95).

Growth of the Markets. According to Data-monitor, confectionery per capita consumption has grown by a CAGR of 5.4 percent in the Czech Republic, 3.4 percent in Poland, 2.8 percent in Hungary and 2.6 percent in Russia between 1993 and 1997. Romania and Slovakia struggle to produce growth in confectionery categories. Across the region, per capita consumption of gum has grown by a CAGR of 6.4 percent, sugar confectionery by 3.3 percent, and chocolate by 2.1 percent over the same period (Candy Industry 07/98).

Many companies have taken international brands into these markets; others have acquired local companies and brands. During the last five years, Philip Morris has made
seven acquisitions, Nestle three, Cadbury and PepsiCo one each. Market penetration has favored growth through acquisition rather than through internal development (Candy Industry 07/98).

In Eastern Europe’s largest market, Russia, the comparative cheapness of advertising, the low levels of consumption and the lack of strong domestic manufactures have been the chief reasons attracting multinational confectionery giants. Nestle, now owns a 49% stake in Russia Chocolate Co., one of the country’s top chocolate manufacturers and marketers. In 1995, Mars built an immense production facility near Moscow to produce Snickers and Mars candy bars. Hershey is aggressively challenging Mars’ domination of Russia’s chocolate bar market through TV ads for its Hershey Peppermint Patties, Twin Wafer, and other brands. Cadbury launched its dark chocolate countline brand extension. Additionally, Cadbury has specifically developed two new products to appeal to local tastes and identity.

95 percent of Russian chocolate market volume, however, comes from traditional box chocolate sold through specialty outlets, which is dominated by local companies owned by local banks. Multinationals will be hard pressed to reshape segment preferences within the chocolate category (Candy Industry 07/98).

4.2.4. Latin America

Latin America is the most developed and industrialized part of the third world and has been a traditional target of American confectioners. Nevertheless, political-economic crises and currency devaluation have made foreign investors cautious. With economic reforms, South American governments have made progress towards a more favorable economic climate to confectioners. Regional inflation rates have become more stable,
except for Argentina. The largest volume growth opportunities in the region lie in Brazilian chocolate, Colombian gum, and Chilean sugar confectionery (Market Latin America 11/97).

**Instability of Economic Conditions.** The conditions of the confectionery industry in Latin American nations vary considerably, partly as a reflection of prevailing economic conditions in each country. Although the majority of Latin American nations have instituted economic stabilization initiatives, many of them are still experiencing difficulties in transitional times. Mexico has been struggling through economic problems caused by massive currency devaluation and inflation in the mid-1990s. Among Latin American countries, confectionery consumption of Mexico decreased the most in market value terms at a CAGR of -9% from 1994 to 1998. Venezuela and Columbia, feeling the pressure from economic and political instability as well, also registered negative growth rates in the period. This pattern of progress accompanied by periodic setbacks is likely to continue well into the next century. The most important story in the region was Brazil, a nation with a massive population backed by immense natural resources. Although Brazil has experienced some economic growing pains in the past year, the 1994 economic reforms (the Real Plan) continue to bolster the Brazilian economy.

Stable economic conditions are particularly important in consumer goods markets, many of which are highly sensitive to prevailing economic conditions.

**Reduction of Trade Barriers and Integration of Economies.** South American countries want to reduce trade barriers and integrate their economies closely together. Previous attempts, for example, the Latin America Free Trade Association, have failed in the past, but Latin American countries are making more efforts toward integrating their
economies. Governments have agreed to a tariff-cutting program in order to boost exports. Brazil and Argentina have been gradually reducing tariffs since 1987 and in the meantime their trade has risen from $1.35 billion to $2 billion (Euro-monitor 1992).

Mexico joined NAFTA in 1992. The NAFTA integration created demand for confectionery within the bloc which in turn created higher sales for those companies positioned within the NAFTA arena. Additionally, consolidation of North American operations occurred in the confectionery industry owning to the free flow of products and capital across borders (Candy Industry 01/99).

The potential of South America’s markets are brighter than in decades and foreigners will have better access than ever before. Traders will be able to choose from a normal range of options in their dealings with the region’s economies, including direct investment, joint ventures or other collaborative arrangements or exports (Euro-monitor 1992).
Distribution of Incomes. One characteristic of Latin American markets that distinguishes them from those in Asia results from the pattern of income distribution. The middle and upper income classes account for only a small portion of the total population but a very large portion of total income and wealth. These groups are also heavily concentrated in the large cities. Thus a large amount of a country’s total purchasing power is found in markets that are small geographically. These conditions are ideal for selling high-priced products aimed at the affluent. Firms can often focus on only three or four cities and account for 70-80% of a national market (Euro-monitor 1992). In addition, the affluent classes have a strong preference for imported products, which create a potential for western-branded consumer goods, such as, confectionery.

Variation of Product Preferences According to a market report released by Data-monitor, substantial growth exists for the confectionery industries of Brazil, Chile and Colombia. Nevertheless, although growth will occur in each of these countries, different consumer tastes will drive sales in different categories. In Brazil, for example, strongest growth is expected in sales of chocolate. In Chile sugar candy is expected to grow most, whereas gum will be the leader in Colombia (Market Latin America 11/97).

During the past decade, the Brazilian market has evolved from having the lowest per capita confectionery spending to the South American leader. Annual per capita spending on confectionery products has risen tenfold since 1992, from US $2.1 to US $24.3, and total annual expenditures on confectionery products in Brazil now outweigh the consumption in Colombia, Mexico, Peru, and Venezuela combined. Consumption of chocolate has increased 12% annually since 1993, partly because lower inflation and stable prices have made chocolate confectionery more affordable in recent years.
Increases in consumption of chocolate products in Brazil have been led by the growth in sales of assorted box candies. Sales in this sub-segment total over US$800 million per annum. Brazilian manufacturer Garoto holds a 37% retail value share in this niche. Multinational confectioners, Nestle, Phillip Morris, and Ferrero are also fighting for shares in this significant market of South America (Market Latin America 11/97).

Chileans have demonstrated a preference for sugar candy. They consume about 2.86 kgs (6.3 lb) of this product per capita each year. Consumption in this segment has increased 4.9% annually since 1992. Local companies Ambrosoli and Dos en Uno each have about 40% market share. Other producers include Fruma and Calef with market share of 8.5% and 3.5%, respectively. The only multinationals to penetrate Chile’s confectionery market have been those which were already established in another market sector and they holds a 6.8% retail market value share for sugar confectionery as well (Market Latin America 1997).

Growth of the Markets The standard of living in many of Latin American markets has been improving, which has significantly spurred candy consumption. According to Data-monitor, the global market research consultant agency, Brazilians consume 5.18 kg of confectionery each year, with growth of chocolate volume higher than other confectionery sectors. Chile follows, with annual per capita consumption per capita at 3.71 kg, then Argentina with 2.47 kg (Table 4-2).

Table 4-2: Latin American Markets 1997 Confectionery Consumption
<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>2.5</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.2</td>
<td>9.1%</td>
</tr>
<tr>
<td>Chile</td>
<td>3.7</td>
<td>4.3%</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.3</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Peru</td>
<td>0.8</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1.2</td>
<td>-4.7%</td>
</tr>
</tbody>
</table>

Source: Candy Industry July 1998

Brazil's large population and growth in consumption of confectionery makes it an exciting market in the region. From an economic perspective, reforms have been designed to create dynamic and sustainable economic development. The value of all sectors of Brazil's confectionery market has increased by over 9.1% annually since 1993. Euromonitor expects Brazil to experience the strongest growth in both value and volume of chocolate confectionery sales by 2001, when sales will be valued at US$6.6 million, with a total of 692,000 tons consumed (Market Latin America 06/98).

Chile and Argentina recorded the second-and third-highest per capita consumption levels, with 3.7 kg and 2.5 kg, respectively. At the bottom of the rankings were Peru and Venezuela, two countries in which the hot climate complicates storage of chocolates. In these hot regions, ice cream poses strong competition for the confectionery industry (Market Latin America 06/98).

The South American confectionery market is dominated by a handful of multinationals such as Wrigley, Nestle, and Warner Lambert. When combined with North America, it becomes the world's largest confectionery market, enjoying the highest amount of commodity and mass pricing in the world. Although Brazil's chocolate per capita consumption growth is high, three companies, Nestle, Garoto, and Lacta had a combined 93 percent share in 1997, creating a huge barrier to new entrants. In sugar confectionery, the category is highly fragmented. Apart from Nestle, with a value market
share of 46 percent in 1997, the remaining companies had a maximum share of 7 percent. The structure of competition allows easier access to the market, and many firms have developed niche positions within this huge country. Chupa Chups confections launched its portfolio of sugar confections, and Mars launched Starburst Fruspiral, both in mid-1997 (Candy Industry 07/98).

Nestle has invested considerably in the expansion of its interests in the markets of Latin America in the last few years. While Mexico remains the most important of these, the company has also acquired smaller companies or set up subsidiaries in several of the smaller countries in the region. One of the main reasons for the regional interests is that Nestle wants to use alternative suppliers of coffee beans and to reduce its dependence on major suppliers such as Brazil. In Mexico, Nestle has expanded its chocolate market value share from 6.8 percent in 1994 to 26.9 percent in 1996 through acquisition. U.S. confectionery leader, Hershey entered Mexico in 1969 with the acquisition of 50 percent of National de Dulces. The company's products are marketed under the U.S. company's names, in line with the international branding philosophy of the company (Candy Industry 07/98).

4.2.5. Summary of Regional Market Analyses

The Asia/Pacific market, although characterized by unstable financial conditions and market variations, provides confectioners with significant opportunities as a result of increased incomes, reduced import duties, and high market growth rates. The western European market is a mature market with intense competition from entrenched competitors. Confectioners are targeting growing niches, such as, sugar-free and functional confections, to exploit the market with high income and stable economic
conditions. East European consumers prefer western sweets and have a long history of chocolate consumption. Emergence of a Russian middle class suggests increased purchasing power of consumers, and the liberal political environment further facilitates consumers' access to foreign confections. These factors resulted in the high confectionery consumption growth in this regional market. Although preferences of Latin American consumers and growth segments of the market vary across countries, the concentration of incomes, reduction of trade barriers, integration of economies, and high growth rates attract multinational confectioners to participate in these significant markets.

In summary, different emerging markets have similar characteristics: liberal trade environment, increase in incomes, the emergence of middle class income groups, customer preference for western consumer goods, and high growth rate of confectionery consumption. Also there are variations among emerging markets and between emerging markets and the mature western European market (Table 4-3). This implies that multinational confectioners should select international markets according to their strategic significance to their businesses.
<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Asia/Pacific</th>
<th>West Europe</th>
<th>East Europe</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Incomes</strong></td>
<td>Increases in incomes</td>
<td>High income levels</td>
<td>Emergence of Russian middle class</td>
<td>Concentration of incomes</td>
</tr>
<tr>
<td><strong>Confectionery Preferences</strong></td>
<td>Dominance of sugar confectionery</td>
<td>Preferences of sugar-free products</td>
<td>1. Consumers' preferences for western sweets 2. Strong traditions of chocolate consumption</td>
<td>Variations of product preferences across countries</td>
</tr>
<tr>
<td><strong>Product Life Cycle</strong></td>
<td>Variations across markets</td>
<td>Mature markets</td>
<td>Growth markets</td>
<td>Growth markets</td>
</tr>
<tr>
<td><strong>Microeconomic Environment</strong></td>
<td>Reduction of import duties</td>
<td>Strength of European Union</td>
<td>Liberal political environment</td>
<td>Reduction of trade barriers and integration of economies</td>
</tr>
<tr>
<td><strong>Business Risk</strong></td>
<td>Instability of financial markets</td>
<td>Intense Competition</td>
<td>Instability of economic conditions</td>
<td>Instability of economic conditions</td>
</tr>
</tbody>
</table>

Table 4-3: Characteristics of International Confectionery Markets
Chapter 5 Global Product Strategy for Hershey Foods

This chapter focuses on the analysis of global strategy levers (global market participation and global products) based on Yip’s global strategy framework. Drawing upon the chapter 4 results concerning the results of industry globalization drivers and the regional confectionery markets, globally strategic markets are analyzed and selected for Hershey. Keegan’s global product strategic alternatives method is then used to formulate ideal product strategies for these strategic markets. Moreover, Hershey’s experience with internationalization and current product strategies are critiqued and recommendations for change are proposed. Finally, benefits and costs of a global strategy and Hershey’s ability to implement such a strategy are evaluated.

5.1 Approach to Analysis

As shown in Chapter 4, the confectionery industry globalization drivers indicate that global strategy makes sense for firms in the confectionery industry. Furthermore, the Chapter 4 overview of the international confectionery market situation built a foundation for selection of international markets and successful selection of global product strategy.

Specific market opportunities and specific strategies must now be selected for Hershey. Yip argues that international markets should be selected based on their global strategic significance (large sources of profits and revenues, significant markets of global customers, significant markets of global competitors, home markets of global competitors, and major sources of industry innovation). Once these markets have been identified for Hershey, Hershey then needs to formulate global product strategies appropriate for these selected markets in order to achieve the benefits of globalization. As
mentioned earlier, Keegan’s global product strategy alternatives (Table 2-1, p19) are
applied in this study to identify product strategies for Hershey, evaluate the company’s
current international product strategy, and formulate recommendations for its future.

The rationale behind Keegan’s global product strategy alternative is to match
products and markets. The product is defined in terms of the function or need it serves,
and the market is defined in terms of the condition under which the product is used,
including the preferences of potential customers and the purchasing power relative to the
products in question (Keegan 1969). In addition, ability to buy was included in the model
to introduce the case of a product need in a country at an early stage of development
where there is a limited ability to purchase (Keegan 1995). Furthermore, costs of
adaptation and manufacturing should also be considered. Companies should take into
consideration all of these factors to find the optimal global product strategy.

5.2 Selection of International Markets

Participating in the right countries at the right level provides the foundation for a
successful product strategy. In a global strategy view of market participation, country-
markets are not selected by their stand-alone attractiveness. Instead, they are selected on
the basis of their potential contribution to globalization benefits and to the global
competitiveness of the business (Yip, 1992).

To have a global level of market participation requires a significant global market
share, a reasonable balance between the business’s geographic spread and the market’s
spread, and presence in globally strategic country-markets. Such country-markets are
important beyond their stand-alone attractiveness. Criteria for selecting a globally
strategic market are: 1) large resource of revenues or profits, 2) home market of global
competitors, 3) home market of global customers, 4) significant market of global competitors, and 5) major source of industry innovation. To be qualified as a globally strategic market, a country has to meet at least one of the above criteria (Yip 1992).

Asia-Pacific markets are qualified as strategically significant markets because they are large sources of revenues and profits, and significant markets of competitors. As mentioned in Chapter 4, large populations, increased incomes, and the increasing appeal of western quality products to Asian customers boosted consumption of confectionery products, and provided large revenues for multinational companies. Although the financial crises negatively affected multinational confectioner’s confidence in this regional market, major confectioners, such as, Cadbury, Nestle, Lotte and Warner-Lambert, still treat this regional market as a priority to explore in the long run. The Chinese market, which seemed to escape the regional financial crises, has become a significant battleground for multinational confectionery giants.

Western Europe, although highly concentrated with high barriers for potential entrants, is the home market for Hershey’s competitors and the major source of industry innovation. These factors qualify the mature western European markets as globally strategic markets for Hershey. Most of Hershey’s key competitors originated from Europe and have significant market share in western European markets. For example, Nestle is a Switzerland confectionery company, Cadbury originated in the U.K., and even Mars, know as a U.S. confectionery giant, first expanded its business successfully into European markets. Nestle and Freia Maribou are entrenched in European markets just as Hershey is in the U.S.
In addition, most of the confectionery industry innovations are originating from Europe, and major competitors learned their major technologies of product development by competing with each other. "When I think about chocolate, I think about Mars and Phillip Morris," said Helmut Maucher, the CEO of Nestle. Although Nestle is competing with Hershey in North American markets, Hershey's lack of success in European markets keeps it from being on Nestle's top competitor list.

Eastern European markets are strategically important for Hershey because they have large sources of revenues and profits and are significant markets for Hershey's global competitors. Consumers' preference for western confectionery products and the emergence of a middle class in this region indicate that consumers have both willingness and ability to purchase western confectionery products. Meanwhile, the privatization of state-owned firms creates a liberal environment for foreign investors. Multinationals' participation and investment, in turn, boosted the production, marketing and consumption of the potential growth markets. For example, huge foreign investment has been infused into Poland in building both production plants and developing sophisticated marketing due to the lower costs of production and advertising in Poland versus countries to the west. As a result, Poland domestic production increased six-fold between 1990 and 1998 and continued to grow at about 20% per year (International Food Ingredients 05/99). Overall, Eastern Europe recorded the fastest regional growth rate of per capita consumption of confectionery between 1993 and 1997, with a 3% compound annual growth rate (Candy Industry 07/98), which makes this region a large source of revenues and profits for confectionery manufacturers.
Hershey's major competitors all treat this region as their significant markets for expansion. Mars is one of the first multinationals to move into Russia on a large scale and is producing chocolate from a $150 million plant in Stupino, outside Moscow. Despite some setbacks, it still plans to invest $500 million at the site to start manufacturing pet foods, ice cream and sauces. Cadbury Schweppes is also committed to building a chocolate plant near St Petersburg while Nestle has bought a 49% stake in a manufacturing enterprise in Samara (Financial Times London Edition 05/95). In addition to the Russian market, many multinationals also saw Poland as an export base for the rest of Europe, including both Central and Eastern Europe, and the European Union to the west. In Poland, Cadbury, Mars and Nestle compete in the mid-price range. There is also a small market for higher quality products by companies such as Ferrero, Lindt and Sprunghli (International Food Ingredients 05/99).

The Latin American market is qualified as strategically significant market for Hershey because it is a large source of revenues and profits and has significant markets for Hershey's competitors.

As mentioned in Chapter 4, Latin American governments are making efforts to control inflation and reduce tariffs, which play important roles in consumers' purchase of price-sensitive confectionery products. For instance, in Brazil, the 12% increase of chocolate consumption partly results from the Brazilian government's effective control over inflation. In addition, concentration of high-income population in this region further makes it easy for multinational confectioners to target the markets. The above factors facilitate the growth of Latin American confectionery markets and make the region a potentially large resource for revenue and profits for confectioners.
Multinational confectionery giants, such as, Mars, Nestle, all established their presence in markets with strategic importance to their operations and expansion. For instance, Mars, Nestle and Hershey are fighting for market share in Mexican markets because of its integration into NAFTA and its great growth potential. In addition, some of the Latin American countries, such as, Brazil and Mexico, are input suppliers for multinational confectioners, and thus participating in these markets is particularly important to multinational confectioners' global integration of value chain activities.

The above analysis indicated each region is qualified as a globally strategic market for Hershey but for different reasons. It is important for the corporation to select globally strategic country markets in each region to achieve the benefits of global market participation.

Improving its performance in Asian/Pacific markets can enable Hershey to exploit economies of scale, lower its worldwide cost, and generate cash flow to subsidies other markets. Furthermore, the presence in significant markets of competitors can help Hershey to learn the skills of confectionery product development and innovation from its competitors.

By participating in western European markets, the home/significant markets of competitors and primary source of innovation, Hershey can catch up with its competitors' skills in technology and product development and facilitate its further participation in international markets.

Exploiting the growth potential of Eastern European markets can enable Hershey to supplement flat sales and low growth rates of the domestic market over the long run. By participating in this regional market, Hershey Foods Corporation can further learn
from its global competitors, such as Mars, Cadbury, and Nestle, how to operate in a growing and risky environment, and monitor competitors’ product development. In addition, the geographic proximity of Eastern European markets to western Europe also can contribute to Hershey’s process of learning good practice and tracing its competitors’ global moves.

Hershey Foods Corporation has realized the significance of Latin American market and set this region as its priority. Recently, Hershey has been busy buying and developing candy that can stand the heat, e.g., the hard candies Jolly Rancher and Tastetations, for Latin American market.

5.3 Discussion of Ideal Global Product Strategies for Hershey

An ideal global product has maximum worldwide acceptance with minimum local adaptation. A fully standardized product that is identical all over the world, however, is very rare and hard to attain. Standardization occurs along a continuum. The benefits of global products can be achieved by standardizing the core product or large parts of it while customizing peripheral or other parts of the product (Yip 1992).

In the methodology chapter (Chapter 2), three global product strategic alternatives (extension, adaptation, and creation) were identified based on product function or need satisfied, conditions of product use and ability to buy (Keegan, 1969, 1995). Packaged food companies are often addressing the same product need, but must adapt to different preferences in taste. For example, a company marketing ketchup must adapt the sweetness of its product to conform to tastes in different countries. Soft-drink companies must also adapt to different preferences for sweetness (Keegan 1995). The identified
globally strategic markets for Hershey have the same product function or need satisfied, but different conditions of product use (preferences of potential customers and the purchase power for products in question). From Asia to South America, people buy confections as snacks, treats and gifts to satisfy their taste needs and psychological needs. Nevertheless, consumers in different regions prefer different types of confections and different tastes of the same confections. Furthermore, income levels and product distribution conditions vary considerably from mature markets to developing markets. These differences in the conditions of product uses require that Hershey employ different global product strategy alternatives for different markets.

5.3.1. Asia/Pacific Markets

Tastes and preferences of Asia/Pacific consumers are different from those of American consumers, and thus product adaptation is required. Asian/Pacific consumers prefer sugar-based confections to chocolates due to the diet traditions and the conditions of distribution. Hershey, however, is stronger in its chocolate products than sugar-confections. Non-chocolate candy comprised only about 10% of volume for Hershey in 1996 (Snack Food, 1996). In order to quickly establish market share into the Asia/Pacific area, Hershey needs to develop and market more popular sugar-based confections for local markets rather than assuming chocolate appeals to consumers in the same way all over the world.

Furthermore, Asian/pacific consumers in general prefer a less sweet version of U.S. confections. Salty food is dominant in their diet and when consuming sweets, and consumers prefer confections with less sugar and fewer calories (Candy Industry 11/96).
Confections of Hershey satisfy the tastes of American consumers, but they are too sweet for consumers of the Asia/Pacific region. This makes Asian/Pacific consumers reach their saturation points with only a small amount of intake, which in turn can significantly reduce confectionery sales in this region. Therefore, adapting the tastes of confectionery products to local needs is necessary for Hershey’s expansion into Asia/Pacific markets.

The conditions of distribution channels in the Asia/Pacific region also require product adaptation. Most confectionery retailers in these markets are not equipped with refrigerators, which causes serious problems for the storage of confectionery, especially for chocolate products. Therefore, to solve the problems of inferior distribution to that of the US, Hershey has to market more heat-enduring products in order to maximize both its product available seasons and spaces.

Also, lower income levels in the Asian/Pacific area and the gift association nature of confectionery also call for Hershey Foods Corporation to adapt both its product sizes and packaging in this regional market. Although increasing, average income is still much lower in this regional market than that of the US. For example, in China, Asia’s largest market, annual average incomes in urban areas are only US$622 (China Business Review). Therefore, in order to make its products affordable to a broader consumer base, Hershey needs to either lower its prices or change sizes of its product packaging.

Moreover, the gift and treat-oriented nature of confectionery products in most of the Asia/Pacific countries indicates that product packaging should be appropriate to give as gifts. For example, in the Chinese tradition, candies are gifts and treats for guests at weddings. These gift candies are also called “xi tang” or “happy candy”. These candies are usually wrapped in either red or gold with the Chinese character for double happiness
as its central design element (Moustakerski 1999). If Hershey wants to target this niche, the corporation has to change its product packaging design correspondingly to events such as weddings and New Year.

Hershey needs to adapt both its product mix and content to local customers. More specifically, marketing more non-chocolate than chocolate products in the region and adapting its products to local taste may generate more favorable outcomes. Meanwhile, Hershey also needs to bear in mind that there is a common need in the fragmented Asia/Pacific markets: consumers want confectionery to satisfy their desire for sweets. The corporation should identify the basic needs of the most important markets and adapt accordingly rather than trying to develop and market new products for each country-market.

Communication strategy is similar to that of the U.S. market. Confectioners should advertise the products as gift or fun food to eat. In addition, they also should emphasize the nutritional and psychological attributes of confectionery products to educate Asian consumers on the tastes of chocolates, the benefits of its milk content and when the products should be eaten. Combining product adaptation and communication extension strategy is what Keegan referred to as his product strategy 3 (Table 5-1).
Table 5-1: Lists of product strategies for international markets

<table>
<thead>
<tr>
<th>Keegan Strategy Number</th>
<th>Product need or use satisfied</th>
<th>Conditions of product use</th>
<th>Product strategy</th>
<th>Communication strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia/Pacific</td>
<td>3 Same</td>
<td>Different tastes and preferences</td>
<td>Adaptation</td>
<td>Extension</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inferior distribution channels</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Lower income level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>3 Same</td>
<td>Lower income level</td>
<td>Adaptation</td>
<td>Extension</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inferior distribution channels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America</td>
<td>3 Same</td>
<td>Fragmented preferences and tastes</td>
<td>Adaptation</td>
<td>Extension</td>
</tr>
<tr>
<td></td>
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<td>Inferior distribution channels</td>
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<tr>
<td></td>
<td></td>
<td>Lower income level</td>
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<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>1 Same</td>
<td>Same</td>
<td>Extension</td>
<td>Extension</td>
</tr>
</tbody>
</table>

5.3.2. Western Europe

The consumer tastes for chocolate in Western Europe are quite different from the U.S., although the ability of purchasing and conditions of distribution channels seem to be similar to U.S. markets. Hershey, which is synonymous with chocolate in the U.S., does not seem to successfully appeal to the tastes of western European consumers. To European consumers, Hershey chocolate tastes stale and does not have the melting tastes of European chocolate (Joel G. Brenner, 1999).

The different preference for chocolate products, however, does not seem to have a direct effect on Hershey’s selection of product strategy. Western European chocolate segments are highly concentrated with Hershey’s competitors, whereas the sugar
confectionery category is relatively fragmented. Hershey should avoid the intense
competition in the chocolate segments and target the fragmented sugar-confectionery
segments. Similar to U.S. consumers, the aging and health-conscious consumers in
western European markets also prefer sugar-free and functional candy products. So the
conditions of product use are the same as that of the U.S. The commonalities between
western Europe and US markets would allow Hershey to leverage its successfully
developed sugar-free products such as SweetEscape into mature western European
markets with little adaptation and exploit the benefits of cost saving from the use of
global product strategy.

In addition, due to the same demand for sugar-free and functional candies between
Western Europe and the US, the communication strategy should be an extension of that in
the US. Therefore, the suggested product strategy is Keegan’s product strategy 1, product-
communication duel extension (Table 5-1).

5.3.3. Eastern Europe

In contrast to Asian/Pacific markets, the emerging Eastern European market has a
long history of chocolate consumption, as evidenced by well-established local brands.
Consumers in this region have had strong demand for western confections after
privatization. In particular, Russians seem to favor the sweet confections from U.S.
confectioner Mars rather than the bitter confections from German and British
confectioners.

Although middle-class consumer groups are emerging in this region, average
income levels are still much lower than those of the U.S. For example, only one third of
Russians earn a monthly income of more than $200. Consumers are very price-sensitive
and their tastes are less sophisticated than those of consumers in mature markets.

Consumers frequently buy small quantities of confectionery products, which directly contributed to the significant differences between the purchasing practices of wholesalers and retailers in this area and those in the US. The quantities of confections that wholesalers/retailers want to purchase are smaller than those U.S. confectioners are accustomed to selling (Susan Reid 1998). In order to build a presence in the fastest growing regional markets, Hershey needs to adapt its product packaging sizes, similar to the strategy for Asia/Pacific markets to make its product available to a broader consumer base.

More importantly, lack of distribution control in Russia has facilitated the growth of counterfeit goods (Reid 1997). This makes western branded confectioners suffer dearly because counterfeit goods destroy the credibility of branded confectionery. Therefore it is crucial for Hershey Foods Corporation to develop unique, hard-to-copy packaging designs to signal its products properly.

Another problem faced by the confectionery industry is that many wholesalers and retailers do not have cold storage facilities and can handle only dry goods (Reid 1997), which causes problems for the storage of chocolate products and again raises the issue that Hershey should market more heat-enduring products in this region.

The above adaptations needed on product packaging and mix are peripheral compared to the commonalities of tastes and preferences between eastern Europe and US markets. Hershey should market its power brands into this region while making necessary adaptations on product packaging for local markets.
Because of the product function or need satisfied by confectionery products in Eastern European markets are similar to those of the U.S, a communication-extension strategy is recommended. Hershey can use universal advertising and promotion themes to market its confectionery products as snacks as it has done in the U.S. market. Keegan's product strategy 3, product-adaptation and communication-extension, is recommended (Table 5-1).

5.3.4. Latin America

Latin American consumers also have a long tradition of confectionery manufacturing, reflected by decades-old histories of such companies as Garato of Brazil, Arcor of Argentina, and Dos En Uno, Ambrosoli, and Hueck of Chile.

Preferences and tastes of Latin American countries, however, are fragmented. Different countries in Latin American region prefer different confectionery products. For example, Brazilians seem to prefer chocolate products to other sugar confections; Chileans want sugar confectionery products to satisfy their sweet teeth; whereas gums spur the most confectionery consumption in Colombia. This theoretically requires a mix of product portfolios to target this regional market. Nevertheless, although chocolate per capita consumption in Brazil is high, three companies, Garoto, Lacta and Nestle had a combined 93% share in 1997 (Candy Industry 07/98), creating huge barriers to new entrants, such as, Hershey. Therefore, as in western European markets, Hershey may be better off by targeting the fragmented sugar confectionery segments in Brazil. Thus sugar confectionery rather than chocolate products, including non-chocolate products and gums, should be Hershey's primary product category to penetrate in Latin American markets.
Furthermore, successful stories of local confectionery companies indicate that consumers in this region prefer low fat and less sweet confections. Garato, a family owned Brazilian chocolate company, competes with global confectionery marketers Nestle and Philip Morris Corporation in Latin America. One of the unusual advantages Garato has over its more worldly rivals is that its chocolate products are deliberately more resistant to melting in a hot climate due to low fat content and less sweetness. Now Garato controls 45% of Brazil’s fastest growth chocolate markets (Advertising Age 09/97).

In Latin American countries, the real income level is still lower than that of the U.S. This also creates difference in the conditions of product use, and thus requires product adaptation. Also, in Latin America’s significant Mexican market, national manufacturers control 96% of the gum market and 70% of the chocolate market in 1996 because of the high prices of imports, and the greater availability and lower prices of domestic goods (Candy Industry 01/99). In many Latin American countries, sugar confectionery’s popularity is due to its low-cost and its appeal to the very young, who have not yet fully developed a taste for chocolate. Moreover, low to moderately priced sugar confectionery were also least affected by the economic crises in Venezuela and Mexico.

Finally, non-refrigerated distribution channels, which are rampant in this region, require product adaptation as well. For example, In Mexico’s confectionery segment, particularly in sugar confectionery, street vendors, kiosks, and small shops are the dominant channels. Although supermarket retail share continues to rise in value as Mexico's retail structure becomes more advanced, traditional Mexican street vendors are
still immensely popular. They generally sell cheap, low-quality products and own non-refrigerated shops (Candy Industry 01/99). This causes similar distribution and storage problems to Asia/Pacific markets for multinational confectioners.

The above analysis indicates that product adaptation is necessary for Hershey Foods Corporation to penetrate Latin American markets. Hershey needs to market more sugar-confectionery categories in this region, adjust the degree of sweetness and fat content in its chocolate products and develop heat-enduring confections with local tastes. More importantly, changes of product sizes are necessary to make products available to a broader consumer base. Despite their differences on tastes, income and distribution, however, common customer needs between Latin American consumers and American consumers are dominant, which indicates Hershey should use global product strategy while customizing to local needs.

Communication strategy should be extension from U.S. markets because sugar confectionery will still be advertised in this region as snack-oriented food similar to the U.S. The suggested product strategy is then the same as in East European markets, Keegan’s strategy 3, product-adaptation and communication-extension.

In summary, the differences of conditions of product use in the emerging markets of Asian/Pacific, Eastern Europe and Latin America favor Keegan’s product strategy 3: product adaptation and communication extension. The similarity of product need or use satisfied and conditions of product use between Western European markets and U.S. markets suggests that Keegan’s product strategy 1, product and communication duel extension, is appropriate to this regional market (Table 5-1).
5.4.1 Review of Actual Hershey Product Strategies

5.4.1 History of Internationalization

Hershey Foods Corporation has not gained much success in its international market expansion. The corporation’s sales outside North American markets only accounted for 4% of 1997 sales (Patriot-News, 1998). Historically, Hershey missed two significant opportunities to expand its business worldwide. The first opportunity occurred after World War II. The war made Hershey famous from Japan to North America, to Paris and London. In addition, Europe’s candy business was seriously destroyed by the war and Hershey had one of the only fully operational chocolate factories in the world in 1945. All these provided perfect timing for Hershey’s international expansion. Nevertheless, Hershey’s management failed to recognize the tremendous opportunities present and decided to focus on meeting domestic market needs.

Hershey was given a second great opportunity to develop its international markets in 1969, when the executives of the European confectionery giant, Cadbury, came to the United States to look for a merger partner. Hershey’s management was very optimistic about this merger. However, the cocoa price fluctuation in the early seventies finally forced Hershey to retreat from this merger and thus Hershey lost its second chance to expand its business globally (Brenner 1999).

Hershey later attempted to expand its business into international markets several times, but ended up with a series of failures. Foreigners simply rejected Hershey’s chocolate flavor. For example, in Canada, after Hershey invested millions of dollars to improve the Hershey flavor at its Smith Falls plant, the company learned that Canadian consumers did not share the tastes of U.S. consumers. In addition, in Mexico, although
Hershey had been selling its products for decades, Mars' market share surpassed Hershey's the first year it entered the market. In 1979, Hershey entered an agreement with a Japanese company, Fujita, to import, make and sell Hershey products. But the confectionery company never had much success and Mars again surpassed Hershey in the Japanese market (Brenner 1999).

In the early 1990s, the company ventured with high hopes into Western Europe, where people eat more candy than anywhere else in the world. Hershey bought a German firm and an Italian candy company, but lost to Philip Morris in a bid to acquire a bigger market player, Freia Maribou of Norway. After years of disappointing results, Hershey found itself unable to compete in the European markets and in 1996, sold its European facilities for a loss of $35 million. Hershey has since exited from Europe. Europe proved to be a tough market for a newcomer due to the intense competition from entrenched candy giants, such as, Freia Maribou and Nestle. Currently, Hershey is focusing on Latin American markets, where standards of living are increasing and competition is less entrenched. Hershey recently has been busy buying candy that can stand the heat. Hard candies, e.g., Jolly Rancher and TasteTations, are examples of this.

As pointed out by Brenner (1999), failing to find the right match between markets and products explained Hershey's failure in international market expansion. The flavor of Hershey's chocolate appealed to U.S. consumers, but not to most of Hershey's international markets, including its neighbor Canada. A Hershey Bar is stiff and it doesn't melt like a European chocolate. Instead of expecting consumers to adopt the corporation's products, Hershey should first take into consideration different tastes and use product adaptation and communication extension strategies.
Another reason, as pointed by Brenner, that may cause Hershey's international market failure is the corporation's management mindset. The management team does not have a good understanding of the world market, and Hershey had no market research division until the 1970's.

5.4.2. Review of Product Strategies of Hershey Foods Corporation

Historically Hershey has not been aware of the significance of achieving a global market share and global balance and of the importance of globally strategic markets. Although its foreign market penetration is increasing, its market participation is relatively unbalanced. As the North America confectionery leader, Hershey only ranked fifth in global market sales in 1997 (Travel Retailer International 1998), and the company continues to focus primarily on the North American market through acquisitions and new product development.

Since the 1980s, Hershey has gained a dozen successful products in the US markets through acquisitions. Among them are Mounds, Almond Joy, Reese's Peanut Butter Cups and Jolly Rancher. In the 90s, Hershey has introduced a series of successful products in domestic market such as bite-sized Hershey's Kisses with almonds and the Jolly Rancher Lollipop. Nevertheless, most of the products are simply line extensions and changes in packaging.

Although Hershey Foods Corporation exports to about 90 countries in the world, its sales outside North American markets are very modest at about $150 million a year, accounting for less than 4% of the company's total 1997 sales (Brenner 1999).

In terms of the use of global product strategy, as mentioned in Chapter 4, Hershey's major competitors in the confectionery industry all use global product strategy
to a certain degree. Nestle closely follows world consumption trends and develops products to meet consumer needs, and Mars markets about the same range of core products worldwide with a certain adaptation to local needs. Until 1993, Hershey had not started using global product strategy. Ignoring high product development cost and market share gain, Hershey still works hard to capture market share in the mature North American markets by introducing new brands. Hershey's management strongly believes that only new varieties can stimulate consumption and tries to get as many new products on the shelf as possible.

In contrast to the other major players, Hershey does not rely on a few hard core, global products to build market share in new markets. In Mexico, particularly, Hershey abandoned a standardization strategy. The joint venture between Hershey and a local firm in 1966 produced 12 Hershey products and Hershey International exported an additional 14 products for the national market. Nevertheless, Mar's approach of direct control of manufacturing and reliance on a few standardized products has been more successful in markets worldwide (Yip 1991).

Since 1993, Hershey has reengineered the way it makes chocolate. The corporation reorganized its North American operations into one single entity (Hershey Chocolate North America), rolled out four major new product lines, and partnered internally and externally to extend its world famous confectionery brands. In 1996, Hershey acquired Henry Heide, Inc., a non-chocolate candy manufacturer and ventured into the hard candy market for the first time with the introduction of TasteTations.

In 1997, Hershey started taking the strategy of building six global brands in its most promising markets, Latin America, Asia, and the Middle East. These brands are
Hershey's Kisses, Nuggets, Cookies 'n' Crème, Hershey Syrup, Pot of Gold and Reese's. Hershey, whose domestic stars are its Reese's candies, does best internationally with Kisses, particularly made with the creamier chocolate that European candy makers developed. The Corporation is dedicating most of their marketing and sales efforts toward these global brands.

Today Hershey International is active in approximately 50 countries among the 90 countries to which they export, with its primary focus in Latin America, Asia, and the Middle East. Over the past year, it especially has concentrated on building its business in Japan, the Philippines, South Korea, Greater China, Brazil, Venezuela, Israel, Peru and Australia. Despite the corporation's interest in boosting its international candy business, Hershey Foods Corporation nevertheless decided against buying or building plants in Russia for the time being, given the difficulties other US business are encountering there. As part of Hershey's initiative to expand into Latin American market, though, the company signed a distribution agreement in Brazil in 1998.

5.5 Recommendations for Changes

The above analysis indicates that Hershey should undertake the following actions to assure its future success in international expansion.

Selection of globally strategic markets is the first step Hershey Foods Corporation should take when considering global expansion. Instead of focusing on gaining market share in North American markets, Hershey Foods Corporation should aim to achieve both global market share and global balance by selecting globally strategic markets. As mentioned in the suggestions for market selection, the emerging markets of Asia/Pacific, Eastern Europe, and Latin America, and the mature markets of western Europe are all
qualified as globally significant markets for Hershey Foods Corporation. The key for the corporation is to identify significant country-markets in each region to target and achieve global balance.

In the emerging markets of Asia-Pacific, Eastern Europe and Latin America, China, Russia, and Brazil are singled out for their large market size relative to the regional markets and their significance for Hershey’s competitors. The mature western European markets are entrenched with Hershey’s competitors and have high barriers for new entrants. Nevertheless, the most strategic countries are often the most expensive ones (Yip 1992). Due to their significance as globally strategic markets, Hershey still should take actions in these markets. Louis Smith, who oversaw Hershey Foods Corporation’s research and development in the 1960s, always argued for Hershey to have an office in Switzerland in order to keep abreast of the latest innovation.

The second step for Hershey is to match its product strategies with selected significant markets. The overview of international markets suggested sugar-based confectionery has been growing at a faster rate than chocolate products, and they appeal to a broader consumer base in Hershey’s globally significant markets. Nevertheless, Hershey Foods Corporation seems to consistently view itself as in chocolate business. The six global brands Hershey Foods Corporation is currently focusing on, Hershey’s Kisses, Nuggets, Cookies ‘n’ Crème, Hershey Syrup, Pot of Gold and Reese’s, are all chocolate products. This indicated that the corporation is emphasizing the wrong products for its international penetration. Clearly, the alternative for Hershey is to include its newly acquired or developed sugar-based confections into its global brands portfolios.
In 1995, Hershey acquired Leaf North America, which brought Jolly Rancher into the Hershey's product portfolio. Hershey researchers had worked hard for a long time on a jelly candy, but needed a brand name to put the product on top. The acquisition provided a key opportunity for Hershey, and now the corporation is marketing Jolly Rancher Jolly Jellies. Hershey should take advantage of these “power brands” and focus more on marketing its leading sugar-based confectionery products worldwide rather than on chocolate products only.

Furthermore, marketing the existing branded sugar-based confectionery products in Asia/Pacific, Eastern Europe, western Europe and Latin American can also reduce Hershey's costs of adaptation and best leverage its global brands.

Finally, Hershey Foods Corporation needs to adapt both its chocolate and non-chocolate products to local consumer needs while bearing in mind the basic need of the most significant markets.

5.6 Benefits and Costs of a Global Product Strategy for Hershey Foods Corporation

The benefits of participating in globally strategic markets and using global product strategy can be achieved through: 1) cost reduction, 2) improved quality, 3) enhanced customer preference, and 4) competitive leverage (Yip 1992).

Cost reduction. Using global product strategy can reduce duplication of development efforts. As mentioned earlier, the development of successful new products in the confectionery industry is very difficult. It involves high costs of R&D, such as combining the basic ingredients in a creative way, costs of mass production, and costs of developing total market packages. Globalizing existing brands rather than starting new
ones in each targeted international market can help Hershey significantly reduce these costs and leverage successful core products around the world.

*Improved Quality.* Reducing products marketed for international markets to several global brands, including both chocolate and non-chocolate products, can help Hershey concentrate its development and management resources on improving product quality and making the products more appealing to consumers worldwide.

*Enhanced Preference.* Candy is bought very often when consumers travel abroad. Standardization makes the same candy products available everywhere consumers visit, and therefore enhances consumers' preference. In addition, consuming western food products is becoming fashionable in some developing countries. Marketing western famous confectionery products into emerging markets can then enhance consumers’ preference by increasing global availability. Hershey should focus on customizing its leading brand products to local tastes in order to achieve the benefits of enhanced customer preference.

*Competitive Leverage.* As the U.S. confectionery market leader, Hershey’s world market share falls far behind its major competitors Mars and Nestle, as mentioned earlier. One of the reasons is that Hershey's product innovation incurs high costs, which decreases its competitiveness in world confectionery markets. By focusing on a few global brands, Hershey can significantly reduce its product development costs, and therefore increase its competitiveness in targeted emerging markets, where consumers are very price-sensitive. In addition, participating in globally strategic markets also provides Hershey Foods Corporation more sites for it to attack and counter-attack its competitors.
Just like any other strategy, global product strategy is not perfect. The major drawback of global product strategy is the sacrifice of national need. This is especially important for the food industry, where national preferences are quite distinct. For example, consumers in Asian countries, in general, prefer less sweet confectionery products than those in Europe or United States. In addition, targeting a globally strategically significant market requires earlier and/or greater commitment than targeting a market warranted on its own merits. Furthermore, co-ordination costs are also incurred in order to operate in a wide spread of country markets.

Thus, the key of global product strategy for Hershey is to find the balance between benefits and drawbacks of standardization. The corporation should design its products to satisfy the most important common need of the most important markets while customizing to different tastes. By doing this, Hershey should maximize its chances for global success.

5.7 Organization Ability of Hershey to Implement a Global Product Strategy

In order to achieve the benefits of the proposed global product strategies, Hershey Foods Corporation needs to have the capabilities to implement a global strategy. Organization provides the vehicle by which strategy can be formulated and implemented. Organization factors (*organizational structure, people, management process and culture*) affect the kind of strategy that can be developed (Figure 2-2, p21). This is especially true for global strategy where substantial changes may be needed to formulate and implement the strategy (Yip 1992). Hershey has realized the need to change its organization factors to improve efficiency.
5.7.1. Examination of Hershey Foods Corporation’s Organization Ability

The examination of the organizational factors for Hershey indicates that although the corporation has made efforts to integrate its business and organization, organizational barriers to implementing a global product strategy still exist.

Hershey has realized the importance of restructuring its organization and business since 1994. In 1995, the company reorganized its three separate North American divisions, Hershey Chocolate USA, Hershey Mexico, and Hershey Canada, under a single entity: Hershey Chocolate North America. Within the three divisions, five business units (Hershey Canada, Hershey Mexico, and US Chocolate Confectionery, Non-Chocolate Confectionery and Special Markets) report to the president of Hershey Chocolate North America, Pasquale. The reorganization centralized the corporation's authority to a general sector head and has begun to yield benefits. For example, according to Pasquale, as a single North American unit, the company is able to make sourcing decisions quicker than in the past.

Nevertheless, Hershey's organization structure still works in one major way against a global strategy: the corporation has a strong domestic and international division split. Out of Hershey's total 14,500 employees, only 50 of them work for Hershey International (Patriot-news 02/98). A recent interview with Hershey's employee development manager Steven Wagner indicates that employees of the domestic division are poorly informed about the situation of the corporation's international division.

The imbalanced allocation of resources and restricted information flow between the two divisions hinder the implementation of a global strategy. In particular, when Hershey is competing with global competitors such as Nestle, Mars and Cadbury, it is
necessary for the corporation to use its US resources to subsidize international efforts, but
the current structure does not favor that. In order to facilitate the implementation of a
global strategy, Hershey has to make further efforts to integrate its domestic and
international divisions and balance the resource allocations of these divisions.

Hershey's management process does not contribute to the use of a global strategy.
While having information about the world is a minimum requirement for being able to
formulate and implement a global strategy, Hershey historically did not build up a global
information system. Instead the corporation primarily focused on domestic markets by
introducing new products. The first moves of Patrice Le Maire, president of Hershey
International appointed in 1997, was to spend five months researching Hershey's
international market situation and then recommend a relocation of Hershey International
to Miami, Florida, which is close to Hershey's Latin American markets and make it easy
for the corporation to recruit talented Spanish speaking people (Patriot-news 02/15/98).

The limited amount of information flow between the corporation's domestic and
international divisions also indicates that Hershey is weak at both cross-country
coordination and global performance review and compensation, which creates barriers
for US managers to think globally, to share information and to support the corporation's
international expansion. Therefore, Hershey Foods Corporation needs to reform its
management process before attempting a global strategy.

Hershey's historical management of people did not favor the use of a global
strategy, either. Hershey did not seem to have a recruitment plan for foreign nationals
until 1997. One major incentive for the relocation of Hershey International to Miami in
1997 was to seek "international entrepreneur types" needed for the corporation's long-
term growth. In the words of Kenneth Wolfe, Hershey CEO, to expand into foreign markets, it is important for Hershey to operate through "someone who is comfortable with living there, who is not looking to come back home, who doesn't miss sauerkraut and pork on New Year's Day" (Patriot-news 02/98). Among Hershey's current employee and management teams, however, there are few foreign nationals. In contrast, Mars' foreign national employees outnumber its domestic employees two to one. Therefore, Hershey still needs to make long-run commitments to build up its "global mind set" needed for a successful international expansion.

Hershey's mission statement emphasizes that the corporation aims to achieve a leading position in "selected international markets" versus Mars' statement of being a "world confectionery leader." In a recent interview, Hershey's Wolfe said, "we want to grow our business everywhere in the world, but the first step in the process would be let's do what we can in the Western Hemisphere." This indicates that Hershey's top executives do not have a firm commitment to international expansion, which also causes another barrier for the corporation's implementation of a global strategy.

Lastly, Hershey Foods Corporation's corporate culture worked against a global approach. Rather than building a global identity, the corporation has a domestic-oriented and adaptation-oriented culture. Hershey is consistently focusing on US markets by introducing new products to meet domestic customer needs. As the North American confectionery leader, Hershey Foods Corporation is not known in Australia (Australian 06/98). This strong national identity culture hinders the corporation's willingness and ability to design global products and programs and creates a clear split among employees.
Hershey Foods Corporation seems to be much more committed to preserving domestic employment than to developing employment regardless of location, which is in contrast to the requirement of a global strategy for commitment to worldwide employment. This often leads them to decide to keep manufacturing operations in the home country rather than relocate them in lower cost countries. For example, during the reorganization process, Hershey made a decision to source all its chocolate from its United States plants despite the cost, to ensure that quality standards are met. Furthermore, the corporation has no manufacturing overseas and no offices outside the US (Brenner 1999). This can put them at a competitive cost disadvantage and threatens their overall competitive position.

All four factors, culture, organization structure, management process and people, cause significant barriers for Hershey’s implementation of a global product strategy.

5.7.2. Recommendations

The evaluation of Hershey's organizational factors indicated that there are some barriers for the corporation's implementation of a global product strategy. Therefore, changes of organizational factors are needed for Hershey to assure long-term growth.

*Determined commitment from top executives.* Hershey's top executives' statements indicate that the company does not have a firm commitment to a global product strategy and does not view the world as one integrated market. In order to successfully implement a global strategy, Hershey's management needs to constantly present the intention of globalizing its business and to act accordingly with this intention. Senior managers should spend a large amount of time in foreign countries to demonstrate the importance and commitment of Hershey to its international operations. More importantly, senior
managers should spend more of their time in the selected strategically important countries.

*Building up global mind set.* Assembling a capable management team is one of the first cornerstones of the organization-building task. It was necessary for Hershey to fill its international position from the outside because the corporation did not have insiders with the requisite experience and management know-how about global expansion. Hershey appointed Patrice Le Maire, former employee of Procter & Gamble's export operations, as president of Hershey International in the June of 1997. He had been successfully restructuring P&G's export operation. Under this president, a compatible group of managers who possess the full set of skills about international market penetration should be assembled to form the needed "global mind set".

*Employee training.* Taking a global strategy requires a different set of skills, managerial approaches and operating methods. Instead of focusing on how to adapt domestic consumer need by innovating new products, Hershey needs to train its employees to understand the needs of world markets and focus on the commonalities of these markets. In addition, language training is also very important in the process. For example, managers of Mars on average can speak two to three languages, which makes it easy for the company to communicate with local customers and learn their needs. In order to match its competitor's position worldwide, Hershey also needs to develop its employees' knowledge of world markets and cross-culture communication skills.

*Restructuring of divisions.* To support a global strategy, Hershey needs to go through a further restructuring process. Rather than having a split between international and domestic divisions, Hershey should organize its divisions on a worldwide product
line basis. For instance, the company may create a Chocolate Products division, Sugar-based Products division and Gum division. Each division can further be divided into several regions such as Latin America, Asia-Pacific and North America.

Furthermore, activities should be coordinated across Hershey's functions and divisions to foster resource sharing and to use the power of global brands. For example, Reese's Peanut Butter Cup division can share Hershey's Kisses division's local distribution channels as another global brand of the same company. Global synergies can be achieved through sharing of local resources.

Information System. Hershey Foods Corporation also needs a corresponding information system to foster the exchange of ideas and knowledge across divisions and functions. In 1999, Hershey installed an enterprise-resource-planning (ERP) system, which attempted to integrate all departments and functions across the company into a single computer system that can serve all those different departments' particular needs. Although the ERP system delayed Hershey's order fulfillment in the beginning, the potential benefits of sharing information across functions and divisions are significant to the corporation's global integration activities.

Motivational and incentive system. Effective motivational and incentive systems inspire and challenge employees to do their best. The organization factors required by a global strategy are quite different from Hershey's current organization. This has lead to conflicts within the corporation's culture. There is a need for effective incentives to motivate Hershey's employees to learn other languages, to share information, and to carry out a global product strategy.
After specifying the roles of each employee in implementing a global strategy, Hershey should set up corresponding monitoring and reward systems. For example, the corporation should assign one person in each division to supervise the information sharing and evaluate the information shared. Those employees who shared valuable information should be awarded.

In summary, in order to achieve the benefits of a global strategy, Hershey Foods Corporation needs to make significant changes in its organizational structure, people, management process and culture. But as with global strategy levers, companies need not adopt every global organization factor. Managers should select those global organization elements that seem the most helpful in achieving their global strategy objectives.

5.8. Conclusions

This chapter analyzed the two globalization levers (global market participation and global products) for Hershey Foods Corporation. The international markets of Asia/Pacific, Eastern Europe, Latin America and Western Europe were selected according to their global significance to Hershey. The global product strategic alternatives model (Keegan 1969, 1995) was applied to formulate appropriate product strategies for Hershey's selected international markets. The corporation's historical and current product strategies were critiqued and recommendations for changes were formulated.

The same product need or use satisfied and the differences between three emerging confectionery markets, Asia/Pacific, Eastern Europe and Latin America, suggested that Keegan's product strategy 3 (product adaptation and communication extension) is appropriate to these markets. Consumers all over the world prefer
confectionery products to satisfy their desires for something sweet, which created the same product need. Nevertheless, due to different preferences and purchasing power between emerging markets and the US, conditions of product uses vary significantly across the different markets. Asia/Pacific consumers prefer sugar confections to chocolate products and prefer less sweet versions of US confections, which together with their inferior distribution channels, lower income level, and gift-oriented nature of confectionery purchasing created difference in the conditions of product use. Eastern Europe has a long history of confectionery consumption and consumers there enjoy US confections, but the inferior distribution channels and the lower income level in these areas again vote for product adaptation. Latin American markets also have a strong tradition of confectionery consumption and strong local players. Preferences in these markets, however, are fragmented and different from that of the U.S. In addition, distribution problems and lower purchasing power also exist in this region, which again requires product adaptation. Therefore, in the emerging markets Hershey Foods Corporation needs to adapt its product mix, content, and product packaging in order to expand into these markets.

In mature western European markets, however, the similarity of product use or need satisfied and conditions of product use favor Keegan’s product strategy 1, product and communication duel extension. Hershey should target fragmented sugar-based categories and extend its leading products into this region.

The review of Hershey’s historical and current use of product strategy, however, suggested that Hershey has not been pursuing ideal product strategies in its international penetration. Instead of using product adaptation for the emerging markets, Hershey
attempted to either extend its products in the US markets to others, or completely abandon global product strategy by developing products only for national markets, such as, the case of Mexico. Furthermore, Hershey lacks of global mindset needed to formulate and implement global product strategies. The corporation’s activities primarily focus on North American markets by introducing new products for the national markets rather than developing and marketing global products for international markets to achieve global balance of market participation. In addition, Hershey’s recent initiative of building up six global brands primarily focus on chocolate products, which may cause barriers for its penetration into Asia/Pacific, western European, and fragmented Latin American markets. The corporation’s current strategies for both markets and products do not match the suggested strategies, and they have thus caused failures in Hershey’s international expansion.

In order to assure long-term growth, Hershey has to first increase both its global market share and global balance by selecting and targeting globally strategic markets. Secondly, it is necessary for Hershey to change or modify both its global brands portfolio and packaging to adapt to local customer needs. Hershey needs to add leading sugar-based confectionery products into its global brands and market less sweet and smaller individually wrapped products for its emerging international markets.

Following the recommended product strategies, Hershey can achieve the benefits of reduced costs, improved quality, enhanced customer preference, and increased competitive leverage.

In order to formulate and implement a global product strategy, however, appropriate organization needs to be established. The evaluation of Hershey’s
organizational factors revealed several barriers for implementing a global strategy and indicated that changes are needed.

Since 1994, Hershey has realized the need of restructuring. Operations of North American markets have been integrated under a single entity: Hershey Chocolate North America. However, a strong split between its North America and international division still exists, which is the major barrier to its *organization structure*. The corporation’s lack of *global information system* and the weaknesses at *cross-country coordination* and *in global performance review and compensation system* within its *management process* work in major ways against a global strategy. Hershey’s historical management of *people* does not favor a global strategy either. Although the corporation has realized the importance of recruiting talented foreign nationals to form a global mindset, a lot of effort still needs to be made in the future. Finally, Hershey’s corporate *culture emphasized* national identity build-up and domestic employment rather than global identity and worldwide employment. This has resulted in significant barriers for the corporation’s implementation of a global strategy.

The above analysis indicates that although improving, Hershey Foods Corporation does not have all the organization ability needed to implement a global strategy at the current stage. Changes are needed first in organization before the company attempts a global strategy. Top executives need to communicate clearly to their employees of the global expansion intention and act accordingly; employee or management teams globally oriented should be assembled to form the needed global mindset; employee training of both international market knowledge and language should be provided and information systems should be build up to facilitate information flow; and, further integration of
North American and international divisions are necessary to form the appropriate

organizational structure for the implementation of a global strategy.
Chapter 6 Conclusion

This study used Hershey Foods Corporation as a case to demonstrate how to formulate global product strategy to penetrate growing international markets. In recent years, confectionery markets have been growing around the world. Hershey Foods Corporation, the North American confectionery leader, however, has been experiencing some setbacks in international expansion. This study used the global strategy framework (Yip, 1992) to analyze the strategic position and resources of Hershey Foods Corporation, and to diagnose confectionery industry globalization potential. This study focused on the formulation of global product strategies for Hershey's future expansion into strategically important markets. Benefits and costs of a global product strategy and the organizational ability of Hershey Foods Corporation to implement a global product strategy were also evaluated.

6.1. Summary of Specific Findings and Recommendations

This study provided a comprehensive case study for the analysis of a company's global strategy using existing frameworks: a global strategy framework (Yip, 1992), SWOT analysis and core strategy analysis (Peterson 1998) and a global product strategic alternatives framework (Keegan, 1995).

The result from the SWOT and core strategy analyses indicate that Hershey Foods Corporation has great strengths and opportunities, but also has significant weaknesses and faces potential threats. Changes in consumers' demand toward more healthy and functional candy and the emergence of international markets provide Hershey Foods Corporation with significant opportunities. Large varieties of candy substitutes and
intense competition from global competitors, however, constitute potential threats. Hershey’s strengths, such as, leading brand names, innovation and human resource management, can help the corporation seize opportunities. However, its weaknesses in international market operations, management’s domestic mindset, and global cost of production may finally force the corporation to face the threats mentioned above. In order to take advantage of opportunities present in international markets and cope with competition, Hershey Foods Corporation needs to formulate effective strategies for its future international expansion.

The diagnosis of the confectionery industry globalization potential indicates that the confectionery industry has strong potential for globalization. In addition, an overview of the international confectionery market situation revealed that opportunities for globalization existed in emerging markets (Asia/Pacific, Eastern Europe and Latin America) and in a major mature market (Western Europe). The emerging markets shared significant similarities: high growth rate of confectionery consumption, emergence of middle class consumer groups, preferences for western consumer goods and a liberal trade and political environment. Mature western markets have more similarity with US markets, where growth potential is primarily in functional and sugar-free categories. Nevertheless, these markets with different characteristics all qualify as Hershey’s globally strategic markets. Hershey needs to target country markets in each region to achieve both global market share and global balance, which is important for a global strategy.

Using Keegan’s global product strategic matrix, ideal product strategies were suggested for Hershey Foods Corporation’s significant international markets. Product-adaptation and communication-extension strategy is recommended for Hershey’s three
strategically important developing markets due to the same product function or need satisfied, the different conditions of product use and the same ability to buy from that of the US markets. Hershey needs to adapt both its product mix and content. In addition, packaging of products also needs to be tailored to local customer needs. Although adaptations are necessary, common customer needs are dominant and are reflected in the same product function or need satisfied. Therefore, Hershey’s management needs to bear in mind the basic need of customers worldwide when allowing product adaptation in different markets. This reflects the basic principle of a global product strategy versus a multi-local product strategy, which primarily focuses on developing products for different country markets.

Product strategies are firm specific and leading confectioners take different strategies in their international expansion. Nevertheless, the strategies similar to these proposed ideal product strategies that seek fit between country and product result in better performance. The two top global market players, Mars and Nestle, were able to find a good match between products and markets by using global product strategy. Hershey Foods Corporation, however, has been mainly focusing on the North American market through innovation and abandoned global product strategy in its international market expansion. The divergence of Hershey’s product strategy from that of the suggested strategy helps to explain the corporation’s failures in its international market penetration. In order to reap the benefits of a global product strategy (cost reduction, improved quality, enhanced customer preference and increased competitive leverage), the proposed changes are needed in Hershey Foods Corporation’s future product strategy formulation and implementation.
The examination of organization factors further indicates efforts need to be made to eliminate Hershey Foods Corporation’s organizational barriers to implementing a global product strategy. It is imperative for Hershey Foods Corporation to make changes to eliminate the strong split between the corporation’s domestic and international divisions, to make commitment to worldwide employment and global identity, and to establish cross-culture coordination and global information systems and global review and compensation systems.

In general, changes are needed both for Hershey Foods Corporation's product strategy and its organizational factors. The corporation has to make a long-term commitment in order to ensure success in international market expansion. Product strategies are dynamic, and what applies today may not apply in the future. The key for Hershey Foods Corporation is to keep in mind that the bottom line for a profitable product strategy is to match its product strategies with markets and its own capabilities.

6.2. Critique of the Global Strategy Framework

The global strategy framework (Yip 1992) was used in this case study to guide the overall analysis of Hershey Foods Corporation’s international penetration. SWOT analysis and core strategy analysis (Peterson) were included to analyze the positions and resources of business and parent company component of the global strategy framework. The global product strategic alternatives framework (Keegan 1995) was further incorporated to guide the analysis of the key global strategy lever of global products. Based on the global product strategic alternative, ideal global product strategies for Hershey Foods Corporation’s selected international markets were formulated, the
corporation’s current use of product strategies was critiqued, and recommendations for change were provided.

Yip’s model has a number of significant strengths in guiding the formulation of global strategy. First, global strategy is only a part of a company’s overall strategy; therefore, analysis of overall position and resources of business and parent company is the first step when a company attempts a global strategy. Second, a large number of external sources of globalization identified by previous researchers were grouped by Yip into four major industrial globalization drivers: market, cost, competitive and government. Third, globalization strategy is analyzed through five comprehensive dimensions: global market participation, global products, global location of activities, global marketing and global competitive moves. Fourth, benefits of globalization are argued to be achieved when managers set their global strategy levers appropriate to industrial globalization drivers and to the positions and resources of business and parent company. Fifth, organization, the means of strategy formulation and implementation, is also analyzed through several different factors. In total, the different components of the framework are systematically interconnected and form a comprehensive guidance for the analysis of a company’s global strategy.

Hershey Foods Corporation’s case, in turn, put this framework in use and tested its effectiveness in guiding a specific firm’s analysis and strategy formulation. This framework did help to systematically evaluate whether Hershey Foods Corporation should adopt a global strategy for its confectionery business and what its product strategy should be along the global and multi-domestic continuum. The framework helped to
explain past problems with Hershey’s international strategy and provided useful recommendations for altering strategy for the future.

In general, the global strategy framework is appropriate for the analysis of Hershey’s situation, however, this framework also has some limitations. First, the global strategy framework is too general to guide the case study in detail. Yip did not provide a detailed discussion on how to analyze position and resources of business and parent company, which is the foundation of the further analysis of a global strategy. Therefore, SWOT and core strategy analyses were applied to provide detailed guidance for analyzing Hershey’s overall strengths, weaknesses, opportunities and threats and its core strategy. In addition, in the discussion of the global strategy lever of global products, the global strategy framework did not provide detailed rationale for strategy formulation and implementation. Keegan’s global product strategic alternative is therefore used to guide the formulation of ideal product strategies for Hershey’s strategically important markets.

Secondly, this framework has very little emphasis on the process of strategy implementation, such as, resource allocation for a global strategy. Further guidance for the implementation of strategy should be added to make it more applicable. Furthermore, the global strategy framework does not include measurements of success or failure. Lastly, information systems have become increasingly important in the formulation and implementation of a global strategy and additional attention should be given to this topic in the discussion of a global strategy.
6.3 Recommendations for Future Research

As a contribution to international marketing literature, this study combined the global strategy framework (Yip 1992) with SWOT/Core strategy analyses (Peterson) and the global product strategic alternatives model (Keegan 1995) to guide the analysis of globalization issues and the formulation of ideal product strategies and recommendations. In general, this case study approach is supportive of prior theoretical studies in international marketing literature. There is, however, a great need for future research in several areas.

First, this paper primarily focused on analyzing only one of the five global strategy levers, global product strategy, found in Yip’s global strategy framework. According to the framework, there are five such levers: global market participation, global products, and global location of activities, global marketing and global competitive moves. The analysis of other four levers is also important for global integration activities and therefore worth further research and discussion.

Second, the discussion of global product strategy in this study stays at a corporate strategy level and is still general in guiding Hershey Foods Corporation’s product strategies in diverse international markets. There is a great need for further research on issues related to product strategy, such as product branding, pricing, positioning, distribution channels, and information system.

Third, this study categorizes international markets into several broader regions: Asia/Pacific, Eastern Europe, Latin America, and Western Europe. Despite similarities among countries in each region, there is still significant heterogeneity. For example, the market situation in China is quite different from that in Japan. Furthermore, even within
the same country, customer needs vary among regions. Therefore, it is necessary to conduct further market research at the country level and at the market segment level within a country.

Overall, the case study contributed in building a comprehensive framework that guides the formulation of a global strategy. SWOT analysis, core strategy analysis and global product strategic alternatives analysis were included in the framework and provided effective guidance to the analysis of Hershey Foods Corporation's global strategy formulation. The factors that reduced Hershey’s competitiveness in global markets were identified and recommendations were proposed for its future international expansion.
### Appendix 4.1.4. CHOCOLATE AND PRODUCTS IMPORTS IN MILLION U.S. DOLLARS

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### Appendix 4.1.4. CHOCOLATE AND PRODUCTS IMPORTS IN MILLION U.S. DOLLARS

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## Appendix 4.1.5. SUGAR CANDY NON-CHOCOLATE IMPORTS IN MILLION U.S. DOLLARS

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### Appendix 4.1.5. SUGAR CANDY NON-CHOCOLATE IMPORTS IN MILLION U.S. DOLLARS

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