US: Hershey's new strategy meets mixed reaction

18 June 2008 | **Source: just-food.com**

Hershey has unveiled a new strategy that it hopes will help shrug-off lacklustre results and grow sales. However, the market remains divided on the merits of the US confectioner's plans.

view image

Key to the company's approach is the move to increase its US advertising budget. Hershey said its advertising spend will rise by 20% in 2008 and 2009 as it invests in brands to counter competition from the pending merger of its two biggest rivals, Mars and Wrigley.

Through increased marketing the company intends to drive growth of its core brands – such as Reese's Peanut Butter Cups and Hershey's Kisses – which generate about 60% of the company's domestic sales.

"The increase in advertising spend is a reactive move but under the prior CEO it was an underinvested area," Edward Jones food analyst Matt Arnold told just-food.

"Increased marketing was needed to, one, help grow the strength of the brand and, two, improve Hershey's performance in trade-up and premium sectors. If new brands in this category, like Bliss and Starbucks, are going to be successful increased marketing is necessary," Arnold commented.

However, independent analyst ***James Amoroso*** told just-food, this move fails to address some of the core problems that Hershey is facing.

"To increase advertising spend is by definition the optimisation of an existing situation and it presupposes that the consumer offering is already optimised: concepts, price, quality, etcetera. This [is] a defensive move within its existing markets," ***Amoroso*** said.

Speaking on Hershey's presentation to analysts in New York yesterday (17 June), ***Amoroso*** said that the company had clearly failed to grasp the need to extend its international presence.

"Hershey's biggest strategic issue is growth, not just within the US market, but also (and especially) in the rest of the world. After all, 86% of its sales are in the US with much less than 10% outside of the Americas. It was disappointing that so few slides were dedicated to "International" markets, and then it was focused upon Mexico. The company simply does not have a credible international expansion strategy," he commented.

Amoroso also said that the company has failed to address issues holding back growth in the US market.

The high-end chocolate sector is the fastest-growing segment of the global confectionery market, with annual growth of 8%. However, ***Amoroso*** said that Hershey's attempt to move in on this sector seems to have rolled to a stand-still.

"Nothing was mentioned about 'Superpremium'. We can perhaps assume that Cacao Reserve by Hershey's has developed disappointingly and is no longer seen as a strategic thrust in the US. Not surprising because Hershey never had a viable, unique selling proposition. Thus, in its domestic market, it will tend to lose share," ***Amoroso*** predicted.

Prior to Hershey's unveiling of its growth strategy, stock was trading at US$36.49. At time of press, shares in the US confectionery giant had dipped to $34.68.