



# Hershey's 'big bet' on better-for-you confections

Producing more low- or no-sugar, organic and bite-size offerings could generate up to \$1 billion in additional revenue for the iconic maker of Kisses and Reese's, a top executive said.

By Christopher Doering

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Hershey, the largest U.S. confections company, is famous for churning out billions of its indulgent Kisses, Reese's Peanut Butter Cups, Milk Duds and other sweet treats each year. But as consumer tastes have changed, the 127-year-old company is focusing more attention on innovating these core brands through low- or no-sugar, organic and bite-size offerings in an effort to grab a larger share of the better-for-you snacking category.

Only 6% of candy, mint and gum sales come from products defined as better for you, or about \$1.3 billion per year, according to IRI data cited by Hershey. The food company estimated if that share rose to as high as 20%, putting it closer to the average found in other snacking categories, sales of better-for-you confections could surge to more than \$4 billion, said Kristen Riggs, Hershey's chief growth officer.

For Hershey, which posted \$8.1 billion in sales in 2020, it could provide an opportunity to boost its annual revenue anywhere between \$500 million and \$1 billion, she said.

"We are really putting a big bet in growth in the better-for-you area," Riggs said in an interview. "If we want to participate in that

growth then we need to have more solutions."



*Courtesy of Hershey*

Hershey this week said it is using a multipronged approach to increase sales in the better-for-you candy segment in an effort to capture more consumers across a larger number of snacking occasions.

Much of Hershey's prior efforts have focused on portion-controlled sizes — a successful initiative that recently included the debut of Kit Kat Thins. Now the company plans to expand its portfolio to deliver more reduced sugar, organic and plant-based alternatives, a strategy that provides the Pennsylvania company with "multiple levers for growth," Riggs said.

"People are still going to eat a Reese's Cup — we know that. People are still going to choose Reese's Eggs at Easter — we know that," Riggs said. "But if we have solutions like Zero Sugar Reese's, Thin Reese's, Organic Reese's — then all of a sudden we start to meet a broader set of needs."

Innovation will not only come from within Hershey, but also by teaming up with better-for-you brand partners to co-develop and launch new offerings, Riggs said. Hershey also will look at

acquisitions that enable it to access new consumers or occasions that its core brands don't reach today.

At the same time, Hershey plans to uncover ways to reduce sugar used in many of its products, both internally and by investing in companies working on similar breakthroughs. This week, the candy maker partnered with ASR Group — one of the world's largest sweetener companies — to co-lead an equity investment in Bonumose, a startup working on innovations in plant-based food ingredients, including rare and natural sugars. The investment will allow Hershey to advance the taste and texture of zero- and reduced-sugar chocolate, and apply that knowledge to its other snack offerings.

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Riggs said while some niche and smaller brands have carved out a strong presence in the better-for-you snacking space, much of the category is controlled by large CPG brands like Hershey that can use their scale and innovation prowess to have a far-reaching impact. In ice cream, for example, 37% of sales are from better-for-you brands, which are low in sugar or use techniques such as churning to reduce their fat content. Of that segment, 85% is controlled by mainstream brands, she noted.

Under the watch of CEO Michele Buck, Hershey has created a "snacking powerhouse" by accelerating growth in the company's hugely profitable confectionary business and expanding its portfolio into new snack offerings. Since Buck took over in

2017, Hershey purchased fast-growing SkinnyPop popcorn — the largest deal in the company's history — and protein-bar maker One Brands. Recently, Hershey invested an undisclosed amount in Quinn, a natural foods snack manufacturer.

With better for you infiltrating all facets of the snacking category, Riggs acknowledged Hershey needed to do even more in candy, mints and gum, and had an untapped opportunity in front of it.

Hershey, for example, launched a sugar-free line in 2008 but the company "didn't really put its weight and support of the business behind it," Riggs said. The products were traditionally viewed as an option for individuals with diabetes rather than one for mainstream consumers. Still, Hershey's sugar-free line grew and has posted double-digit sales increases during the last few years with little involvement from the company.

Today, Hershey is rebranding the line as "no sugar" instead of "sugar-free" and overhauling the packaging. "That is kind of a hint for us that, 'Wait a second — this is happening organically in the business. How would we think about really making it a strategic priority?' " Riggs said.

Buck told analysts this month the relaunch was similar to what is being done in beverages and other categories when it comes to zero sugar. "Those products are just positioned entirely differently, in a much more contemporary way, and that's really our goal," she said.

As Hershey bulked up its portfolio through acquisitions in trendy snacks and entered into marketing partnerships to promote its brands, executives started believing they could bring what they learned in these areas to other parts of its business.

SkinnyPop, which has grown at a compound annual growth rate of 9.1% since Hershey added it to the fold in 2018 — compared to 5.6% for the ready-to-eat popcorn category as a whole — has

deepened its insights and understanding of consumer needs in better-for-you snacking. And Hershey's marketing deal for Reese's with the NCAA helped further cement the brand's popularity by reaching beyond confections to connect the product with sports fans.

"When you think about partnerships from a business perspective and bringing those in, it's become a bigger part of our strategy," Riggs said. "I think it's a smart way to bring in new thinking and breakthroughs that we need to develop the formulation that really unlocks a lot of growth in our mainstream business."