Opening Case

Hershey Aligns Training With Strategy[1]

Hershey Foods is the leading North American manufacturer of chocolate-related grocery products and exports those products to over 90 countries. Hershey sells its products to distributors (such as large grocery and drug store chains, small retailers, wholesalers, and brokers) who then sell these products to their customers. Hershey's success depends on those retailers doing a good job of promoting Hershey products in their stores. As a part of its marketing strategy, Hershey has a variety of promotional programs for its distributors that are used to stimulate sales at various times during the year. One part of this strategy was a practice known as "trade funding," which has the manufacturer reinvest some of its profits back into joint promotional programs with its distributors. For example, Hershey might provide financial support to a grocery chain to create displays promoting Mother's Day specials or to promote "three for the price of two" specials. Hershey's trade funding was often done on a promotion-by-promotion basis with each customer. Both Hershey and its customers sometimes felt that these types of promotional strategies were not effective enough. Furthermore, Hershey's executives felt that a better approach to allocating these funds would maximize mutual benefits. In addition, there wasn't an effective-enough connection between a customer's sales of Hershey products and how much funding they received. Negotiations over these promotional investments would also include agreements on other aspects of the customer's relationship with Hershey, such as pricing, shelf space/location, placement of product, creation and use of promotional displays in stores, and joint promotion plans (for example, coop advertising), and these needed to be more effectively negotiated into the overall strategy for executing sales with each customer.

At the beginning of 2002, believing that its current approach to allocating trade funding was not the most effective method for maximizing return on investment (ROI) and customer satisfaction, Hershey's senior executives decided that significant changes were needed in its strategy. This was at a time when Hershey's first-quarter financial numbers were down; they were in the middle of management reorganization; the union workers in the largest factory were on strike; and the sale of the company was being quietly explored.

Using information from a customer satisfaction survey along with their belief that a better trade funding method was possible, senior management came up with a new strategy with the following key elements:

- Hershey and each customer would develop an annual promotional plan for which Hershey would allocate funds.
- The annual plan would include a negotiated agreement on issues such as commitment to sales targets, pricing, shelf space, and other marketing issues outside of "special" promotional events.
- The amount of funding customers would receive would be based on their past sales record and ability to execute the agreed-upon annual plan.

The new strategy was called "Blue Chip." Successful implementation of the new strategy would require salespeople to change the way they interacted with customers. Some new task requirements would be:

- gaining access to key managers (sometimes different from their day-to-day buyers) and explaining to them the new trade funding approach;
- getting the customer to share sales data and information about future plans that would be needed to help convince them of the advantages of the new Blue Chip approach;
- negotiating a new and different pay-for-performance approach to receiving trade funding;

- motivating customers to engage in a new annual (rather than "promotion by promotion") planning process;
- gaining compliance with annual promotion plans after they've been negotiated; and
- negotiating during the annual promotion period when mutual goals were not achieved, or when changes to the annual plans were needed.

To accomplish these tasks, the salespeople would require new knowledge, skills, or attitudes (KSAs). Some of these included:

- knowledge of the new program,
- knowledge of all the factors that would be discussed in future agreements with retailers, and
- negotiation skills to deal with the more complex agreements they would be required to execute with retailers.

The knowledge required would be provided through meetings, management communications, and manuals; however, for the negotiation skills needed to effectively implement the strategy, manuals and meetings wouldn't be enough. For these skills Hershey went to an outside vendor, BayGroup International. BayGroup International developed an experiential negotiations workshop designed to give the salespeople the skills necessary to make Blue Chip a success, and give their managers the skills needed to coach their teams for optimal performance back on the job after formal training ended.

The Blue Chip strategy was introduced and the related training all took place at the annual Sales Summit. The training focus was to provide the entire sales force with the KSAs needed to implement the strategy. Implementation of a strategy such as this is complex and difficult. Most companies would put the implementation (in this case the training) of a new strategy on hold until they had a clearer picture of how everything would "shake out," given the labor strife and possible sale of the company noted earlier. What made Hershey decide differently? Hershey needed to put both its employees and customers on notice that they were changing how they did business. As Bernie Banas, VP of sales at the time, said, "We were going through a transition. . . . It is critical to both Hershey and our customers that we execute the transition flawlessly." By combining the introduction of the strategy and the training required to implement it, Hershey showed that it was serious about the strategy. This wasn't just training focused on skill gaps; it was training that connected directly to Hershey's business goals and strategy.

So what did the training focus on? First, pre-training executive communication (reinforced at the start of each workshop) put the need for strategy change into a context that all the sales force could understand, and then provided an overview of how the Blue Chip strategy would address their needs. This was followed by BayGroup International's negotiation training that was to provide salespeople with the skills and confidence to successfully implement the new strategy. This training used exercises based on typical challenging negotiation situations the sales team would encounter when they went into the field to deploy it.

Discussions of Hershey's strategic business needs included the following:

- The need for a change in strategy to improve results for both Hershey and its customers
- The need for a shift in the selling process from relationship based to more data based
- The need for a new pay-for-performance–based approach for working with customers
- The need to handle increased sophistication of customer buyers in terms of purchasing and negotiating knowledge and skill
- The need to include all sources of value and negotiating leverage in discussions with customers

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The Blue Chip strategy was then described in terms of (1) its benefits to customers, (2) its ability to motivate customers to plan better and to incorporate all aspects of product promotion within the plan, and (3) Hershey's ability to gain compliance with the annual plans. The training was kicked off by the senior executives, who directly connected the training objectives to the business needs. These training objectives were based on what was going to be needed in terms of KSAs to effectively implement this new strategy. In other words, a future-oriented performance gap (need for effective negotiation skills) was evident based on the current salespeople's KSAs. They would need to be adept at negotiating in order to implement the new strategic plan effectively. This made the negotiating training highly relevant and central to the success of the strategic change. The content of this training was based on the technical aspects of the Blue Chip program and its deployment through effective negotiation skills, tools, and sales management processes. The negotiation skills helped the sales force effectively balance Hershey's interests with the maintenance of a collaborative relationship with the customer. All the training was focused on the practical application of the new KSAs. Experiential and discovery learning techniques were used to deliver this training, which was important to help the seasoned Hershey's sales team see the weaknesses of their current negotiation approaches (built up over many years) and highlight the need for personal skill development.

The new strategy proved very successful for Hershey, as its financial numbers have improved and so have its surveys of customer satisfaction. Share price has improved as well. In May 2002, Hershey was trading at $34 a share. In May 2010, it was trading at $47, and by the end of 2016 was above $100 a share. The new strategy would not have been successful had the sales force not implemented it correctly. The training provided at the summit, as well as the follow-up training and coaching of the sales teams was crucial to the strategies' successful implementation. But just as critical were the changes to the internal reinforcement systems at Hershey that supported the changes required of the sales force. Hershey continued to build on its successes by implemented follow-up training in subsequent years, as well as consulting from BayGroup International experts for specific sales teams to help them execute their strategic account strategies.

As a sidenote, Hershey has an interesting training philosophy. They believe that visible short-term victories lead to credibility and future funding for long-term training and development projects. One rule of thumb is that every year's training budget should include at least one key strategic initiative that is "close to return on investment (ROI)." Clearly the Blue Chip initiative met this criterion.