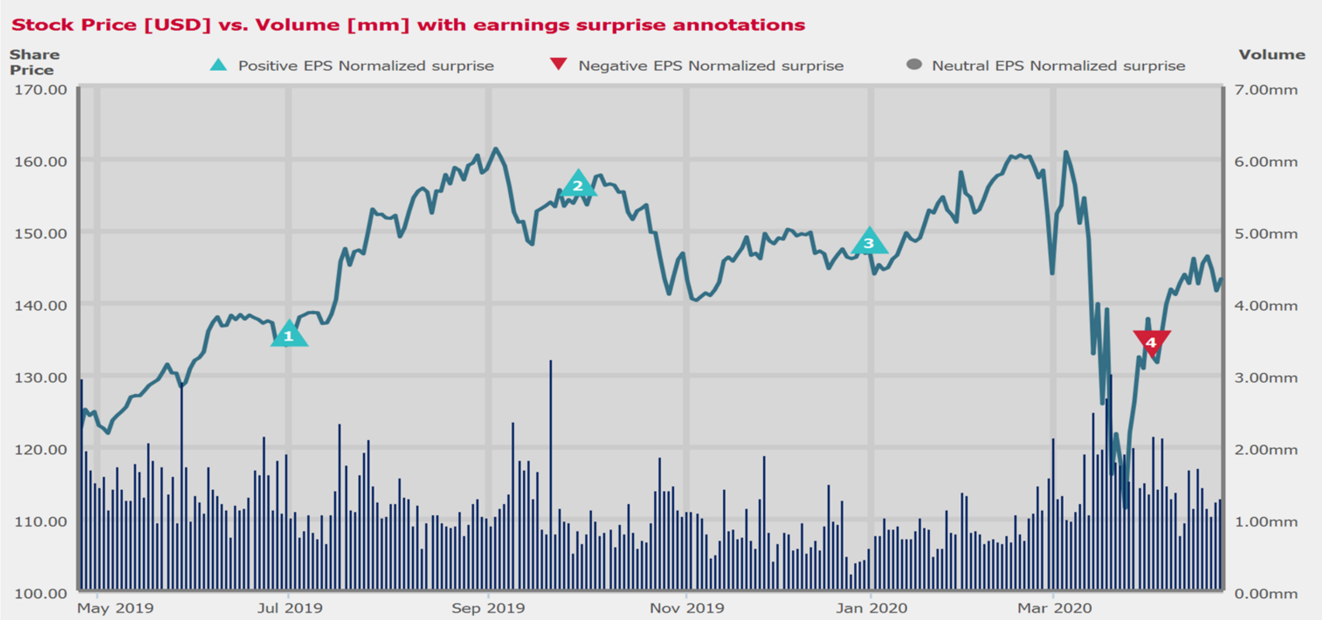
S&P Global
Market Intelligence

The Hershey Company NYSE:HSY
FQ1 2020 Earnings Call Transcripts
Thursday, April 23, 2020 12:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.71	1.63	(4.68 %)	1.31	6.16	6.50
Revenue (mm)	2086.53	2037.32	(2.36 %)	1803.22	8189.69	8329.24

Currency: USD
Consensus as of Apr-23-2020 1:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	1.17	1.31	1 11.97 %
FQ3 2019	1.60	1.61	2 0.62 %
FQ4 2019	1.24	1.28	3 3.23 %
FQ1 2020	1.71	1.63	4 (4.68 %)

Table of Contents

Call Participants

EXECUTIVES

Melissa Poole
Vice President of Investor Relations

Michele Gross Buck
Chairman, President & CEO

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

ANALYSTS

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

Andrew Lazar
Barclays Bank PLC, Research Division

Bryan Douglass Spillane
BofA Merrill Lynch, Research Division

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

David Driscoll

Jason M. English
Goldman Sachs Group Inc., Research Division

Kenneth B. Goldman
JP Morgan Chase & Co, Research Division

Michael Scott Lavery
Piper Sandler & Co., Research Division

Nik Modi
RBC Capital Markets, Research Division

Robert Bain Moskow
Crédit Suisse AG, Research Division

Robert Frederick Dickerson
Jefferies LLC, Research Division

Stephen Robert R. Powers
Deutsche Bank AG, Research Division

Presentation

Operator

Greetings, and welcome to the Hershey Company's First Quarter 2020 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Melissa Poole, Vice President of Investor Relations for The Hershey Company. Thank you. You may begin.

Melissa Poole
Vice President of Investor Relations

Thank you, Melissa. Good morning, everyone. Thank you for joining us for The Hershey Company's First Quarter 2020 Earnings Conference Call and Webcast. We'll begin with remarks from Michele Buck, Chairman, President and CEO; and Steve Voskuil, Senior Vice President and CFO, followed by a Q&A session.

During the course of today's call, management will make forward-looking statements that are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the company's future operations and financial performance, including expectations and assumptions related to the impact of the COVID-19 pandemic. Actual results could differ materially from those projected as a result of the COVID-19 pandemic as well as other factors. The company undertakes no obligation to update these statements based on subsequent events. A detailed listing of such risks and uncertainties can be found in today's press release and the company's SEC filings.

Finally, please note that on today's call, we will refer to certain non-GAAP financial measures that we believe will provide useful information for investors. The presentation of this information is not intended to be considered in isolation or as a substitute for the financial information presented in accordance with GAAP. Reconciliations to the GAAP results are included in this morning's press release.

It is now my pleasure to turn the discussion over to Michele.

Michele Gross Buck
Chairman, President & CEO

Thank you, Melissa. Good morning, everyone, and thank you for joining us today. I hope, first of all, that you and your loved ones are safe and healthy. We are all experiencing an unparalleled and rapidly evolving global pandemic. Our thoughts go out to those that have been impacted, and we'd like to extend our sincere thank you to all of the heroes working to keep people safe during this difficult time.

As you all know, food companies play an important role during this crisis, helping to ensure a steady food supply and supporting local economies. We recognize that Hershey is not only a food manufacturer, but also an important link in the broader food supply chain, particularly with farmers and other raw material suppliers that rely on us. I could not be more proud of the Hershey team, and how they are responding to this situation, first and foremost, with the care and support they are showing for each other, their families, partners and communities. But also with their relentless energy and passion to continue to safely operate with excellence.

I'd like to extend a heartfelt thank you to all of them, especially to those in our manufacturing plants and those working at retail to make moments of goodness for our consumers during these difficult times.

The situation continues to evolve so rapidly that it's difficult to predict the future with much certainty. While comparisons can certainly be drawn to weather-related disruptions or natural disasters or recessions, the reality is that we have never seen so many factors at play at the same time on such a global scale. But we are committed to being transparent about what we are seeing in the marketplace, and what we are doing to respond. We will continue to be forthcoming as we navigate this uncharted territory, and we believe we will have more visibility in the coming months as the situation stabilizes.

Let me start by saying pre-COVID, our business was on track versus our expectations, both in Q1 and our outlook for the full year. Now let me share some details around what we are doing from an operations perspective, before I discuss what we are seeing in terms of consumer behavior.

The health and safety of our Hershey team remains paramount in our decision-making and actions. Food safety has always been at the center of our day-to-day operations, and that will continue. As the pandemic spreads, we are monitoring the changing environment daily, and we are adapting as this situation evolves.

We have put in place more stringent operating procedures and safety protocols to help ensure the well-being of our employees, their families and everyone with whom they interact. We are doing our best to enable social distancing and other safety and cleaning protocols across all functions, and meet our commitments to support consistent community food supplies and the needs of our retail partners.

As you would expect, all of our corporate and commercial employees, who are able to, are working remotely. A big thank you to our IT team who have done an outstanding job making the transition to virtual work as seamless as possible, and also to our HR team for the wealth of resources they continue to provide our employees to effectively manage work remotely.

Currently, all of our manufacturing plants remain open, and we continue to operate our supply chain with limited disruption. As the situation began to unfold, we built inventory in both raw materials and finished goods to mitigate risk and to help us to continue meeting demand. This proactive approach, coupled with our experienced and dedicated team, has enabled us to consistently deliver strong customer service levels.

Our first quarter case fill rate was over 98.5%, with a 99% case fill rate in March. And despite incremental marketplace challenges in April, our case fill rates remain close to 98%. Utilizing flexible scheduling, the majority of our sales reps remain in stores, partnering with our retailers to provide much-needed support. This continued in-store presence, combined with our strong customer service, has driven confectionary share gains of almost 300 basis points during the past months.

Our manufacturing and retail employees have shown amazing dedication and resilience, and we have implemented incentives to recognize these contributions for employees, who can safely work to keep our operations running.

We have closed our own retail locations, including our Chocolate World store in Hershey, Pennsylvania, Times Square, New York and Las Vegas for most of Q2. While sales in our retail locations are relatively small in proportion to our total business, we do expect several months of closures to have an effect. In addition to our retail stores, there are several other parts of our business that are seeing an outsized impact, including our foodservice business and our travel retail business, both of which are seeing channel declines of 75% to 80%. And we saw a meaningful category decline in China during a key seasonal gifting window in the first quarter. Combined, these businesses represent approximately 6% of our sales.

Now let me share a little bit about what we're seeing with the consumer as it relates to our core business in the U.S. Pre-COVID-19, our business was tracking in line with expectations, with retail takeaway up a little over 2% and confectionery share gains of about 20 basis points. Easter and NCAA March Madness were sold in and merchandised in-store. Our key innovation was largely end market, including Reese's Take5 and Kit Kat Duos. And many of our key customers began selling our new THiNS items before any retail disruption occurred.

Similar to many other food manufacturers, we saw a benefit from consumer stock up in March, though to a lesser degree than meal-oriented categories. This was consistent with our expectations and what we typically see with weather-related pantry loading.

Total Hershey retail sales growth accelerated to 10% in March. This growth was across all classes of trade, with particular strength in food, mass and dollar channels. We were in a great position to support this increased food traffic and demand as we had strong merchandising and ample inventory in stores as we geared up for Easter and our NCAA promotion.

We delivered a solid Easter season, despite the significant disruptions we saw in both the retail environment and in consumers' lives. Recall, we did expect the season to decline versus last year, given Easter was a week earlier this year. Overall, our sell-in was in line with expectations.

Retail takeaway got off to a strong start, and sell-through was pacing ahead of expectations heading into the final week. We did, however, see large changes in the macro environment during that final week. This impacted consumer trips and overall category performance and sell-through.

Throughout the season, including a difficult final week, our teams executed well. We delivered retail takeaway and sell-through ahead of competition. While our sell-through came in slightly below expectations, we expect minimal impact to the P&L or to retail takeaway in the coming weeks.

As a reminder, confectionery retail takeaway for the beginning of April is elevated due to the earlier Easter. We anticipate takeaway in the second half of April to be pressured as a result of this shift. Please keep this in mind when you're evaluating retail trends in the next few weeks, particularly as it relates to quantifying any COVID-19-related impacts.

Now let me spend a few minutes discussing some of the changes we are seeing on our everyday performance. As I mentioned, we experienced a lift in March due to consumer stock up. Our grocery and snacks businesses, in particular, saw increases in both household penetration and basket size. Hershey syrup, baking chips and cocoa all grew approximately 30% during March, and trends have remained strong as families are spending more time together at home baking.

Our SkinnyPop and Pirate's Booty businesses grew approximately 20%, and gained share. While March trends were strong, the situation has evolved rapidly in April. As a result, we've seen shifting consumer behavior. More regions have enacted shelter-in-place guidelines. Retailers have limited the number of consumers in stores as well as operating hours, and the medical community is recommending individuals wear masks in public and limit grocery store trips, unless essential. A significant number of American households are not working and experiencing meaningful financial pressures. All of this has impacted traffic into stores, length of time in stores and the amount of discretionary goods people are purchasing. While many consumers have shared how our categories are helping them cope during this time and bond with their families, they've also shared how their shopping priorities have changed.

Within salty snacks, DSD brands have begun to outperform due to stronger in-stock and merchandising levels. In addition, we've seen a shift to lower price per ounce offerings as many consumers experience financial constraints. As a result, SkinnyPop and Pirate's Booty have experienced share declines and softening performance over the past 3 to 4 weeks.

For our confectionery business, we've seen declining sales in the convenience class of trade as trips have slowed. This represents approximately 15% of our North American sales. While we still have an opportunity to capture impulse purchases at checkout in other classes of trade, the significant changes we've seen in overall trips and basket size, over the past several weeks, has limited the amount of flowback we've seen to other classes of trade.

In addition, the gum and mint category has been significantly impacted by social distancing. These categories are much more functional than emotional, and they've experienced declines of 40% to 50% over the past several weeks.

While these trends that I've just discussed have softened, growth in other areas of our portfolio remains strong. E-commerce growth has accelerated meaningfully. As many of you would expect and have likely observed yourselves, the number of consumers purchasing groceries online has increased significantly over the past several weeks. Our research indicates that 45% of consumers have used 1 or more online grocery options in the past 4 weeks, 23 points of them -- 23% of which use these services for the first time.

We've seen similar trends for confection, with household penetration also doubling over the past months. Consistent with these broader trends, our overall e-commerce growth rate has accelerated significantly, with growth over 120% in March 0versus 60% in January and February.

We are seeing growth across fulfillment models and across occasions, including in our candy dish offerings, seasonal items and our single-serve items. At 1 retailer, 80% of the full year digital sales plan was achieved in the month of March alone. In the week leading up to Easter, 43% of Easter sales at this retailer were purchased online. And at another retailer, we were able to make more Easter items available online, and shift inventory to maximize sell-through as consumer behaviors changed mid-season.

As we've shared in the past, profitability in this key e-commerce segment is relatively in line with total company average margins, and that continues to be the case as trends have recently evolved. We believe we are well positioned to capitalize on these trends given the strong investment and enhanced capabilities we have implemented over the past several years.

Our take-home confection business, such as our bags of Kisses and Miniatures are growing nicely. Baking chips, cocoa and syrup are also seeing elevated growth as families spend more time together in the kitchen.

Throughout this pandemic, our proactive approach with our supply chain is paying dividends. Strong customer service has enabled us to partner with our retailers to consistently capture these consumer opportunities and maintain a strong presence in store.

As I mentioned earlier, our case fill rate for the first quarter was very strong and has continued into April, despite the increasingly difficult operating environment. This tremendous work by our manufacturing and sales teams is evident in our recent market share performance. Hershey confectionery category share gains were up over 2 points in March, and are up over 3 points to date in April.

Now let me spend a few minutes discussing our international markets. As you all know, these markets represent a smaller percentage of our overall sales, but they're an important growth driver for our business.

While specifics vary by country, we have consistently seen more COVID-19-related pressure in these markets than in the United States. This is driven by several factors, including more restrictions on manufacturing and retail in some countries as well as less discretionary income, which impacts consumers' ability to afford nonessential goods like chocolate.

Parts of our business continue to perform well, including non-confectionery products like syrup, spreads and milk. And we're winning confectionery share in the modern trade and e-commerce channels. However, some of our 2020 growth initiatives that focused on increasing geographic and traditional trade distribution have been delayed by the COVID-19 pandemic. We believe there's still tremendous long-term opportunity for us in our international markets, and we're maintaining an appropriate level of investment to capture these opportunities once the situation stabilizes.

In both our U.S. and international markets, we are actively reevaluating priorities and resourcing to adjust as the situation evolves. Like many companies, we are partnering with our retailers to make sure we have the right level of promotional support during these unique times. Our best-in-class retail sales force is a tremendous asset to help continue executing important promotional programs such as seasons, S'mores and Reese's Lovers.

We are evaluating our media plans and adjusting both levels of support, messaging and channel when appropriate. For example, we've adjusted our S'mores copy to emphasize family consumption at home versus larger community and friend gatherings. We have taken savings from events like NCAA March Madness and Olympics, and reallocated, some to digital and our Reese's Lover promotion this summer, while leveraging some of that to cover incremental COVID-19-related manufacturing and selling costs.

We are proactively planning for Halloween, and partnering with our retailers to be prepared for a strong recovery, while also making smart choices to mitigate risk if consumer behavior remains impacted. This includes optimizing our portfolio and price point mix and activation timing as well as amplifying our e-commerce plan. Our ability to quickly pivot and adapt to the changes, along with our strong balance sheet and cash flow, gives us confidence in our ability to manage through these disruptions and emerge stronger.

While we are highly focused on managing the pandemic, we are also continuing to advance strategic imperatives that will be critical levers for us to drive the business going forward. We are, however, taking a prudent approach and moderating the pace of some of these work streams so, that teams can adequately focus on the situation at hand.

Specifically, we've chosen to selectively pause aspects of our ERP project until all of our functional experts are able to focus on the critical design phase. We will continue to advance the finance and data work stream efforts of our ERP project, while we delay supply chain and order to cash efforts. We expect this to delay our overall implementation by about 1 year.

Given the current demands on our supply chain team as well as the desire for cash flow flexibility, we've also altered the pacing on our recently announced supply chain project. We do not expect any of these delays to have a material impact on our future growth ambitions, including those we have planned for 2021.

Now before I turn it over to Steve to share details on our Q1 performance, I wanted to take a minute to update you on some strategic choices we are making, unrelated to the COVID-19 pandemic.

In order to better prioritize resources against assets that fit our business model and scale capabilities, we are working to divest our KRAVE, Scharffen Berger and Dagoba brands. We will share more information regarding these divestitures in the future. It's important to note that our learnings from recent acquisitions have underscored the importance of asset, scale and margin profile. We are at best, with scale assets closer to $100 million, with high margins that enable brand investment to drive growth. These are great brands that continue to resonate with consumers, but they require a different go-to-market model that we believe is better supported by other owners. These actions will enable us to prioritize our recently acquired scale assets within salty snacks and nutrition bars.

Now let me turn it over to Steve.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Thank you, Michele, and good morning, everyone. I hope you, your families and colleagues are safe and well. I plan to start with highlights from our first quarter results, including the impact from COVID-19, and then pivot to expectations for financial performance moving forward in light of the evolving pandemic.

During the first quarter, recorded net sales increased 1% versus the same period last year, with organic constant currency sales growth of 0.5%. This was in line with expectations, with only a modest impact from COVID-19. North America organic constant currency sales growth of 1.2% versus prior year was driven by net price realization. As expected, a shorter Easter offset solid everyday sales growth by approximately 1 point in Q1.

We did see a larger increase in consumer demand from stock up trips at the end of the quarter, with total Hershey U.S. retail takeaway, up over 10% in March. However, this did not materially contribute to net sales growth in the quarter as retailer inventory was depleted to satisfy much of this demand.

As we look to the balance of the year, we do not expect COVID-19 to permanently change our base inventory level assumptions, though we expect continued volatility in trends over the coming months due to the virus disruption.

The International and Other segment reported an organic constant currency sales decline of 5.8% versus the prior year quarter. This was largely attributable to COVID-19-related softness, particularly in China. Also included in this segment are our owned retail locations and our travel retail business that Michele mentioned earlier. While these businesses saw a minimal COVID-19 impact during Q1, we expect a more significant impact in the second quarter, given the shelter-in-place restrictions that were implemented in late March and early April.

Now turning to profitability for the quarter. Our levers for gross margin expansion continued to be effective, with a 90 basis point improvement in the first quarter, increasing adjusted gross margin to 46.6%. Net price realization drove the majority of these gains, in addition to some benefit from productivity as we proactively built inventory to mitigate risk related to COVID-19. Recall, we expect Q1 to be our strongest pricing quarter of the year as we benefited from both the final phase of our July 2018 price increase and the implementation of our July 2019 price increase.

Pricing in Q1 was in line with expectations, and remains on track for the year. These gross margin gains enabled strong investment in our brands and capabilities. Selling, marketing and administrative expense increased 4.8% versus prior year, driven by planned elevated advertising levels and investments in strategic growth capabilities. Operating expense for capabilities, including our ERP and supply chain program, was slightly ahead of expectations for the quarter due to timing, however, remain on track for the year. Recall, we also increased our incentive program for key levels in our organization in Q4 of 2019.

For the full year, there's minimal impact from these changes versus 2019. However, due to the timing of the decision last year, the related incentive expense will be unfavorable in Q1, 2 and 3 and favorable in Q4. Adjusted operating profit increased by 0.2% in the first quarter versus the prior period, and adjusted operating profit margin came in at 23.1%, reflecting a 20 basis point decline versus the same period last year. Gross margin gains were more than offset by operating expense timing.

Adjusted earnings per share diluted were $1.63 for the quarter, an increase of 2.5% versus the same period last year. Continued gross margin strength and favorable tax enabled additional business investment and offset the Easter sales headwind in the international COVID-19 pressures to deliver solid overall earnings growth. Note, the favorable tax in Q1 was driven by the timing of tax credits, and we do not expect material changes to the full year tax outlook we provided in January.

Given our strong cash flow and balance sheet, we are confident we will be able to manage through the current crisis, including maintaining strong liquidity. We believe we have adequate liquidity to meet our operating, investing and financing needs through operating cash flow, further supported by access to bank lines and commercial paper.

At the end of the first quarter, we had approximately $1.1 billion in cash and cash equivalents on our balance sheet, with $261 million in operating cash flow from the first quarter. We will continue to evaluate the situation moving forward and plan to prioritize cash utilization to meet our liquidity needs. Our strong free cash flow and healthy balance sheet continue to remain a core strength and competitive advantage in these uncertain times.

Recall, in January, we announced 2 significant investments for 2020 and 2021, including the ERP transformation and the supply chain capacity and capability initiatives. We plan to continue to move these projects forward, as both investments are strategically important for long-term growth.

That said, as Michele mentioned, we did pause certain aspects of these projects and reprioritize other capital projects to enable our teams to focus on the current crisis. This is anticipated to delay our ERP implementation by approximately 1 year. As a result, we now expect capital spending in 2020 to be approximately $400 million to $450 million rather than the $500 million we communicated in January.

In addition to investing for growth, returning cash to our shareholders remains a key priority now and over our 126-year history. This morning, we announced the second quarter dividend, which is our 362nd consecutive quarterly dividend on the common stock. Additionally, the company repurchased $150 million of common stock in the first quarter under the $500 million authorization approved by the Board in July of 2018. $260 million remain available for repurchases under this program. We also repurchased $19 million of common stock in connection with the exercise of stock options. We remain confident that our capital stewardship and allocation priorities will allow for continued strong and sustainable shareholder return.

Let's move now to a discussion of our financial outlook and expectations for the balance of the year. Due to the rapidly evolving situation and a high degree of uncertainty, we do not believe we are able to estimate the full year financial impact with reasonable accuracy, and therefore, believe it is prudent to withdraw our fiscal 2020 full year guidance at this time.

As we navigate this dynamic situation, we understand transparency is more important now than ever before. The uncertainty around a few key variables and the subsequent impact these could have to our outlook influenced our decision to withdraw guidance. These variables include: the length and severity of the pandemic; the shape and time line for recovery; the associated impact on retail restrictions, both in the U.S. and internationally; the change in consumer behavior from shelter-at-home restrictions, including potential impacts to participation in key seasons; and the ability of our supply chain to execute and meet customer and consumer needs. Each of these variables could have significant implications to our growth and profitability.

Michele shared with you the trends that are impacting the retail environment and consumer behavior. Some of these sales risks and opportunities also had impacts on profitability, namely, risks related to our high margin, instant consumable products, particularly in the convenience class of trade and our refreshment brands to dilute profitability.

The announced compensation program for the manufacturing team, along with increased plant sanitation and personal protective equipment, will add approximately $25 million to $30 million of incremental costs. However, we are seeing some efficiencies in the plant from running our largest, most efficient SKUs, which is helping to partially offset some of these expenses.

Let me now spend a minute on our supply chain productivity initiatives. We had a strong start to productivity in Q1, with over $20 million of savings. However, to enable our teams to focus on COVID-19 priorities, we have deprioritized some planned productivity initiatives worth approximately $5 million to $10 million in Q2. We remain confident in our ability to deliver against our long-term productivity goals.

While commodity prices for some of our key ingredients have recently declined, given our hedging program, we expect minimal benefit to 2020. These declines do, however, improve the profile for 2021 versus our outlook in January. Operating expenses are expected to increase approximately $10 million to $15 million as a result of a new incentive program for sales representatives and increased sanitation and personal protective equipment. We anticipate savings related to travel and entertainment, given travel restrictions and social distancing practices to at least partly mitigate these impacts.

While we feel there is too much uncertainty at this point to provide a reasonable estimate of the full year financial impact related to COVID-19, we want to provide reassurance that we are being both proactive and agile in managing our performance as the pandemic unfolds. We built inventory in the first quarter to anticipate demand and limit disruption. We've taken a hard look at capital spending and reprioritize to ensure adequate resources to address both COVID-19-related projects and those critical for strategic growth. We are dynamically adjusting our trade and advertising plans. We are actively monitoring the commodity and financial markets for long-term opportunities. All of these decisions are being made with the priority of ensuring the safety of our employees and communities, while being fully prepared for the recovery.

Michele and I could not be prouder of our team for bringing their best every day. This forward leading, agile mindset and high-performance culture will help us persevere through this crisis and seize opportunities in the recovery. We are confident the uncertainty we face is temporary, and that our decisions and adaptive operating model will help us forge relationships with customers and consumers, allowing for sustained long-term growth.

Now let me turn it back to Michele for some closing remarks.

Michele Gross Buck
Chairman, President & CEO

Thanks, Steve. As we look ahead, we expect the environment to remain volatile as the COVID-19 pandemic and consumers' financial security both evolve. But we remain confident in the strength and resiliency of our category and brands over the long-term and in our remarkable leaders and employees, who are executing against our strategies, reacting to current changes and capitalizing on the opportunities that this change presents.
The Hershey Company has more than 125 years of experience managing through tough, fast-moving and unprecedented moments in time; 2 World Wars, economic depressions and recessions, and other momentous events. Each time, we plan, we took action, and we learned and adapted, and we kept our

focus on making the best decisions for our employees, our partners, our stockholders, our communities and the consumers that we serve. This moment in time is no different. It calls for us to be our best working together with compassion and understanding to do what's best for our global society. And we believe that this resilience will only make us stronger in the days and the years ahead. Steve, Melissa and I are now available to take any of your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Andrew Lazar with Barclays.

Andrew Lazar
Barclays Bank PLC, Research Division

I wanted to start with -- obviously, things are still incredibly fluid, and they will remain so for quite some time. And none of us know exactly how or if ultimately, consumers will alter the way they sort of -- also the way they celebrate key seasons and things. But you mentioned, Michele, a couple of actions to sort of mitigate risk or making some smart choices around being able to pivot quickly if there are changes. And I think 3 of the things you mentioned were optimizing the portfolio, potentially some changes to net price realization and activation timing. I was wondering if you could just -- maybe comment just briefly on each of those? I just want to make sure I have a sense of what are some of the levers you could pull if there are some changes in the way we all think about and celebrate key holidays.

Michele Gross Buck
Chairman, President & CEO

Yes, absolutely. So relative to Halloween, I know that you were asking about -- and there was actually a fourth lever of e-commerce, so let me talk about each of those. So first of all, we are looking at the portfolio because we have seasonally-dressed items for Halloween. We also have, in this season, everyday assortment bags that play a key role. So one area we're looking at is how do we mitigate potential risk, not knowing what consumer behavior will be, by really optimizing what's the right balance of seasonal and everyday type items.

We're evaluating the price points, relative to understanding that some consumers may be financially strapped. How do we look at some of those higher price points, and make sure that we have enough entry-level price points and that the balance of the portfolio across price points accounts for the fact that there will be some consumers going through financial pressures. Activation timing is really trying to keep our pulse on we know that we can impact these seasons based on when we set the season. We know that consumers will buy a season to bring the product in their house, and there's some celebration in the house before the community event of trick or treat. And so leaning in a little bit earlier on some of the timing is a very reasonable option that we're discussing with our retail partners to be able to capture more celebration outside of just the trick or treat occasion.

And then lastly, we are seeing e-commerce really dial up, in Easter, we saw it. And so we are increasing our investments and activity to really have a great presence in Halloween, the right portfolio, bundled solutions across the holiday needs for Halloween. So those are really the key actions there.

Andrew Lazar
Barclays Bank PLC, Research Division

That's very helpful. And then just a key follow-up. I think you mentioned the number of 6% of sales was for foodservice, some of the retail locations. And I wasn't clear, does that include also China? Or was China separate from that number?

Michele Gross Buck
Chairman, President & CEO

Yes. No, that includes China, and also our world travel retail business, which are those stores that -- products we sell in duty-free stores in airports.

Operator

Our next question comes from the line of Robert Moskow with Crédit Suisse.

Robert Bain Moskow
Crédit Suisse AG, Research Division

I guess, there's a lot to cover here. Let me ask about 2Q. Is your visibility better for 2Q than it is for the rest of the year? And can you give us, maybe, Steve, some of the puts and takes here? The gross margin benefit you got in the first quarter, does that come out of 2Q? And then, secondly, the retail sales growth, as measured by Nielsen, was really high, much higher than your shipments. And is there any timing impact with respect to 2Q? Like, will that come back at all? Or is that just a function of Easter being a week earlier?

Michele Gross Buck
Chairman, President & CEO

Rob, let me start by addressing some of that. So first of all, I would say we do have greater visibility to Q2 because we're already halfway into the quarter. So we do have stronger visibility there. As you may recall, we had planned for a difficult Q2 prior to COVID as a result of some of our year-on-year lapse. And then our decision to close our retail locations for most of the second quarter, that's unknown, that's within our control. Certainly, the impacts that we're seeing with restaurants closed in the second quarter, that's a known -- that we can see the known impacts on foodservice. The reduction in plates, we can see that, that's a known relative to travel retail. And then we also have some elements of cost that are known, which include manufacturing and retail incentives, onetime costs on PPE and safety protocols. So we do have a lot of visibility around those things.

Relative to the kind of the gap or the disconnect in Q1 between retail and shipments, let me address that, and then I'm going to let Steve make some other comments about Q2. If you look at Q1, you can really break out that differential. With -- about half the differential, with retail being ahead of shipments, was driven by Easter. As you know, we always ship Easter in Q1, but the amount of Easter that gets consumed in Q1 is all dependent on the timing of the Easter holiday. This year, Easter was a bit earlier than last year, and therefore, much more of the season was actually consumed taken away in Q1 versus last year.

The other half of the differential in the retail sales to shipments, part of it is innovation. We shipped Take5 and Kit Kat Duos in December to set up for strong merchandising in Q1. So you got shipments in December, you got the takeaway in Q1. And then the other component is some inventory.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes, all I would add is -- it's a complete answer. We have good visibility into the cost, I think, for Q2, and Michele went through most of those things like the incentives and the sanitation are well known, and we talked about those in the prepared remarks. The productivity piece, the $20 million that we saved in Q1, doesn't come -- doesn't go away in Q2, but we would have expected to add to that and to continue to grow, and that's the piece that won't happen that we had in the plan.

And then maybe the third piece that we touched on a little bit was sort of implied, as we talked about the top line, is there's probably going to be some negative mix impact coming through, again, thinking about refreshments and convenience store impacts in the total mix. And that's probably a $5 million to $10 million gross profit impact for the year.

Robert Bain Moskow
Crédit Suisse AG, Research Division

Okay. I do have a follow-up. You mentioned your in-store execution and your sales incentives as a way to maybe mitigate some of the category declines and take share, but are some of your retail partners limiting the amount of people that they'll allow in the stores just for social distancing reasons? And does that impact your execution at all?

Michele Gross Buck
Chairman, President & CEO

So some, of course, are. But as we've worked out with our retail sales reps and partnered closely with retailers, even before that, we had worked with them with a lot of our partners to have our team go in during off hours to try and bring out products and set displays when they're either weren't consumers in the store or at the very lowest periods of time. So I would say, while there is some impact, I would say, largely, we've partnered really closely with retailers to work around that, both in terms of the safety and social distancing of our employees as well as helping the retailers to kind of protect and manage the number of people in their store. But largely, they've been really supportive and appreciative of the extra help, which they desperately need, obviously, as consumers are purchasing a lot.

Operator

Our next question comes from the line of David Driscoll with DD Research.

David Driscoll

So let me follow-up on Rob's, because I -- while I think you guys gave a good list of things in 2Q, maybe there are some numbers that you gave that I feel like were annual, like the PPE expense, the personal protective equipment and then something specific to second quarter. So I'm just a little confused on what expenses we're allocating to the second quarter that you know of right now versus the sales side? And then can I just follow-up on this? I mean, you've said it, I think, twice now, but I still think I'm not clear. It sounds like there are some -- there's at least 1 positive with how the retailer inventories ended at the end of the first quarter. And I think you said in the script that you hadn't made any changes to your retailer inventory assumptions, so that sounds like there's going to be a recovery of those retailer inventories in 2Q, which would be favorable to sale. So again, if you -- I apologize here, I do appreciate you've said this, but are you saying that Q2 sales are maybe a little bit better than expected versus where you previously had it, but on the expense side, that's significantly more negative because of the PPE costs, the incentive costs? And then there's, I think, a couple of other items that you wanted to call out right there in 2Q that we're hitting it the mix. Sorry, I appreciate it. The mix of what's going on in the business.

Michele Gross Buck
Chairman, President & CEO

Yes. David, the large majority of the cost increases really do hit in Q2. If you think about the biggest pieces of that, the manufacturing and retail incentives, onetime costs around PP&E, the pullback on productivity was around Q2. There is some mix impact with the pressure around refreshment and C-store. And so if you look at that, the -- by far, the biggest impact is in Q2. Some of the PPE and safety will continue throughout the year. And then there are some potential offsets. Less travel that we'll have the benefit of throughout the year. We continue to kind of look at trade and DME optimization. There could be commodities, but not a large number.

And as it relates to the inventory, I think my gut would be that, at some point, we get a little bit of that back, but we don't know for sure, and we definitely don't know that it will be in Q2. In fact, if I was just looking at what's going on in the world right now and at retail, my gut would be that it likely wouldn't be in Q2, but instead would be some point later in the year.

David Driscoll

All right. That color is really helpful. Just one follow-up for me. I don't think you said how your China business was performing in April. Is there any insights we can gain right there? Are you seeing any sign of recovery? I mean, nearly 50% decline in that business in Q1 is really large. So is there any color you can give us on how 2Q might shape up for Hershey China?

Michele Gross Buck
Chairman, President & CEO

Yes. I mean, it's better than we anticipated. It's better than we saw in February, but it's clearly in a ramp-up recovery. So it's not close to back to normal yet. But we're watching that obviously to leverage any insights. And I think the biggest insight there is just the move from off-line to online is very real. It's continued just like we think it will here in the U.S.

Operator

Our next question comes from the line of Ken Goldman with JPMorgan.

Kenneth B. Goldman
JP Morgan Chase & Co, Research Division

My first question is, is there anything you can do to protect yourself right now, whether it's buying product ahead of time or potentially considering diversifying your geographic sourcing because there's -- obviously, Western Africa has not been hit very hard by COVID yet. There have been some suggestions that maybe it will get hit harder later in this year. What are your concerns about that, just given how much cocoa you source from one region? And again, what can you do to maybe mitigate some of those concerns potentially?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. Right now, our supply chain team has done a fantastic job. And so aside from cocoa, some of our more specialty small ingredients, even starting in the first quarter as COVID started to get traction, they bought some of those ahead to get ahead of it. Right now, I think we feel pretty strong about our cocoa supply. I can tell you, our procurement team is very deep into that market on a good day, and they're even deeper here and looking at alternative supplies. And so, so far, harvest looks strong, and we don't see anything in the, say, near, medium term, that causes us a lot of concern on cocoa supply.

Michele Gross Buck
Chairman, President & CEO

Yes. What we need for the year, like those quantities are already here, so they're out of that region. So as we look at this year, we're in good shape, and that gives us time. And we're working closely with those governments as well. Obviously, this is an important crop for that geography, and we're working closely with them to make sure that they are set up to handle it.

Kenneth B. Goldman
JP Morgan Chase & Co, Research Division

Okay. And then one quick follow-up. Thank you for the color on what's in the 6% number in terms of branded stores and world travel locations and so forth. One question that I was asked, I wasn't sure how to answer was, how big are movie theaters, sporting events, things that maybe are not captured in Nielsen? First of all, is that in that 6% number as well? And second, can you give us any kind of rough size for what you would think those types of channels might be? And I know I'm being vague with the question there.

Michele Gross Buck
Chairman, President & CEO

No, that's okay. Some of that falls into our broader specialty business, and that might be another 2% to 3% of sales. Again, some impact.

Operator

Our next question comes from the line of Alexia Howard with Bernstein.

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

So again, focusing on the trends that you're seeing in Q2 now that the dust has settled on the panic-buying phase. Could you give us, by channel, how things are looking? So for example, how big are you overall in e-commerce? And how quickly is that growing right now? And is that different from the past? The C-store channel, I think you mentioned, that was about 15% of sales. How soft is that right now? And we assume that the foodservice in China, that 6% of the business, is well down at the moment.

And then also taking a look at it by product type. If you think about import versus seasonal versus every day, how fast are each of those grown or shrinking, as I imagine, some of them may be relative to what you would normally expect?

Michele Gross Buck
Chairman, President & CEO

Okay. Let me do my best on that one to try and break that out. So C-store is about 15% of our sales, it's declining about 10%. E-commerce is about 2% of our sales, and we're seeing the growth rate double there. Now of course, that's just what we've seen recently. So all of these are the recent trends. So of course, I can't predict exactly how that will play forward.

Walmart and mass channels and dollar stores, grocery have had pretty good trends as people are really shopping there. They are frequencing those places and also all of those places tend to have, or many of them, an e-commerce leg that's being leveraged.

I tell you, the other place we're seeing some softness is around drug. So drug and C-store are the 2 channels that I think we've seen the biggest softness. Club, there were initial huge stock-ups of -- the initial stock-up behavior was huge at clubs, that's moderated a bit. Melissa might have to come back and give you maybe more of the details around the specifics on each piece of trade. But I would say, C-store 15% and drug in that probably 8% range of our total business, and those are the places that are most pressured. And then, of course, the rest kind of fall in the middle.

If we look at impulse, take-home and seasonal, clearly, the softness on impulse is a little bit less than you see in terms of that 10% decline in C-store because we do still have business coming through food, drug and mass. So less than that 10%. Take home, obviously, driving our growth. And seasons, we had a really good Easter. So at this point, what we're gearing up to do is to -- we met our expectations, our sell-in, our net sales shipments. We felt just short on takeaway. So seasons, I'd call kind of a wash, and then take-home is where we're seeing the strength. But Melissa can give you more details, I think, off-line on that.

Alexia Jane Burland Howard
Sanford C. Bernstein & Co., LLC., Research Division

Perfect. And then a super quick follow-up. I think you said that Easter was down as expected because of the shorter season, but it was also a bit weaker than expected, presumably because of the pandemic. Is that the way that we should be thinking about it?

Michele Gross Buck
Chairman, President & CEO

The sell-in was on expectation. The sell-through was -- yes, was a little bit weaker than we anticipated. Really strong sell-through up until the final week. The final week of Easter happened the same week that the government started to recommend that consumers not go to grocery stores unless it was essential. And many of the big retailers started limiting the number of consumers they would allow in their store at one time. And we saw a direct impact on that last week of Easter. But basically, that will not cause -- that softness in the sell-through in the last week really shouldn't impact the P&L. So not to [Indiscernible] so much in.

Operator

Our next question comes from the line of Bryan Spillane of Bank of America.

Bryan Douglass Spillane
BofA Merrill Lynch, Research Division

So I had a question, just on -- just one question around the end-of-line manufacturing flexibility you have with packaging. And I guess my question is around, if we're looking going forward at a scenario where it's more e-commerce, which is sort of a different type of -- requires a different type of packaging, maybe more grocery and mass, more at home, less convenience and gas. And then also maybe meeting packaging flexibility to address affordability, maybe different pack sizes or different types. Do you feel like

-- with the investments you've made in recent years that you have the flexibility to sort of make those shifts and be able to kind of service if that's where the business skews over the next 6 to 9 months?

Michele Gross Buck
Chairman, President & CEO

Yes. I would say, largely, we have flexibility in our manufacturing. I mean, we already have a portfolio of products that are meeting e-commerce demand, and that demand has been across every pack type, whether it's candy dish, whether it is instant consumables, et cetera. We already have a multitude of pack sizes that we've always done. This is a category that lives on many different pack types for many different occasions.

And then, certainly, as we're doing some of our supply chain work going forward, one of our goals is to put in even more automation to hopefully improve margins as we do that. But we are well set up to be able to adapt to different packs and sizes right now.

Bryan Douglass Spillane
BofA Merrill Lynch, Research Division

And if I could just one follow-up to that is we've seen in other categories where retailers are kind of narrowing SKUs, want to be in stock with the highest velocity SKUs. Have you seen any of that yet in your categories?

Michele Gross Buck
Chairman, President & CEO

Yes, we are. And we think we're well positioned there. As you know, we had just gone through a big SKU rationalization program to get rid of some of the smaller SKUs. And on the normal course of business, as we run our business, we have all of our SKUs categorized with the very highest movers, they're the must-haves, must be protected at all cost and then we kind of go through our portfolio. So we've always managed our business in that way. So we've been well set up to serve in that priority environment.

Operator

Our next question comes from the line of Jason English with Goldman Sachs.

Jason M. English
Goldman Sachs Group Inc., Research Division

I guess, I'll pick up on one thread from Mr. Spillane, in terms of e-com. As we think about maybe what could be different in 2021, assuming all these issues come to pass. The amount of sales going through e-com, sounds like it could be the one durable change. So quick question, just to get a little more context around it. And I guess what really my angle here is to understand the impact on your impulse-oriented sales. I think, historically, you said about 1/3 of your portfolio is impulse. And you're saying today, 15% of that is going through C-store. How much of that is going through food, drug and mass?

Michele Gross Buck
Chairman, President & CEO

I mean, the other -- that would be the other 15%. Basically, the other -- between the difference between 33% and 15%, I would say, largely. Let me just think about...

Jason M. English
Goldman Sachs Group Inc., Research Division

There's a little bit of bending in there too, I think. So it's...

Michele Gross Buck
Chairman, President & CEO

Yes, that's what I was trying to think how much would be in those specialty channels, spending would be the biggest piece of that. We have some in club as well in terms of reseller packs at Sam's. I mean, I guess, I would estimate, I'm going to say maybe 15%. Maybe fundraising, vending, club and specialty are 5%. So I'd say maybe 15% goes through food, drug and mass.

Jason M. English
Goldman Sachs Group Inc., Research Division

And how is that 15% tracking today?

Michele Gross Buck
Chairman, President & CEO

It's tracking much better than the C-store. It really varies by channel. The drug piece would be the softest piece, because overall drug is just not getting as much traffic. I think a lot of people are using drive-through options. People are trying to stay away from smaller stores. So the larger majority of that is really going through mass and grocery. It's still softer than take home, but it is still growing in some of our retailers.

Jason M. English
Goldman Sachs Group Inc., Research Division

Okay. So if that's sort of reflective of what life looks like in the lower trip frequency environment, and people stick with the sort of online replenishment and trip frequency is lower, do you think it's reasonable to assume that if there's risk to like lost business that can be a bit more durable, that's the risk? So we're talking about a couple of points of sales that may not come back? And is there anything else that you would highlight that we should be cognizant of as we think about the impact to your earnings power in '21 or beyond?

Michele Gross Buck
Chairman, President & CEO

Yes. I mean, I think with less trips, certainly, there is some risk there, and that creates some of a -- some bit of a mix and sales risk. However, I guess, the other thing I'd ask you to think about is, as we look at our e-commerce business, we have instant consumable strengths in e-commerce. So one of our biggest selling items has been instant consumables. Both singles as well as we sell case packs that have maybe 24 instant consumable items in them. And given that our margins are strong, we don't really discount at bulk the instant consumable items. Driving the growth there -- our goal there is to continue to drive the growth there, which offsets how the consumer behavior is evolving and changing.

I think the other opportunity is really for us to just kind of drive against the kind of the push that as consumers are having less trips, they're also executing bigger baskets. And so really focusing on that as an opportunity as well.

Operator

Our next question comes from the line of Rob Dickerson with Jefferies.

Robert Frederick Dickerson
Jefferies LLC, Research Division

So just a question on pricing. I mean, it seems like you're saying the last week pre-Easter weakness really shouldn't impact the P&L in the near term. Maybe that suggests that the promotional plans haven't really been altered, but then, I think, it also sounded like you said promotional spend could be increasing your price/mix sharpened as you go through the year, right, to maybe increase demand overall. But then I also heard that maybe your pricing plans remain on track. So obviously, there were just a number of comments in there. I just want to clarify, just, in general, pricing environment. We've heard Easter didn't go so well seasonally, let's say, in Europe, but obviously, because of the COVID buying, right, you kind of masked some of that seasonal weakness. Is there too much product still on a seasonal basis on the shelf? Does that have to be sold through? It sounds like inventory levels have come down, but pricing sounds to be okay. So any commentary you can just give kind of around the overall pricing dynamic would be great.

Michele Gross Buck
Chairman, President & CEO

Yes. I guess, first, I'd start by saying we feel good about our pricing strategy for the year, and our current initiatives are on track. And we really don't expect any material changes as a result of COVID. So we were expecting in that 2 to 2.5 points of pricing in 2020. And we continue to believe that, that will be the case.

As we look at promotional spending, at this point in time, in our category, a lot of our promotional spending is utilized to drive display. So we are unlike some other categories that are less impulsive, where people use price to have a temporary price reduction and really load pantries. That's not really how our category works. So given our retail sales team is out there in force, we're continuing to get display. And so we aren't seeing a big pullback. There could be some small -- a couple of million dollars that come back from trade, but I think, in general, we're continuing to drive against that.

And then really, relative to the -- we're just trying to be sensitive to the consumer environment around the financial constraints, which is one reason that we continue to believe some of our promotional support makes sense in the display. And then during the holidays, just making sure we have the right array of price points. So I don't think about that as being an absolute reduction in price because that's really not about the price realization per pack, it's just more what is the absolute price point so that consumers have options if they want to buy multiple or a bigger pack they can and if they're going to buy less. So that's less kind of about the price per pound. Does that answer your question?

Robert Frederick Dickerson
Jefferies LLC, Research Division

Yes. No, that's actually very helpful. I mean, it sounds like basically, if there is somewhat of a mix shift, right, we're talking about mix in terms of margin, sometimes a mix on pack size, et cetera could affect pricing, but it sounds like maybe you could offset some of that with potential reduced promotional spend in display. So kind of net-net, at this point, you feel like we're kind of okay. Does that make sense? Back to you.

Michele Gross Buck
Chairman, President & CEO

Yes. I would say net-net, we think we're okay. Yes.

Robert Frederick Dickerson
Jefferies LLC, Research Division

Okay. Cool. And then just quickly, and more broadly, look, over time, we've heard a number of larger food companies have said they actually do better online, right? Their online share can actually be better just given Page 1 display and overall brand awareness. Obviously, there's a whole conversation around the channel shift. If we just think about online specifically, ignore the other channels, would you just say, yes, we think, given our investment, brand awareness, what have you, if we do shift into more of an online purchase society over the next few years, that we should be taking more share of category?

Michele Gross Buck
Chairman, President & CEO

Sure. Yes. I mean, we feel good about our ability to drive the business and capture share online. Looking at total online share is a little difficult because there are a lot of unique businesses that have direct-to-consumer businesses online. But if we look at kind of the big retailers and the pure-play big retailers in that space, yes, I feel pretty good that we should be able to continue to drive share there.

Operator

Our next question comes from the line of Nik Modi with RBC.

Nik Modi
RBC Capital Markets, Research Division

Michele, the share gains look really healthy. And obviously, you indicated they accelerated. So I'm just wondering, what do you think is driving that? Is it a function of just the fact that your fill rates were so good, so you have the product available? We are hearing that one of your major competitors is scaling back on some of their SKU counts. I'm just curious what you're seeing and what you would attribute some of that market share gain to.

Michele Gross Buck
Chairman, President & CEO

Yes. I would absolutely attribute it to our customer service levels. So we've been able to maintain incredibly high customer service levels at that 98%, 98.5%, 99%, depending on the month. I think within that, we have had very good availability across our portfolio. So we've been pretty much able to meet the specific product demands as well.

So huge kudos and credit to our manufacturing team, who has just done an outstanding job of being ahead of this, building inventory ahead of this, getting raw materials in ahead of this, working with their teams and all of our manufacturing employees who have so supported doing this. And then I would also say having our retail sales reps out there, building displays, stocking shelves, that has also been a very positive impact. So yes, I would say a lot of it is about the strength of our company. In the past, it has always been a lot around operational excellence and execution, and I think that's really benefiting us on top, of course, the fact that we feel great about the brands and the programs we've had out there. But I do think that's been a difference maker.

Nik Modi
RBC Capital Markets, Research Division

And just going back to the question, any changes in the competitive landscape? We are hearing, again, one of your major competitors is looking to do their own SKU rationalization program. So I'm just curious if you've seen that in the marketplace or have you've heard the same.

Michele Gross Buck
Chairman, President & CEO

No. I mean, I'd say the only -- we've probably heard similar things as you had regarding a couple of competitors in the category who may have supply -- not a solid position on supply.

Nik Modi
RBC Capital Markets, Research Division

Great. And then just quickly on the size of SKU. So if you think about a lot of the volume that was probably sold over the past several weeks, my suspicion is and maybe you can confirm is that it was all large bags, multipacks. Just curious how you guys are thinking about at-home inventory depletions, just given general consumer behavior? I mean, my sense is it's going to take some time for them to work that inventory down, but I'd just love your thoughts on that. I could be wrong.

Michele Gross Buck
Chairman, President & CEO

Yes. I mean, obviously, we didn't get as big of a stock up as, like, say, some of the main meal categories. So I don't think that there is a huge backlog. But certainly, as we get through the quarter, that will be something that we will learn more about.

We do know that the things that are selling best are things that are around take home occasions, snack size assortment bags, 6 packs of Hershey bars for people to make S'mores at home, Twizzlers, which one of the key uses for Twizzlers is when you're watching movies or TV. So I think we know which items are getting consumed the most rapidly. And like I said, we don't have a huge stockpile, but that is something that will play out in Q2, and we'll get a better feel for how quickly people utilize those. We also know, hey, they are baking a lot at home. And so there are other indulgent categories that we're competing with for those usage occasions at home.

Operator

Our next question comes from the line of Chris Growe with Stifel.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

I just had 2 questions, if I could. I was curious, first of all, Michele, if you could speak to your thought -- the concept of the thought around guidance. And it sounds like, and I've taken good notes, and there's a lot of little factors you've given around the second quarter. But you seem to have pretty good visibility into that quarter. Is there a factor or 2 that worried you about giving guidance for the upcoming quarter? Or having a good read on the quarter, given you seemed to have good visibility across a number of different areas of the P&L?

Michele Gross Buck
Chairman, President & CEO

Yes. So as we mentioned, we do have a lot of visibility into Q2 of some of the things that we know will hit us. We mentioned the 6% of the business. A lot of those businesses essentially being closed or down based on governmental regulations. We, certainly, know that we've got in that $40 million to $45 million of cost that will hit in Q2, if you add up manufacturing and retail productivity, some of those elements. So we do have that. At the same time, we still don't know how the rest of the quarter will play out, and we're seeing that every single week, we get new pieces of news or information that make it difficult to know if something else is coming our way. And certainly then, I think as we look to the rest of the year, we have significantly less visibility there. We certainly have tried to share what we think the biggest risks and opportunities are in the portfolio, the opportunities we're driving at, how we're managing against the risks, but much less visibility there. So yes, I would say that's where we kind of stand.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And then I just was curious, a quick question about your international business. Obviously, China has gotten better, although still down, as you noted. Are the other countries, India, Brazil and Mexico, just a bigger risk of declines? Is that one area of uncertainty you have also in the second quarter?

Michele Gross Buck
Chairman, President & CEO

Yes. International is definitely an area that remains a risk. Each country, each area is in a different state in the growth or stage of the pandemic, and each government is acting quite differently. So we have some markets like Mexico or India. India is really on a lockdown for 4 weeks. We have some of those markets where it's difficult for our employees to actually get to work based on what's happening with public transportation, based on governmental regulations about people in certain areas not traveling to other areas. So we are facing a lot in those markets, and I'd say that's really primarily in Mexico and India as the 2 biggest impacts. But yes, it is in that camp of more uncertain at this point in time.

Christopher Robert Growe
Stifel, Nicolaus & Company, Incorporated, Research Division

Just one final point on that. Is it likely that the international business could be weaker in Q2 than it was in Q1, even though you don't have that unique China experience?

Michele Gross Buck
Chairman, President & CEO

Yes. I would say there's a lot of uncertainty in international, such that I'm not really sure that I could say for sure how that's going to play out. I think that's one of the uncertainties for Q2.

Operator

Our next question comes from the line of Michael Lavery with Piper Sandler.

Michael Scott Lavery
Piper Sandler & Co., Research Division

With the heavy traffic at retail, are you -- what adjustments are you making, if any, to promotional spending? And if there's any change in plans? Or are those things that can drive savings? Or is it just shifting timing to a different point in the year?

Michele Gross Buck
Chairman, President & CEO

Yes. We haven't made a lot of big wholesale changes in promotions because our promotions are really geared against display, because our retail sales teams are still out there and are able to build those displays. And obviously, there remains a lot of space in stores, given outages in certain categories.

We continue to be focused on making sure that we are really driving as much of our spending as possible to display any place that we did have any kind of temporary price reduction. We are trying to pull back on those. And then certainly, we are trying to gear the spending around the right programs that are relevant at this point in time. So we continue to look at where we are there. We continue to partner with retailers in terms of how we meet their needs. At this point in time, I would say we are largely executing according to our plans for the year, but always looking if there's opportunity where promotions aren't going to make sense, they aren't going to drive consumers like a temporary price reduction, I don't think, well, how we convert that more to a display driving initiative or use it for something else.

Michael Scott Lavery
Piper Sandler & Co., Research Division

Okay. That's helpful. And then you talked about a lot of the puts and takes on the cost side. And specifically, a lot of cost headwinds that are more 2Q focused. You also have some of the marketing savings you mentioned and efficiencies from the bigger SKUs running. To the extent that it goes both ways, on the full year, how does it net out? Is it a net negative? Or is it about a push? How do you see -- assuming just at least what you know now?

Michele Gross Buck
Chairman, President & CEO

Are you saying a net negative or a push on total cost impact to the business?

Michael Scott Lavery
Piper Sandler & Co., Research Division

Exactly, yes.

Michele Gross Buck
Chairman, President & CEO

Steve, you want to talk about the cost?

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. The cost impact, on a full year basis, will be a net negative. I think we're not giving guidance for the full year until all the other puts and takes on the variables that we're watching will come into play. Obviously, depending on the shape of the recovery, we'd expect to see improvement in those costs after we get past the challenging Q2. But I don't think there's enough new savings to offset some of the deeper incremental costs we're going to face in Q2.

Michael Scott Lavery
Piper Sandler & Co., Research Division

Okay. And just a last quick one on the Hershey World stores, how much seasonality is there to that? Would the percentage of sales in 2 and 3Q typically be much higher?

Michele Gross Buck
Chairman, President & CEO

So it depends on the location. Clearly, for the Hershey-based store, there is big seasonality in the summer because we are right outside Hershey Park. So that one is highly seasonal. Las Vegas, I would say, not so much. And Time Square has a bit of a SKU to summer into holiday because it's driven by that traffic, but not quite as much of a seasonal SKU.

Operator

Ladies and gentlemen, we have time for one more question. It will come from the line of Steve Powers with Deutsche Bank.

Stephen Robert R. Powers
Deutsche Bank AG, Research Division

I guess, if we just wrap all of this up, I mean, before we -- before this -- the COVID-19 situation, I'll start it, we were looking forward to an Investor Day update from you in March, which seems like a long, long time ago. But as you think back and think about what you intended to communicate that day, how much of the content do you feel would remain unchanged as it relates to your medium to long-term strategy at this point versus what degree do you think we're all going through now is likely to have lasting impacts on Hershey's future playbook?

Michele Gross Buck
Chairman, President & CEO

I don't think that what we are going through right now would have any impact on that content on our long-term strategies. What I would say is some of it may shift a bit. So certainly, I think there's been a step change in e-commerce that's just now occurred, that probably would have taken longer to occur in society around consumers' adoption of e-commerce, around retailers' readiness. It would be smaller things like that. But largely, our strategies remain unchanged. Our big initiatives in terms of what we think is important remain unchanged as well.

Stephen Robert R. Powers
Deutsche Bank AG, Research Division

Okay. And I guess maybe just a quick follow-up, and I can tie it to your comments that you made today on the plans to divest the businesses that you highlighted. I guess, how much -- was that a March communication? Or is that a decision that you've definitively come to more recently. It feels just a little bit surprising on the context of what we're all -- what we're in the midst of. So I just wanted some clarity there as to -- I mean, obviously, you've made comments about those businesses in the past, but this would be actually the intent at the best.

Michele Gross Buck
Chairman, President & CEO

That was pre-COVID. That's been underway. It has been Q1 -- late Q4, probably it started in Q4, early Q1 activity to explore and to begin that work.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes. Actually, we're always looking at everything in the portfolio, testing where its best place is and so no COVID impact on that.

Stephen Robert R. Powers
Deutsche Bank AG, Research Division

Okay. And is there any way you can dimension the size, 2019 sales profitability of those businesses just for some frame of reference?

Michele Gross Buck
Chairman, President & CEO

I mean, they're small.

Steven E. Voskuil
Senior VP, CFO & Chief Accounting Officer

Yes, very small. Yes.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Poole for any final comments.

Melissa Poole
Vice President of Investor Relations

Thank you all for joining us this morning. I'm sure there's still additional questions. I'll be around all day to answer as many of them as I can. Thanks so much. Stay, wealthy -- stay healthy.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.