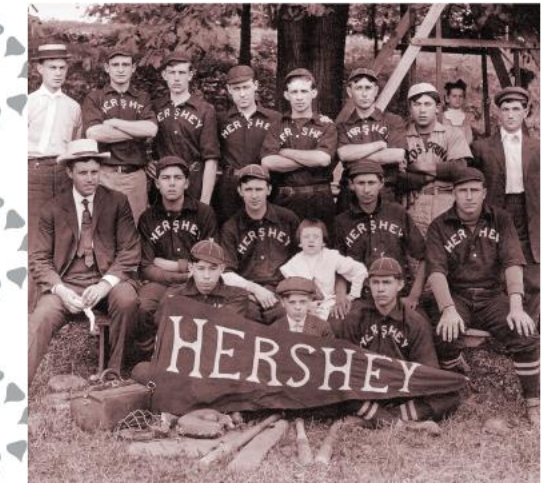
HERSHEY

# WINNING IN DIGITAL COMMERCE

AUGUST 28, 2018




SKINNY POP® POPCORN

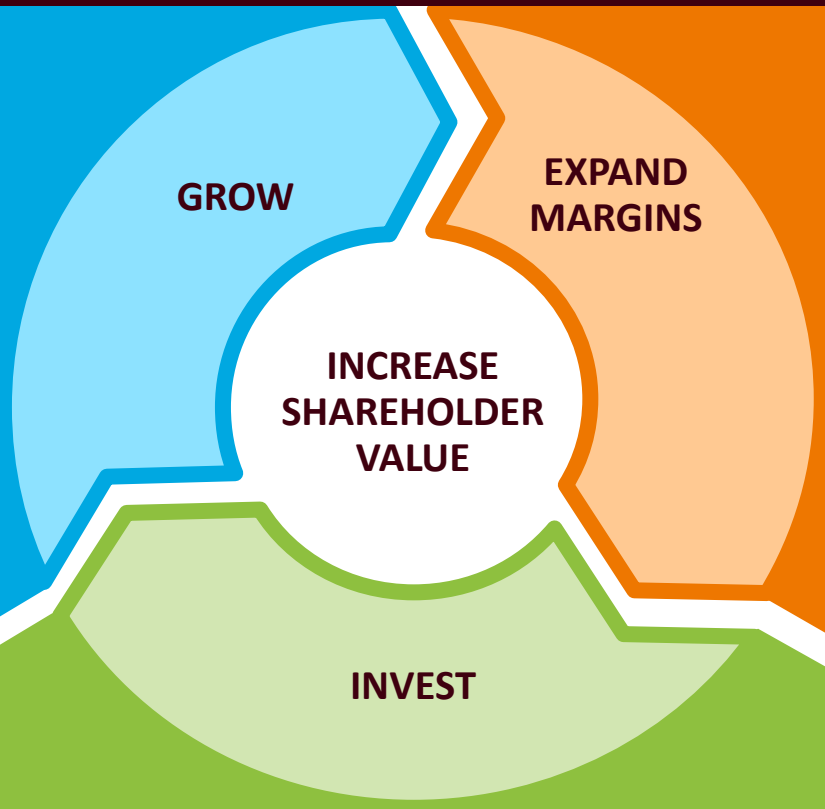
# MICHELE BUCK

CHIEF EXECUTIVE OFFICER

HERSHEY

# DELIVERING INNOVATIVE SNACKING LEADERSHIP

DRIVE CONFECTION & EXPAND BREADTH IN SNACKING




REALLOCATE RESOURCES TO EXPAND MARGINS & FUEL GROWTH

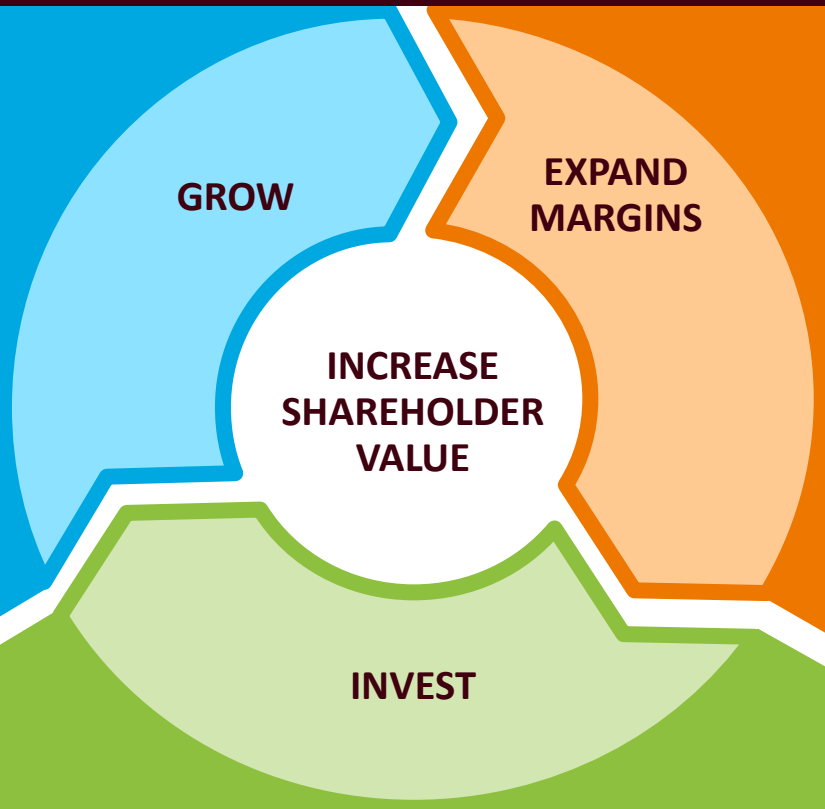
STRENGTHEN CAPABILITIES FOR COMMERCIAL ADVANTAGE

HERSHEY

# SOLID PROGRESS AGAINST KEY PRIORITIES

CORE CMG GROWTH

PORTFOLIO EVOLUTION




RESET INTERNATIONAL BUSINESS MODEL

REDUCE FOUNDATIONAL COST STRUCTURE

CORE CAPACITY | ERP | DIGITAL TRANSFORMATION

HERSHEY

- ☑ RIGHT **DATA**
- ☑ RIGHT **TECHNOLOGY**
- ☑ RIGHT **CULTURE**

HERSHEY

# DIGITAL TRANSFORMATION POWERING EVERY PART OF THE ORGANIZATION

HERSHEY

# KEYS TO SUCCESS

## LEVERAGING CAPABILITIES FROM PHYSICAL TO DIGITAL

**BE FOUND**

Media, planograms, search

**KNOW THEM**

Understanding journeys and missions

**BE LOVED**

1:1 Relationships with shoppers and consumers

**BE BRILLIANT**

Pack design, digital content

**BE ON THE LIST**

Customer partnerships, sales reps, merchandising, portfolio for different needs and models

- RIGHT **DATA**
- RIGHT **TECHNOLOGY**
- RIGHT **CULTURE**

HERSHEY

# CAPABILITIES TO CAPTURE ATTRACTIVE FINANCIAL OPPORTUNITY

## Leveraging Competitively Advantaged, Translatable Capabilities

- Deep consumer insights
- Great brands
- Strong customer relationships and category management
- Media expertise
- Robust margins

+

## Building Capabilities Unique to Digital Commerce

- Unique Portfolio
- Winning at search with great content
- Driving holistic captaincy
- Leveraging enhanced data acquisition and analytics

+

## Creating Financially Attractive Digital Commerce Model

- Comparable gross margins
- Bigger baskets
- Higher average selling prices
- Drop-ship capability

# OPPORTUNITY

HERSHEY

*Source: Leading retailers' custom data*

# TAKEAWAYS FROM TODAY

Retail evolution changing how products are purchased, but consumers' needs and desire for our brands remain

---

We are translating our existing competitive advantages and building capabilities unique to digital commerce

---

We have created a financially attractive digital commerce model and are seizing the opportunity with the right talent, capabilities and investment to succeed

# DOUG STRATON

CHIEF DIGITAL COMMERCE OFFICER

HERSHEY

# FOR TODAY

UNDERSTANDING THE RETAIL ECOSYSTEM

HERSHEY STRATEGY AND KEYS TO SUCCESS

WHAT WINNING IN DIGITAL LOOKS LIKE

WHERE WE ARE AND WHERE WE ARE HEADED

Q&A

# UNDERSTANDING THE RETAIL ECOSYSTEM

HERSHEY

# WE EXPECT MID SINGLE DIGIT U.S. FMCG DIGITAL COMMERCE PENETRATION IN THE NEXT 5 YEARS

## European Indicators

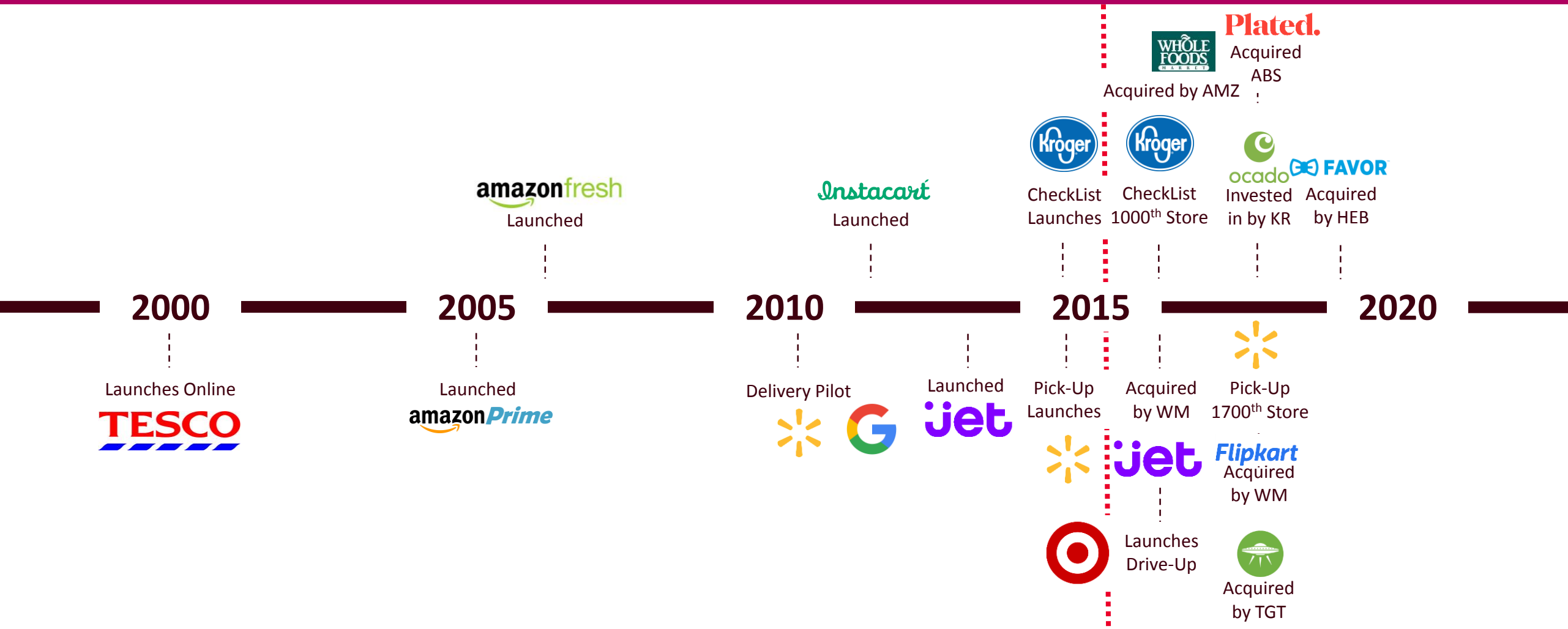
- Online Penetration 5.6% (Europe)
- Snacking Penetration Tracks with Overall
- Less Fragmented Competitive Environment
- Population Densities and Geography

Sources: Kantar WorldPanel, Fung Global Retail, Euromonitor, Planet Retail



*FMCG = Fast Moving Consumer Goods*

# U.S. FMCG IS ~1-2% DRIVEN BY RECENT RETAILER INVESTMENTS






*FMCG = Fast Moving Consumer Goods*
*Source: Kantar WorldPanel, Fung Global Retail/BEA*

# THE WHAT HASN’T CHANGED - THE HOW AND WHERE HAVE

## CONSTANTS

Consumer Wants

Consumer Shops

Consumer Buys

## CHANGES

Shopping Behaviors

Trips

Paypoints

# RETAIL EVOLUTION UNLOCKS NEW CONSUMER ACCESS

## RETAIL DYNAMICS

Fewer physical trips

Impulse purchase declines

## OPPORTUNITIES

- Store in a Pocket
- More Digital Trips
- Data & Algorithms
- Price-Basket Dynamics
- More Engagement Points
- Metropolitan Areas

# WE MUST PLAY ALONG THE ENTIRE CONSUMER SHOPPING JOURNEY

# HERSHEY STRATEGY AND KEYS TO SUCCESS

HERSHEY

# HERSHEY HAS LEVERAGEABLE, TRANSLATABLE CAPABILITIES TO WIN IN DIGITAL…

MORNING CONSULT

**Beloved Brands**

#1 most loved brand

**Deep Customer Relationships**

Ranked #5 by retailers in consumer goods

ADVANTAGE

**Recognized Category Expertise**

Ranked #1 by retailers for category management

**Strength in Paid & Earned Media**

3B earned impressions at product launch

**Retailer Profitability**

Amongst the highest



*Source: Morning Consult, Advantage, Cision, Willard Bishop*

# …AND WE ARE WINNING

| Winning Share | Trips Increasing | Driving Higher Average Selling Price | Building Bigger Baskets | Maintaining Margin Profile |
|---|---|---|---|---|
| **+250bps** year to date | **Online Visits > Offline Trips** | **1.2x to 3.5x** brick and mortar | **1.0x to 3.5x** brick and mortar | Within **100-150 bps** of THC Avg |

*Source: Retailer specific POS data, 2017-2018, Hershey financials*

# WE KNOW THE KEYS TO SUCCESS IN DIGITAL COMMERCE

**BE FOUND**

Win At Search: The Shelf

**KNOW THEM**

Journey and Missions

**BE LOVED**

CRM: The Relationship

**BE BRILLIANT**

Digital Content: The Pack

**BE ON THE LIST**

Algorithm and Missions and Models: The Cart

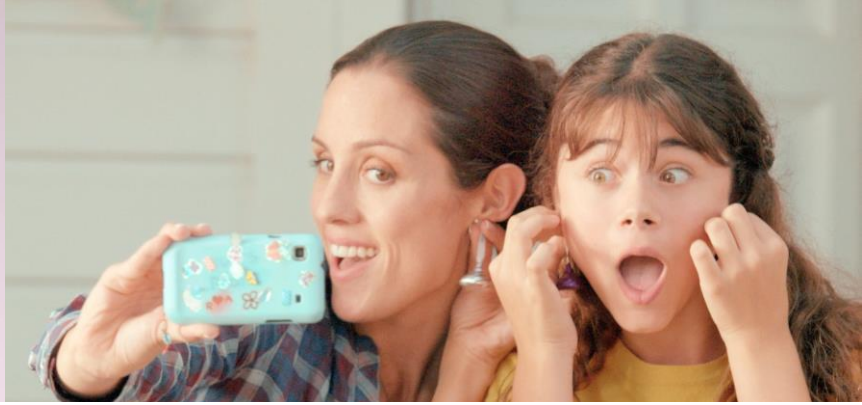


*CRM = Consumer Relationship Marketing*

# WHAT WINNING IN DIGITAL LOOKS LIKE

HERSHEY

JOLLY rancher
HARD CANDY



CONNECTIONS
CONTENT
CONSUMER
COMMUNITY
CONVERT

# CONSUMER

#ILoveReesesDay
Reese's

ICE BREAKERS
MINTS
COOLMINT

# UNDERSTANDING MISSION AND MODELS UNLOCKS GROWTH AND PROFIT

**MISSION** **MODEL** **PORTFOLIO** **ECONOMICS**

CONSUMER

# SHOPPERS NOW HAVE OPTIONS BEYOND FILLING THEIR OWN BASKETS

| | | | | | |
|---|---|---|---|---|---|
| **MISSION** | Deal Hunting/ Family Snacking Refill | Family Snacking Refill | Family Snacking Refill | Sudden Craving | Special Purpose |
| **MODEL** | Ship-to-home<br>amazon STAPLES | Delivery<br>Peapod® | Pick-up<br>Walmart Kroger | On-demand<br>goPuff | DTC<br>HERSHEY |
| **PORTFOLIO** | Large bags, multi-packs of single serve bars | Traditional items found in grocery/mass stores | | Items found in C-store; instant consumable focused | Unique Propositions/ Differentiated portfolio |

CONSUMER

# NEW OPTIONS PROVIDE OPPORTUNITY TO DRIVE BASKET AND CONSUMPTION

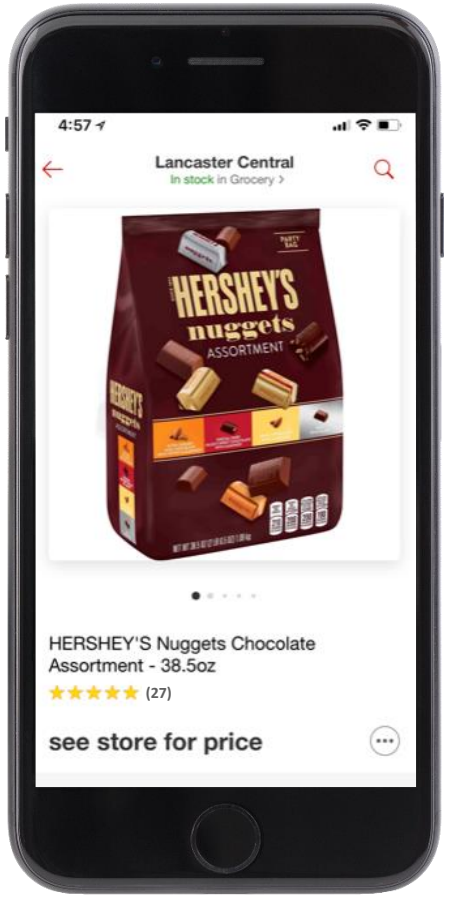
## Index to Brick and Mortar Purchase

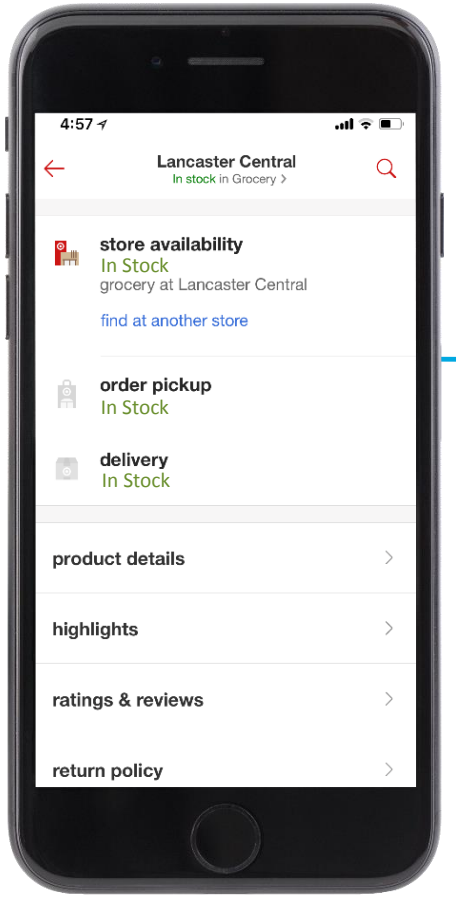
| MODEL | Ship-to-home | Delivery | Pick-up | On-demand | DTC |
|---|---|---|---|---|---|
| | amazon STAPLES | Peapod | Walmart Kroger | goPuff | HERSHEY |
| **ECONOMICS** | | | | | |
| **AVG. PRICE** | 3.5x | 1.2x | | 1x | 40x |
| **AVG. BASKET** | 3.5x | 1.2x | | >1x | 5.5x |

Source: May 2018 Hershey CMG Data; Multiple Retailers POS Data

CONSUMER

# RETAILERS FIELD MULTIPLE MODELS TO KEEP SHOPPERS IN A "WALLED GARDEN"




- Store
- Pick-up
- Delivery

# CONNECTIONS

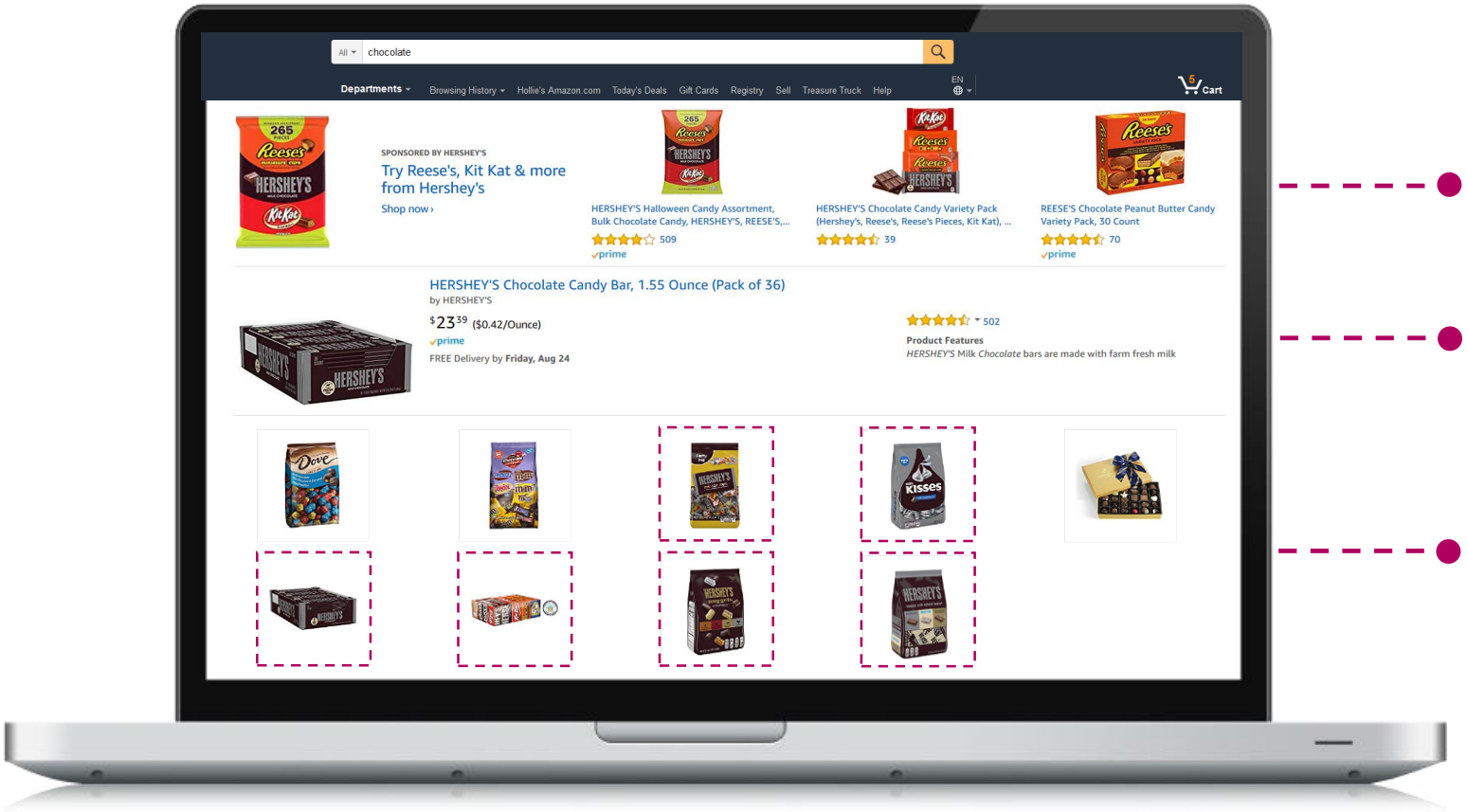
CONNECTIONS

# SEARCH IS THE NEW SHELF

**EYE LEVEL SHELF = FIRST PAGE SEARCH**

CONNECTIONS

# FIRST PAGE OF SEARCH IS EYE LEVEL




**"Chocolate"**

- Paid Display
- Paid Search
- Organic Search Results

CONNECTIONS

# MOVING NEW ITEMS TO EYE-LEVEL

| Pre-Event | Event | Post-Event |
|---|---|---|
| #4893 | #20 | #1 |

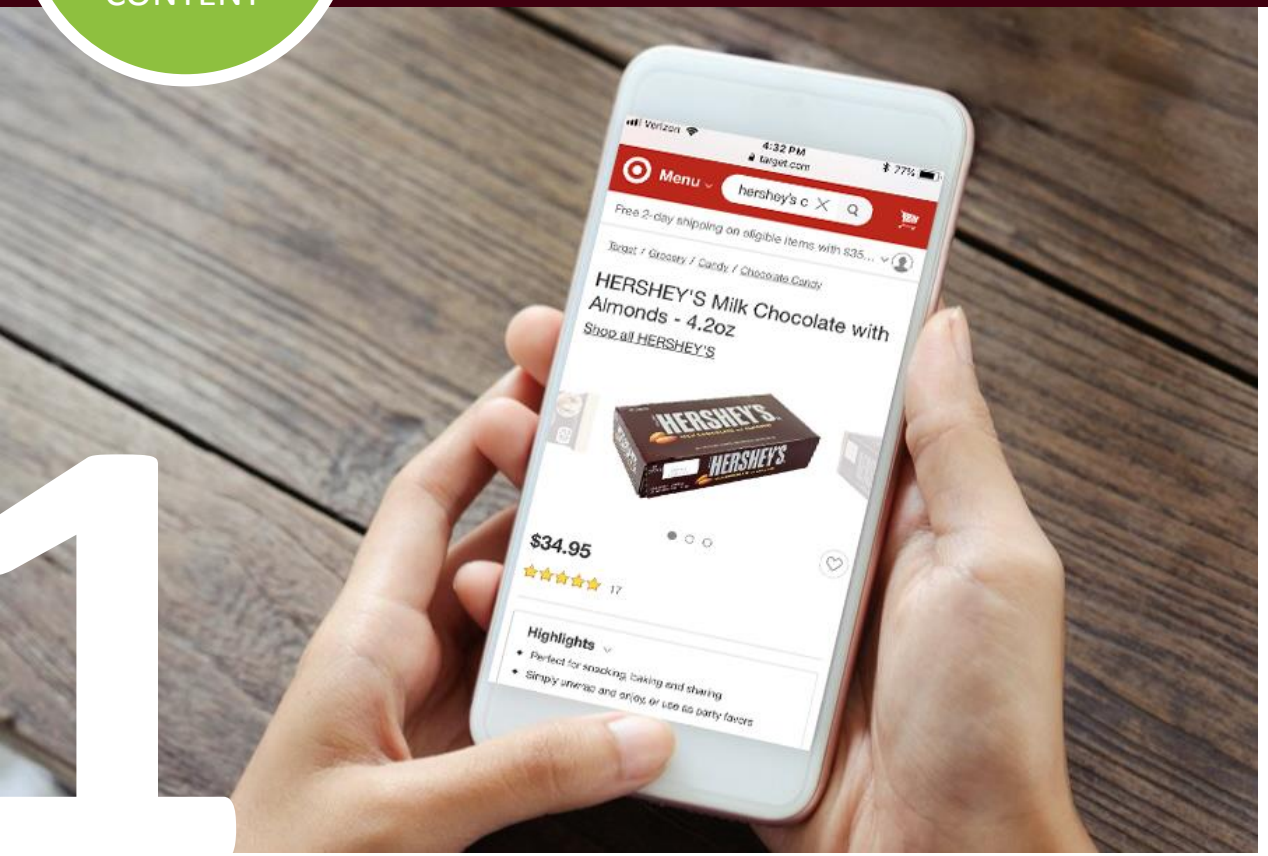


*Source: Direct Retailer Analytics*

# CONTENT

CONTENT

# DIGITAL VISITS PRECEDE AND EXCEED PHYSICAL TRIPS




1

DIGITAL SHELF

2

PHYSICAL SHELF

CONTENT

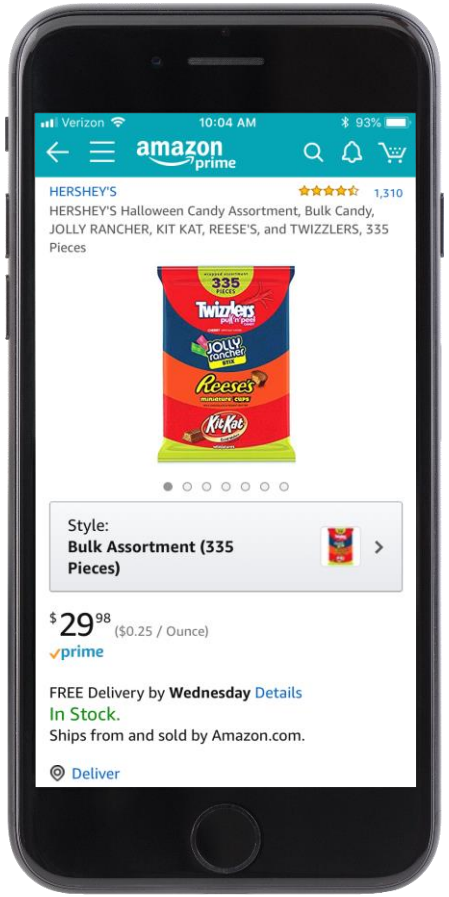
# ONLINE CONTENT IS THE EQUIVALENT OF PACKAGING

From Foot-Stopping to **Thumb-Stopping**

VS

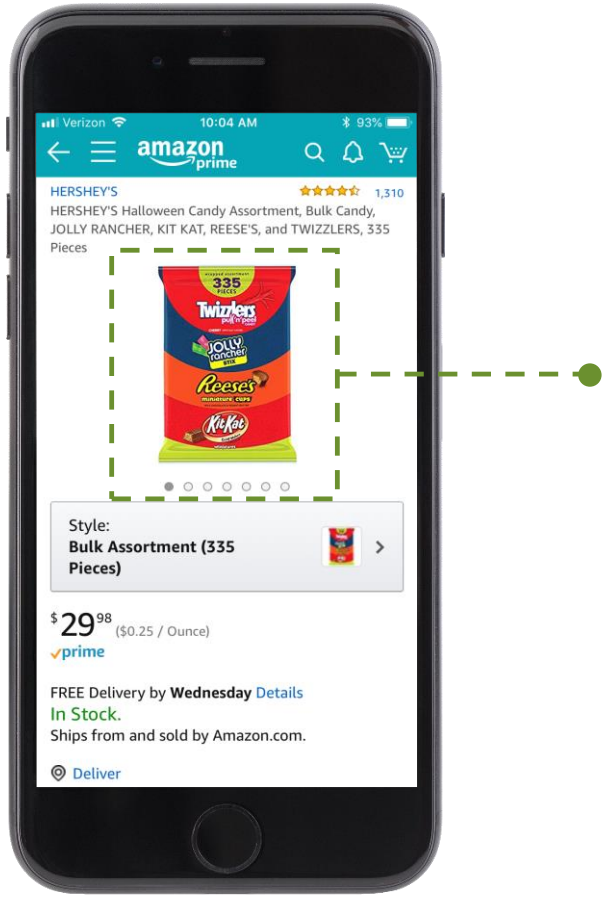
CONTENT

# PACKAGING NEEDS TO WIN FROM 5 INCHES TO 20 FEET



CONTENT

# PICKING UP PRODUCT ON A DIGITAL SHELF

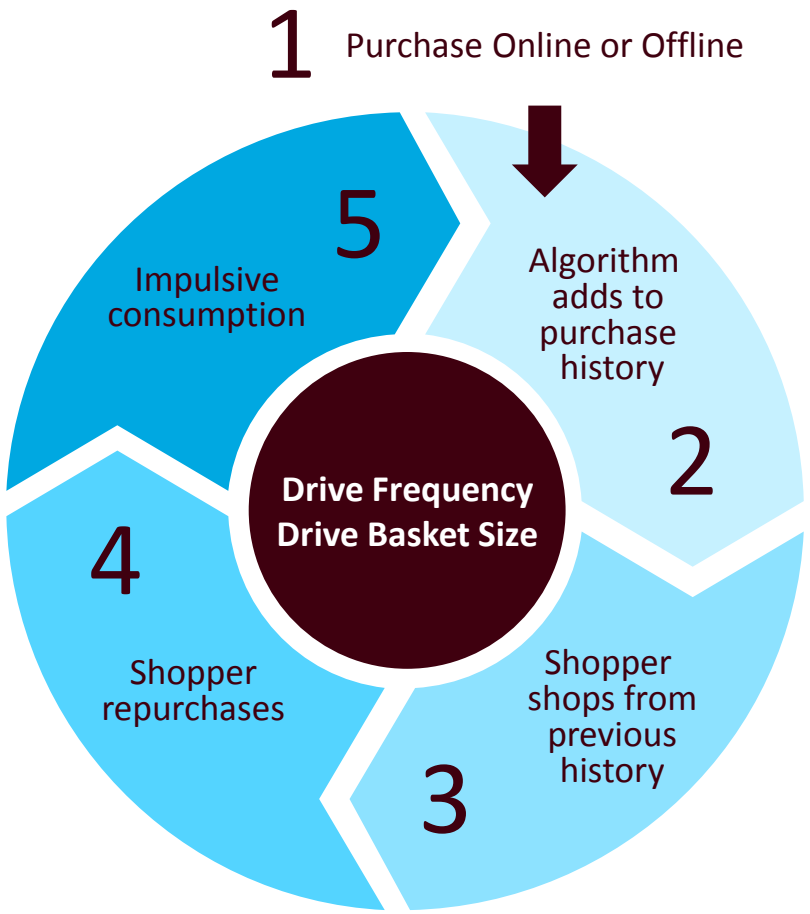


# CONVERT

CONVERT

# PURCHASE HISTORY IS A GIFT THAT KEEPS ON GIVING

## GET ON THE LIST, GET IN THE PANTRY AND EXPAND CONSUMPTION

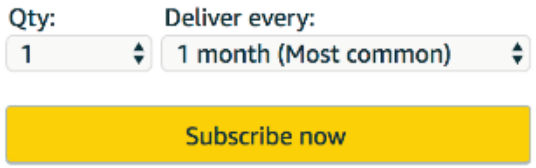


CONVERT

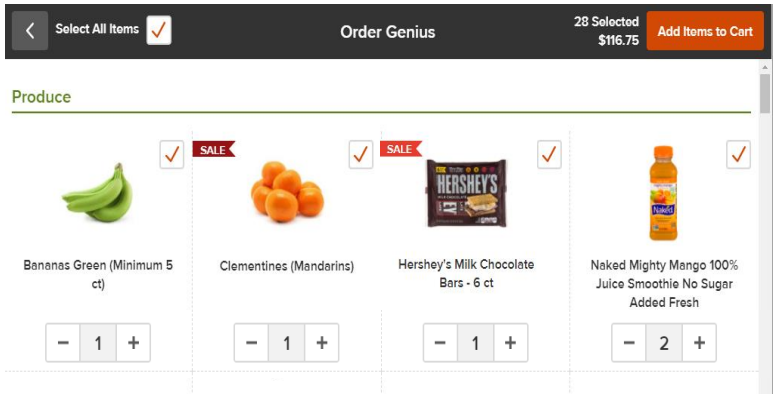
# PURCHASE HISTORIES CREATE THE PERFECT LIST

## REORDER REMINDER

## SUBSCRIPTION




## SHOP FROM LIST



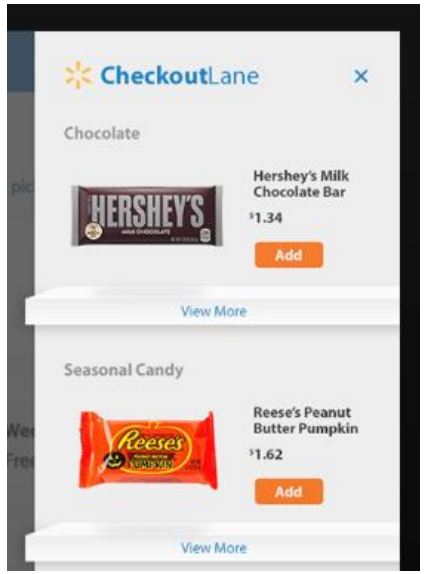
CONVERT

# IMPULSE CONSUMPTION IS AN OPPORTUNITY

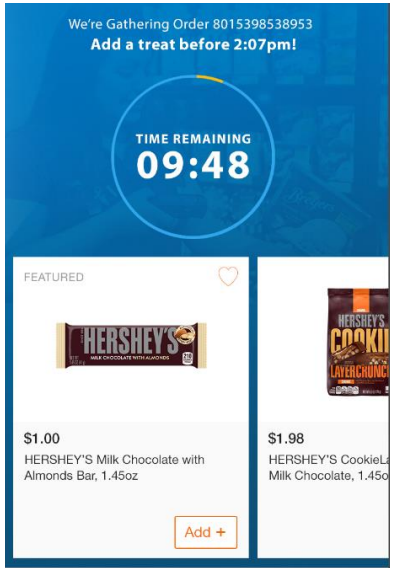
CONVERT

# IMPULSE PURCHASE IS STILL IMPORTANT BUT IT TAKES NEW FORMS

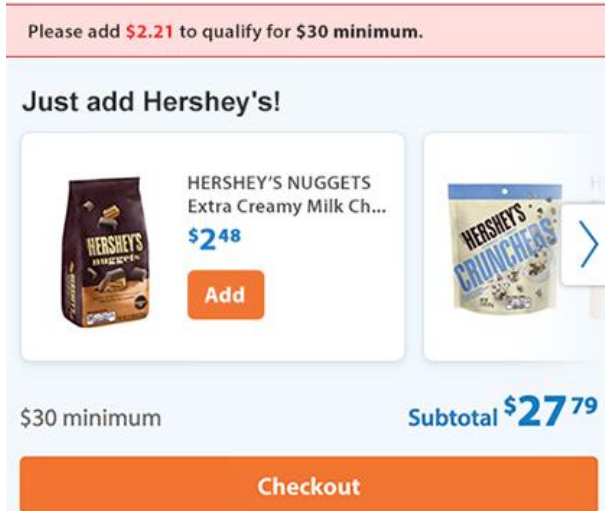
## CHECKOUT LANE



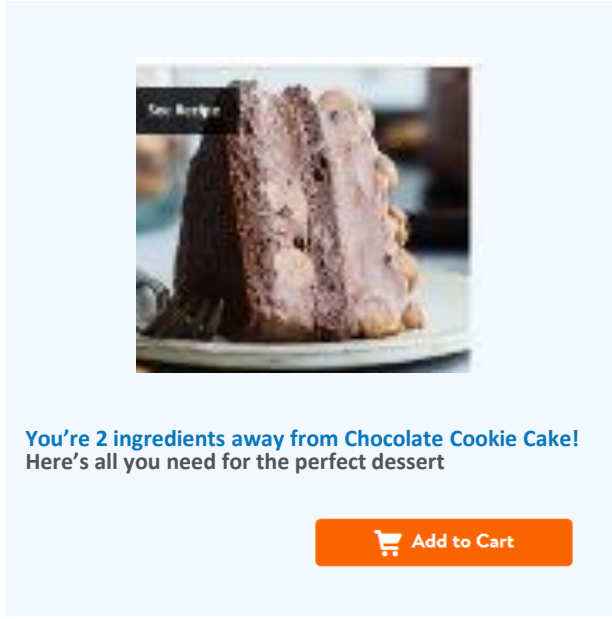

## POST ORDER ADD-ON




## MAKE THE MINIMUM

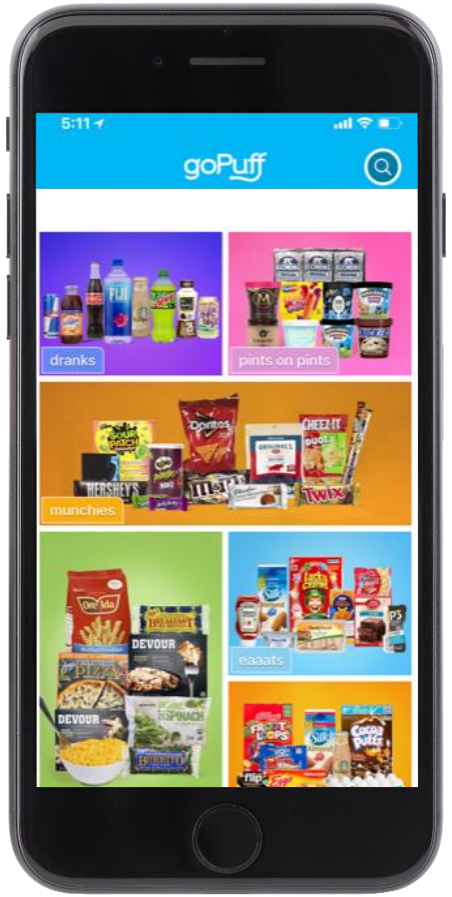


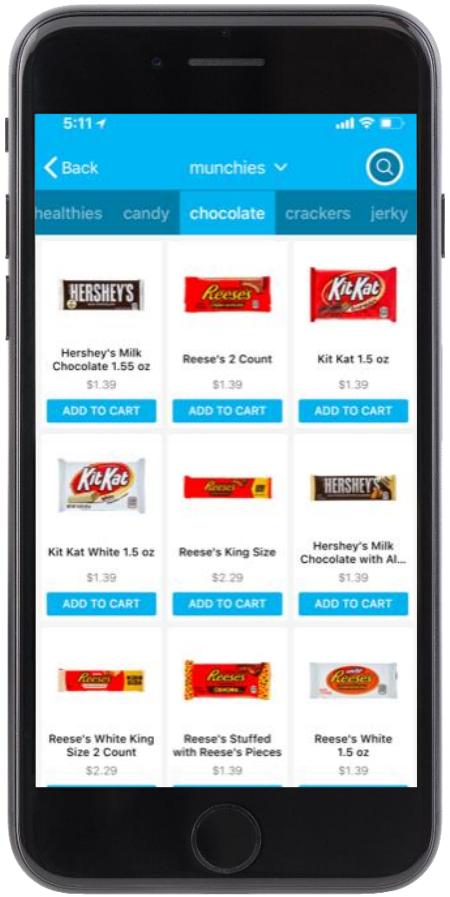

## AUTO-ADD RECIPE

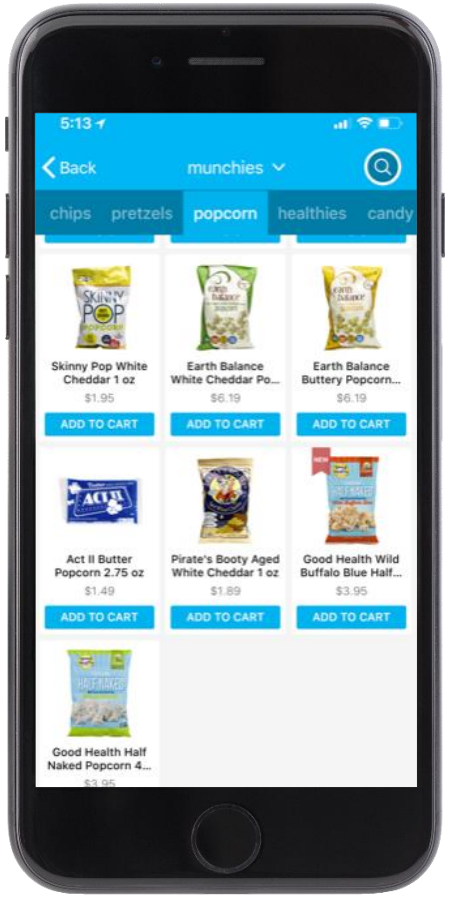


CONVERT

# IMPULSE-FOCUSED DIGITAL CONVENIENCE STORES



CONVERT

# MAGNIFYING THE SEASONAL OPPORTUNITY

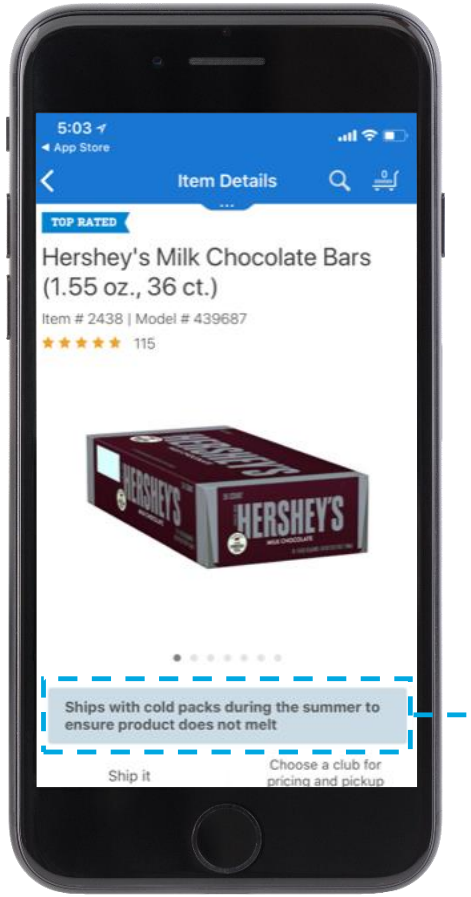
Mobile

Desktop

Store

CONVERT

# BEST-IN-CLASS DROP-SHIP CAPABILITY




**Fully Scalable**

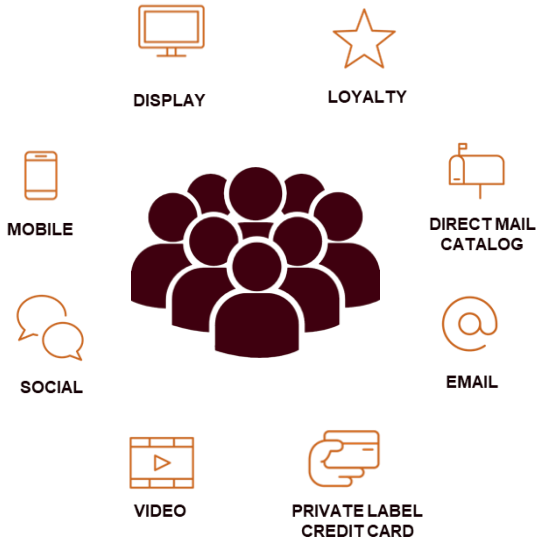
**Chilled unlocks Summer**

**Enables Scalable DTC**

# COMMUNITY

COMMUNITY

# BUILDING RELATIONSHIPS WITH SHOPPERS THROUGH DATA ACQUISITION




**CONSUMER RELATIONSHIP MARKETING (CRM)**

**IDENTIFY, SEGMENT, ANALYZE**

**TARGETING**
Individuals, Look-a-Likes

**PERSONALIZATION**
Messaging, Experience, Products & Services

**DEEPER INSIGHTS**
Scaled, Owned Audiences

**SMARTER CAMPAIGNS**

**SALES LIFT**

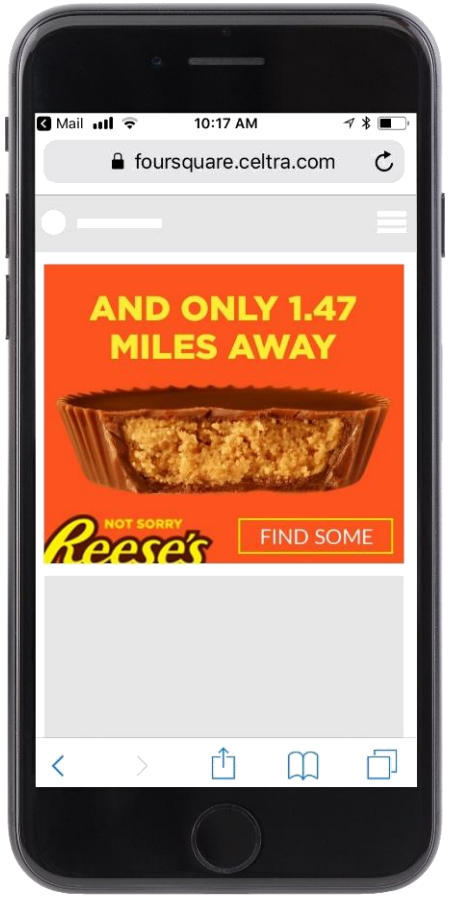
**HIGHER ROI**

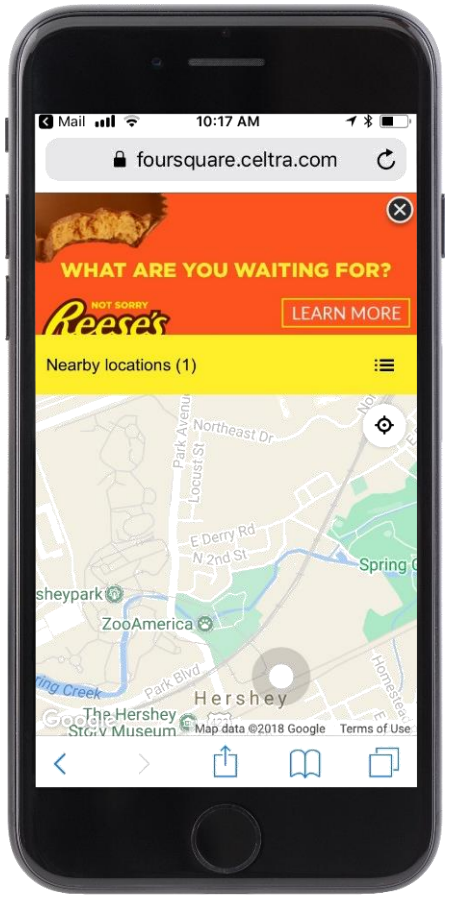
COMMUNITY

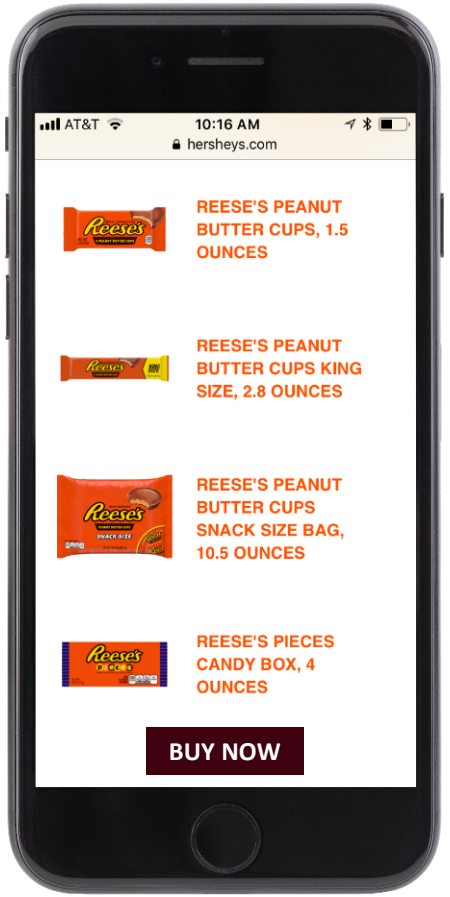
# USING THAT DATA TO FIND THE RIGHT CONSUMER

You or Someone Like You

Previous Reese interaction



# WHERE WE ARE AND WHERE WE ARE HEADED

HERSHEY

# WHERE ARE WE ON OUR JOURNEY

## FUNDAMENTALS IN PLACE

- Digital & Digital Commerce Strategy
- Enterprise Approach
- Technology Stack
- Fit to Compete Structure & Talent

## MAGNIFYING OUR STRENGTHS

- Snacking Focus
- Customer Relationships & Captaincy
- Media Strength
- Data & Data Science

# TEAM IS BOTH INTEGRATED AND INDEPENDENT

## RIGHT STRUCTURE

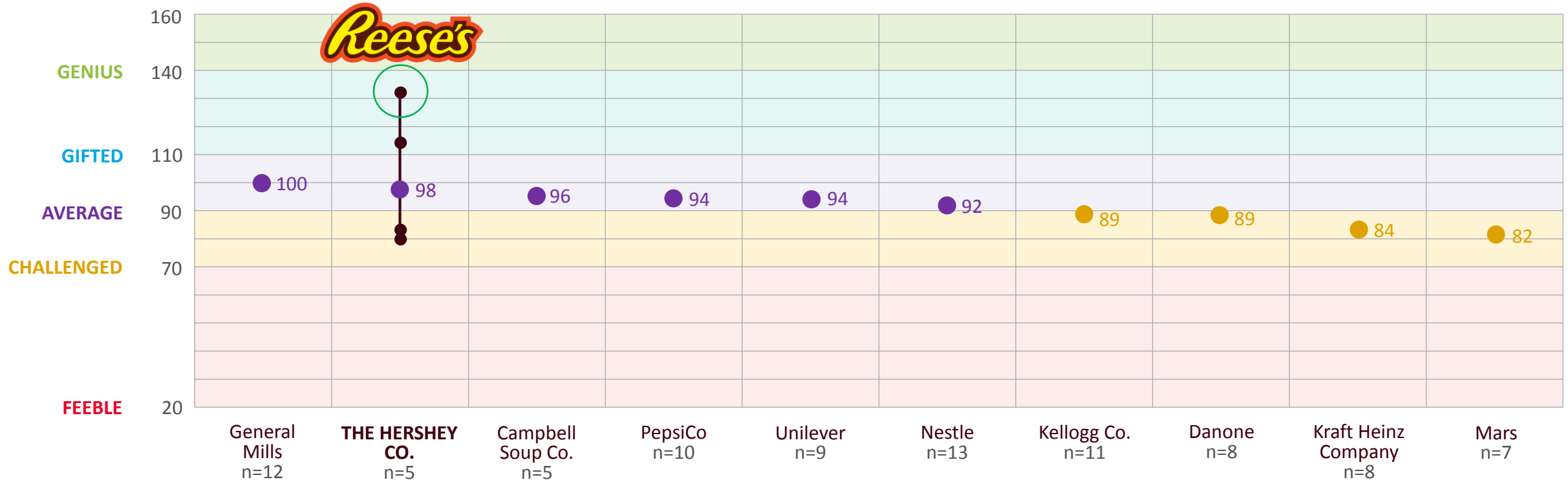
- Cross-functional Business Unit
- Enterprise Digital Operations
- Digital Transformation & Best Practice

## RIGHT TEAM

# HERSHEY IS PERFORMING IN DIGITAL

## Food US: Average Gartner L2 Digital IQ Index Score by Parent Company

July 2018, n=87 Brands Across 10 Enterprises With Five or More Brands

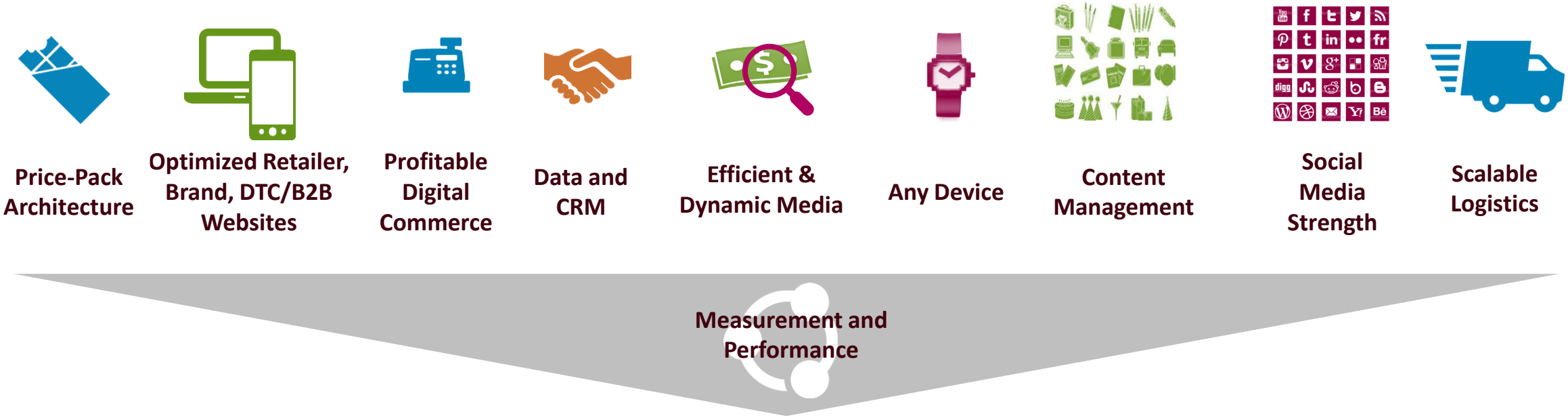



Source: Gartner L2 Digital IQ Index: Food US, July 2018

# WHAT'S NEXT

FUNDAMENTALS
STRUCTURE AND TEAM
2019-2023 Opportunity
BEND THE GROWTH CURVE

# USING TECHNOLOGY TO INTERACT WITH CONSUMERS ALONG THEIR JOURNEY

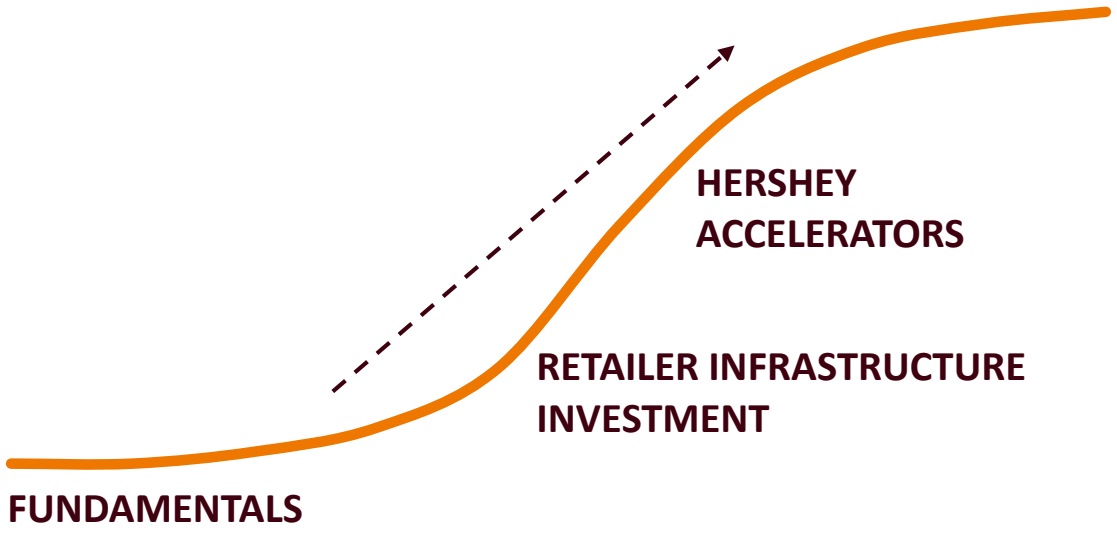



- RIGHT **DATA**
- RIGHT **TECHNOLOGY**
- RIGHT **CULTURE**

# BENDING THE CURVE TO ACCELERATE DOLLAR OPPORTUNITY

## HERSHEY ACCELERATORS

- Holistic Captaincy & Media Optimization
- Dynamic & Modular Content Ecosystem
- Robust Data Acquisition, Application, Analytics
- Full Digital Measurement & Performance Tracking
- Fit to Win Organization



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Building Bigger Baskets

Maintaining Margin Profile