



## Sugar costs in U.S., Pennsylvania's corporate tax rate might force The Hershey Co. to shift jobs overseas, industry cost study says

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Press, 2007Different types of Hershey chocolate bars are seen on a shelf in a Pittsburgh store.

The Hershey Co. will be driven to shift more Pennsylvania manufacturing jobs overseas because of artificially high sugar prices in the U.S. market and the state's high corporate tax rate, according to a new industry cost study by The Boyd Co.

In an interview, Boyd Co. CEO John Boyd Jr. speculated that Hershey would acquire additional overseas plant capacity through its intended acquisitions in foreign markets and then shift production from its North American plants to lower-cost countries and markets.

A key part of this shift will be to avoid markedly higher sugar prices under U.S. protectionary tariffs and quotas, Boyd said. Candy companies with operations in the U.S. pay about 21 cents a pound for sugar, compared to about 9 cents a pound on the world market.

With the confectionery industry consolidating on a global basis and Hershey's rivals reaping savings overseas, Boyd said it borders on "corporate malfeasance" not to consider lower-cost locations for manufacturing.

"It's a question of how much of a U.S. work force can be justified," he said. "How do you justify the expense?"

The independent industry cost study comes as Hershey Co. CEO David J. West told shareholders this month that the Derry Township chocolate company is looking to do more to realign its manufacturing and modernize its production to cut costs further and boost efficiency.

West said at the time that no decisions have been made, but he added that becoming more efficient "could require a capital investment in our manufacturing network."

The unanswered question is whether that means another candy factory on foreign soil, similar to the company's recent move to Monterrey, Mexico.

The Mexico move was the centerpiece of a three-year global supply chain transformation for Hershey that saw the company shutter several North American plants and shed 1,500 jobs, including about 800 positions at Hershey's three plants in Dauphin County.

The Boyd cost study points up the benefits of Hershey's Mexico move, estimating that a 300-worker, 150,000-square-foot confectionery plant would cost about \$19.7 million a year to run in Mexico, compared to annual costs of \$31.2 million in Derry Township.

Hershey's operations in Mexico are more than three times the size of the example used in the Boyd study, so the company's actual savings are far higher. Hershey recently said it stands to save \$185 million this year from the global supply shifts.

Hershey is not a client of Boyd Inc. and did not participate in the study. A Hershey spokesman declined comment on the study, referring instead to West's detailed comments to shareholders on the company's strategy.

On the product development side, Boyd said a major amount of research and development in the confectionery industry is centered around what he called "functional products" — confections and other food products that have health or wellness benefits.

This effort could lead to products such as a Hershey's protein bar or Reese's Peanut Butter Cups with Omega-3, Boyd speculated. He said Hershey, along with its rivals, is seeking to capitalize on what is expected to be a profitable and fast-growing segment of the candy business.