the LEDGER

economic education newsletter

Courtesy of Hershey Foods Corporation

How Sweet It Is!

Some people crave pricey European chocolates. But true candy lovers prefer the old favorites — *Milky Ways, Hershey Bars, Snickers, Reese's Peanut Butter Cups, Three Musketeers, Hershey Kisses, Twizzlers* — good, old-fashioned, mass-produced American candy made from high-quality ingredients and sold at prices that most people can afford.

Chances are that at least one of your favorite candies is made by either Hershey or Mars, the two giants of the American confectionery industry. Between them, they make all ten of America's top-selling candies.

Hershey and Mars have at least two things in common. They both advertise heavily, and they both strive to produce high-quality products. (Mars was one of the first companies to introduce "freshness dating" and take back unsold candy after a specified period of time. And Hershey was a leader in providing nutritional information on product labels.) In most other respects, however, the two companies are as different as milk chocolate and dark chocolate.

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Hershey has traditionally maintained a high public profile. From 1927 to 1973, the company welcomed more than 10 million visitors to its manufacturing plant on Chocolate Avenue in Hershey, Pennsylvania. Then it opened Chocolate World, a huge visitor facility that offers a step-by-step introduction to the chocolate-making process — from cocoa tree to chocolate bar. Hershey Entertainment & Resort Company owns and operates the Hersheypark amusement center, Hotel Hershey, and the Hershey Lodge & Convention Center, all of which are within a short distance of the company's chocolate factory in Hershey, Pennsylvania.

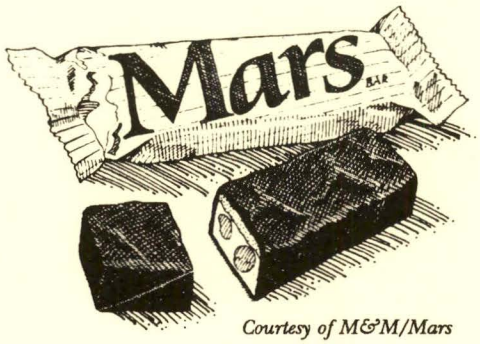
Moreover, Hershey has long been regarded as a "good corporate citizen." In 1905, when Milton Hershey decided to build his new chocolate factory in a cornfield outside the tiny village of Derry Church, Pennsylvania, he also made plans to build a new community for the factory workers. Derry Church changed its name to Hershey in 1906, and ever since then the company has been the major influence on civic life. In 1909, Milton and Catherine Hershey founded the Hershey Industrial School for orphaned boys. (It is now called the Milton Hershey School, and it provides a home for boys and girls who are unable to be cared for by one of their natural parents.) During the Depression years of the 1930s, Milton Hershey's concern over unemployment prompted the Hershey Corporation to launch a building program that led to the construction of a community center building (1933), Hotel Hershey (1933), a new building for the Milton Hershey School (1934), a corporate office building (1935), a sports arena (1936), and Hershey Stadium (1939). Even today, the company helps to fund many of Hershey, Pennsylvania's cultural and recreational facilities.

Compared to Hershey, Mars has always been more reticent. Indeed, journalists and other observers of the confectionery industry often describe the company as "secretive," and some delight in pointing out that Mars World Headquarters is located in McLean, Virginia — not far from CIA headquarters. All of which does not mean that Mars is a "bad" corporate citizen or a "worse" company than Hershey. On the contrary, Mars tries to offer consumers high-quality products at a reasonable price, and nearly everyone would agree that it has succeeded in doing so. Mars simply does not seem to involve itself in civic and community affairs to the same degree as Hershey does.

Another difference between the two companies is that Hershey is a "public company" and Mars is a "closely-held private corporation." (Please see box, **"Types of Ownership."**) Milton S. Hershey founded Hershey's Cocoa in the early 1900s and remained its owner and proprietor until 1918, when he donated the business to a trust for the Milton Hershey School. Then, in 1927, the company's name was changed to the Hershey Chocolate Corporation, 20 percent of its stock was sold to the public, and its stock was listed on the New York Stock Exchange. In short, Hershey became a publicly-held corporation, which was (and is) required to issue an annual report and disclose certain information to its stockholders and the general public.

In contrast, Mars has remained a private entity ever since Franklin C. Mars founded the Mar-O-Bar Company in 1922. Today M&M/Mars is a privately-held corporation — often referred to as a "closely-held" private corporation — which is run by two of Frank Mars' grandsons, Forrest Mars, Jr. and his brother John. As a private company that has not issued shares of its stock to the public, Mars need not publish an annual report nor disclose certain financial information to the general public.

When it comes to advertising, however, Mars is anything but "quiet." Each year the company spends millions on TV, radio, and print ads to promote such brands as *Snickers* and *M&Ms*, and the results have been impressive. Advertising (and Mars' long-standing commitment to producing quality products) has helped to make *Snickers* the top-selling candy for more than ten years, and nearly everyone knows that *M&Ms* "melt in your mouth, not in your hands."



Courtesy of M&M/Mars

Rival Hershey, on the other hand, waited nearly 66 years before running its first advertisements in the mass media. The company's founder, Milton S. Hershey, believed in a philosophy of, "Give them quality. That's the best kind of advertising in the world." Even after Milton Hershey died in 1945, his philosophy continued to guide the company he founded, and the Hershey Chocolate Corporation enjoyed a long reign as the number one U.S. candy corporation.

By the late 1960s, however, advertising had helped Mars to win the top spot, and Hershey finally realized that making a quality product was no longer the sole key to success. The marketplace had changed, and even a company that made a quality product could not afford to ignore television and changing demographics. Hershey ran its first TV commercial in 1970 and eventually managed to regain the lead from Mars through mass-media and effective marketing.

In other ways, too, Hershey and Mars have evolved over the years so that they no longer resemble the companies that Milton Hershey and Frank Mars founded. Although neither company has become a true conglomerate, both have diversified. By and large, each has chosen to establish or acquire businesses that are food-related. Hershey Chocolate Corporation has become Hershey Foods Corporation, which owns several pasta companies, Cory Food Services, and Friendly Ice Cream Corporation. Mars, Inc. owns and operates M&M/Mars, Uncle Ben's, Inc., and Kal Kan Foods, Inc. (Mars, Inc. also owns Mars Electronics International and Information Services International.)

Yet two things have not changed: 1) Mars and Hershey are still very different companies, and 2) both still make very good candy.

Types of Ownership

Businesses fall into one of the following categories of ownership:

1) a ***corporation***, which is owned by its shareholders. Under the corporate form of ownership, shareholders enjoy limited liability. In other words, if the company incurs debts or obligations that it cannot meet, the corporation's shareholders would not be personally responsible for the debt. A corporation is either "closely held," in which case a very small number of principals owns all of the stock, or a corporation may be a "public company," in which case shares of the corporation's stock are sold to the general public;

2) a ***partnership***, which is an unincorporated company with two or more owners, each of whom is personally liable for claims against the company; and

3) a ***sole proprietorship***, which is an unincorporated company with a single owner who is personally responsible or liable for claims against the company.

Follow-Up

1) What is the function of a modern corporation?
   a) To produce and sell goods and services at prices most people can afford?
   b) To provide jobs?
   c) To earn as much money as possible for its owners or shareholders?
   d) All of the above?
   e) None of the above?

2) To what extent is a corporation obligated to be a "good neighbor" — to involve itself in civic activities or charitable endeavors?

3) Can advertising alone sell a product or service?

4) To what extent should a corporation be required to publicly disclose information about its activities and its financial condition?

Multi-Media

Educator's Economic Exchange, newsletter, published by the Federal Reserve Bank of St. Louis.

The candy counters of neighborhood stores have served to initiate an untold number of kids into the world of commerce. It is there that many first learned the art of comparison shopping or discovered that the attributes of a particular product did not necessarily match the promises of a television commercial.

A recent issue of *Educator's Economic Exchange* (newsletter, Federal Reserve Bank of St. Louis, Spring 1988) uses candy to teach yet another lesson in economics — the benefits of international trade. The newsletter's lead article illustrates the principle of comparative advantage and defines such terms as opportunity cost.

In addition, the newsletter features a teacher's lesson plan called "Schoolroom becomes a chocolate concern." The lesson plan is geared to the junior high and high school level, and is designed to underscore the concept of global economic interdependence. Teachers and students use maps and chocolate bars to focus on the international linkages needed to produce a candy bar. The lesson plan also concentrates on how various contingencies (war, natural disaster, civil unrest) might affect the production and distribution of candy.

For a free copy of the Spring issue of *Educator's Economic Exchange* or for a free subscription, please write to: Nancy A. Melsheimer, editor, Research and Public Information, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166; or call (314) 444-8593.

A Primer on the Fed, booklet, published by the Federal Reserve Bank of Richmond, 74 pages.

Most Americans have probably heard of the Federal Reserve System, but many would be hard-pressed to explain what the "Fed" is and what it does. The workings of America's central bank remain a mystery to many.

There is a new booklet from the Federal Reserve Bank of Richmond that outlines the System's structure and functions and then discusses the conduct of monetary policy, with particular attention to events in the late 1970s and early 1980s. The booklet is called *A Primer on the Fed*, written by Alfred Broaddus, senior vice president and director of research at the Federal Reserve Bank of Richmond.

A Primer on the Fed is intended for the person who is looking for a nontechnical but substantive description of the Federal Reserve and its role in the formulation and implementation of U.S. economic policy. In short, the booklet is written for people who would like to know more about the Fed, but who do not have time to study the institution in detail.

For a free copy of *A Primer on the Fed*, please write to: Publications, Public Services Department, Federal Reserve Bank of Richmond, P.O. Box 27622, Richmond, VA 23261.

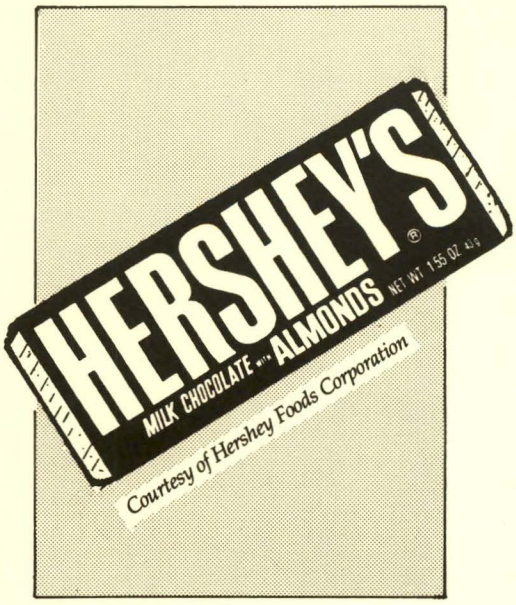


Photo by Ralph Ragsdale

New England Update

Boston Fed Hosts Meeting of New England Economic Educators

Economic education professionals from four New England states and staff members from the New York headquarters of the Joint Council on Economic Education, recently met at the Federal Reserve Bank of Boston to share experiences and ideas related to the delivery of effective economic education programs to New England's students. The meeting also offered participants an opportunity to learn more about the Boston Fed's economic education program and to receive an update on the New England economy.

Among those attending the meeting were: Ed Hamblin, director of the Connecticut Joint Council on Economic Education; Ron Daigle, director of the Central Connecticut State College Center for Economic Education; Bob Mitchell, director of the Maine Council on Economic Education; Jeff Blais, director of the Rhode Island Council on Economic Education; Peter Moore, director of the Rhode Island College Center for Economic Eduction; Norm Benson and Carol McDonough, co-directors of the Economic Education Council of Massachusetts; Joanne Davidson, trustee of the Economic Education Council of Massachusetts; as well as Jack Middleton and Tony Suglia of the Joint Council on Economic Education. Representatives of the Boston Fed staff included Sue Rodburg, Bob Jabaily, and economist Lynn Browne, who gave an overview of the New England economy. Also attending was Al Peckham, who retired from the Boston Fed and has continued to pursue his long-standing commitment to economic education.

The meeting culminated in agreements to encourage regional cooperation in carrying out specific economic education programs and projects throughout New England and to encourage private sector financial support for these regional efforts. In addition, participants formally agreed to meet on a regular basis.

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