Narrator: Richard A. Zimmerman
Date: November 7, 1995
Interviewer: Pamela Cassidy
Accession #: 95OH08
Interview: 5 of 6
Transcribed: September 30, 2005
Draft: Final

Cassidy: Today is Tuesday, November 7th, 1995. My name is Pam Cassidy. I'm with the Hershey Community Archives, and this is fifth in a series of interviews with Richard A. Zimmerman, retired CEO of Hershey Foods Corporation.

Actually, when we finished last time, I ended by saying that I wanted to talk about international, and I don't know whether it would be better--if you want to talk about international first, or do you want to talk about 1985 when you become CEO?

Zimmerman: The two might well be coincident. We dabbled and toyed with international operations, but didn't do anything of substance under Messrs. [Harold] Mohler and [William] Dearden. We began Mexico, which is not truly an international, it's more a North American continent type of situation. People don't know this, but we tried very desperately to get together with Rowntree Mackintosh back in 1977.

Cassidy: In terms of a merger?

Zimmerman: Yes. We worked very hard at it. Had a couple of visits. We made a firm offer. The two companies were of equal size, and the problem of who, which firm, ran the whole operation became one of great substance. As a result, we never were able to put it together, but they knew and we knew that the likelihood of their remaining independent long-term was small.

Cassidy: Why was that?

Zimmerman: Because they just weren't of sufficient size, and they didn't have sufficient international scope. And they didn't have an owner who was in control.

Cassidy: Who owned, at that time, Rowntree Mackintosh?

Zimmerman: Ninety percent was owned by the public, but some 10 percent was owned by the Joseph Rowntree Trust. There were some very interesting parallels between Hershey Trust and Joseph Rowntree Trust, with one important difference and exception. The Joseph Rowntree Trust had sold its shares through the years. Believe it or not, their corporate headquarters at the time that we were in Mr. Hershey's home, their headquarters were in the Joseph Rowntree home, very lovely quarters. So we had a lot of dialogue, a lot of effort was made, but regrettably we couldn't effectuate the merger.

We were particularly intrigued with the Royal Dutch Shell situation, which is a combination of Shell, British, and Royal Dutch, being Dutch, in which the two firms joined as equal partners and have a very unique ownership and managing style.

Cassidy: So you were looking at that as well?

Zimmerman: We looked at that as a possibility, but that didn't pan out for us, either. So, regrettably, we were never able to do what I think would have been absolutely superb for Hershey in the long run. This is not to say that we ignored it after 1977. When there was a change of management back in the early to mid-eighties, I made another effort with the management at that time, and again, we were rebuffed. But it would have been superb, and instead of Nestle owning them today, why, perhaps we would have a unique and very significant partnership with Rowntree worldwide. That would have been excellent, but we just couldn't accomplish it.

So we really did nothing internationally, then, and as you know, in 1979 we acquired Friendly. That used quite a bit of cash and management talent, and we did very little on the international scene thereafter until that 1980--perhaps '85 and '86, somewhere in there, we began to look more internationally than we did prior to that time.

Cassidy: Okay, now that's obviously coming from your direction. With a different CEO, and it seems obvious to me that if you're going to start making a thrust into the international market, that's going to come from the vision of the CEO. In your last interview, you talked about that the board, in looking for a replacement for the next CEO, would ask questions of potential candidates like, "Well, where do you see the company in five or ten years? What do you think are the most important issues facing the company?" Can you answer some of those questions, as you might have answered the board if they were asking?

Zimmerman: I think most of the answer to that would be embellished or be very well expounded in something as simple as our mission statement. We had developed a mission statement by, I believe, 1985 or thereabouts, in which we said, in essence, we want to be number one in confectionery in the United States market, and we want to be in selected food products in that same market. Simultaneously we said we wanted to be moving upward on the international scene, recognizing that we were number three or four in the international world.

So our mission statement pretty well reflected our thrust. We were going to have to continue to grow as rapidly as we could in the national scene, and North America in particular, but we were going to put additional emphasis onto the international growth as well.

Cassidy: How is this different than what Bill Dearden had thought was important and [unclear]?

Zimmerman: Bill was not too interested in overseas. We had a little bit of a flurry with the Japanese. We had that agreement that we signed back around 1978, but that didn't mean a lot. We secured a 20 percent ownership in Marabou, which was interesting, but never gave us a voice, a profound voice, in their management. As a result, it was more of an investment than it was a real good cooperative venture. So we had small pockets of or incursions into international, but nothing that really would drive us forward, and that's as much as we were doing in the 1976 period until maybe ten years later, until we began to try to get a lot more active and to buy properties, to own them, to run them, and to try to, if we could, even expand the Hershey products well beyond these shores.

In that connection, we were particularly interested in Kisses, because Kisses have a very interesting international following. It's one of our few products that travels. The other products don't. That's a story unto itself, really.

When you look at our stable of products, you have to recognize that we export no technology. I'll contrast it to AMP, Inc. Over 60 percent of their revenue today, I believe, is overseas, not domestic, and just as much or more of their profits. Why? Because their technical capability permits them to expand into countries and take a technical capability. Contrast this to Coca-Cola, where a soft drink is a U.S. phenomenon. It didn't exist. It doesn't exist, even today, in some countries, to any great degree, and certainly isn't marketed well in many countries.

I contrast that product to a product which is indigenous to Europe and which the Europeans have spread throughout the world more rapidly than did we Americans, and then add our unique flavor, which does not appeal to many people elsewhere in the world. You can see that we don't have a very exportable product or product concept. We wanted to do a lot with Reese Peanut Butter Cups. That is not easy. Whether the company will eventually be successful, I'm not sure, but I know one thing. You can't call it peanut butter. People don't like peanut butter in the remainder of the world. It's an American phenomenon.
So we really don't have a stable of products that is easily exportable. When you contrast that to Mars, with Snickers, and M&Ms, superb products that go everywhere in the world. Contrast that to Kit Kat. We're the licensee in the U.S. Nestle, then Rowntree, has licensees in many places in the world, with exports to maybe 150 countries. It's a very well--easily traveled product.

Cassidy: What makes those products still travel?

Zimmerman: The uniqueness of them. Early entry by the person who creates them. Strong marketing. Never deviating; willing to take large losses. Much better done by a private company, by the way, like Mars, than with a public company like Hershey.

Being a public company is, in fact, a mixed blessing. It is not the end-all and be-all. If I were looking back, and if I were Mr. Hershey today, I think I could set it up differently. That's all 100 percent hindsight, you understand, but I would think that remaining a private company rather than having public shareholders could be quite advantageous, especially since we have a person who votes--or a company that votes 70 percent of our votes today. One could ask the question, is it really necessary to be a public company?

On the other hand, raising money in capital markets as a private company is indeed much more difficult. But Mars has done it successfully, quite successfully. So there is a question in my mind as to whether or not with perfect hindsight, if Mr. Hershey were living today, if he would have become a public company. There are other ways to do it. The model is right there in the industry. It's called Mars. He could still, of course, have generously endowed in support of the Hershey School, with no worries.

There would be new problems, different problems, unique problems, under that kind of a setup, but nonetheless, I think it could have worked for him. But that's immaterial. I mean, that's hindsight. That is not material to the future.

The only thing I'm suggesting is that when you're in that position, you may be able to take some very much longer term, I mean ten-year, approaches to a marketing situation in Germany. I want to get my product into Germany, and I'm willing to take losses for ten years to do it.

Very honestly, the American investing public doesn't give you that kind of an opportunity. This is not to say that it's focused, and the company must focus, quarter to quarter. You can be longer term in your thinking than that, and certainly American companies are.

But I think we just had an example of how Wall Street treats companies. This company's stock in late October, it's sixty-six, or higher, sixty-seven, perhaps, in anticipation of third-quarter earnings, which the Street expected to be higher than they were. The earnings were announced on a Friday, if I remember. We lost four points that day, and we settled back seven or eight points below that high. Why? We disappointed Wall Street.

Cassidy: It didn't have anything to do with the company.

Zimmerman: That's right. Long-term thinking has absolutely nothing to do with the thinking of the investment analysts and the researchers on the Street. The only question is what have you done for me lately. In that respect, it forces companies at times to take actions and views which can be detrimental to the longer term health of their company.

On the other hand, it surely keeps you on your toes. I mean by that, you do feel a constant pressure as a chief executive officer, to maximize those earnings, and you always want to do it with that long-term outlook, but you're very cognizant of the fact that other people will judge your progress on a three-month basis. So it's a neat act. It's a neat tightrope to walk. That's what makes the CEO's job a little more difficult than some people realize.

Cassidy: Continuing into international, how did you pick markets? Now, you come on board. You see going international as the key to Hershey's success in the future. How do you decide what markets to venture into?

Zimmerman: Well, we do that predominantly by our annual strategic planning efforts. Gathering all the information we can about markets, gathering all the better brains of the company at a table and saying, "What if we were to do the following? What if we were to move in the following direction and try to put products into certain countries or to make certain acquisitions?" And we develop a strategic plan at those times. We review it and make sure that we're up to date with it, but essentially, we try to follow through on that strategic plan.

For example, we said to ourselves, "Are we really going to get anywhere in the Philippines? We own 30 percent of the company there, and very frankly, that's not the world's best market." Eventually we made the good decision to sell it.

We said, "In Japan, with a partnership that continues to function on a basis that, really, we sell 10 [million], 15 [million], maybe $20 million worth of merchandise a year. That's never going to blossom into something that's meaningful to the company. What shall we do about it?" We changed it into a partnership in which we own 51 percent, and they own 49, and eventually it became apparent that we ought to own the whole thing, which, as far as I know, we do today. It still isn't a major situation, but at least we can control our destiny in that country.

In the Marabou situation, we sold that stock and made a lot of money. Bought it back a little later when the Marabou-Freia merger took place, and later, of course, tried to buy the whole company, unsuccessfully, our bid was topped by Philip Morris. But those were very deliberate strategies. And, of course, they were coupled then with the belief that we really ought to be on the continent in Europe. In fact, we'd have to be if we were going to carry out our strategic vision of moving upward on our international market shares.

Cassidy: Let's go back a minute. Why was Japan perceived as a good place to s____?

Zimmerman: Each country has its own set of factors. In Japan, although we had relatively low chocolate consumption per capita, it was a very rapidly growing market, and, of course, it has, what, 120 million people, a rather substantial number of people. It is a very modern country, in which everything from vending machines to 7-Eleven stores and everything else you can name are apparent; they're there. It does have a distribution system which, at times, can cause a great deal of consternation to a westerner, and it did, indeed, to us. So most of our products were sold in the import sections of major department stores. We never did penetrate the real Japanese market. But we thought that with that as a base, we would at least have an opportunity, working with our partner there, to achieve more distribution of our products throughout Japan. That didn't come about, but nonetheless, it was perceived as a country to enter because of its size, its stability, its wealth.

If one were to contrast, because they're about the same population, let's say, Nigeria and Japan, one recognizes that in Japan you have much more of an opportunity to sell, because the people there have money. In Nigeria, unfortunately, they just don't; so the market is quite, quite small. Yet there's 120 million people in each of these countries. So one doesn't--oh, and it's also temperate. I think we have to recognize that handling a product in areas close to the equator is much more of a challenge than it is in temperate climates.

Cassidy: Is there much chocolate sold in those countries?

Zimmerman: No, not really. If there is an opportunity that air-conditioning moves into the countries more significantly, yes, there will be.

Cassidy: But they're really an upper-class product.

Zimmerman: It is. It is, indeed. In contrast, again to soft drinks, which were ubiquitous, and you could move them into warm countries and cold countries. It works very, very well.

Cassidy: I guess I have a sense that by 1985, Hershey had sort of shed its naïveté about what it was going to involve going international, that if you were going to be successful in the international market, this was really for the long haul, that you couldn't expect to see a return in five years, or maybe even ten years. What kinds of projections were you thinking it was going to take? How many years were you going to have to be there before it started being viable?

Zimmerman: It really isn't defined that way. What we do is try to find a cash flow situation in which we can retrieve our investment over a reasonable period of time. Sometimes those periods of time for retrieval of cash flow might be as long as fifteen to eighteen years. Now, that's cash flow. It's not the same as profits.

You can be enjoying profits in these other countries, but your returns probably are not going to be as great as they are in your home market. I think almost every company--a possible exception is the high technology companies--enjoy much better returns in their home markets, where they originated and where they tend to have a significant market share, than you do in countries in which you're later in arrival.

Certainly Cadbury found that out. They never could get a decent return in the United States. That's why they sold their operations to us. Rowntree never did penetrate this market to any great degree, and they had a number of products, smaller ones, which they bought over here at various times, and they just were never a factor.

Contrast that to Canada, where Rowntree and Cadbury were in there very early, it being an Anglophone country, and people in Canada took to these products quite well. They became very firmly entrenched in Canada.

Each country represents its own challenges to a company that's trying to move internationally. We didn't have a firm and fixed rule as to--we expected an operation to be profitable, although the profits may be minuscule. We weren't looking forward to a lot of red ink. We anticipated that we probably would have to acquire management of the acquired company. We anticipated that, on a cash flow basis, that we would be able to recoup our investment in a reasonable period of time, and even though fifteen years seemed unreasonable, it's substantially accepted in the business community that it might take that long to recoup your investment.

We also looked upon some of these companies as a potential vehicle for distribution of Hershey products. There were a number of criteria that went with the purely financial measurements that we would use.

Cassidy: What you just said about Hershey products, how difficult would it have been to, say, I know that today Hershey products are marketed--a variation of Hershey products are marketed in Japan. But initially when you're in Japan, is that how you started, by marketing Hershey products?

Zimmerman: Yes.

Cassidy: I'm just thinking about in Europe, it's going to differ.

Zimmerman: In Japan, we marketed the actual U.S.-produced products. In Korea, by the way, which is a--it was, two years ago--a much larger market than Japan for us, there we have a licensee, who is manufacturing the products under our brand names, and also importing our products. At the time I left the company, I think we were doing about two times as much business in Korea as we were in Japan.

Also in Japan, however, we began the licensing program, where we licensed our chocolate milk drinks, things of that nature, to Japan's large food company known as Snow Brands. They did a nice job for us on that. So we were getting some royalty revenue and some sale of basic raw material products to them.

So altogether, these were profitable little ventures, but the problem was, they were little, and still are. It's going to take--

Cassidy: Very dramatic. Hershey as far as you know is still in imports?

Zimmerman: Yes. As far as I know, we're still operating about the same in Japan, with only limited success. If we were to be ranked among the chocolate companies over there, we'd make the top ten, but we'd probably be eight or nine or something like that. Because the indigenous industries certainly are above us, and then Mars. Even though they lost a huge amount of money in placing their products there, and had to pull back on a couple of occasions, I think they sell more than we do. Probably Suchard sells as much as we do, out of Switzerland. So our products are not ranked among the top sellers over there.

Cassidy: Was chocolate something that was savored by the Japanese?

Zimmerman: Yes, they do like chocolate. Even though their per capita consumption is considerably less than in the United States, they do like chocolate, and the market is growing. The market is growing.

Cassidy: Let's switch to Europe, because Europe seems to have taken a very different path than Japan and Korea.

Zimmerman: In Europe, the phenomenon of acquisition, merger, and a few firms becoming more and more dominant, just as in the United States, was becoming more and more apparent. And we knew that Cadbury was casting covetous eyes in that direction, and Rowntree was. American companies like General Foods were involved over there. So people were looking at Europe very covetously and admiring some of these countries--companies, and the country distribution that they had.

By the way, Europe, the continent of Europe is not a homogeneous mass. Brands that sell well in France do not necessarily sell in Germany, and you don't find, even today, with the elimination of the tariff barriers, you don't find that brands travel from country to country well, because people develop a loyalty to that brand and/or its flavor and taste.

So when you talk about Europe, if you talk in a monolithic sense, we're fooling ourselves quite a bit. You have to look at Germany. You have to look at France. You have to look at Great Britain. You have to look at Holland, Belgium, each of the countries themselves, and Italy is entirely different as well. Spain is different, far different than any other country in Europe.

Again, part of it is a result of the climate. As you move south towards the equator, people eat less chocolate and eat more of the sugar confections. That's the way the world is.

So when we looked at various companies that we might acquire, we recognized that good, solid, strong companies were at a premium, and that people were paying premium prices to acquire them, and not many were coming on the marketplace. So we had to satisfy ourselves that essentially we would have to create in Europe, and maybe even in Germany alone, a sort of a patchwork quilt, where a company that was strong in southern Germany, we might interface, if we could acquire an equally strong company in northern Germany, and maybe one that has a portion of France, but not all of the country.

That became our basic strategy when we recognized that buying someone like Suchard would probably be out of the question. Now, there are other companies. In fact, one is on the market today, one which, very honestly, we tried to buy many times during the eighties and nineties, and I thought I had it done at least once, because we had a letter of intent that we had put together. But unfortunately the deal fell apart, the company known as Stohlwerck.

It's owned by an individual, who bought essentially a bankrupt shell after World War II, worked very hard. He's now approaching seventy-five years of age and has decided to sell his business. I thought I had it bought some time ago, and he was over here. We went over there. He's got manufacturing plants that are magnificent. He's got a nice distribution system. He's a very low cost producer. He doesn't make much money, because that's a phenomenon that's also apparent in Europe.

Companies there do not make a good return on their investment. The reason, I think, is pretty apparent. In the United States the supermarket or the selling industry, the persons who are our customers, and we both do pretty well financially. They maintain they don't do well, and the manufacturer cries poor, but the fact of the matter is that both of us have good returns; not excessive, but decent returns, those that will attract a shareholder to continue to own our shares.

In Europe the power is in the retailing side, and there are only a few retailers that dominate all of Germany or that dominate all of France, and they have tremendous economic power over the manufacturer. As a result, chocolate is cheaper in Europe, and manufacturers have been forced to become much more efficient.

I mean by that, they just--first of all, they couldn't get labor. They had to import their labor. And secondly, they also had to be automated to an extent that you wouldn't see people in their factories at all. Beautiful operations, but not much profit, and that's what characterizes the European chocolate business. In fact, almost all of the European food business, food manufacturing business, is beset with less than great returns, if you compare it to the U.S.

So that's a phenomenon we had to face into, too, that if we were suddenly to double the size of our business with a European acquisition--

Cassidy: Your profits [unclear].

Zimmerman: Our profits would not nearly double. So you had to be careful what you paid for that operation. Otherwise, you would be diluting your return to your shareholders very significantly. So it was always a very tricky business.

Cassidy: So what happened to Stohlwerck?

Zimmerman: We never could get together on price, and then I think--I don't know whether Dr. Imhoff, who owns it, I don't know whether in the last few years he has determined that he might die someday. When I was talking with him, I was sure that he believed he would live forever. Very dynamic, very vigorous guy at age seventy-one, seventy-two. I enjoyed working with him, but we just never could put it together. But I think it became apparent that he was going to have to do something for his estate situation, and decided the best way to proceed was to have an auction. So he called in an investment banker, and that auction is going on now. I don't know, at this moment, whether or not Hershey is involved in that auction or not. I really don't.

Cassidy: Now, this, I assume, is a German company?

Zimmerman: This is a German company, but it also has operations in Switzerland and Hungary, in the former East Germany--has a beautiful plant up there--and in Belgium. It's a pretty broadly based company throughout Europe.

Cassidy: What kind of chocolate does it manufacture? Does it manufacture other things?

Zimmerman: It does manufacture some other candies as well, but it's primarily a chocolate manufacturer, primarily in tablets, or bars, as we call them. Has four or five fine brand names that this fellow has acquired. Stohlwerck is a very old name. It's existed probably fifty years before Mr. Hershey made a bit of chocolate. They have a magnificent museum showing some of their old equipment, everything from vending machines which they created.

In fact, Stohlwerck claims that they created the first vending machines. I don't know whether that's correct or not, but they claim it. And a good deal of equipment that is now common in the market was put together by these folks back in the 1850 range, somewhere in that neighborhood. So a very old company, but following World War II, had really fallen on very hard times, and to this fellow's credit, he put it together and recreated an excellent company out of the ashes, if you will, of World War II.

Cassidy: Talk about Marabou, about--I assume that the sale in what, 1998, of the 20 percent was for financial reasons?

Zimmerman: Well, it wasn't only for financial reasons. We had owned that 20 percent share from--I don't know--maybe 1978 or thereabouts. I'm not sure of the exact time, but probably about that time. We were asked by the then president of Marabou if we would be interested in buying a large block of stock.

Now, his was a daughter company, as he termed it, to the parent company, Freia, in Norway. Freia was the older of the two and started the Marabou Company and still owned 40, 42 percent of the stock of Marabou. A large block, about 17 percent, with about 20 percent of votes, because they have class A and B stock, became available.

The then head of the company over there, knowing us, having some personal relationships through the years, came to us and asked if we would be interested in buying this stock. We reviewed it--I was part of the team; I was over there about 1977 to do that--and recommended that we buy these shares of stock. We then had a representative on the board. Harold Mohler was on the board and would make a trip or two over there a year. Bill Dearden followed him, and then I followed Bill.

But we never really had a voice in management. Here you have a predominant shareholder, who would really call the shots with respect to future activities, major financing, debt, acquisitions, and you had the management, who sometimes wanted to do things differently than the major shareholder, but still had to recognize they had a major shareholder who was sitting on the board. And we were sort of in there in between, and we allied ourselves primarily with management, so we were somewhat mute in this whole equation.

Nonetheless, we had decent returns. Not great, but a decent return, and it did give us the ability to exchange products, technical information, with them, and that was profitable, and that was good. The Skor bar is a product of that--it was more of a courtship than it was a marriage, if we could put it that way. But nonetheless, some good things came out. Technical capabilities, we interchanged a lot of data, and people, and we learned more about making chocolate through them.

I think they learned some things from us, especially when it came to bean varieties, and how you handle them and treat them, and how you treat milk, and how you condense milk, and things of that nature, which--this company at one time was very, very internally focused, and didn't believe that there was a lot of additional information anywhere in the world.

Cassidy: Do you think that this kind of exposure sort of paved the way for Hershey West and giving up of the old-fashioned company?

Zimmerman: No. It really had very little relationship. We might have learned a little bit of conching from them, but we were working on Hershey West in 1976. We knew that--not everybody agreed with this, but I knew we had a very obsolescent, if not obsolete, processing technique. Literally, our processing of milk, the condensation of that product, was circa 1920. We could have replaced those old operations with new, but similar-characteristic operations. Well, what do you have? You have a more modern operation, but you still are doing things in a very antiquated way, in my opinion.

So we began to work hard on the milk aspect, because so much of our flavor is developed through the milk process, that we knew that we had to find a new way to do that. So we began to work pretty diligently, and kept working at it and working at it and working at it for over ten years, until we became satisfied that, in fact, there was enough there to warrant our moving forward and began to do some work in the lab, and beyond benchtop, and be able to figure out how to make this Hershey flavor in a new, distinctive, less costly, more modern way.

Eventually we could see our way clear, in the late eighties, to proceed with a concept like Hershey West, which looks so different than did Building 35 as part of this factory. I mean, just so totally different. It's a whole unique and different way of producing chocolate. There is nothing else in the world like it. But no one else has to produce Hershey flavor.

You have to recognize that, the last that I knew, the Hershey flavor still sold about $600 million worth of product for us. Now, at one time, it was *the* maybe 80, 85 percent of our company. Today it's maybe--600 million, maybe that's only 20 percent or 25 percent of the company, that particular type, that style of chocolate. But it's still very important to us, so important that we learned how to do that in a much more modern, cost-effective way, and more sanitary way, very honestly.

When I say sanitary, we weren't introducing bacteria, bugs, and everything else into our product before, but we were handling it openly, in open containers, and you shouldn't do that. You shouldn't do that. We knew that. So we wanted to change the process for a number of reasons.

I think they have done it successfully. I know there are people who say the chocolate doesn't taste the same. I'm not one of them. I think that--boy, I picked up some Kisses, and they're tremendous. I mean, they are the real, good, impactful Hershey flavor. I believe that it was done quite well.

Cassidy: Well, I took you away from Marabou, so--

Zimmerman: Yes, I'm sorry. We did learn from Marabou how to make the new Hershey West operation come to life. That's what we're trying to say.

So in Marabou, probably about 1990 or thereabouts, we thought, "What in the world are we doing there? It doesn't look as though we're going to have an opportunity to buy the whole company, because the big seller isn't going to sell, the big shareholder."

Cassidy: You mean Freia.

Zimmerman: We had approached him. I had approached him on a number of occasions and said, "Your family owns these shares. You're going to have to do something. You [unclear] you some money." We talked about all the possibilities. "You really ought to sell us those shares."

He said, "No, I don't want to sell those shares." What he had in the back of his mind was selling his own company, and that would automatically take the ownership, or the majority ownership, or the valid ownership of Marabou with it. But when we tried to buy his company, it became apparent that he was not going to sell to an American or a German or an Englishman.

Cassidy: It had to stay close.

Zimmerman: It had to stay--well, in this case, Norwegian. So he sold to a very large conglomerate. I won't say "Hooray for us, how smart we were," but we didn't think that would last. This was not a company that was going to remain in the consumer goods business, I didn't think, and so we wanted to stay very close to it. We sold our shares when we realized we could not buy Throne Holst's, or Freia's, share.

But about two years after that, after he'd sold his shares to Norsk Hydro, we realized that something was going to happen there. Norsk Hydro had just gotten a new CEO. We read some things he was saying. It didn't sound as though he had a commitment to the consumer products business. It was a very small part of their business. So we bought shares again. [Laughs]

Now, we made money on each of these purchases, but we really bought these shares to be in a position to be there when the sale was made, and we worked very hard with Norsk Hydro to put ourselves in a favorable position to acquire those shares before they went to any kind of a public auction, because we thought that it might well happen that way.

As it turned out, they decided on a public auction. They are like 51 percent government owned, and they found themselves politically unable, I believe, in the final analysis, to do anything except to put the company in public auction. Goldman Sachs handled the deal, and we had to get other investment banking counsel, because Goldman Sachs could not represent us as well.

We did so, and we worked pretty doggone diligently, and honestly thought we had the company bought. We were willing to pay 400 Swedish--Norwegian kroner per share, which was, I thought, an outlandish price, but I was willing to go that high, because we really thought that would be an excellent combination for us, and Philip Morris came in at 450, an absolute outlandish price.

At the last minute, I moved up to 425. I didn't know what their bid was, and I thought 425 has got to--I didn't even have permission of the board. I just did it [snaps fingers] Sunday night when we were in negotiations. I said to Bill Christ, I said, "Here we go." I said, "I may get canned, but we're going for 425." He just smiled. [Laughs]

Well, you know, CEOs are paid to do that, and if they're wrong, then they're out, looking in. But if they're right, that's what they're supposed to be able to do. I said, "We're going for it." Well, I didn't know that we were already dead at that time. So we were unable to buy it.

Cassidy: If you had known what Philip Morris' bid was, would have upped it?

[Begin Tape 1, Side 2]

Cassidy: Tape one, side two, of the interview with Richard Zimmerman. We were talking about the bid for Marabou.

Zimmerman: We really couldn't have gone beyond 425. There's another--

Cassidy: It was out of your reach.

Zimmerman: Well, it was a stretch not only in terms of our ability to provide a decent return, it was also a stretch in another respect. We realized that our net worth of this company was about a billion-six at that time, and we were already betting like a billion-one. While we did have the bank financing, we had to borrow a billion dollars, and that's not easily done, either, but we had that arranged. I had talked personally to the president of Citibank that Friday before I left on Sunday morning to fly over there. No, Saturday morning; whenever it was. He assured me of the billion dollars being available to us.

I knew that we had exhausted our credit limits as well. This is not to say that given time, we couldn't have gotten more, but it became uneconomic, and it a real serious stretch for our shareholders, I felt. There is a point beyond which a deal is not a good deal.

Now, about three weeks later, I was talking to John Richman, who is CEO of Philip Morris, and he said, "Dick," he said, "you know, I wish there were two Marabous, Freia Marabous." He said, "I really didn't want to take that away from you." But he said, "There's two things you should know. Number one, we have a heavy commitment to Europe, very heavy, and we want more consumer brands there, and we don't have enough. We must strengthen ourselves there. Secondly, this is the reason I'm with Philip Morris. We have the cash to do anything we want to do."

To them, it was a minor transaction. To Hershey, I was betting 70 percent of the net worth. That's where the rubber meets the road in terms of size of company, and scope and capability financially. In that respect, Hershey is still a relatively small player. To a person who does a hundred million a year, it looks like a huge company, but to Philip Morris, that does 60 billion a year, and we do 4 billion in sales or whatever, the difference is apparent. They do have the ability to generate the cash.

If they make a mistake, at a billion-one or a billion-two or a billion-three, it's not going to kill them. If we make a mistake at that--maybe the good Lord was looking out for us. I don't know. Maybe we would have fouled that one up, or something would have happened, and this company could be in serious shape. It's possible. You never know those things.

But on the other hand, if you sit and wring your hands and worry about the bad side of it, and provided you've done your homework to know that company well, which we did, and to know how you can hopefully do things very meaningfully with them and for them, and that you know that good management is in place, and that you can work with them, because we had that history, and I felt very comfortable that this was going to be a good investment for us.

I was especially intrigued with the fact that they were building plants, a plant, in Europe to do certain products there. I wanted to move some of the Hershey products directly in there, Kisses and Peanut Butter Cups, for instance. [Laughs] So there were some additional plans that we had in mind.

Cassidy: Most of Hershey's strides in Europe have been through acquisitions. I'm a bit curious about what's taking place in Belgium, where a Hershey outlet branch with Hershey products. That decision was made to start marketing, actually market Hershey products in Belgium. Why was Belgium's [unclear]?

Zimmerman: It occurred after I left the company. We had talked about it, and felt for some time that we needed to give Europe a thorough try with Hershey products, and yet to do it in such fashion that we weren't betting the farm; that it was going to be something that could be financially handled, because we knew it would be a loss. So the decision was made that we would go ahead in this small way in Belgium, and I have no idea how successful or unsuccessful that is. That I really don't know.

But obviously, this was one of the things we were going to do with Freia Marabou.

Cassidy: That would have been a lot easier.

Zimmerman: You're right. It would have, because they were already selling, if memory serves me right, about nearly $20 million worth of their Daim bar, the Skor bar, on the continent, and they were going to introduce their own distribution system. Mr. Imhoff of Stohlwerck was the one who was distributing their product, and Marabou was going to take that product away from them and do their own distribution. Of course, then Philip Morris came in, and they took over that product. So we had some thoughts there as to how we would go ahead with certain Hershey products, too, in the equation. It just didn't come to fruition. But you can see how some of this fits together in neat little packages.

Cassidy: Okay, back in the United States, when I look at your tenure as CEO, the thrust towards developing international--I started to say that sort of the hallmark of your tenure as CEO was Hershey's new emphasis on reaching out into the international market.

I think what also is happening during your tenure is obviously the development of confectionery related products. Hershey really begins major push into developing new products and then extending product lines, and also developing a whole new line of grocery products. Can you talk a little bit about that, like what did you see happening in the confectionery market that made this kind of growth essential?

Zimmerman: We have to re-create the situation and background as it existed at that time. Bill Dearden had done a fabulous job of renewing the energy and the vigor and the vitality of the company in a number of ways. He was a very forceful leader, strong-willed, obstinate in many respects, but good for the company. He hated with a passion being number two to Mars. We lost that lead to them probably back in the early seventies.

But he didn't hate it any more than I did, and that's why we established the fact that we intended to be number one in the domestic markets. We knew, however, that the likelihood of our achieving that through acquisitions was very tenuous, really unknown, because in the final analysis, mergers and acquisitions is the art of the possible. You can't force an owner who doesn't want to sell, to sell.

So things had to work very, very well for us to be able to acquire, and even then, it was problematical because of the potential of antitrust. Each time that you make an acquisition over a relatively small amount--I think $15 million--you have to file a Hart Scott Rodino filing, and the government has *x* number of days to look at it and to challenge it. Depending upon the mood of the government at that time, one has an ability to acquire or not to acquire. So we knew that the emphasis was going to have to come on new products.

Now, we had had in creation this technical center for the better part of ten years, and we had built staff, and we had, I think, some pretty competent, capable people. The challenge was given to them, "You guys have got to start producing." Not that they weren't doing anything before that, but we really needed some winners, things that were going to ring a few bells in the confectionery world.

Set forth a pretty broad list of objectives there, tied them very closely to the product manages and the marketing people in Hershey Chocolate Company--that's where they were going to do most of their work--and tried to speed the process, as well, because we discovered that from ideation to national distribution was about five years, and that's a long time. That included, of course, the test markets and everything else, but we wanted to cut that process significantly.

Cassidy: That time period, five years, was Hershey's experience?

Zimmerman: Yes, that had been our previous experience. It wasn't an unusual experience, but we wanted to shortcut that process. Now, at various times, you realize that we had eighteen months to buy the equipment and install it; long lead times on certain kinds of equipment. But nonetheless, that was the time period.

Very fortunately, things began to break our way, else you don't have--I think we had about 11 percent annual sales growth every year, and the equivalent or a little better profits, I believe, every year during my tenure. That's not a "hooray for me," I'm just saying a lot of things had to break right for those things to occur in an industry which was growing at about one and a half percent a year.

So we began to create some new products. We also divorced ourselves from Cory; sold that out, even though that had been somewhat of a pet of mine--I'd run it for three years--I realized that it was not going to be part of this long term, and I wanted to refocus the company on confectionery and those parts that we did well, like the pastas and the cocoas and things of that nature, so that we could really move ahead strongly and smartly, and not dissipate our resources and our top people's time on things which were going to be extraneous to us in the long pull. So it was a focusing operation that really went at it.

Also an emphasis on productivity that didn't, fortunately result in any downsizings, but some very careful--we took some 200 jobs out of here in 1986 and '87. Nobody even knows it, because we did it all through attrition. We were able to do that, and I felt pretty comfortable with having gotten the organization into fairly good shape.

The one area that I encouraged to grow was the technical side, because I knew West Hershey was coming about, and I knew that new product development was critical, and we had some problems--not a good word, problems. We had some good challenges there with respect to ingredients and how to reduce fat and some things of that nature, because one doesn't know about the vagaries of the consuming public, going forward. So we wanted to make sure we were working on it.

Cassidy: That's why you had the whole issue over how much fat [unclear].

Zimmerman: Oh yes. Oh yes, we were concentrating on that. Sugar reduction and fat reduction were prime for us for many, many years. That's a real challenge in confectionery. It's a real challenge, in my opinion. It's not been done successfully, as yet, in chocolate. You can do it in hard candies; I mean, that's been--the technology there, that's--

Cassidy: I think it's really interesting, Mars' marketing of Three Musketeers. They haven't changed the product at all, but--

Zimmerman: No, not a bit.

Cassidy: --reformulated their marketing strategy.

Zimmerman: That's right. It's strictly a marketing ploy. It's not a bad one, because what they're saying is, "If you eat a chocolate bar, like a Hershey bar, okay, you're going to get more fat than you will in ours, because we give you more sugar in the middle." They're not wrong, and if people are so fat conscious, they'll make that switch, but you better like what's in the middle there. You'd better not mind calories, because you're not making any changes in calories.

But it's a marketing ploy, which is, I guess, being successful. I don't know. The last I looked at shares, not here, but in the data which I get from the food analysts that I still stay close to, our shares are higher than ever, so they might be having success, but it isn't at our expense. [Laughs] But yes, there was a concentrated effort, definitely, on fat, and we were working on it, and I'm sure they're still working diligently on ways to do that.

But there's a lot of fat in a chocolate bar. You add cocoa butter. You have fat in your chocolate liquor. And, of course, milk fat is what you really have when you condense milk, milk solids and milk fat. So there is a real challenge there in milk chocolate. In the final analysis, people will buy our product because of flavor, taste, and texture, and you'd better give that to the consuming public, because there's only a small percentage who will forgive you for a lousy-tasting product if it has no fat in it.

The pendulum is swinging and has swung. But people are saying, "Yeah, I made that trade-off, flavor for fat, and frankly, it was too much of a compromise for me. I'm going back." Only the very best, the very flavorful no-fat, low-fat products are winning today. That's my perception of the marketplace. I believe that's true. We're willing to go so far, but no further, in terms of giving up flavor for fat reduction.

The oddest thing that's going on right now is, if I understand it correctly, Americans area actually ingesting a little more caloric content than they did just a few years ago, and yet we have all these low-calorie, low-fat, reduced-fat, zero-calorie foods. What's going on here? Why, I can tell you what's going on here. Twenty-five percent of all soft drinks are no-calorie. People say, "Uh-huh, I just had a Diet Coke. I can have french fries." You know, that's what we're doing to ourselves. It's odd, but psychologically, we're making substitutions. We're making trade-offs.

Through the years, the analysts kept saying to me, "Look, aren't you worried about the fact that people are going to turn off your products because they're high fat?"

I used to say, "Yes, we worry about that, and we work on it, and we may be able to create products that are great that have reduced or no fat. But they aren't here yet, and in the meantime, what we perceive is going on is that after we work out strenuously, and we watch our diet and all respects, and we get on the treadmills, and we do all these healthy things for ourselves, we reward ourselves with, thank goodness, a Hershey bar." That's what I think has been going on here.

The analysts used to laugh, because it was actually--it's funny when you think about it, but they were laughing because of their own experience. I don't know how many of them came up to me afterwards and said, "You're right. That's exactly what I do. 'Look at me, I'm slim and I'm trim. Boy, do I like my--you know, and I can afford that, because I've worked out.'" that's the kind of a trade-off which we make. Thank goodness we're making that. Otherwise, it could be a very difficult time for our company.

We worry a lot about that. We worry about it. I assume they still do. And we want to be sure that we can create products that might put an anchor to windward here, in case something of that nature would occur. Fortunately, it doesn't appear, though, that that has been happening to the company. But new products were very important to us, is the key.

Cassidy: Now, since management set the stage to--or I don't know where the direction came from--to create products, and the first products that [unclear]?

Zimmerman: Well, yes, but it's much more complex. Each of our brands managers would sit down with groups in the technical center, and they might review on a monthly basis the kinds of products which we perceived the marketplace might want and need; talk about product line extensions; and they really worked the situation very hard between them. In addition to that, I always had at least an annual review, and sometimes a semiannual review, to go over all the products that we were working on.

There were times I was rather unimpressed with some things we were doing, so I'd get back to the Chocolate Company and say, "Why are we going in that direction? You'd better tell me what you guys have in mind, because I'm not sure we should be wasting time on that one; in my opinion, wasting time." Sometimes we'd change direction. Other times, they'd convince me that they were on the right track. But that's the way we kept tabs on the program pretty well.

I know there are products that I tasted five years ago that haven't gone to market at all, and yet they're there. Whether or not they'll ever perceive sufficient need, or we perceive the market has moved in that direction to the extent that we need in order to have a viable product. We have certain minimum cutoffs. I mean, we need to do maybe $15 [million] or $20 million per brand before you ever even think about moving into the marketplace, and not a line extension, but as a separate new brand.

Then every once in a while, one like Nutrageous comes along, and you say, "I believe we have a $100 million brand here." Or you do Hugs, which--I don't know what it's doing today, but we figured it might do 100 million. Those are megabrands. Those become pretty important to you pretty quickly.

So we did have some new product successes, but it didn't mean that we stopped our efforts on acquisitions. No, we redoubled them. And I must admit that the government's attitude towards mergers and acquisitions tilted just a bit, in that it became possible for us to do the Cadbury deal.

In another government regime, another president, it might not have been possible. I don't know that. One can't perceive that. But there was a little bit of a tip, I think, that said, in essence, "bigness is not badness," and that they would believe our arguments that, in fact, that acquisition would be procompetitive, not anticompetitive. Two giants swinging hard out there is probably just as effective procompetition as half a dozen midgets. That, I think, is pretty apparent. At least, I hope it is.

I think it's also been borne out--we could show them that--well, even today you could show that I think there has only been one price increase in bars since 1985. I mean, there's been only one. Obviously, I mean, we're becoming more efficient and more effective, and acquiring other companies didn't give us the luxury of raising our prices and fattening the bottom line. It made us more competitive, and that's good, because then we can give the American consuming public a fine product at the same price or a lesser price than we had before.

Those arguments fell on more receptive ears, perhaps, at that time, than they might have in the past, because I know back in the sixties, even, we talked about potential acquisitions, and the attorneys would warn us, not just McNees, Wallace & Nurick, but some of the best brains that we could get hold of throughout the country, "It's probably not possible for you to make an acquisition by Hershey. The government's going to challenge it."

Well, fortunately, that didn't pertain forever, as most things don't pertain forever, and we were able to make the acquisition of such as 5th Avenue, the Ludens situation, and we could do our deal in Canada, which really has a different philosophy. But you still have to prove your case to them, especially when it comes to jobs. They're very protective of jobs there. That's their main issue. And, of course, the Peter Paul Cadbury, these were all--

Cassidy: Were there any potential acquisitions in the United States that didn't work out that you remember?

Zimmerman: Yes. I think it would be better, if I might, to protect the innocent. Some of those are still independent companies. Things we talked about, it's probably best not to get things down in writing.

Cassidy: Well how does Hershey handle it if there's an acquisition that you're interested in? How aggressive was Hershey willing to get?

Zimmerman: We laid down a rule for ourselves. To this day, I don't know whether it's a good rule. We said to ourselves, "Two things we don't want to do in acquisition. One, we don't want to buy a sick company. We don't think we're good at making sick companies well. We're not sure that we are, and therefore why dissipate your energy, your time, and your capability in trying to, perhaps, beat a dead horse? Secondly, we only do friendlies."

This company has never done a hostile takeover. I don't know if that will pertain in the future, and maybe it's an outmoded type of situation. I don't know. But for me, for Bill Dearden before me, we said no, we're not going to do hostiles. I didn't do hostiles. Therefore we had to work with a lot of people that we wanted to do business with and that we wanted to buy their companies.

We must have bought five or six macaroni companies during that time, and they were all friendlies, and we could show the efficacy of their joining with us and why it was important and what the industry was going to look like over the long term, we believed. That was important to them; maintain brand names or whatever.

Cassidy: Were most of the acquisitions Hershey identifying those companies and approaching them, or were any of them coming to you?

Zimmerman: It was a combination. In terms of pasta, I think we identified all of them. In terms of confectionery, the only one that came to the market--I believe the only one that came to the market--was Ludens. We initiated the Cadbury discussion. I flew over there in '87 and talked with Adrian and Dominic Cadbury, and said, "We really ought to think about what we can do in the States." I didn't put it quite so crass, but I knew they weren't making any money. I knew they wanted to concentrate on the beverage stream here.

Cassidy: So you looked for companies--

Zimmerman: Yes.

Cassidy: --that you thought would be interested.

Zimmerman: Would be right. Would be right for us, yes. I'm sure that process is still going on. I'm sure it is. It has to. You have to make opportunities for yourself. In other cases, they come to you, or they're put on the auction block. Today more are being put on the auction block. That's what happened to Freia Marabou. That's where Stohlwerck is today. So then you have to be prepared to move pretty quickly and use their timetable. You aren't in control of your timetable then.

Cassidy: In addition to the extended products, the new products in strict confectionery a really conscious structure has gone to--was directed to go into grocery products. Was that something that Hershey had considered before, in terms of the development of the chips line and puddings and milk boxes?

Zimmerman: We felt that we had too little clout in the grocery section of that supermarket, in contrast to what we could do in confectionery. If we came out with a new confectionery product, we're almost bound to get shelf space. Because they trusted us. We'll have a good deal behind it. We'll have good promotion. We'll advertise it. And we'd been successful. So a supermarket operator would say, "I want that new product."

In that grocery shelf, our major competitor, Nestle, dominated it. We thought we had to find new tactics to increase our capability in that area. It's almost a little bit like guerilla warfare. I mean, if you have the dominant land army, you're going to wipe out everything in your way. [Laughs] If you're not the dominant, then you might use guerilla tactics. It's amazing to me how often marketing is compared to sports or war, and the analogies, while not perfect, are quite suitable. So the tactics that one uses are very often given either football or military names. So the conscious effort that was put forth in grocery products was to increase our presence throughout the grocery store. We thought that was important. Milk Box was important, and syrup line additions would be important, the different cocoa. We added the European-style cocoa, and things of that nature, which we felt would enhance our ability to move some more products in there.

Cassidy: You have some of the most fascinating grocery products. I've seen the ice cream toppings. It seems pretty unique among that confectionery industry that Hershey is choosing to transform some of their most popular products into something that can be applied to another product.

Zimmerman: Oh, there's always been a topping line. Our chocolate syrup, when I joined the company, we believed was used about 50 percent of the time as ice cream topping. I remember back in the sixties we introduced a line of toppings. We didn't do very well. We had mint, and we had fudge, and we had butterscotch, and we had other ones. [Laughs] But we weren't advertising at that time. We were not spending a lot on promotion. So eventually the products died. They were put in glass jars. So we've been involved in toppings.

It's only a matter of developing the concepts that really do finally put you on the stage in the right way. So it's a combination of marketing--it's like positioning Three Musketeers. [Laughs] You've got the same thing. How the heck do I position this new product. Very often the product is easy to make, but positioning it so that you can really have a success is the more difficult part.

Cassidy: Why didn't Hershey ever--I mean, it seems like all the other confectionery companies went into the ice cream market, marketing ice cream versions of their most popular brands.

Zimmerman: First of all, please appreciate that we can't use the name Hershey on ice cream.

Cassidy: Maybe you should talk about that.

Zimmerman: That was another one of my--that was one of my goals for my tenure, to, in some fashion, get this problem off our back that was called Hershey Creamery Company. We had received consumer complaints about the product. They would call us on our 800 number. Everybody in the world believed that Hershey Ice Cream was our ice cream. Very honestly, although the owner of the business has a different impression, I didn't think it was a good quality. He does.

I wanted to neutralize his ability to use that name in this rather narrowly defined segment of the food product categories. I wanted to do it either through an acquisition of the company, or through a licensing of the company, or combinations, or some way in which we had control of our destiny, called Hershey or Hershey's. I didn't like the fact that anybody else could use that for any product, especially not something as close as ice cream to confectionery.

So I took it upon myself, on a personal basis, to get to know George Holder, the owner of the company, very well, and we met often. Frankly, I wanted to buy his company, but, as I said, you can't buy something that's not for sale. I kept telling George, I said, "It's very important to us that we have control of the brand names, and we've got to work out a way."

And, "Well, I'm the owner of it, and I'm not going to give that up." Well, I mean, the guy was right. He said, "I took you guys to court back in 1966, and I won." He was right.

But then he went into yogurt, and I called George and said, "We've got to meet." We met over lunch. He had his son with him, and I said, "George," I said, "you can't use Hershey for yogurt."

"Why not?"

"Because you have it for ice cream, but not for yogurt."

He said, "It's the same thing."

I said, "George, if you can produce one FDA definition--if you can produce one dictionary definition that says that frozen yogurt and ice cream are the same product, you'll never hear from me again. If you can't, then we're going to have to take steps."

"You're going to sue me?"

I said, "Yeah." I said, "I hate to tell you that." I said, "You don't have the rights to the name Hershey for yogurt."

That's what the latest fuss was about, and that's why on their trucks and on their billboards, you'll see the notice, Not Affiliated with Hershey Chocolate. We didn't get everything we wanted, but it's a step, and it's a recognition, and the public is being put on notice. So anyway, we did finally agreed that we'd give them yogurt. I didn't want frozen yogurt. That wasn't what I was after.

But that's important to us, the protection of the trademarks and our brand names are absolute essentials. We have a net worth of *x* number of billions, whatever it is, a billion and a half, a billion-eight or whatever. We've got huge, big assets, and the market knows that, because they have a market value on us right now of almost $5 billion. Now, why, if our net worth is less than 2 [billion], would the market perceive us as being worth 5 [billion]?

Well, part of it is the brand names, the trademarks. Part of it is the capability the company has to distribute and make money. But, you know, there are hidden assets there, and we just can't have anybody infringing at all. So that's why the company is zealous in protecting those marks and working very diligently to do it. Coca-Cola does it. Everybody does it who's got something of that substance.

So we have battles of that nature, so the ice cream situation was one of our more difficult. We couldn't put Hershey on an ice cream bar. Well, we could put Reese. Very frankly, we looked at that business very, very hard. But it didn't make any money. Nobody was making any money in it. Mars might be today. Klondike probably is today, but we could have bought Klondike three or four times. It's a very, very tough business, and we didn't want any parts of it. It was a deliberate, conscious decision.

Now the folks are right in licensing, but we now have the right to do some licensing there. We've cleaned up that matter pretty well, so we can do more now. But that was the reason. We had some problems in the name Hershey on there.

By the way, the brand manager and senior manager were in perfect agreement on this. If we produce a Reese product, it must enhance the Reese image; never detract from it.

At any rate, we went through probably six or eight iterations, with Pepsi, with Coke, with Royal Crown, with 7-Up, I don't know who all, of chocolate soft drinks. "Put the name on it, and I can sell a jillion," the guy says.

Problem with it is it didn't taste good, and we just wouldn't go ahead. We said, "No, you're not going to put the Hershey name on that." It would have been worth a lot of money if they had been right and had good products. But we didn't think they had good products.

Cassidy: Well, I happen to know that Hershey, over the years, has been approached by different alcoholic beverage companies wanting to use--

Zimmerman: That's an automatic. We said a long time ago, "No tobacco. No alcoholic beverages in our stable." We don't think it makes sense for us to make money on a product, even--and then the dividends go to kids. It just doesn't hold. The image is not there. It's the reason we fought against alcohol in chocolate.

It's a difficult issue. It's a difficult issue, because liqueur-filled chocolates are popular in Europe, not in this country. We have a fine line to walk there. I just didn't feel that Hershey and liquor go together. And I don't think there's any more teetotalers in this company than there are in any other. This is not a matter of personal morals. This is a matter of what is right, I believe, for that name Hershey and for the image which it conveys to people. That's where I drew the line and said, "No, we won't do that."

Cassidy: It seems that after you became CEO, you ended up selling off Friendly's, but initially you tried to make Friendly's work. There was a number of acquisitions. What was the motivation, and what finally [unclear]?

Zimmerman: The Friendly situation is--sure.

[Begin Tape 2, Side 1]

Cassidy: Tape two, side one, of an interview with Richard Zimmerman. It's Tuesday, November 7th, 1995, and we just wanted to start talking about Friendly.

Zimmerman: When one looks at Friendly and its acquisition and the way we became involved in the restaurant business, you have to start, again, with the mood and the temp of the times. In the late seventies, it did not appear that we would have the growth prospects in the confectionery industry that we really felt we needed. We felt we needed another vehicle, another strong horse to ride. Restaurants were looked upon favorably, and especially one with the kind of a product line, including ice cream under the Friendly label, which appealed to us and was a close cousin to confectionery.

So in making the Friendly acquisition, I certainly was very much in favor of it, and as chief operating officer at that time, it befell me to be up there at least once a month. We were working pretty hard at trying to make sure that we, as Hershey, understood the restaurant business and became comfortable with that management. So over the next years, we spent a lot of money in refurbishing restaurants, upgrading them, expanding menu, in order to position Friendly for the longer term.

I think we always worried about the fact that you had fast food people on one side, and you have the white table cloth on the high side, and somewhere in between there, Denny's, Friendly's, etc. A group must fit, and the question is do we fit, and do we have a long-term future.

But the decision was made that Friendly would be our growth vehicle. We knew that if you invest 750[000] to $900,000 in a new unit, you do a million dollars' worth of sales, if you have the right location and the right manager. Those were the keys. Those were the keys. Right manager, right location. You can take the best location in the world, and if you have a bum manager, you've got a lousy restaurant. You can take the worst location in the world, and if you have a great manager, you have a lousy operation, because the location stymies you. You need both, and you need them--at every location, you need both those factors working for you.

For a while, we built that chain from--these are estimates in my mind--from like five hundred units or less when we acquired it, to like eight hundred and forty or fifty when we sold it. The vast majority of those we owned ourselves and built ourselves, but we did make a few smaller acquisitions, oh, five to twenty units in a chain. We looked at some larger acquisitions, some quite large acquisitions, that were similar to us and would expand us geographically. Fortunately, as it turns out, none of them came to fruition. I'm happy that we didn't go ahead with them.

The restaurant industry has today become a price battleground. That's why you have the "1.99, are you out of your mind?" and 2.22 for Friendly, and two big Beefs or something for a buck apiece or something. That's where the industry is today, very, very, very price-competitive.

We didn't foresee that in '87 or '88 when we sold it, but it was obvious there were elements there, because raising prices was not easy in the industry. The huge amount of dealing that was going on, especially among the fast-fooders was very apparent to us. Couponing especially was a difficult situation. You have to appreciate how much McDonald's spends on advertising and how little Friendly's did. But we were carving out our niche, and Friendly's was returning nice dollars to the operating profit line, and we were doing okay on our investment.

Frankly, I became increasingly concerned, however, that the restaurant business wasn't right for us, that we couldn't bring anything to it. I didn't realize this at the time, when we made acquisitions of that nature, but the company that's acquired always brings something to the acquirer. But unless the acquirer can bring something to that acquired company, something of substance, it probably isn't going to be a good acquisition.

The only thing we could bring to Friendly was a limited amount of money, and we couldn't bring, really, anything else. Maybe a little planning discipline, but not a heck of a lot more. That began to worry me more and more and more, and along about 1986, 1987, I began to scratch my head and think about whether or not this is really the right place for us to be.

I became a little disenchanted with some of our management thinking in Wilbraham, Massachusetts, because I felt that we had to do some things differently. They thought we knew how to make and sell confection, but we didn't know "word one" about restaurants. Well, after ten years, we had learned, and I was becoming fairly disenchanted with what was going on there.

So in early 1988, I made a decision and informed the board, and the board was very happy.

Cassidy: I examined that, yes.

Zimmerman: Because there are a few people on the board that were not believers in restaurants. Only a couple, but I think that they were right.

Cassidy: I think it was John Suerth?

Zimmerman: Well, John, yes, but John Burlingame more than John Suerth. But there were a couple of detractors, and, you know, what happens is each one of us becomes captive to our own experience. If I walk into a Bob Evans, in which I have a lousy experience, I'm down on the chain. Not just that restaurant, not that manager, not the waitress, not the waiter, not the cook, but I'm down on that chain. "Oh, what do you mean? I'll never go into one again."

Very honestly, that's the experience which we all have, and if any one of us walked into a Friendly and had a bad experience, especially as a director, I mean, you really don't feel very comfortable about your investment.

So I began to be a little restless. Three of us in the company knew what we were going to be doing. I said to Ken Wolfe, "Here's where I am. Where are you?" We went and we talked to Mike Pasquale. Mike did some investigating among investment bankers for us as to how much they thought the chain might be worth. We put our own stuff together on the back of an envelope, and we said, "If we can sell this thing, we're going to do it."

At the same time, we had started before that working towards the Cadbury situation. I must tell you, in all sincerity, we closed one transaction. In eight days we closed the other transaction, eight days later. Now, somebody said to me, "How in the world did you manage that?" And the answer is dumb luck. You don't manage things of that nature.

Cassidy: So you hadn't planned on, then, the funding for Cadbury?

Zimmerman: That's right. Either of those transactions, I would have proceeded with no matter what happened to the other, is the point. But that they coincided, it was just marvelous. [Laughs] Just marvelous. We were easily able to go to the analysts and say, "Here's what we've done." We did that, and they pretty much applauded all the way around. It has worked out very, very well.

I'm not anti-Friendly, and I guess they do have a place. I just read a horrendously negative article in *Forbes* about Friendly, and the same issues as I wrestled with ten years ago were still there, the identical issues. In essence, they said to Don Smith, who owns them today, "You'll never be able to take this chain public. You just don't have--you're going to go the way of all--you're going to be the next Howard Johnson," is what they literally said.

I saw Howard Johnson go out of business when we owned Friendly. It's painful. I mean, Howard Johnson, at one time, was the epitome of this kind of restaurant, yet they just could not maintain themselves, or other people caught them, or whatever happened there, and I was really concerned about that.

So we sold Friendly. There were detractors to the sale. The original owners were and, I think, to this day are very, very put out that our company would do that. There was a strong compatibility in philosophy, no doubt about that, and that was excellent. We could work from that base. They always spent the cash that they generated. We permitted them to do that, so they didn't participate in the dividends. That was okay, because we wanted them to be our growth vehicle. But eventually it became a horse that we didn't want to ride. It just was not correct for Hershey.

I used to have my staff go out on two-day visits; take their spouses. We'd assign them territories. Part of their job was to go into every supermarket and every drugstore and every 7-Eleven or whichever you have, and to see how well we're displayed, what the competition looks like, what the pricing was. We'd give them forms to fill out. There wasn't any monkey business. But also they had to eat every meal in a Friendly, and a coffee break as well. I wanted them to evaluate. Got back in the car, and they sat there and evaluated.

Whew, they were bad. These reports, unannounced, random visits; used to curl my hair, some of the things which we saw. Very honestly, trying to change that image was almost impossible. I don't want to do this. We had the opportunity--with Friendly, you have the opportunity 750,000 times every day--that's how many guest checks we had--to make somebody angry, with dirty restrooms, cold coffee, poorly cooked eggs, and whatever. Unfortunately, I think we were doing it too often. That was my opinion.

Cassidy: Oh, one piece that doesn't really fit in with anything, but last time we were talking about disaster planning we were talking about what had happened with TMI [Three Mile Island], and you made a reference to contingency plans that had been developed and actually put into use for product tampering and maybe you could talk about that.

Zimmerman: Well, I don't know how much I did talk about it.

Cassidy: That was about the extent of it.

Zimmerman: Was it?

Cassidy: What I just said, yes.

Zimmerman: I'm trying to get the year straight. I would guess it to be about 1986, '[8]7, or '[8]8.

Cassidy: So it happened after the big Tylenol--

Zimmerman: Yes. We got a letter from a person or persons calling himself or herself or themselves Black Star. The letter said that the person had unwrapped Hershey bars, painted them with insecticides, rewrapped them, put them back on the shelf. That they knew the location, and they had them available to put back on the shelf, and they wanted money--if I remember correctly, $3 million--and they would not put them on the shelf. This happened about thirty days before Halloween.

My biggest concern was could the guy, would the guy, make anyone ill or kill them. So then my next concern was publicity, because that could have killed Hershey for Halloween. I got two people out of the technical center, got an internal security person, and about three other people. There were about eight of us, including Ken Bowers from PR, and we began to work this problem.

We first determined that while it was possible for a person to take a bar apart and unwrap it, any kind of insecticide, herbicide, or anything else we could lay our hands on discolored the product tremendously and left a residual smell. That it was highly unlikely that any product was anywhere, so probably it was a false claim. He probably couldn't do it. But we didn't know that. We weren't sure of it.

We went immediately to the FBI, and said, "We've got a problem." I was pleased and amazed with their rapid entry into the case and their mobilizing forces to assist us. The postmark was Las Vegas, but for some reason, they suspected it was a guy located in Los Angeles. He was coming over the border to mail it. We, internally, found a person who was very skilled, and, just as they're doing with the bomber, the Unabomber, in taking the letter and telling you what this person looks like, where he came from, what his education is, etc. We got that done.

So within about four days, we knew that it was highly unlikely that any product was on the shelf, and if it was, people wouldn't eat it, because they couldn't get it past their nose or they would see a discoloration; but nobody even ever noticed that fully. And that we had a pretty good profile on the guy, and the advice from the FBI was, "Go with him. Cooperate with him, and tell him you're going to make the payoff. We'll take it from there."

So we lined it all up, and the payoff was to be made at a certain time. I sent Ken Wolfe and Joe Viviano to the West Coast. They worked with the FBI there, because it was to be done out there. They said to me, "Now, do you want fake bills or do you want real bills?" That's a tough decision, tougher than I thought. I never thought of it that way. Because if it goes awry--

Cassidy: It costs $3 million.

Zimmerman: It costs three million bucks, yes. But we made that decision.

Cassidy: So what did you use?

Zimmerman: Fake. [Laughter] Put a hundred-dollar bill on top. You know, he told us what you got to do and so forth. To make a long story short, he didn't appear at the first drop. We went through a series of phone calls, and he never appeared. He was testing us.

Wrote another letter. Had this one analyzed. Gave us new instructions. Again, the FBI went after him, and he did not appear, or if he did, they couldn't get him.

He wrote another letter, and they become ever more violent or threatening. "Do you think I'm kidding?" kind of thing.

My secretary, Jean Lutz, was sick of these letters. She was all unnerved. So was I, but she was--I was in a meeting one time, and she called me, and she said, "You've got to come up here to my desk."

I said, "What's the trouble?"

She said, "Black Star.;'

I said, "I'll be right there." There was another letter that had appeared. The one thing that I didn't like, was is this guy also a bomber or a letter bomber? So we were a little anxious about that.

To make a long story short, we got him. As far as I know, he's still in jail. I think he got eight to ten years, and he was also wanted for something similar in Texas. So we dodged that bullet, and it was one of the--now I reflect upon it as one of the neatest experiences that I could have had, because all's well that ends well, okay? [Laughs] In that respect, I'm very pleased and proud of the group that we assembled to handle a situation of this nature. To the best of my knowledge, no publicity ever got out on this until the guy was sentenced. He pled guilty, and they nailed him.

I got a call one morning, about four or five in the morning, saying that they had nailed him. I don't remember who called me. I think it was our own security people, whom we had stationed out there then. And got that call, and said that they had nailed him.

Cassidy: Had Hershey given, ever--especially after the Tylenol scare took place, had Hershey spent time thinking about how they would handle product tampering?

Zimmerman: Again, background. A good friend of mine, one of the five key people who were working with Jim Burke CEO of Johnson and Johnson, he was head of their public relations. He was the guy who fought against bringing in *60 Minutes*, and Jim Burke said, "Let them in here." To this day, he'll tell you that story. Good friend of mine.

I called him right after the incident. It was over maybe two months, and I said, "You know, I'd like to hear that whole story."

He said, "That's easy." He said, "We'll get in a helicopter, and we'll fly over to the medical center." He happened to be a Penn Stater and he was on the Penn State Board, and he said, "I'll bring over the head of McNeil Labs, the guy who went through it." He said, "That was the division that had the problem." He said, "We'll spend an afternoon." So we did.

So I gathered together probably sixty, seventy people, and we talked about this incident and the way they handled it and our problems. They left after an hour and a half or two hours, and then we went into our products and our problems, and we came to the following conclusions.

One, there is no tamper-proof product, unless you do two or three seals on a bottle, or you put each of our bars inside a tin can. That's about the only way we could figure to come up with a tamper-proof product. However, we did have certain grocery products in which we didn't have any tamper evidence, and we'd better correct that. And that our confectionery bars, we're going to have to settle for making them tamper-evident, not tamper-proof.

So we want to assure any purchaser that if they bought it in an obvious perfect condition, that is, that the seals, nothing was tampered with, that probably that product was good. We couldn't say 100 percent, and obviously, we have another vulnerability, which I don't think anybody has ever really voiced to any great degree.

What about a hypodermic needle? We worry about that. But we don't breathe it. I mean, we don't want anybody out there doing it because we are saying things about it. But that's the one that always worries me, that somebody--

Cassidy: What you're really asking for [unclear].

Zimmerman: Sure. Our product, however, has a fairly thin outside seal, label, and you can do it with a pinhole, and no one might know. That's the one that always bothers me. Be that as it may, I don't know how to protect against that logically. So we do have that vulnerability, but touch wood, we haven't to date had any kind of a problem of that nature. But we worry, and we work at that.

The public doesn't know that. They don't have to. When they buy a bar, they assume perfect integrity of that package and the product, and they have a right to. We must worry about that. That's our job. So we have to worry about it, and we work on it. I'm sure they do today.

Cassidy: What made you come to the conclusion that it was time to retire?

Zimmerman: One overriding factor. I think that eventually one has to worry about not providing the leadership that's required anymore. I'd spent eight years as chief operating officer and ten as chief executive officer. I want to make sure I was not recycling my own ideas; that I was so focused on certain ways to run the company, certain things which I want to accomplish, be they international or domestic, whatever they were, that I was beginning to put on blinders and not really thinking about and discussing with the right people what some of the future activities of the company should be. Was I turning a deaf ear to some of the better ideas?

You become very much infatuated with what you believe, and what you believe is important, but a company is not the lengthening shadow of one man only or one woman only, no matter what. It is if you're the owner entrepreneur as Mr. Hershey. But it isn't today in a public company.

You need to surround yourself with very capable people, and the biggest factor was, when you hit double digits tenure as CEO, in my opinion, ask yourself the hard questions, as to whether or not you're still capable of providing that visionary leadership that our company required. Some people are. I wasn't sure that after eighteen years in one of the two top spots, more than half of my career, that I was going to be able to answer that question the right way.

Then I was also conscious of the fact that when Messrs. Mohler and Dearden retired with in a year of each other, for one minute, I can trace twenty-four promotions directly to those retirements. And I felt the organization is benefited-- was at that time, and it would be today--if I would step down. I was nearly sixty-two. I didn't plan to go to sixty-five. The question is when is the right time? I had plenty of other activities. I wasn't about to dry up and wither away. Those were the factors that were most critical in the decision.

The board was very kind, the chairman of the Comp and the Executive Compensation--I forget what all we retire with, but it's the people who look at the key executives. John Burlingame said to me, "Dick, we want you to work to sixty-five, and we'd love to have you to sixty-five. But if you decide that you definitely want to do it on your timetable, then you must help us get to the point of following through to get you a successor."

I outlined some things that I had in mind, and we went from there. So that's what the board decided.

Yes, I miss things, primarily the people, but I'm not sorry, not at all. I still have a lot of things which I enjoy doing in the business world. The three boards I'm on is super. It's just great. I chair the Audit Committee for Eastman Kodak. I'm about to chair the Compensation Committee for Westvaco. The other one, on the Lance, Inc. Board, why, we just finished with a couple days' planning session down in Charlotte. I mean, there's plenty to keep you active and really involved in business, and that's good fun.

Cassidy: Did you leave feeling like you hadn't accomplished anything that you wanted to accomplish?

Zimmerman: Yes, very definitely. I wanted Hershey to be more of an international player by the time I left. I wanted the Hershey Creamery Company--

Cassidy: Out.

Zimmerman: --settled completely. But there weren't an awful lot. I had pleasant surprises during my regime as well. The Peter Paul Cadbury acquisition was superb. The reestablishment of Hershey as number one in the industry by a wide margin. We didn't even need Peter Paul Cadbury to achieve that. We would have overtaken Mars, anyway. I have the charts at home on the wall of that, in my office at home, and it proved to me that we had done that. That was important.

So there were many more victories and great rewards than there were disappointments. And having not done what I'd hoped to internationally was a disappointment in one respect, but I think probably the company's stock was probably higher because of that, rather than if we had accomplished what we wanted, I think there would have been a readjustment in stock price until we recovered a bit. So there were probably benefits the other way, as well.

So I left with very few disappointments and with a feeling that we had really progressed pretty well during that period of time. I felt pretty good about it.

Cassidy: Did Nancy have any input into your decision to retire?

Zimmerman: Yes. Her input was, "It's pretty early, isn't it?" [Laughs] She was not encouraging me, but went with the decision without any problem. But it wasn't her influence that said, "Why don't you get out?" Not at all.

In fact, we often talk about that there are certain things that we miss, primarily functions and people, and I keep reminding her, I say, "Yeah, but, you know, the people we like, they're not there anymore, either." I go through the list of retirements that I know of.

So time marches on. Industries change, and the people that you knew and enjoyed, they change. So you miss certain things, but you compensate for them with other--I'm still involved in something called the Management Executive Society, which is about twenty-five CEOs that get together twice a year. I'm now an alumnus, but still invited to the meetings.

Each one is from a different industry, and the whole idea is that you get together for three days, Friday, Saturday, Sunday, and you talk about the problems and the opportunities in your particular industry. The next obvious step is you look for applications to your particular company.

This is all people who like one another. I mean, it's a very compatible group, and you learn one heck of a lot in that group. Not only CEO's. Some are the chairman, Joint Chiefs of Staff; Paul Tagliabue, the NFL commissioner; the former secretary of commerce; in addition to CEOs. The guy that runs the Metropolitan Museum of Art, Bill Luers. You get a wide diversity. I've met a couple of fine educators.

I just came back from that a couple of weeks ago, and it's really stimulating. I always called it my postgraduate course in management, because you learn a lot, and you have this close association. You can call them up on the phone and say, "How the heck did you do that? Can I come and talk to somebody in your company who can help me?" That's the kind of a--I use the term fraternity; it's probably not a good term, but I'll use it anyway. It's a kind of a fraternity that's established, and that relationship is very helpful to a person in a CEO spot. So I can still have that as a supernumerary member, and that's very nice, to be able to attend and see those folks.

Cassidy: Just a couple of more questions about Hershey Foods. Philosophically, how would you describe your sense of what the corporation's social responsibility should be?

Zimmerman: Well, there are people, including some of our shareholders, who believe that, among other things, a corporation should never make one dime of contribution to the arts or the schools or anything, because it is my money as a shareholder. and I'll give it away as I like. I felt one of the cornerstones and one of the major aspects of our corporation was in the giving and in the areas that we selected as being most important. That was pretty much youth-centered, kids. Mr. Hershey started it, and that's where our market is. Why wouldn't we put a good part of our dollars there? But that's the financial side.

The social responsibility side encompasses a great deal more, as you well know. Encompasses everything from the way we conduct our affairs as people. I always prided myself on the fact that a Hershey employee, a salesperson for Hershey, never had what we used to call "walking around money." They know how that would be treated. Other companies have that kind of money. You know, you go into a store, and you give them a spoiled merchandise chit for six or seven boxes, and you put some merchandise in there, and you buy your way under the shop. Hershey employees can't do that.

I think things like Children's Miracle Network, where you can get employees actively engaged in doing something for someone else, builds esprit de corps, and as a company, we can really encourage that by putting marketing money in that direction; by doing cause-related marketing, as that's called; and then making contribution that stimulates and spurs the employees to want to do things, too, because the company is interested in this charity, and we can be too. It really makes a difference.

Then you go all the way into the aspects of the environmental affairs, which are very important to a company. People ask me about environment and Hershey, and I say, "Well, I live two blocks away downwind from our smokestacks, so I'm one of the people who might be more than casually interested in what effluent we have coming out of our smokestacks." And I am, and we are.

It's been a pretty interesting struggle down through the years. I remember when we were burning coal here when I joined the company, and it was quite a bit dirtier. I remember when we didn't have the kinds of devices we have on the roof of 38 Building to separate out some of the shell from the roasting was moving around pretty vigorously. We cleaned all that up, as well we should; as well we should have.

I worry about the purity of this water very much, because we ourselves have eighteen wells on this property. Part of our cooling water comes directly out of the ground. I don't want people messing up my groundwater, from a very selfish reason from the company's standpoint. But I certainly don't want to do it from the standpoint of drinking it myself, too.

So I think we have a good social sense of responsibility in the environmental side of things. Huge recyclers, in terms of raw numbers. Hershey is a major recycler. That's because we recycle all the cocoa bean shells, among other things. But I can remember the first day I came here, we made our own tin cans, and those blanks were always put into a large container and sent off to the scrap yard. That's where you did things like that. I mean, that's the way we did it. It was the rule of thumb that you took care of your waste product and your by-product.

We're not perfect, but I think we work at it pretty diligently. The company has an environmental inspection team to go out and make sure all the plants are up to snuff. At least we did, and I assume we do today.

I think that's important, because I'm a firm believer in the adage that people will do what you inspect, not what you expect. We just react better if somebody's liable to come check on us. That's sort of like the state policeman's salutary effect along the highway. Just being there, I think, slows people down about five miles an hour. [Laughs] But we react better to an inspection than to expectations. So we try to help people who remember their environmental responsibility, as we do their quality responsibility. It's just natural that we do those things. We want to make sure everything is at the point where we want it to be.

Cassidy: What kind of civic things have you wanted or expected Hershey Foods to do in the communities where there are different departments?

Zimmerman: I think that's manifest in the way we maintain our plants and in the open invitations to visitors in the California plant and the Canadian plant. We've put money into those visitor centers. Somewhat self-interest, but also, people have a great curiosity about Hershey and the products, and we want to be responsive to their desires, so we've invested money in these communities in our own ways. But in addition to that, of course, we try to be good citizens by making the right kind of dollar contributions.

So I think the biggest way in which we make a contribution in all these communities is to encourage the plant managers and the employees to be part of that community. Say to them, "If you're working for Hershey, there are expectations of Hershey employees. You carry an encumbrance, because you have that doggone name, Hershey, and Hershey is known for its good deeds and doing the right things. If you're in Reading, PA, and part of the Ludens operation, you're now part of Hershey, and we have some things that we think you ought to be doing in the community." We encourage people to be responsible in that way.

[Begin Tape 2, Side 2]

Cassidy: This is tape two, side two, of the interview with Richard Zimmerman.

You've used the term a couple of times now, talking about the shadow of the years past. How would you define your shadow that you cast on the company?

Zimmerman: I'd have to start off with the term *temporary*, right, because--

Cassidy: Well, we all are.

Zimmerman: Right. [Laughs] You have to recognize that, for the most part, and that we influence a company most strenuously only for a limited period of time. But one would like to think that the influence is still there beyond the point that you're there. I think every company deserves a strong and vigorous leader. I might have mentioned before that one of the criteria which I didn't realize was required for a

CEO-ship is stamina. You really are putting in more hours than you anticipated, and you're on call more than you anticipated.

Cassidy: Does that change significantly from going from COO to CEO?

Zimmerman: Yes. Yes. You're moving about a lot as COO. Don't misunderstand. I told Ken Wolfe when he was my COO, "I don't think you need an office. Your job is out with the plants and the operations, and that's where you should be." That's not quite true, but it's got some ring of truth to it.

But as CEO, you're moving, but you're doing different things. You're spending two or three days a month, perhaps, in the care and feeding of the board. Acquiring new directors, keeping them satisfied as to informational needs that they have, or to arranging various things. You're putting more time into that than I realized would probably be required. Then you're making the more important presentations to analysts. In the final analysis, you're going to be the one who closes every deal of substance; just that's the way it is. You've got to be physically there. Those are the demands that are there in addition to the everyday activity.

The stamina part also comes from the wear and tear on the mind, because you all of a sudden come to the realization that unless you change something, nothing will change. Now, I don't mean to say that everybody else is slacking and not doing their job, but they're not going to change anything in their operation of a significant nature unless they at least check with you. "I want you to know what I'm doing in the department." And you realize that if you're really going to change the company, or to get it moving in one direction or the other, you have to be the instigator.

Then you go one step further. A good part of your job is cheerleading, cheerleading. Telling people how great they are and what a magnificent job they did, and that we're accomplishing what we set out to do. You're constantly urging them on, because if you don't, no one else will. And they respect the office sufficiently that they want to hear that.

I remember going to a meeting one time, and we had--I don't know--five or six hundred managers together over in the theater, and we announced a confectionery acquisition. As soon as I announced it, I looked up, and I said to the president of Hershey Pasta, "Now, Mickey, we owe you one, because we haven't had a pasta acquisition in a couple of years." And, you know, the pasta people just perked right up.

"Hey, the boss is making a commitment. We're going to get our next--the next one's ours," kind of thing. And coming out of there, people say, "Hey, that was--boy, what a great acquisition. I'm glad you mentioned that to Mickey, too," kind of thing.

You've got to be a cheerleader is what I'm suggesting, in a way that you say to people, "Boy, do we appreciate what you have done, and the opposition hasn't caught us yet, and they aren't about to." So you make a lot of things celebrations.

We had $100 million in sales in the Pasta Division. Have us have a party, you know. We had $200 million. Mickey Skinner said, "Do you think 200 million is enough a warrant a celebration?"

I said, "Have a party. When else are you going to hit $200 million? This is a milestone." Commemorate it.

Each thing of that nature, I think, deserves some sort of commemoration, because people then identify and feel part of it and feel comfortable that, in fact, they are important to the whole organization. So a lot of cheerleading goes on, and that takes more time than you think. That's what I'm talking about.

That's all in addition to the regular part of the job, in which you're reviewing everything from budgets to people moves to all kinds of things in the normal course of events.

Cassidy: In terms of that, you know, the cheerleading, was that something that you were continuing, in terms of Bill--I can see Bill Dearden doing exactly that kind of thing.

Zimmerman: Yes, Bill did that to a certain degree. Well, to a large degree, but it wasn't his--yes, maybe I looked at his example subconsciously, but, I mean, it's just part of the job, and you recognize that early, early on, that you have to be the one who really pushes out there.

Cassidy: I don't think you give yourself enough credit, because I've worked for a lot of bosses, and it's not a natural thing.

Zimmerman: It should be.

Cassidy: It should be, but it's not. I mean, it's the hallmark of a good manager.

Zimmerman: I now realize I didn't do enough of it. That's where I am today in that. I thought, "Gee, I--," and I've thought since then, there were a lot of other times I could have really said things differently or gotten more people involved or trying to have little meetings.

I used to have at least one meeting a month on productivity in which we'd gather, oh, ten or fifteen people downstairs, and we'd share a sandwich, and it was their time. I'd ask them about what they had done in their department, and what kind of neat changes they had brought about. Part of the psychological value is simple. I like to feel that when they are at home that evening, they say to their husband or their wife, "I had lunch with the chairman today."

"What?"

People have said to me, "I've been working for my company for thirty years. It's not as large as Hershey. I've never even seen the CEO." That's what I didn't want. I realize now, I wasn't out and as visible as I'd like to have been. I should have done even more than I did while I was in the position. But these thoughts occur to you a little bit later than they really should, perhaps. [Laughs] So you do the best job you can at the time.

That, I hope nobody underestimates the value of that, and I've had people come to me over the past couple of years and say, "You know, we miss that. We don't get that same kind of encouragement."

I keep saying, "Hey, look, you'll never hear me talk about the current management, because I helped to put them there, and I helped to train them, and what you're saying is I didn't do a very good job." But it's not my job to criticize what they're doing. There's a different style, and I'm sure that they're doing the very best that they possibly can. That's the way I feel about it. And yet I realize that there are opportunities that I missed, that I might have done differently with that perfect hindsight which I now have.

Cassidy: Yes, hindsight is better than [unclear].

Zimmerman: Right. [Laughs]

Cassidy: To me, it always seems that Hershey has sort of struggled with, what role its history is playing in its present-day operations, Was that ever an issue for you?

Zimmerman: It's an interesting question. You might well be right. I think Hershey's history has--we've probably underplayed it a bit. Many times I have looked at Mr. Hershey's life and used that as examples in discussions with people. Yet to look at the history, I'm not sure that I ever used that as well as I could. I do remember a number of occasions in which we would talk about "Does our stock ownership make a difference to this company?" I think all of us collectively have come to the opinion it absolutely does. It presents a moral tone through the company which is not present for many others.

The mere fact that you've got these kids at the Milton Hershey School who are highly dependent upon this company for their future makes a difference in the way we approach things. We know the importance of profits. If anybody doesn't, I keep reminding them of the fact that the Milton Hershey School depends, not exclusively and not entirely, but to a great degree, upon our ability to pay a dividend. We pay dividends only out of earnings, so we've got to have earnings.

We also need to prevent the ravages of inflation from hitting the Milton Hershey School, because there is only one organization in town that is set forth in perpetuity, and that's the Milton Hershey School. Not Hershey Foods Corporation. Mr. Hershey never said that the Milton Hershey School must maintain our company as an investment. He didn't expect that. He was too smart for that. We could pass from the earth if we don't do our job, but the Milton Hershey School has got to stand forever.

That's quite an encumbrance upon this company, and that's why I think there is good wisdom in diversifying the trust. I'd never argue against that at all. I think some of these points do make a difference to the people who work for us. I'd like to think so, and I believe it's correct.

On the other hand, I've had people who say to me, "Gee, since we, in essence, have a sort of a benign ownership, and the needs of the school are not pressing at the moment--we can see that there's no way they could spend our entire dividend--could we invest deeply in markets and put another $100 million into the marketing program and take it off the bottom line, and we don't have to increase the dividend next year?"

"Well, that's a possibility, but when will you make that up? You're telling me that three years from now, you will have made up that 100 million-plus?"

Well, the response very often is, "I'm not sure we could do that."

I said, "Oh, what you want to do is just drop down a notch from 100 million or whatever, and then build from there."

"Well, it would be important to our market share."

"You're also telling me that you can't build market share under current conditions. Is that what I'm hearing?"

"Well, maybe we can't."

The argument begins to pass away after a while. But there are people who believe that because we have such a large owner, we can therefore afford to be a little less aggressive in terms of bottom line. And that's one of the more difficult jobs for a chief executive officer, because while you can't manipulate the bottom line, you do have the ability to turn off and turn on certain expenditures that will affect the bottom line. Many of those are long-term expenditures. So depending upon how you want to crank open that spigot for certain expenditures, you can affect the bottom line, and you must be very careful.

I think I've told this story on this tape, that I've been approached on a number of occasions by people who said, "Okay, which do you want, Zimmerman? Do you want this year's bottom line to increase, or you want market share to increase?"

My answer has always been, "Yes. I don't have any choice between those two. I need both simultaneously. I need both simultaneously. So do you, for your career and for your future and for this company's future."

Cassidy: But how important do you think that, to the employees, is knowing the company's history?

Zimmerman: I think it's important.

Cassidy: You think it gives a real continuity--or evolution is probably the better word--of the company in its history that speaks to today is applicable to today?

Zimmerman: To some degree, yes. I wouldn't become overwhelmed with it. I don't think it would be as important to the employees to be constantly reminded of the history and what went on in 1918 or 1923, as it is to try to tell them what's going on in today's marketplace and the vagaries of our businesses and things of that nature.

On the other hand, it's not by accident that everywhere you go in this building, the only office building Mr. Hershey didn't build in our system, it's no accident that as you walk around here, you see large displays of the early times of this company. It was done deliberately to give us an anchor into the past. I have reason to believe that the employees look at those montages and begin to relate, at least in some ways. "Oh, my, look at what these people looked like back in 1930." If nothing else, they can see that.

But in other cases, it's very meaningful to them that this is our origin, this is our history, and this is what we have come from. It's a bit like looking at a photograph album. I don't look at my ancestors, my grandparents and that, very often, but when I do, I get a kick out of it. I am aware of when the first of my ancestors came over here--about 1732--where they came from, and items of that nature. I think that it's important to know those things, but I think maybe my grandchildren will care about that at some stage in their life, but not today.

So I think the history is important, but I don't know that we should dwell in the historical context. But it's good. It's good to have it. It's good to have it laid out for us from time to time. I like very much stories, anecdotes, that can be passed on about people who were in responsible positions under Mr. Hershey, or anecdotes about him that have applicability in today's business time. And there are a number of those, which I've used. Bill Dearden has used; Harold Mohler has used them. Anyone has, from time to time, and we have a great deal of fun with them.

Very often they are humorous, and the more humorous ones are the ones that generally stay with us. We're more apt to remember them. Those anecdotes are interesting. They're a good part of history, and they also give us lessons at the same time. Those are the most beneficial, I believe, and I've used those with many employees.

I've used those many times, the story about Mr. Hershey and not advertising. First of all, it's untrue. I mean, he was the kind of guy that if he had to advertise, he would have been glad to, but I always tell the story, and the punch line is I don't believe Mr. Hershey was ever against advertising. He was just against paying for it, and really, it's a line which I didn't coin, but I think it's particularly appropriate.

Mr. Hershey was not generous in terms of his workers. We know that historically. Sam Hinkle, who I think had reason to know, swears that the sit-down strike was all about a nickel an hour, and it could have been avoided easily. I think he says so in his book, does he not? In his manuscript, whatever it is. There had been times when Mr. Hershey was, I think, penalized by being just a little tightfisted. On the other hand, he was the most generous of all people. But he, like so many of us, have at least two sides to our personalities.

Those are interesting stories to tell, especially when they illustrate a point to new employees. We used to indoctrinate all of our new employees, office employees; we didn't in the plant. We'd very often have them here, and I used to tell anecdotally many of the things about the history of the company. I think that's a good way to use that history and to bring it to life.

Cassidy: I think we've covered everything.

Zimmerman: Good.

Cassidy: Have I forgotten things? I'm sure I have.

Zimmerman: Well, if you have, you--[laughs]

Cassidy: It's too late.

Zimmerman: No, if you have, I can't think of them.

Cassidy: Well, that's a good sign.

Zimmerman: And then I expanded so greatly on some of these questions that you asked that I've rambled a bit.

Cassidy: [unclear] another forty-five minutes [unclear].

Zimmerman: Well, I imagine. I imagine. That's one of my main faults, I guess, not answering the question directly from time to time, but trying to put it into context.

Cassidy: That could be a great strength as well. The questions that I have about the school and the trust and the foundation, the problem is, is that, you know, you come on in '81, and you deal with major growth of the foundation. I don't have anyone that's really been able to talk to me about the foundation; being able to talk about the terms of the trust company, you know. It changes dramatically from that date, the sale of the bank, and the Milton Hershey School ...

So I really think we need to start getting down to the tumultuous years. It seemed endless, but really it was only from 1991, the whole of 1990, to '93 but it was really endless in terms of [William] Fisher leaving and Dr. O'Connor coming in and she leaving and [Rod] Pera and ... It seemed to go on and on forever, but when you look at it, it really was just over a short period of time. I don't know. Do you want to do this now, or do you want us to set aside some time to come back?

Zimmerman: Well, how long do you think it will take? It's about a quarter to one.

Cassidy: Yes. It's all up to you. I'm hoping you have enough to say to take more than half an hour. Maybe kind of your--

Zimmerman: I might well. Well, there are some attributes there. There are some situations there that I don't quite know how to handle.

Cassidy: If we do this in another interview, it would be very simple, because we, you know, just close that particular interview on those years.

Zimmerman: That might be the better way. I don't think there's anything I would mind immediate publication about Hershey Foods. I could be wrong, but I don't think that there's anything there in this one.

Cassidy: I think there are things that need to be recorded, but I think maybe another [unclear].

Zimmerman: I think so, too. In that case, I'd be more prone to expand upon some of the subjects, and if we can assure its confidentiality for some time in the future, maybe then we ought to put aside a little time, because I'm afraid today I might give one- or two-word answers to some things. [Laughs] If I know it was going to be part of a rather quick publication.

[End of interview]