THE MARKET

Chocolate continues to be America's favorite flavor when it comes to confectionery products. Americans ranked eighth worldwide in the consumption of chocolate, with England having the highest rate of consumption. In a recent poll, 52 percent of American men and women voted for chocolate as their favorite flavor in confectionery products and desserts. Within that group, 65 percent chose milk chocolate and 27 percent voted for dark chocolate. The remaining 8 percent did not have a preference.

Chocolate sales have been increasing during the past year, possibly due to the news of antioxidants found in chocolate and the health benefits provided by its consumption. Halloween is the number-one candy-consuming holiday in the United States, followed by Christmas, Easter, and Valentine's Day. Retail candy sales in America were an estimated $24 billion last year. Retail chocolate sales alone were worth $13.1 billion (sources: National Confectionery Association, U.S. Department of Commerce).

ACHIEVEMENTS

Today, the M&M'S® Brand is sold in over 100 countries and is the largest, most popular confectionery brand in the world. In North America, M&M'S Candies are the number-one brand and is 50 percent larger than the number-two brand. Over the last 20 years, sales have grown by more than 1,000 percent, rocketing the brand to approximately $2 billion in retail sales, while growing at twice the rate of the category and achieving nearly double-digit compound growth since 1995. M&M'S has maintained its leadership in the category by its commitment to making its essence of colorful chocolate fun, fresh, and relevant to its millions of loyal and new consumers.

In 1941, the M&M'S Brand transformed chocolate from a dark or light brown product into a colorful, bite-sized chocolate treat. Even today, more than 60 years since its launch, no one has been able to encroach upon this truly unique product platform or positioning. In fact, the unrivaled format of M&M'S has enabled the brand to become the mainstay of the confectionery category, continually driving growth for over 50 years. In a time of the five-cent candy bar, M&M'S led the trend from impulse candy buying to in-home future consumption. The brand also led the way into mass merchandising in the 1960s and more recently into online ordering. Whether driven by being the first confectionery product to advertise on TV in 1954, or the brand's constant commitment to innovative promotions like the 1995 "Color Vote," or its imaginative novelty packaging, M&M'S has clearly set the industry standard. In short, an innovative product format, coupled with a steadfast positioning, elevated M&M'S to the position of confectionery leader. Today, the M&M'S Brand has established itself as an American icon brand.

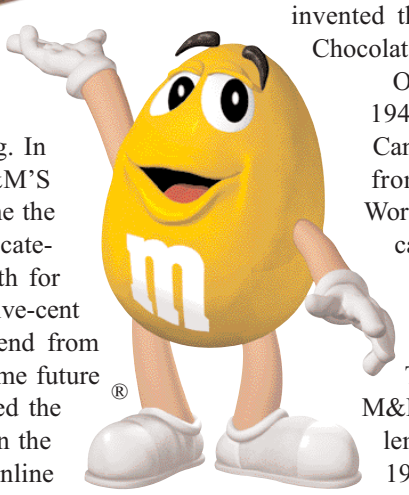


HISTORY

Following the path of nearly every other great American dream, M&M'S Chocolate Candies came about as an idea garnered from a faraway land, gaining great popularity and finding success across the world and even in space. As the story goes, Forrest Mars Sr. visited Spain during the Spanish Civil War and encountered soldiers who were eating pellets of chocolate in a hard, sugary coating. The coating kept the chocolate from melting. Inspired by the idea, Mr. Mars brought his dream back to America, went back to his kitchen, and invented the recipe for M&M'S Plain Chocolate Candies.

Originally sold to the public in 1941, M&M'S Plain Chocolate Candies earned a solid reputation from American GIs serving in World War II who first enjoyed the candies in their food rations. Chocolate candy that could survive in hot weather was unheard of during that time. The colorful candy shell on the M&M'S candies solved that problem, and, after its introduction in 1941, Americans could enjoy chocolate in the form of brown, yellow, orange, red, green, and violet M&M'S Plain Chocolate Candies all year.

During the 1950s, M&M'S Chocolate Candies were quickly becoming a staple in the American household. Advertising helped increase the popularity of these irresistible candies, using the famous





slogan, "The Milk Chocolate Melts in Your Mouth — Not in Your Hand."

Since their creation, M&M'S had served America's military, so it was only natural that the candies were officially made part of the American space program as well. They became part of the first space shuttle astronauts' food supply in 1984. In 1984, M&M'S made their first trip into space on the shuttle and have been a part of shuttle missions ever since. Aside from venturing into space, M&M'S Chocolate Candies also began venturing out of the United States and began to be sold internationally. Also in the 1980s, M&M'S made an appearance at the Olympic Games, as the "Official Snack Food" of the 1984 Games in Los Angeles.

As the 20th century came to an end, the M&M'S Brand Characters proclaimed themselves the "Official Candy of the New Millennium."

THE PRODUCT

M&M'S Chocolate Candies are a unique blend of the highest-quality milk chocolate with a strong taste that is not too sweet and not satiating. Individual candies are covered with a thin, crisp, colorful sugar shell that imparts the unique M&M'S texture. The shell colors are bright, shiny, and lustrous. The milk chocolate inside and the crisp outside sugar shells provide all the taste — the color has no taste.

M&M'S are made in nine varieties: Milk Chocolate Candies (the original M&M'S), Peanut Chocolate Candies, Peanut Butter Chocolate Candies, Almond Chocolate Candies, Crispy Chocolate Candies, Mint Chocolate Candies, MINIs Milk Chocolate Candies, Milk Chocolate and Semi-Sweet Chocolate Mini Baking Bits, and COLORWORKS Chocolate Candies.

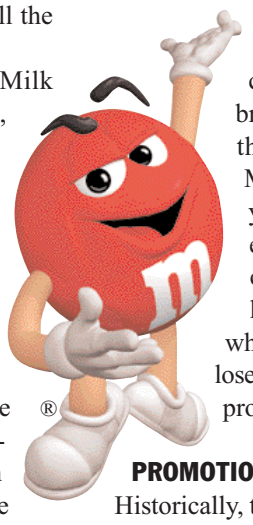
M&M'S COLORWORKS are a collection of 21 vibrant-colored Milk Chocolate Candies that can be selected in any combination to create personal color choices. They can be used in a colorful blend to add innovative touches to parties, conferences, events, and as gifts.

RECENT DEVELOPMENTS

Over the years, the M&M'S Brand and the M&M'S Brand Characters have evolved into true American icons. They were "C" rations in World War II (MREs today) and since 1984, space food for U.S. astronauts, which earned them a permanent display at the Smithsonian Institute. They are popular costumes for Halloween, and in recent years the "M" Characters have participated in the Macy's Thanksgiving Day Parade. In Las Vegas, "M&M'S WORLD" occupies a 28,000-square-foot "retail-tainment" store on the Strip. In fact, M&M'S is so much a part of the lives of Americans that during the brand's 1995 "Color Vote," over 10 million consumers voted for the new color of M&M'S Chocolate Candies.

To young and old alike, the brand is a special part of our everyday lives, either as a delicious snack or as a tool to teach children counting and colors. The consumers' relationship with the brand is further manifested through the immense popularity of the M&M'S Spokescandies. After 37 years, they are more popular than ever, allowing the brand to successfully expand into the world of licensed merchandise. Simply, while many mature brands begin to lose relevance, the M&M'S Brand has proven its appeal to be evergreen.





PROMOTION

Historically, the M&M'S Brand has had one of the most memorable taglines: "The Milk Chocolate Melts in Your Mouth — Not in Your Hand." Along with that slogan, M&M'S promotion has been distinguished by the presence of the brand's famed Spokescandies. In 1995, along with the legendary "Color Vote" promotion when Blue joined the characters Red and Yellow in life, the Spokescandies transformed from cartoon characters to real-time animation, bringing the characters to a more celebrity-like status.

In 1996, *USA Today* rated the advertising campaign featuring the characters number-one among more than 60 campaigns. The characters' popularity with consumers reached new heights, surpassing that of Mickey Mouse and Bart Simpson, according to Marketing Evaluation, Inc.

That same year, the characters went "Virtual Hollywood" on the Internet with the opening of the M&M'S Studios (*www.mms.com*). Visitors to the site find themselves within the star-studded, glamorous world of the M&M'S Brand Spokescandies. The site employs Shockwave and RealAudio technology for the characters' lifelike animation and sound.

Not only were the characters having fun on the Internet, they were speeding around the NASCAR Winston Cup Series as the title sponsor of the #36 M&M'S racing team. Ernie Irvan drove the car in the early years followed by Ken Schrader after Irvan's retirement. For 2003, Elliott Sadler will share the track with the famous M&M'S Spokescandies in the new #38 car.

A highlight of 1997 was the debut of Green, who was not only the first female among the characters, but was also a talented author. She starred in a number of popular commercials and "toured" the country promoting her biography, *I Melt for No One*.

In 2000, a major event changed the ever-famed M&M'S Plain Chocolate Candies. M&M/MARS decided that the candies were just too good to be called "Plain," and their name was changed to M&M'S Milk Chocolate Candies.

In 2002, the world was asked to choose the next color of M&M'S in the Global Color Vote™. More than 200 countries participated in the selection of purple as the newest color to join the bag for a limited-time promotion.

BRAND VALUES

The M&M'S Brand has represented superior quality and enjoyment to customers since Mr. Mars developed the brand in 1940. The appeal of M&M'S Chocolate Candies is universal, crossing age, gender, and national boundaries, bringing colorful chocolate fun to everyone.

THINGS YOU DIDN'T KNOW ABOUT M&M'S CHOCOLATE CANDIES

- More than 146 billion M&M'S® Chocolate Candies are produced annually.
- A line of all the M&M'S® Chocolate Candies produced each year would encircle the globe 56 times, go to the Moon and back 5.9 times, and travel from New York City to Los Angeles 586 times.
- The "M" is put on each M&M'S® candy with a machine designed for that specific operation. It is calibrated to apply the letter without breaking the candy shell. The process is similar to offset printing.
- Four to eight hours are needed to make one M&M'S® Chocolate Candy, depending on the variety of the candy — milk, peanut, almond, peanut butter, or crispy.
- The original M&M'S® Chocolate Candies were somewhat larger than the present product and sold in a tube for five cents.