

Russell Stover CANDIES

THE MARKET

Boxed chocolate represents a sizable niche within the \$9.3 billion chocolate confectionery category. The segment generates more than \$1 billion in annual retail sales, with U.S. per capita consumption of boxed chocolate approaching a half pound per year.

Seasonal sales are key to the segment's performance, with Christmas, Valentine's Day, and Easter contributing a sizable portion of annual sales.

The boxed chocolate market is highly segmented with hundreds of competing domestic and foreign confectioners. In recent years, the leading U.S. candy bar manufacturers have entered the boxed chocolate market by extending their existing brands.

ACHIEVEMENTS

Russell Stover Candies may seem quiet and unassuming, but it has grown into the nation's largest manufacturer of boxed chocolate. Its three brands — Russell Stover, Whitman's, and Pangburn's —

account for more than 60 percent of all boxed chocolate sales in the United States. Russell Stover Candies is the third-largest U.S. chocolate manufacturer behind Hershey and M&M Mars.

Russell Stover candies are sold in 60 company-owned retail stores and through 70,000 wholesale accounts in the United States, Canada, Puerto Rico, and Australia. The company manufactures nearly 100 million pounds of chocolate annually. More than 4,500 Russell Stover employees continue to make candies with the same small-batch techniques and original recipes used by the Stovers more than 80 years ago. Today, most candy making processes are still accomplished by hand. This painstaking dedication to quality has allowed Russell Stover Candies to become America's number-one seller of boxed chocolate.

HISTORY

In 1923, Clara and Russell Stover equipped the basement of their Denver bungalow home with candy-making equipment and started making "Mrs. Stover's Bungalow Candies."

They opened their first store in December of that year, selling 120 pounds of chocolate and raising \$90 the first day. Twelve months later, they had five stores in the Denver area and 30 employees working in the basement of their home.



The Stovers never cut corners as they looked to grow their business. When machine-dipping came along to speed candy manufacturing, the Stovers resisted. Hand-dipping was more costly, but produced a thicker chocolate coating and made the most attractive finished pieces.

By the time of Russell Stover's death in 1954, Russell Stover candies were sold in 35 company-owned retail stores and some 2,000

department stores throughout the Midwest. The company operated factories in Kansas City, Denver, and Lincoln, Nebraska.

In 1960, Louis Ward, the company's longtime box manufacturer, purchased the company. Ward's first goal was to expand the distribution of the brand nationally. His critical challenge became distributing perishable chocolates while maintaining the company's reputation for freshness.

Ward strategically added manufacturing plants and distribution centers throughout the country. He insisted that all accounts be fixtured in the same manner and receive the same sales

and product distribution support regardless of their size. While this format was not new to the candy bar industry in the 1960s, the boxed chocolate category had never seen this style of support.



By 1980, sales had reached \$140 million, and the company employed 3,500 people at five factories. The company's products were distributed through 300 company-owned retail stores and approximately 18,000 wholesale accounts.

A significant advancement occurred in the mid-1980s when the company invented a way to further automate the packaging of handmade assorted chocolates. Prior to this innovation, no candy company in the world could automate the packaging of chocolates into thin paper cups. This breakthrough allowed the company to significantly increase production and meet the demands of America's changing retail landscape.



Small independent merchants saw new competition with the growing popularity of mass merchants. Many manufacturers feared that selling to these new mass merchants would lessen the perceived quality of their brands. Ward made the critical decision to sell to this new distribution channel.

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In 1993, Russell Stover Candies purchased Whitman's Candies, one of the crown jewels of the candy industry. The Whitman's Sampler™ is the company's best-selling single assortment.

Mr. Ward's innovations and the subsequent efficiencies they brought to the company fueled Russell Stover's growth. Ward made his two sons co-presidents in 1993 when his health began to decline. Lou Ward died in 1996.

The company has truly taken flight under the leadership of Tom and Scott Ward. The Ward brothers have continued to use their father's disciplines and principles, as well as the Stover's recipes and candy making techniques, in the tradition that is Russell Stover Candies.

This tradition has allowed the company to not only survive the past 80 years, but grow from a bungalow kitchen to the number-one boxed chocolate brand in America. Lou Ward summed up the brand's success, "Our sales growth reflects the consumer's desire to buy a better quality product at a reasonable price."

THE PRODUCT

The Russell Stover brand has been built on the legacy of small-batch candy making. Nothing is more important than the making of great-tasting candies. The company still makes its chocolates



in small batches, according to Clara and Russell's original recipes. These methods may seem a bit old-fashioned, but small-batch candy making produces a superior taste. Cherry cordials are still hand-dipped, toffee sticks are still made with real butter, peanut butter crunch is still hand-pulled. Nothing is rushed.

Whether it's Russell Stover's famous chocolate assortments or Valentine heart boxes, America's best-selling Whitman's Sampler™ or a box of Pangburn's Millionaires™, more than 1,000 everyday and seasonal products have made Russell Stover one of America's greatest brands.



RECENT DEVELOPMENTS

Today, consumer interest in healthier snacks and candies is at an all-time high. Russell Stover's newest "lifestyle" product lines — Sugar Free, Net Carb, and Calorie Smart — are helping

consumers lead healthier lifestyles without sacrificing the great taste for which Russell Stover is famous. Russell Stover Candies has become America's leading producer of sugar-free and low-carb chocolates with more than 50 everyday and seasonal products.

PROMOTION

From the beginning, advertising was limited to local newspapers during major gift-giving seasons. Prime store locations and the selection of prominent merchant agents were considered the most valuable means of promotion. Agents were carefully selected and required to order fresh stock each week. Prominently displayed Russell Stover fixtures were heavily promoted by the agents through window displays and other point-of-purchase material.

Significant national television and print advertising began in 1993, but a prominent fixture program remains at the heart of the company's promotional activities. Today, more than 40,000 permanent fixtures display Russell Stover candies

at America's leading retailers. The strongest retailers in the country, both big and small, rely on the everyday fixture program to give them a prestigious anchor to their card, floral, and candy departments.

BRAND VALUES

The success of the Russell Stover brand builds on family tradition and maintaining a few simple principles: produce the highest-quality candy possible, sell it at an affordable price, and follow through with exceptional service. An unwavering commitment to these values is the essence of Russell Stover Candies.

THINGS YOU DIDN'T KNOW ABOUT RUSSELL STOVER CANDIES

- Russell Stover is credited with inventing the Eskimo Pie in 1921.
- Russell Stover Candies is the leading hand-dipper of premium chocolates in the United States. The company hand dips more than 25 million pieces each year.
- All Russell Stover candies are made in America. The family-owned company operates five candy factories in four states and employs more than 4,500 people.
- Russell Stover candies were judged America's best-tasting by a distinguished panel of leading chefs from the American Culinary Institute.
- For its first 20 years, Russell Stover Candies was known as Mrs. Stover's Bungalow Candies.
- Russell Stover Candies was awarded the prestigious Kettle Award, the confectionery industry's Oscar, in both 1947 and 1994.
- It was a box of Russell Stover chocolates that led Forrest Gump to recall, "My mama always said, 'Life is like a box of chocolates. You never know what you're gonna get.'"

