

# Operators Beat Revenue Numbers

## With New Locations And Services

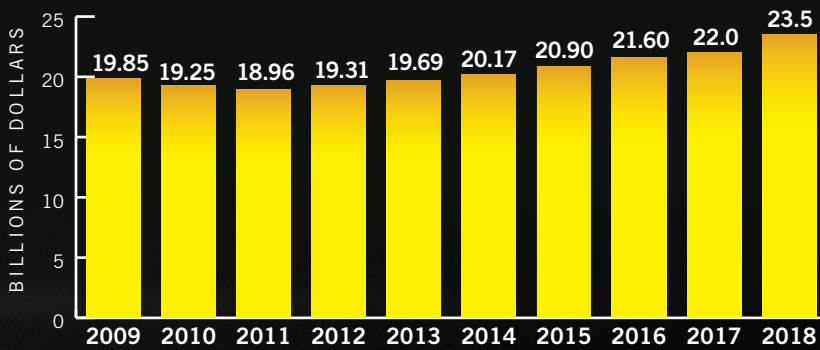
In 2018, adding micro market and vending locations along with pantry services drove revenue increases and higher industry worth.

*By Emily Refermat, Editor*

Over the past 12 months, convenience services operators have been busier than usual. Revenues grew 7 percent on average, making 2018 a record-breaking year for operators. New business and services boosted sales and were leading drivers of success, especially in the micro markets and office coffee service/pantry segments. The combined percentage of sales for these two categories produced 25.1 percent of the 23.5 billion in revenue for the entire industry, up \$1 billion in additional revenue for 2018 over 2017's amount. Both look poised for future growth as well, especially as strong economic indicators mean more services will be needed to serve employees and customers.



**CHART 1A: INDUSTRY REVENUE IN BILLIONS**



**CHART 2: OPERATOR SALES**

SIZE	REVENUE RANGE	% OF 2018 OPERATORS	PROJECTED 2018 SALES	% OF 2018 SALES
Small	under \$1M	56.5(%)	\$1.9B	7.9(%)
Medium	\$1M - \$4.9M	25.3	4.4B	18.6
Large	\$5M - \$9.9M	3.6	1.9B	8
Extra large	\$10M +	14.6	15.3B	65.2

**Size breakout flat**

The breakout of operation by size changed little from 2017 to 2018, with the majority being small operators that contribute just under 8 percent of the industry’s overall revenue (chart 2). The profitability of these businesses is enhanced by the minimal investment in staff and technology that mid-sized and larger companies need to be more efficient and handle a larger customer base or multiple locations. However, this smaller segment is also where we see the most turnover as small companies are acquired by larger ones. The largest operations are driving more than 65 percent of the revenue for the industry.

**New business booms**

A large percentage of operators – 68.2 percent – added new accounts in 2018. This is the highest in five years (chart 3). Manufacturing and office accounts, which made up the bulk of locations, both increased in 2018. Low unemployment, reason-

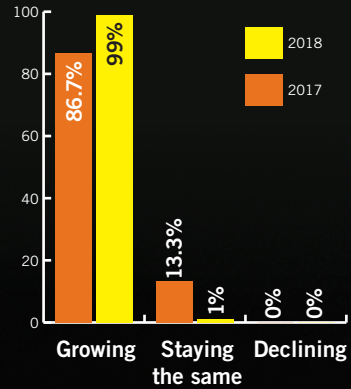
able inflation and a positive gross domestic product in the first quarter all point to a strong economy. This makes businesses more profitable, and more likely to invest in employee perks and services, which in turn produces better revenues and new locations for operators. There were also increases in hotel and restaurant locations while operators reported a decrease in the number of retail sites and elementary schools served.

When just micro markets were considered, the percentage of operators that reported adding locations jumped to 85.7 percent (chart 3D).

**65.2%**

*of the industry's revenue is made up of 14.6 percent of the businesses*

**CHART 1B: MICRO MARKET 2-YEAR REVIEW**



Many of these locations were likely conversions from vending machines to micro markets, although quite a few were new locations. Operators reported converting cafeterias to micro markets or micro market hybrids that allow both cashier checkout during peak hours and self-checkout the rest of the day. This type of service saves the location money while offering an employee benefit. Micro markets continue to have a better customer perception than vending machines.

**Micro markets continue to grow**

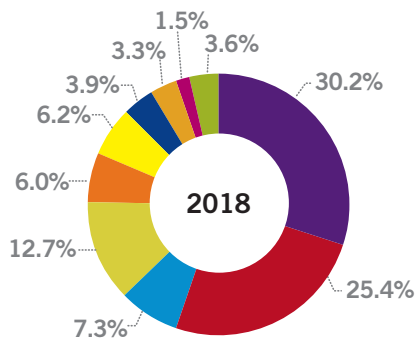
The industry added approximately 1,658 micro markets in 2018, according to operator responses. Most of those were in manufacturing accounts, which represented 47.1 percent of the micro market locations in 2018, a slight increase from the year before (chart 3). Hotels, hospitals and retail establishments also saw increases.

“Retail establishments” might be a misnomer. In some cases, operators provide car dealerships and convention centers as examples of retail micro market locations. In other cases, the retail establishment term is used for a micro market in a secured, central location that serves a number of businesses, including at least one retail establishment.



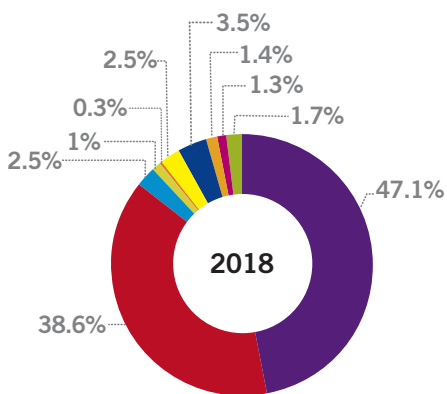
**CHART 3A: MACHINES BY LOCATION**

- Manufacturing
- Hospitals, nursing homes
- Other
- Universities, colleges
- Offices
- Retail sites
- Hotels/motels
- Correctional facilities
- Elementary, middle, high schools
- Military bases
- Restaurants, bars, clubs



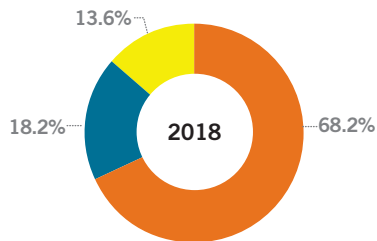
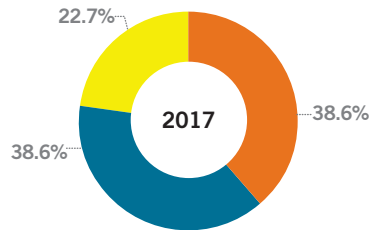
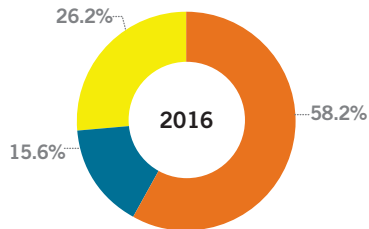
**CHART 3C: MICRO MARKETS BY LOCATION**

- Manufacturing
- Universities, colleges
- Offices
- Correctional facilities
- Retail sites
- Military bases
- Hotels/motels
- Restaurants, bars, clubs
- Elementary, middle, high schools
- Hospitals, nursing homes



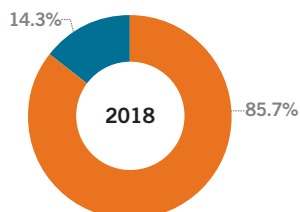
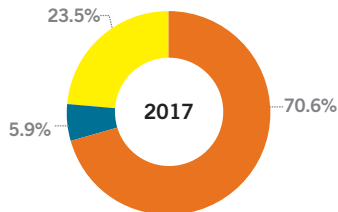
**CHART 3B: NUMBER OF LOCATIONS SERVED**

- Increased
- Remained the same
- Decreased



**CHART 3D: NUMBER OF MICRO MARKET LOCATIONS SERVED**

- Increased
- Remained the same
- Decreased



Office-type locations saw a decrease in micro market placements in 2018. Offices typically have lower employee counts than manufacturing facilities. Also, the employees often make enough per hour to eat away from the office with extended lunch breaks, which can mean fewer people visit the micro market in favor of off-site locations and decreased micro market success.

**Micro market minimums shrink**

The number of smaller locations served by a micro market continues to rise. In 2018, the percentage of operators who reported that their smallest micro market locations had fewer than 50 people increased to 40 percent, up from 26.7 percent the year before. The popularity of tablet-based checkout systems or mobile checkout at markets makes smaller locations more viable options.

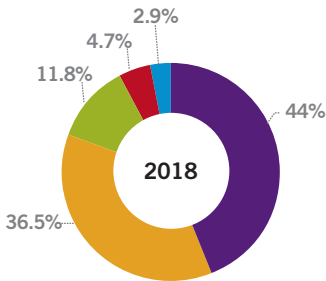
There is more innovation being made by technology suppliers in serving these smaller markets. Technology unveiled at the 2019 NAMA Show included more low-cost checkout systems. There were also payment systems on vending machines that can act as a scanner for nearby snacks or food, taking the place of a kiosk. The future will be in utilizing these hybrid technologies and expanding into more retail and public venues with locked cooler systems and cashier-less stores also displayed at the recent industry trade show.

2 out of 5

*respondents said theft was the biggest challenge for micro markets*

**CHART 4A: PERCENTAGE OF EACH TYPE THAT MAKES UP PLACED VENDING MACHINES**

- Cold beverage
- Hot beverage
- Glassfront
- Frozen only
- Refrigerated food



Estimated Total vending machines

**3,504,566**

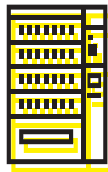
in 2016

**2,103,473**

in 2017

**2,084,500**

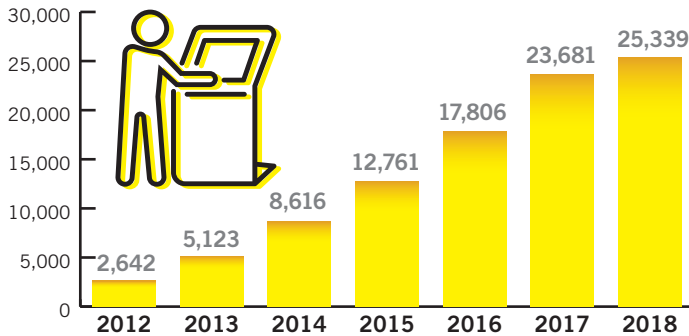
in 2018



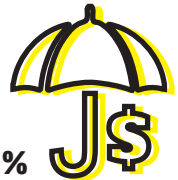
**CHART 4D: AVERAGE SHRINKAGE RATE IN MICRO MARKETS**

	2017	2018
0%	0%	0
1%	13.3	0
2%	33.3	35
3%	20.0	5
4%	6.7	6.7
5%	6.7	20
6%	0	14
>7%	6.7	19.3
I don't know	13.3	0

**CHART 4B: ACTIVE MICRO MARKET LOCATIONS**

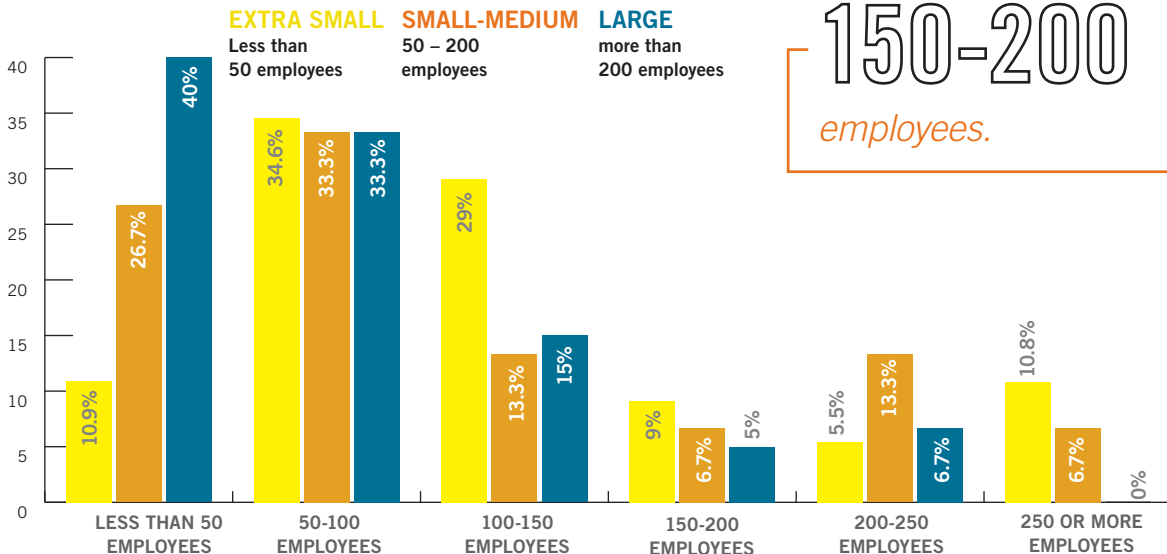


**CHART 4E: MOST COMMON LOSS PREVENTION TECHNIQUES, AS A %**



	2018
Regular market inventory	80(%)
Hired loss prevention employee	60
Screens showing canceled orders	60
Signage about theft in micro market area	60
Camera feed displayed above kiosk	40

**CHART 4C: SMALLEST LOCATION WHERE A MICRO MARKET IS CURRENTLY PLACED**



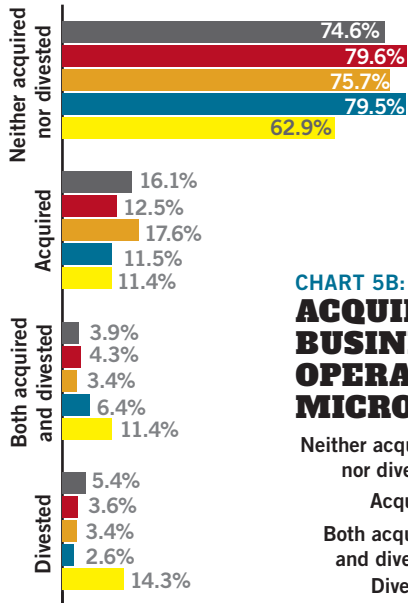
The average micro market is at a location with

**150-200**  
employees.

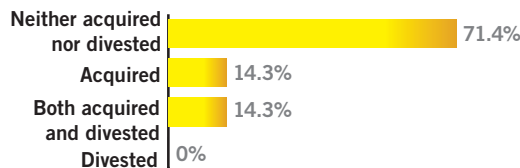


**CHART 5A: ACQUIRED OR DIVESTED BUSINESS**

● 2014 ● 2015 ● 2016 ● 2017 ● 2018

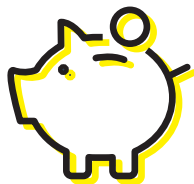
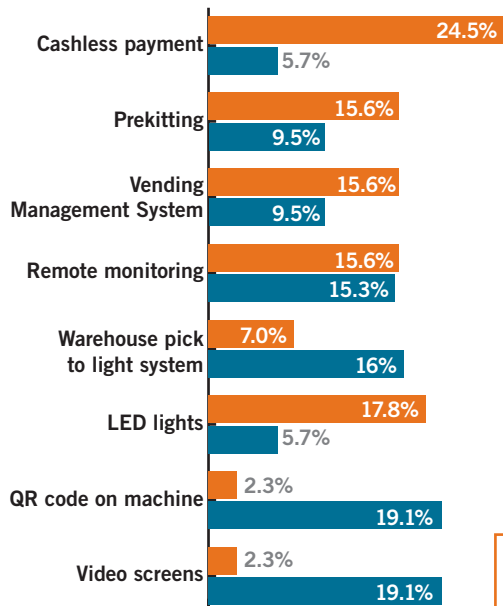


**CHART 5B: ACQUIRED OR DIVESTED BUSINESS BREAKOUT FOR OPERATORS ALSO SERVING MICRO MARKETS IN 2017**



**CHART 6A: TECHNOLOGY RANKINGS, AVERAGED**

● Great Investment - ROI  
● Don't use it/like it



*Percentage of vending machines that accept cashless payment, such as debit cards, credit cards or mobile wallets*

59%

**Equipment count**

The reduction in vending machines appeared to have slowed in 2018 with the vending machine estimate at 2,084,500 (chart 4). While the deceleration can be attributed to fewer accounts converted to micro markets, operators cited other reasons as well. Respondents noted a desire to diversify, growing in both micro market and vending machine locations. Operators are also using their surplus of equipment in accounts that would not have warranted a vending machine in the past. Smaller locations near larger vending accounts can now be stocked more profitably with a refurbished machine and prekitting, making the sites profitable. Some operators are choosing to place more machines at existing vending locations as well to reduce the number of service visits required per week. The count next year will better illustrate if the industry has reached the end of vending machine removal or if this year was an anomaly.

While chart 4B makes it look as though the number of glassfront vending machines in 2018 decreased compared to 2017, it is likely due to the addition of the refrigerated food vending machine. In previous years, that type of machine was not broken out. When the percentages for refrigerated food and glassfront vending machines are combined, it's 48.3 percent, much closer to the glassfront percentage from the year before.

**Cash still tech king**

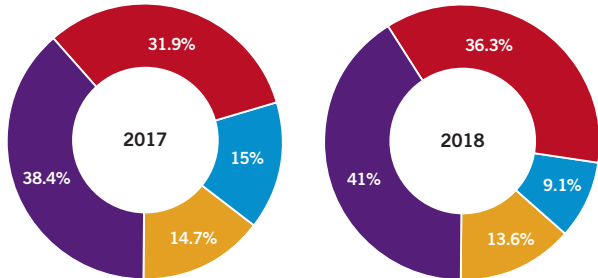
The addition of cashless acceptance was touted as successful for more than one operator in 2018. It is generally accepted that sales will lift between 20 to 30 percent once cashless acceptance is added to a high traffic vending machine, despite higher operating costs due to transaction fees and processing fees.

While cashless has helped revenues, fewer operators called it a "Great Investment" in 2018, with



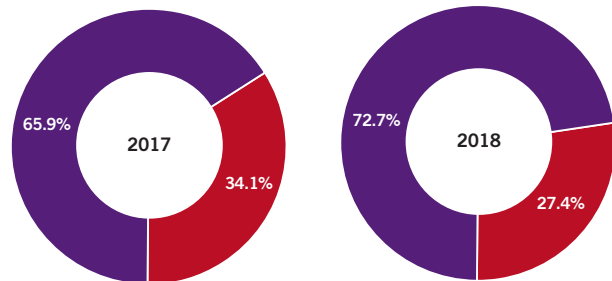
**CHART 6B: VENDING DATA COLLECTION TRENDS**

- Telemeter or cashless device remotely/using the cloud
- Manual process (such as paper and pencil) on location
- Handheld device on location
- Smartphone or Tablet (Apple or Android) on location



**CHART 6C: VENDING MANAGEMENT SYSTEMS**

- Use a VMS
- Don't use a VMS



24.5 percent doing so compared to 25.3 percent in 2017 (chart 6A). This slight dip was likely due to many in the industry already using cashless and looking at other technologies to decrease costs and increase revenues, because cashless was still the highest ranked technology investment.

Vending management systems picked up a few percentage points in 2018 as well in its ranking. Now more than 70 percent of operators use a system to analyze product sales data and better create profitable planograms. Connected vending machines using telemeters to collect data are now used by 41 percent of respondents, which is an increase over the last two years.

However, more than a third of operators still recorded product sales manually in 2018, which shows additional room for technology growth.

Interestingly, the ranking of LED lighting as a “Great Investment” continues to increase, reaching 17.8 percent in 2018. It was the next highest-ranking technology after cashless payment acceptance.

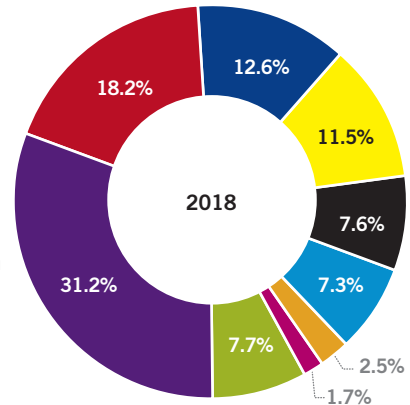
**Cold shows growth**

Cold drinks still reign in the convenience services industry. In 2018, cold drinks represented 31.2 percent of the revenue operators report annually (chart 7A) for the industry as a whole. The next nearest category

**CHART 7A: VENDED SHARE OF SALES BY PRODUCT CATEGORY**

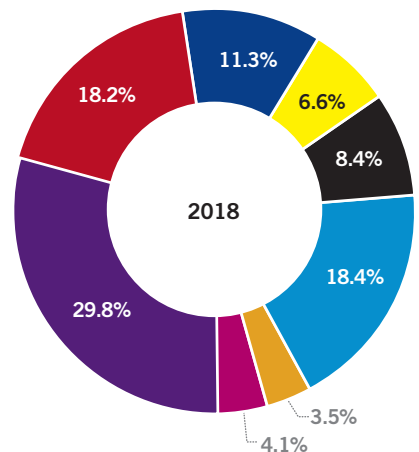
- Cold beverages
- Snacks
- Candy
- Confections
- Healthy
- Food
- Hot beverages
- Ice cream/frozen
- Other\*

\* Includes non-edible items



**CHART 7B: MICRO MARKET SHARE OF SALES BY PRODUCT CATEGORY**

- Cold beverages
- Snacks
- Candy
- Confections
- Healthy
- Food
- Hot beverages
- Ice cream/frozen
- Other\*



\* Includes cooperative service vending, condoms, toll passes, repair services, rental equipment like RedBox, chips and crackers

*Percentage of operators who reported having no cashless devices on any machines*

**9.1%**



was snacks, which represented 18.2 percent in 2018. That is a slight drop from 2017 as a result of the gains in confection and food categories.

For micro markets specifically, cold drinks was still the largest category by revenue, contributing 29.8 percent to micro markets revenues in 2018. Snacks and food products followed, representing 18.2 percent and 18.4 percent, respectively. Food, which is a strong category in micro markets, did drop in percentage of revenue in 2018 by 2 percentage points. Those were gained by the ice cream and frozen products category, which doubled from 2 percent in micro market revenues to 4.1 percent in 2018.

### Coffee services expand

Office coffee service saw the greatest increase in 2018 of all the services surveyed, growing from 7.3 percent to 9.3 percent of revenues (charts 7C,8). Part of this growth was in new office and manufacturing locations adding coffee service or enhancing existing services with higher priced options. Another part was the increase of restaurant locations (chart 3). More operators are providing high-quality, private label coffee to restaurants and cafes as well as the brewers and brewer maintenance service.

While pantry service looked to be flat in terms of percentage of revenue for 2018, operator comments confirmed this service is growing. The strength of local businesses and the need to attract employees and reduce turnover is aiding operators in growing their pantry service divisions, which generally include delivering product to locations that is paid for by the location. This is a highly tailored service that started with tech companies and coastal businesses, but has expanded to the Midwest in medium or large locations.

All signs point to continued growth for the industry. Both busi-

**CHART 7C: SHARE OF SALES BY SERVICE CATEGORY, COMBINED SERVICES**

	2015	2016	2017	2018
Vending	54.6%	78.1%	66.2%	63.8%
Micro Markets	10.2	12.9	15	15.8
OCS	6.8	5.2	7.3	9.3
Water service	2.0	1.0	4	2.3
Other	9.5	0.7	2.9	1.4
Pantry service	-	-	-	2.9
Bulk vending	2.3	0.7	1.6	1.6
Manual foodservice	9.1	0.9	0.2	0.8
Music*	1.9	0.3	0	0.8
Games*	3.0	0.3	0	0.8
Janitorial Supplies	0.7	0.1	0	0.5

\* The response rate was extremely low resulting in results being swayed by just one or two responses

**CHART 8: PROJECTED SALES BY CATEGORY, IN BILLIONS**

VENDING PRODUCTS	2018	MICRO MARKET PRODUCTS	2018
Vended cold beverages	\$4.5(B)	Micro market cold beverages	\$1.0(B)
Vended candy	1.8	Micro market candy	0.4
Vended other	1.1	Micro market other	0
Vended food	1.1	Micro market food	0.6
Vended hot beverages	0.4	Micro market hot beverages	0.1
Vended ice cream/frozen	0.3	Micro market ice cream/frozen	0.1
Vended healthy	1.1	Micro market healthy	0.3
Vended snacks	2.7	Micro market snacks	0.6
Vended confections	1.7	Micro market confections	0.2

SERVICES	2018	% CHANGE
Vending	\$15(B)	2.7(%)
Micro markets	3.7	12.5
OCS	2.2	36.1
Water service	0.5	-39.9
Manual foodservice	0.2	-51.8
Pantry service	0.7	13.6
Other	0.3	33.3
Bulk vending	0.4	-3.65
Music*	0.2	-
Games*	0.2	-
Janitorial supplies	0.1	-

nesses and consumers are buying from operators at a higher rate that shows no signs of stopping. Operators have added additional locations and service options in 2018 that benefit their bottom line. Micro markets and pantry will drive revenues especially as new technologies allow for expanded opportunity and a better user experience. | ◀

## Methodology

The *Automatic Merchandiser* State of the Industry Report is compiled from a survey sent to operators in the spring as well as operator insights and supplier input. It includes small, medium, large and extra-large full-service operations as well as snack and soda operators.

Unlike in previous years, the response rate to our survey was extremely low, just under 1 percent. As the survey produces the bulk of this report, trends are likely exaggerated and great care should be used when comparing numbers from last year to this year.