

SPECIAL MICRO MARKET ISSUE

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*Investments helped
Smith Vending grow.*



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Welcome To The Self-Serve Era

Micro market success is something we should be thanking the Millennials for driving.

We have written a lot about the changing consumer. Their desire for snack variety, healthier fresh food and convenience has led to growth in the vending segment, especially in micro markets, which currently represent over 10 percent of operator revenues. What



CUSTOMERS
are drawn to the personalized options.

is driving micro market growth at this point is not just the ability to offer a greater number of grab and go SKUs, but the ability to offer the consumer a more customized dining experience in the place where they spend the majority of each weekday. In a word — work. It's here that the ability to enjoy their favorite drink and ideal meal was most elusive (unless it was brought from home). With micro markets, operators are able to get much closer to giving this ultimate personalized dining to workers without the cost outlay for

the employer of a cafeteria. Choose a salad and then your favorite dressing. Pick and choose different options to create your perfect lunch. Choose a hot beverage recipe from the specialty coffee machine in the micro market, and then customize it by size, strength and solubles. (This last idea is a key element in the new office coffee service program discussed on page 18.)

A time to shine

Consumers love micro markets. At no other time, with no other generation, would they

have worked so well. The Millennials, the Baby Boomers and everyone in-between has adjusted to an on-the-go, snack centric eating style. Consumers are willing to pay for quality and healthier items (certain healthier items) in micro markets — especially when compared to vending. They are comfortable with self-checkout and indeed relish using technology to accomplish tasks once associated with manual processes and personnel. They've evolved the idea of breakroom refreshment with how they spend their money. That is why I argue we are in the micro market era, where we will see more of this type of service — perhaps double and triple in placements. However, it continues to be highly competitive, where successful operators must push the standards to stand out. It's a time when operators must review other relevant channels to see what is working and how they can best compete. In *Look Outside To Improve Within*, on page 24, we talk about which areas of each segment are most applicable and how operators can achieve similar benefits.

Evolve or perish

One thing that nature and business have in common is that times change, and so must those of us who wish to survive. Some operations are researching new equipment or services because they feel they need to — their competitors are offering it and they must also. While this is most certainly true, it will never produce the best results. New and evolving workplace refreshment solutions need to be driven by out of the box thinking and a proactive approach that will meet the needs of today's customer, and those of tomorrow. ◀

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U.S. Senator Roy Blunt Visits Newco Enterprises Headquarters

Karen and Joe Webster and their team at Newco Enterprises welcomed U.S. Senator Roy Blunt for an official visit to their company headquarters in Saint Charles, MO on Sept. 1. "We thank Senator Blunt and his staff for taking the time to tour Newco and to understand the challenges and opportunities involved in our industry," said Karen Webster, chief financial officer, of Newco Enterprises. "As Missouri-based business owners, we recognize the value of a positive working relationship with elected leaders in Washington, D.C. In fact, this visit follows our initial introduction we had at the NAMA Fly-In this past July."



U.S. Senator Roy Blunt visited Newco Enterprises following initial introductions at this year's Fly-In.

Senator Roy Blunt, elected to the U.S. Senate in 2010, serves as the vice chairman of the Senate Republican Conference. He also serves on the Senate Appropriations Committee; the Senate Commerce, Science and Transportation Committee; and the Senate Select Committee on Intelligence. He is the chairman of the Senate Rules Committee and chairman of the Appropriations Subcommittee on Labor, Health and Human Services, Education, and Related Agencies.

Newco is a leading manufacturer of commercial coffee and tea brewing equipment and related accessories.

facilities. It includes manufacturing facilities located in the following cities:

- Cincinnati, Ohio and
- Indianapolis and Portland, Indiana.

CCR currently owns these manufacturing facilities. The company expects to begin a series of transaction closings for these facilities in the fall of 2016 and complete them in 2017.



FreshBrew Group Strengthens, Expands Relationship With USAT

► USA Technologies, Inc. announced that it has added FreshBrew Group to its roster of ePort Connect® customers committing to fully connecting every machine to USAT's cashless payments platform.

As a result, USAT is working with the FreshBrew team to integrate over 3,000 ePorts in unattended machines across the business, as well as upgrading older equipment in an effort to make 100 percent of FreshBrew's machines cashless and mobile-payment enabled. "It's our view that mobile phones will eventually replace wallets, and we have to be ready with cashless solutions that align with the modern-day payment expectations of consumers," said Steven Weyel, chief operating officer, FreshBrew Group. "So far, we are happy to report that, with 76 percent of our machines connected to USAT's ePort Connect platform, average cashless usage is already at 31 percent, and we anticipate revenue increases of 15 to 20 percent."



Coca-Cola Bottling Co. Consolidated Signs Definitive Agreements To Expand Distribution Territory And Purchase Manufacturing Facilities

► Coca-Cola Bottling Co. Consolidated announced it has signed definitive agreements with an affiliate of The Coca-Cola Company to expand the bottler's distribu-

tion territory to include territories located within parts of Ohio, Indiana, Illinois, Kentucky and West Virginia and to purchase manufacturing facilities in Ohio and Indiana. The definitive agreement to expand distribution territory includes the second phase of the proposed territory expansion. The Distribution Definitive Agreement includes the following territories:

- Cincinnati, Columbus and Dayton, Ohio;
- Indianapolis, Bloomington, Terre Haute, South Bend, Fort Wayne, Lafayette and

Anderson in Indiana; and
• Louisville, Kentucky.

Coca-Cola Refreshments USA, Inc. ("CCR"), a wholly owned subsidiary of The Coca-Cola Company, currently serves these territories.

The company expects to begin a series of transaction closings for these distribution territories in the fall of 2016 and to complete them in 2017.

The definitive agreement to acquire three manufacturing facilities represents the second phase of the proposed expansion of the company's manufacturing



Aramark Announces Site Of New Global Headquarters

▶ Aramark announced a new site for its world headquarters in Philadelphia, PA. The company plans to relocate to 2400 Market Street in fall of 2018. Situated along the Schuylkill River, the existing structure, originally built as a Hudson Motor Car Company plant in the 1920s, will be transformed into a modern, 600,000 square foot, nine-story building with an emphasis on innovation, sustainability and green space.

Aramark will occupy the top five floors as the building's anchor tenant.

Doritos Uses Vending To Encourage Voter Registration Among Youth

▶ This election season, Doritos, one of the marquee brands from PepsiCo's Frito-Lay division, is partnering with Rock the Vote.

As part of the Boldest Choice campaign, the Doritos brand is introducing a limited-edition Doritos bag created for those not registered to vote. It has no taste, no crunch and no chips to illustrate that, if you don't make a choice, you don't get a choice. To bring the Boldest Choice concept to life, Doritos created a vending machine that dispensed the provocative bags instead of the consumer's snack of choice to students not registered to vote. Only registered voters got their choice of Doritos Nacho Cheese or Cool Ranch from the machine — dem-

onstrating that when you're not registered to vote, you don't get a choice and, if you are, you do. Watch the video here: <https://www.youtube.com/watch?v=XGZw5OACcys>



NAMA Opens Undergrad Scholarship Application

▶ NAMA announced that it is now accepting applications for its undergraduate scholarship. NAMA members and their dependents could be eligible for a \$2,500 educational scholarship from the NAMA Foundation.

The applicant must meet the following criteria:

- Be a full-time employee (minimum of 40 hours per week) or the child/ legal dependent of a full-time employee of a NAMA member company in good standing.
- Be a graduating high school senior or student enrolled full-time (minimum of 12 credit hours per semester) in an undergraduate program at an accredited college or university, OR a full-time employee enrolled part-time, in an undergraduate program at an accredited college or university.
- Maintain and verify a cumulative GPA of 2.5 on a 4.0 scale, or equivalent.

The deadline to apply is October 28, 2016. The application can be found here: www.surveymonkey.com/r/GSJ3XZC.

For more information visit the NAMA Foundation Scholarship page at www.namanow.org/foundation/scholarships.

People in the News

Seth Mattison To Keynote CTW

Founder and chief movement officer of FutureSight Labs, Seth Mattison has been named the keynote speaker at the 2016 Coffee, Tea & Water show. Mattison is an expert on workplace trends such as talent management; change and innovation; and leadership. He has shared his insight with leaders of big brands including Johnson and Johnson, Kraft Foods, PepsiCo, Cisco, Dow, Disney, and Deloitte.



Mattison

Lofton Little, Founder Of L.C. Vending, Dies At 106

Lofton L. Little, "Schott", passed away at the age of 106. In 1953, he began what is now L.C. Vending Co., a Texas-based family business operated by his son, daughter and grandson. Little was a past president of the Texas Merchandise Vending Association and also a past president of the San Antonio Manufacturer's Association. "Schott", as he was affectionately known, had a long, joyful life.



Little

General Mills Announces Leadership Changes

General Mills announced two new senior leadership appointments. Jon Nudi has been named senior vice president; president, U.S. Retail, one of the company's three operating segments. The U.S. Retail role was previously held by Jeff Harmening who was promoted in June to president and chief operating officer of General Mills. Nudi has most recently been located in Europe running the Europe-Australasia business for General Mills. Replacing Nudi in Europe will be Bethany Quam who has been promoted to senior vice president; president, Europe-Australasia region. Quam was most recently head of the convenience and food-service operating segment, responsible for U.S. away-from-home sales and marketing.



Nudi

PFG Names New EVP, CFO

Performance Food Group Company announced that Tom Ondrof will join PFG as executive vice president and chief financial officer, effective Oct. 1, 2016. Ondrof joins PFG following a 24-year career with Compass Group North America. He will lead PFG's corporate finance department and oversee accounting, tax, treasury, investor relations and financial planning.

Dean Gilland Named 2016 NAMA Coffee Legend

Dean Gilland, former NAMA vice president of sales and CTW, has been named the association's 2016 Coffee Legend.

Gilland joined NAMA in 2000, and quickly made his mark, developing services to the coffee, tea and water channel from the ground up following NAMA's merger with the former National Coffee Service Association.

His accomplishments include the creation of the now thriving and distinctive Coffee, Tea & Water Show (CTW) and the development of the Coffee Services Committee. During his time at NAMA, Gilland was recognized with promotions for his exceptional sales and customer service skills and ability to tackle tough assignments.



Dean Gilland was named NAMA's 2016 Coffee Legend.

Prior to the industry

Before joining the NAMA team, Gilland built his career at Scott Paper, holding sales positions with increased responsibilities, rising to vice president of sales, central region. Gilland, who retired from NAMA in the fall of 2015, continues to work in a consulting capacity.

In his free time, he is passionate about outdoor activities and boating, coaches youth baseball and hockey, and is an avid coin and currency collector. Gilland and his wife of 50 years, Nancy, reside in Arlington Heights, IL. They have two children and three grandchildren.

and are well-positioned to continue to deliver value to our shareholders," said Chairman and CEO Irene Rosenfeld. "Our proposal to acquire Hershey reflected our conviction that combining our two iconic American companies would create an industry leader with global scale in snacking and confectionery and a strong portfolio of complementary brands. Following additional discussions, and taking into account recent shareholder developments at Hershey, we determined that there is no actionable path forward toward an agreement.



Farmer Brothers Announces Agreement To Acquire China Mist Brands, Inc.

► Farmer Bros. Co., a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products announced that it has entered into an agreement to acquire substantially all the assets of China Mist Brands, Inc. ("China Mist") for \$10.8 million, plus a performance-based payment of \$0.5 million if certain sales levels are achieved in the calendar years of 2017 and 2018.

Farmer Brothers plans to operate China Mist as an independent subsidiary. China Mist will continue to operate from its Scottsdale, AZ offices.

The transaction is expected to close in the second quarter of fiscal 2017 subject to certain closing conditions.

CALENDAR OF EVENTS

NOV. 8-10

2016 Coffee, Tea & Water
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NOV. 13

Charleston Coffee Cup
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DEC. 4-6

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MAR. 17-19

Coffee Fest Nashville 2017
Music City Center
Nashville, TN
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www.coffeefest.com

APR. 19-21

2017 NAMA OneShow
The Venetian
Las Vegas, NV
Phone: 312-346-0370
www.namaoneshow.org

MAY 23-25

2017 Sweets & Snacks Expo
McCormick Place
Chicago, IL
Phone: 202-534-1440
www.sweetsandsnacks.com



Mondelez International No Longer Pursuing Combination With Hershey

► Mondelez International, Inc. announced it has ended discussions with The Hershey Company regarding a possible combination of the two companies.

"We remain focused on successfully executing our strategy to deliver both sustainable top-line growth and significant margin expansion

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*Source: Nielsen SCANTRACK®, Total US – Combined XAOC and Convenience Channels, 52 Weeks Ending May 7, 2016.

Little Debbie

How To Counter When Companies Challenge Benefits Of Office Coffee

By Emily Refermat, Editor

Listen to the problem, then come up with out of the box, money saving solutions to salvage your customer relationship.

Employee benefits receive quite a bit of scrutiny. From how much the company is spending on healthcare to heating bills. The hot, caffeinated beverage in the breakroom is no different. That's why operators need to be prepared when workplace coffee is in the crosshairs. OCS providers need to be ready with information and options that can change a conversation from, "We're considering the elimination of free coffee" to "We want your services for the next year. Where do I sign?"

Really hear the problem

As with any solution, or selling process, there needs to be a clear understanding of the problem — the real problem. A quite common one is that a location is struggling financially and looking for ways to cut costs. Try to find out all you can about the situation. Are they downsizing employees at that location? What other services do they currently have? Now think about what you currently offer them and what you

could offer. There might be a way to achieve a win-win.

Rarely are companies aware of all the solutions you can offer, so it's important to present the appropriate ones. If a location enjoyed a coffee cart on site, but is now looking for a more cost effective solution, offer single-cup brewers that can make individualized and specialty drinks. Consider bean-to-cup and pod brewers, as well as cartridge style brewers. Consider the before and after price per cup — could your sales department make a pitch?

Can you bring in a lower cost coffee option, perhaps a traditional

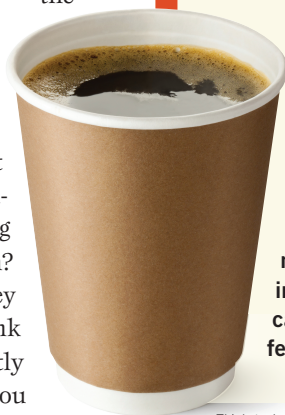


Look at all the services to see if you can save them money, yet provide more.

brewer or private label coffee? Make sure to discuss the value and flavor of private label, especially if a location perceives it as a low-quality option.

Go beyond coffee, too. Discuss options such as a point-of-use water system to replace their 5 gallon water service. Could you offer bulk delivery of some of the office products they

Small locations who want bean-to-cup



Thinkstock

Another problem some operators face is dealing with a small office that wants a sophisticated brewer, such as a bean-to-cup brewer. Operators should first consider if the location would be profitable if they charged a rental fee or leased the machine for \$100 to \$150 a month, plus the cost of beans. If the small location still wouldn't be profitable, consider refurbishing an old bean-to-cup machine. There is an initial outlay of money, but not as much as buying a new machine. Plus, if the machine was already in the warehouse, not earning revenue, any profit would be positive cashflow. Consider assets and see if with the addition of a leasing fee, the numbers could work.



up productivity. Substandard coffee or no coffee at all will only serve to drive employees out of the building.

Set up for the long play

Working with a lower ticket now might reduce your bottom line, but it's better than losing a customer. If the operator shows a willingness to be flexible and tailor services, that will cement the relationship for when times are better. Plus, losing a customer arguably costs a great deal. Aaron Pedersen, founder of Pedanco.com, a cloud-based customer feedback manager for the hospitality industry, urges service-based business owners to analyze a customer's lifetime value. Not only should that include the amount of money that a customer will spend over their lifetime with your company, but also the percentage of business driven by the customer. According to Gartner Group, loyal customers, even if they only represent about 20 percent of your total customer base, drive an additional 80 percent of business. There are social implications as well. An unhappy customer complains to others — 16 people according to Pedersen. That's 17 people who won't use your company and thousands of dollars lost. Even with a focus on generating new business, it can be more cost effective to get a little less from current customers in an effort to retain them.

OCS providers are in the ideal position to educate customers. They know workplace coffee inside and out, and can share a broader perspective of both what is happening in the area and what is trending with consumers. There are a number of solutions that should help operators meet the needs of employers who want to reduce OCS costs (at least in the short term). And if they do, then when economic times are better, the location will again turn to you for alluring breakroom beverage options. | ◀

“Loyal customers, even if they only represent about 20 percent of your total customer base, drive an additional 80 percent of business.”

Gartner Group

are getting elsewhere? Hopefully with out of the box thinking, you can offer services that keep the relationship going, but also show the location a savings that gets them to say “yes”.

Calculate out coffee breaks

If reorganizing services doesn't persuade the company, don't be afraid to show the costs of offering no coffee, or what employees consider 'bad coffee' at work. It's argued that locations lose \$100 a month when employees leave the office for coffee (double that if employees take more than one coffee break). It can add up fast to

thousands of dollars each year per employee. At 50 employees, taking one break a day, that is \$60,000 per year, roughly \$5,000 a month. What kind of coffee service could that location buy for that amount? And with all of today's OCS solutions, how much of that could the OCS provider save them?

In addition to time away from the office and their project, there is the physical and perceived benefits of good quality coffee. Research shows people view coffee as assisting with their mental focus, a way to get more done, increase wakefulness and drive

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*IRI Total US MultiOutlet Current 52 Weeks ending Sept 6, 2015, IRI NCP; Buyer Overlap between Folgers
MS Black Silk, Maxwell House Mainstream Dark Roast & Starbucks Premium Dark Roast 52 WE 9/6/2015

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New INSIDE THE Corporate Coffee Culture

By Emily Refermat, Editor

Explore the consumer trends, popular equipment and interconnected future deep within the office coffee service segment.

The office coffee service (OCS) industry has enjoyed growing revenues for close to a decade. No prior year was stronger than 2016, thanks to exacting consumers who value coffee differently, wanting not only quality over quantity, but a unique drink experience and information about the coffee itself. This change was fostered in coffee houses where young coffee drinkers experimented with different flavors, brewing methods, customization and sourced beans for a crafted coffee beverage that expressed their identity. As these young professionals moved into the workplace, they brought their increasingly sophisticated view of what coffee is and should be with them, driving more out-of-home coffee con-

sumption and an increasing demand for gourmet coffee options at work.

Personalization is a priority

In the early 2000s, single-cup coffee brewers began to appear in offices, heralded for the convenience and variety they offered. A few years later, the home single-cup units flew off shelves and became well-known to the masses, who realized a more personalized coffee experience was now available beyond the coffee shop. In 2016, growth on this idea of personalization has diversified OCS into a variety of directions, all of them focused on producing customizable gourmet drinks at work.

“We have seen the market switch to more specialty coffee service with the

Popularity of bean-to-cup will drive connectivity

“As operators have more machines in the field for a longer time, we expect to see a stronger focus on lowering machine service touches per year, with improved serviceability and ease of maintenance,” said Arjan de Groot, managing director of Bravor Bonamat North America. “Undeniably, operators have to answer to the bean-to-cup trend, but costs are sometimes unpredictable.” Different features and physical systems can help manage costs, but smart technology will be a large part of managing those operational expenses.



“We have seen the market switch to more specialty coffee service with the injection of the newly employed Millennials.”

Arjan de Groot, managing director
of Bravilor Bonamat North America

injection of the newly employed Millennials,” said Arjan de Groot, managing director of Bravilor Bonamat North America. This change in preference has created more opportunities for specialty coffee brewers, leading de Groot and other members of the Bravilor Bonamat North America team to focus more closely on the U.S. OCS market. “Bravilor Bonamat’s top selling brewer is, by far, the FreshGround series,” said Eric Covelli, regional sales manager. “These bean-to-cup brewers offer offices the opportunity to provide a fully customized specialty coffee and beverages program to their employees of the highest quality with minimal waste.”

Specialty coffee that can be prepared in unique and personal ways seems to be very important in today’s new corporate coffee culture. “With Millennials in the workforce, we need to be cognizant of the fact that tastes are changing,” said Mike Cochrane, vice president of sales and business development at Cafecation. He sees sales of straight black coffee slipping, being replaced with coffee and espresso-based drinks that include solubles such as vanilla, chocolate or even chai. Cafecation’s bean-to-cup brewer facilitates the at-work creation of specialty drinks that is currently in demand, according to Cochrane. It’s a way for Millennials to create their own recipes and feel ownership in their breakroom coffee machine.

Delivering a cafe experience
is the next developing trend
in office coffee service.

“The end user wants to feel like, ‘This is my coffee machine,’” explained Cochrane, which means this equipment has to engage the end user and create more than just a cup of coffee.

The rise of espresso

“In the U.S., the trend is not just towards a higher quality drink, but espresso and espresso-based beverages,” observed Maurits JC De Jong, a principle in de Jong DUKE. “Flat coffee [or the filtered grounds most Americans associate with coffee] can be high quality, but not always perceived as high as say cappuccinos and lattes,” De Jong added. He believes this is due to the coffeehouses and cafes on virtually every corner. “They have influenced what is considered high quality by the consumer.” For de Jong DUKE, bean-to-cup espresso brewer sales have sky rocketed in the U.S. as a result of the changes young professionals are having on the workplace. The company’s double bean coffee machine with two bean hoppers and 3 canisters for soluble products is its best seller. “This illustrates that variety and flexibility are clearly still important to OCS in the U.S.,” said De Jong.

Much of the bean-to-cup brewer’s success stems from the fact that it is not a black box that produces common variety black coffee. Users are able to look up recipes to make various types of beverages from double espressos to café lattes. Users can even get a numeric code for their specific drink combination. “It allows a faster ordering process as well as a



Millennials are changing the workplace with their desire for customizable coffee.

sense of proprietorship that ‘This is my drink recipe,’” said De Jong. Giving employees that sense of connection and access to the equipment and products to create their preferred drink is what today’s corporate coffee program is all about. It’s a win for employees, who don’t have to run out to the café, but also for a company trying to boost morale and loyalty.

“Workplaces are increasingly looking for opportunities to demonstrate that their people are valued, and offering variety and choice in the beverages provided is one way they are looking to achieve this,” said Bobby Chacko, regional president and general manager of Mars Drinks, North America. “We’re living in an age where customization and personalization are the norm. People at work don’t just want a cup of coffee, they want ‘their’ cup of coffee.” Millennials especially are driving this trend, with the demand for a broad range of options from specialty coffee to hot chocolate and tea. Chacko notes that for operators, this means an increased need to offer solutions that make personalization easy.

Breakrooms will evolve

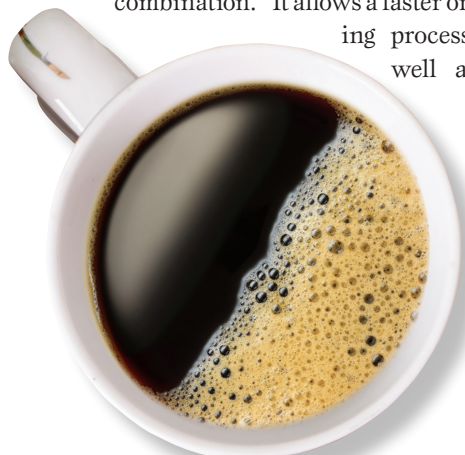
Chacko anticipates that beverages will increasingly be leveraged as more

than just refreshment for busy workers, and instead there will be a continued focus on hot drinks as a catalyst for collaboration, engagement, well-being and productivity. It will change the idea of a coffee pot in the corner to it being central to productivity.

“Looking through this lens will drive greater integration of coffee and other beverages into the office environment, bringing the brewer out of the breakroom,” he said. “Bringing brewers into the spaces where people are working calls for a wider range of technology to meet the needs of the people using each space.” These technologies include solutions designed to fit in small spaces as well as high traffic areas — brewers that fit on a standard countertop and make minimal noise, Chacko adds.

A smaller machine footprint is important as progressive companies look to actually expand the number of at-work cafes they provide.

“U.S. workplaces are decentralizing their coffee outlets,” explained De Jong. “There is no longer just one kitchen or canteen with one large machine where everyone goes. There are smaller machines in multiple locations.” With this idea of coffee as not just something that has to be there,



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but something that creates the atmosphere of where you work, it won't be long before every workplace will be considering adding a coffee lounge, De Jong believes. "The coffee machine has become a piece of furniture and has to be aesthetically pleasing," said De Jong. "In the U.S. we have seen much more appreciation for design of equipment in the past few years, which is good for business. It increases the image of OCS as a whole, and allows for better pricing."

Coffee equipment in the spotlight isn't isolated to a single type of brewer or manufacturer. "We see a new trend in which operators are developing their own stands for workplace coffee brewers," shared Karalynn McDermott, senior vice president, market development at BUNN. "We hear it from operators, that their customers really value coffee and want it to stand out." That is literally translating to operators coming up with cabinets and stands to showcase the coffee equipment. "Operators customize the piece to fit into the décor at the location," McDermott added. It's yet another enhancement that speaks to the movement toward customization and OCS providers truly offering personalized service.

Smarter coffee machines

The future holds even greater enhancements with expanding development of digital technology in coffee brewers. From touchscreens to the invisible, yet powerful world of the Internet of Things (IoT), connectivity of equipment is the next big trend in the corporate breakroom.

"In our innovation series operators can upload media from a distance via a private cellular network," explained Cafecton's Cochrane. The media can tell the story of the coffee being brewed or it can be an advertisement, bringing a new revenue stream to the operator.

Not all locations will warrant single-cup

"More and more companies are scaling employees and with these smaller locations, operators have to look at their business day to day to see what OCS option makes sense," said Randy Vickery, strategic account manager at BUNN. "Maybe that is a bean-to-cup or a traditional airport."

Vickery believes that monetary considerations will keep single-cup from ever completely replacing brew-by-the-pot machines. "What you will see is more high end equipment," he said.

A coffee machine using the IoT or network connectivity to send and receive data, has many advantages other than advertising as well. Connected coffee brewers can email the operator if there is an issue, such as the hopper is "out of coffee" or "There's been an overflow", reducing operational expenses by 4 to 5 percent, reports Cochrane. That savings is mostly recognized by efficiently managing service trips. With an alert, a technician can ensure he or she has the correct part before traveling to the location. If the problem is a simple task that needs to be performed by someone at the location, the operator can call the facility manager instead of sending out a service technician.

One of the features BUNN is particularly proud of is its picture prompted cleaning feature. "Photos come up and walk the person at the location through cleaning the equipment," said McDermott. If there is a more serious service event, connected brewers send an alert via BUNN Link. Operators can also use it to run reports and check a machine's status.

"Operators call the bean-to-cup report with BUNN Link a huge time saver," said McDermott. In one case, an OCS provider was asked to provide the location with a usage report — number of drinks per machine and pounds of coffee through the hopper. "Previously, this would have had to be done manually, but with BUNN Link, the information was sent to his office remotely," finished McDermott.

The digital aspect of coffee, including the programming and usability of the touchscreen will continue to impact usage as it better engages the end user and drives a more personalized and better experience. "It allows the operator to present a very user friendly interface to customers of the latest in specialty beverage offerings, unique taste profiles and electronic media messaging," added Debora Mehlert, office manager and marketing of Bravilor Bonamat North America.

Coffee's importance grows

Not only is coffee in the workplace changing, but it is changing the workplace. It is becoming a main feature in collaborative spaces where employees go for refreshment and innovative ideas. Coffee is the central point of these new at-work cafes, with modern coffee brewers that can produce high quality coffee by the pot or espresso based beverages by the cup. The more customizable the beverage, the more desirable, with Millennials truly wanting the coffee shop experience at their workplace. Part of what the new coffee machines will bring is connectivity, being part of the IoT. Operators will be able to sell advertising, share increasingly popular stories behind the coffee as well as receive information from the equipment about its status and service issues. All combined, this isn't yesterday's office coffee service, this is OCS 2.0. | ◀

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Look Outside To Improve Within

By Adrienne Zimmer, Managing Editor

Take marketing ideas, best-seller data and merchandising knowledge from c-stores, restaurants and grocery to boost micro market sales.

There's a lot to learn by looking outside of the industry for ideas on how to enhance the micro market segment. In fact, since the inception of micro markets, operators have been told to think of this new concept as

a small retail store, quite unlike the vending machine.

Because operators have been told to think and act like retailers in their micro markets, it is essential to look at the convenience store

(c-store), restaurant and grocery channels for ways to enrich micro market sales and improve the micro market experience.

The closest model

First and foremost, operators should look at the c-store segment, as it is the closest model, and opponent, to a micro market. In fact, micro market operators should be visiting this competition on a regular basis, says Greg McCall, vice president of Five Star Food Service. He notes that operators can gain valuable information from stepping into a c-store and analyzing several things: pricing, promotions and merchandising. "Pricing by category is an idea we took from c-stores," he said. "It's important to see how that segment prices their bev-

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erages and their subcategories, too.” McCall encourages operators to look at the types of beverages offered and the pricing structure of the items. Micro market items should be priced between vending and c-stores.

Next he looks at the promotional strategies the c-store is using. “We want to know what kind of discount they are offering and if we are providing a similar deal,” he said. “2-for” offers don’t work in micro markets, Five Star discovered, but its invaluable to know what the competition is offering regardless.

The company also watches loyalty programs in c-stores. “Every c-store has a loyalty program of some type now and if we are going to compete, we have to make sure we are offering a good program, too,” McCall commented.

Lastly the company looks at merchandising in c-stores for comparison to its own micro market merchandising. “We walk the store and we compare what we’re doing. We also look at counter merchandisers at the point of sale, as well as shipper programs, where manufacturers ship the product in a stand, making it easy for an operator to set up,” said McCall.

Kevin Searcy, president of deORO Markets, says that’s a great idea for operators. “Micro markets are great for impulse buys, and c-stores have developed that concept very well.” He recommends placing shelving around and under the payment kiosk. Searcy points to the wild success one operator had with impulse merchandising. “I have an operator who had an energy shot product that wasn’t selling in his machines, so he decided to place it down the side of the kiosk in his micro markets and he made a large profit that way because people are willing to spend more in micro markets,” he said. “The impulse buy made it possible for this operator to sell a product that wasn’t moving in vending.”

According to Kevin Bailey, president of Breakroom Provisions, c-stores are a treasure trove of information and a place from which operators can get ideas. “Companies such as Wawa, QuikTrip and Sheetz have elevated convenience retailing to an art form,” said Bailey. He suggests that operators look to this channel for effective graphics and signage, digital signage, product mix and trends, fixturing, loyalty programs and store layout and flow ideas.

One aspect of c-stores that operators should stay away from, however, is copying c-store layout directly. While c-stores have many rows of product in a ‘U’ or ‘L’ shape, Searcy believes micro markets do not benefit from that structure. “We noticed there was bottle necking in the corner and sales decreased in those areas because in a micro market no one wants to stand behind someone looking into the corner.” He also warns against making a micro market *feel* like a c-store. “I’ve gone into micro

most cases, music playing in the background, the atmosphere is calm and it can allow people to focus outside of the four walls that make up their office.” Rather than looking to c-stores for atmosphere, operators should be looking at cafés and restaurants for better understanding the “experience” that consumers are looking for, including lounge areas, coffee tables and décor.

“Not everything in c-stores will be relevant to micro markets, but some stuff is, so absolutely operators should look at that channel,” said McCall.

Think outside the box

Outside of directly visiting c-stores, McCall notes that Five Star looks at c-store data from marketing research firm IRI. The firm publishes rankings of the top-selling items in c-stores by category, which helps Five Star know what their competition is selling and introduces them to new items.

The data is manufacturer-provided, specifically tailored to the region in which Five Star operates. This helps the company narrow down flavors and snack types that are popu-

“We want to know what kind of discount they are offering and if we are providing a similar deal.”

Greg McCall, vice president of Five Star Food Service

markets that have felt like gas stations and that’s not the feeling you want to convey,” he said. “You want to create an atmosphere with tables and chairs — a place to relax.”

Creating a welcoming atmosphere is key, says Elyssa Allahyar-Steiner, VP of marketing and sales at Avanti Markets. “If we look at cafés, we see people go there to work and set up their computer for the day or a couple hours and why is that?” she asked. “Well, there is free Wi-Fi in

lar in their area, as opposed to items that are trending elsewhere. “Though it comes out monthly, we look at this data quarterly to make sure we are in line with our competition,” he said. “It’s something we can get directly from our manufacturers for no cost. In between, we look at our own data to see what’s selling and what’s not.”

The company also follows c-store daily and weekly newsletters. McCall recommends subscribing to several c-store trade magazines, too.

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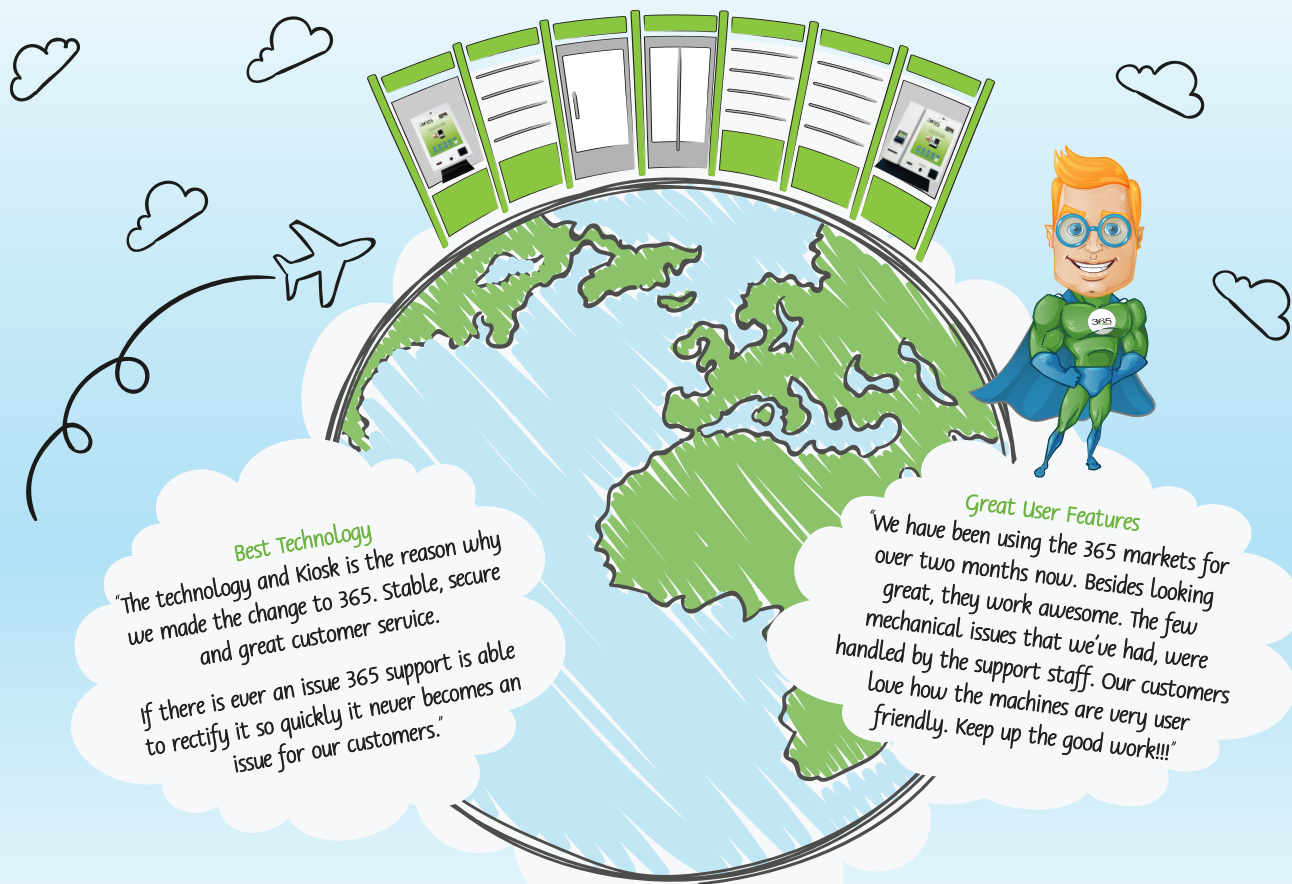
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Patrick McMullan, chief operating officer of Three Square Market, says that getting data from c-stores is just one way of thinking outside of the box. “I have an operator who uses a marketing campaign based on c-stores that works really well,” he said. “He campaigns that his micro markets are ‘5x5’, meaning that they are five steps from the employee’s desk and five cents cheaper than the nearest c-store. And he is constantly checking c-store pricing to make sure he stands by that.”

McMullan also says that operators can get an edge over c-stores by looking at the fresh food items they offer and then offering better. “We have another operator who partners with a really popular deli in St. Louis to offer sandwiches, salads, soups and more. He has been able to market the fact that he is bringing the deli to the office,” said McMullan. “He is offering a better product than the c-store. It not only has a better appeal but is more successful because it’s what the employees want in their breakroom. They wouldn’t have been able to get that experience without going to the deli directly.”

Gain from grocery and restaurants

Micro market operators can look outside of the c-store industry, too. In fact, grocery stores and restaurants — including fast-food — are other viable places to get ideas.

Five Star’s McCall uses grocery stores to see what products are popular here and now, paying close attention to beverages. “I will watch products in grocery stores and then talk with our distributors to try and get them in our micro markets,” he said. Five Star has been successful in getting Sparkling ICE, AriZona Beverages, Bolthouse Farms juices and Sabra Hummus in its micro markets from retail.

Other than overall trends, grocery offers ideas on loyalty programs and impulse merchandising, too.

Looking at your own data

There's no doubt that looking internally at your own micro market data is vital. “Operational efficiency creates more cash and you know the old saying, ‘cash is king,’” said Joe Hessling, CEO of 365 Retail Markets. “I would pay attention to stock-outs, theft management, fresh food management and pricing. Those alone could add 5 to 10 percent to your bottom line if managed effectively.”

Elyssa Allahyar-Steiner, VP of sales and marketing at Avanti, stresses that data will tell operators what is selling the most, as well as other important information. “I think some of the most important items to look at are the average ticket spends and the average number of tickets per day,” she said. “This is where you should start, but when we talk about products, merchandising, space to sales allocation, it is so critical for operators to analyze the data. The data will tell you what is staling out the most and where you are losing the most of a single product varietal at a given location.” She notes that a product could be a top-performing item at many locations, while at 20 percent of locations it doesn't sell. “So it is important to leverage the data to run a more profitable business,” she concluded.

Searcy recalls one operator of his who places twelve-packs of soda near the exit of the micro market — a concept taken from retail. “I know that although it doesn’t greatly increase sales for him, offering a twelve-pack is a convenience factor for the customer so perhaps they don’t have to

stop at the store on their way home to pick it up,” he said.

Grocery, while important, caters to a different consumer than micro markets, McCall said. “The grocery customer is going there and spending \$300 and planning their visit. In the micro market, it’s convenience and impulse.” McCall looks at quick-service restaurants for ideas in marketing. Five Star creates a rib-based promotion around McDonald’s McRib limited-time offering. “We use the momentum that surrounds fast-food limited-time offerings,” said McCall. The company is currently working to build a breakfast menu paired with coffee, a fast-food trend that is ongoing.

There are endless opportunities for micro markets to provide a one-stop shop for customers, but operators need to be willing to think like retailers. “Soak up the data and concepts that are applicable to the micro market industry, consider the possible application to your markets and implement those that make sense,” said Bailey. “With micro market competition heating up, having micro markets that use the proven concepts of other related industries is absolutely necessary.”

When it all comes down to it, micro market operators should focus on the facts, says Joe Hessling, CEO of 365 Retail Markets. “Identifying trends is a vital skill for a successful micro market operator and in vending terms, a trending item will “turn” more than a low performing item, giving the operator more product movement. Whether the identification of these trends comes from industry reports or simply walking the aisles of c-stores or grocery stores, research is important.”

Micro market operators looking outside of the industry have a better chance of improving their micro markets and providing a complete consumer experience. | ◀



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Guidelines To Protect:

MICRO MARKET FOOD SAFETY UPDATE

By Emily Reformat, Editor

Food safety in micro markets has been tricky, and sometimes frustrating, due to a lack of federal regulations, but NAMA and the Conference For Food Protection are blazing the trail to satisfy all.

Guidelines For Unattended Food Establishments (Micro Markets)

Micro markets must be inside a building with controlled entry (not open to the public)

Micro markets can only sell commercially packaged food (including certified commissaries) or whole fruit

Micro markets need to require no consumer preparation other than reheating

Micro markets must have self-closing food coolers/freezers with automatic self-locking mechanisms

Micro markets need continuous video surveillance of resolution sufficient to identify situations that may compromise food safety or food defense

Micro market service is required on a scheduled basis and acceptable frequency

Micro market service is obliged to include: cleaning surfaces, verifying refrigeration equipment is operational, rotating product, restocking, checking for recalled products and visually inspecting food for tampering or damage.

For the full guidance document prepared by the Conference for Food Protection, visit <http://www.foodprotect.org/guides-documents/guidance-for-unattended-food-establishments>

for unattended food establishments (micro markets) and these guidelines will likely be used by city, state and ultimately federal health and food safety organizations when licensing and regulating micro markets.

Having some federal guidance might be a positive thing, especially

The vending industry has always been on the cutting edge of ways to deliver food. From ice cold sodas available during breaks at the factory to hot coffee in the middle of the night at rest areas, vending has been pushing the boundaries of when and where food is available — often faster than regulations can keep up. Micro markets, vending's newest addition, is no exception. After eight years, there are still only a handful of states that have written legislation licensing micro markets differently than either vending or convenience stores. Health departments are struggling to understand exactly what a micro market is and how operators can possibly protect food integrity without a person being present. This is where NAMA, the association representing the U.S. vending and refreshment services industry, has stepped in and called in an expert on food safety to proactively navigate the regulations surrounding the lucrative micro market business — Larry Eils, NAMA's health and safety knowledge source partner.

"We are working with the U.S. Food and Drug Administration (FDA) to see how we can put micro markets into the food code," said Eils, who has been ensuring requirements of the federal food codes were manageable for the vending industry since 1985. The food code is a model that assists food control jurisdictions at all levels of government by providing them a scientifically sound technical and legal basis for regulating the retail and food service segments. The benefits include uniform and national standards using the most current science available to reduce the risk of foodborne illness within retail.

"One of the problems is that health departments have a lot of issues with micro markets, or what are now called unattended food establishments by the FDA," Eils said. Micro markets don't fit into current food retail perimeters, and the fact

that there is no one on site responsible to watch the food and maintain food safety has been a cause for concern. "There are several places that wanted regulations — Ohio; Indiana; Texas; Maricopa County, Arizona; County of Los Angeles, California — these departments didn't want to wait for the federal government to provide it," said Eils.

Josh Rosenberg, president and CEO at Austin, TX-based Accent Food Services (AFS) operates in an area which established requirements ahead of the federal agencies. However, Rosenberg was prepared. "Prior to the October 2015 requirements for a health permit, AFS had already engaged with the state's Department of Health & Public Safety," said Rosenberg. The company was able to be part of the decision making and education concerning the permits. "The challenge has come at the local level where jurisdiction resides," Rosenberg said. At the local level, state requirements can be defined differently or overruled completely with stricter, more challenging ones. "I will say that the health departments are getting more involved in our space," indicated Rosenberg. "And for us, it's fortunate to be seen as a partner in defining, educating and addressing."

Eils agrees that health departments are taking a more active role in micro market licensing and national regulations are inevitable. This is why micro markets were addressed by the Conference for Food Protection, a non-profit organization created to provide a formal process whereby members of industry, regulatory, academia, consumer and professional organizations are afforded equal input in the development and/or modification of Food Safety Guidance. Such guidance is incorporated into food safety laws and regulations at all levels of government throughout the U.S. In April 2016, the Council of Delegates for the Conference for Food Protection accepted finalized guidelines

when operators cross state lines. For Maumee Valley Vending Co. in Defiance, OH, it has been a challenge to meet changing and strict regulations in its home state, and then varying requirements in nearby Indiana and Michigan.

“When we first started, we proactively worked with the health department to come up with food safety requirements such as wrapping fruit that didn’t have a peel, installing automatically locking coolers, etc.,” said Terry Miller, general manager at Maumee Valley Vending Co. However, two years ago, the micro markets were reclassified to be a level one restaurant, which increased the license cost and requirements significantly. Now Maumee Valley Vending Co. has to submit a 20 page plan review per market that includes things like lighting charts. “It’s more requirements than are necessary and it seems to be a problem with education,” indicated Miller. He recalls a health department director coming to a scheduled inspection at a new micro market installation. “The director got there, looked around and said ‘Is this it?’” said Miller. He knew that the director had not fully understood the concept of the micro market and that it lacked the food preparation and cooking areas restaurants and convenience stores have which increase foodborne illness risk.

Take action to protect micro markets

The U.S. Food and Drug Administration will want to know how micro market operators can ensure food safety, especially in regards to preventing food tampering. If the industry can prove that video surveillance reduces incidences of theft through data, this can also show that surveillance will reduce tampering. Look for an upcoming survey or information requests from NAMA to collect this information, which could be instrumental in proving micro markets are a safe way to provide food and should be included legally in the food code.

In neighboring states, Miller has few, if any, requirements, but he ensures he is staying proactive with those health departments as well. “It requires vigilant, good relationships and education. They need to understand what our business is and what it is not,” said Miller.

Common sense guidelines

The recommended guidelines from the Conference for Food Protection are fairly straight forward and address the three main areas of food safety concerns: food spoilage due to high temperature/equipment failure, illegal food tampering and potential cleanliness issues that arise when no person is present. Food spoilage happens when the temperature at which food is kept rises. This is addressed in the guideline by requiring an automatic self-locking cooler/freezer, either built-into by the manufacturer or a retrofit device added afterwards. The mechanism needs to lock the cooler or freezer, preventing a consumer from purchasing potentially spoiled food in the event of a power failure or equipment malfunction that causes the temperature to rise to unsafe levels. The food could start to develop bacteria growth at dangerous levels that can cause illness. NAMA has already established a certification process for these mechanisms, and lists companies with approved models on its website (vending tab > certified companies). The Public Health and Safety Organization, NSF, also recently added language to its standard to cover unattended units that would be used in micro markets.

“If you want to sell food, you might as well buy the [right] unit,” said Eils who warns that most provided coolers from suppliers are not intended for food, but beverages. Eils also doesn’t see any stricter regulations in the works, meaning operators can reasonably guarantee that if they invest in locking coolers now, even before their local health department has regulations, the technology they buy will meet the regulations once the health depart-

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ment puts them in place. With the current technology available, preventing foodborne illness from bacteria affected by temperature is fairly straightforward. However, protection against food tampering isn't as clear.

Tampering is biggest challenge

A major concern for health department officials is how micro market operators can protect people from situations that may compromise food safety or food defense, such as intentional food tampering. "It will come down to monitoring and if the FDA agrees to the idea of using video surveillance," explained Eils.

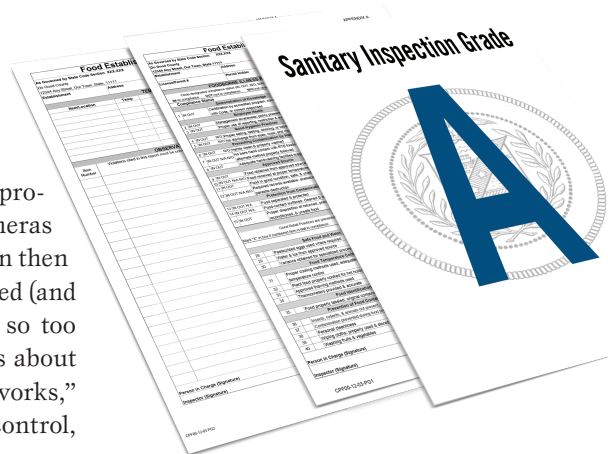
While surveillance is widely used by operators to prevent, or at least deal with theft of products in micro markets, NAMA is arguing that it can also be used to detect and prosecute food tampering. Eils believes

the association will need to provide data that having cameras reduces theft of product. It can then be argued that if theft is affected (and controlled) by surveillance, so too is tampering. "We need stats about theft and how surveillance works," said Eils. "If theft is under control, then tampering will be under control, too. That's the argument we will likely take with the FDA."

Prevention of food tampering with no staff on site was one action item Rosenberg had to address with the Texas health department early on. "In line with the challenges of education about our defined business category and the State's classification was attended vs. unattended," said Rosenberg. "Our cameras having the ability to capture all activities within the store insulated us from food tampering surveillance and we

use a sealed food package to further minimize risk...once we demonstrate the level of discipline and compliance we have at micro markets, we can typically move past any other concerns," finished Rosenberg.

Beyond the tampering and temperature issues, is the requirement of keeping the area clean and stocked. How best to achieve this in a micro market should be left up to the operator, suggests the guidelines from the Conference for Food Protection. Multi-use food-contact surfaces shall



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The background of the entire slide is a blurred image of several vending machines. The machines are filled with various products, including snacks and drinks. The lighting is somewhat dim, giving it a professional, industrial feel.

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be cleaned on a frequency consistent with the service per section 4-202.11, of the Food Code, for example. Routine service must include checking food for signs of damage or tampering, expiration dates, recalled items, etc. Micro market operators will want to ensure the guidelines are included in their micro market driver training materials and drivers are complying with the requirements at each service.

Proactive licensing

It's important to be proactive, in that it helps open the dialogue and encourages health departments to allow micro markets in workplaces. If an operator merely swapped micro markets for vending at a location without contacting the health department, he or she will be discovered, warns Eils. "We suggest operators visit the health

department and talk about the micro market, then ask what they need to do to get a license," said Eils. He believes that micro market operators should be prepared to pay a cost for the licensing somewhere in between a vending machine license and a convenience store license, perhaps \$100 to \$500, depending on the state. The license fee will cover inspection and administrative costs incurred by the health department. Micro markets have been classified as a priority 1 location, meaning they have low exposure to foodborne illnesses, so inspections will likely be yearly.

"It's the cost of doing business," said Eils. "The revenue is higher with a micro market, so operators will just have to build the license fee into the prices." Eils does say that if an operator is caught without a license, there will be no jail time, or even a

fine. From his experience, the health department simply makes the operator go through the process of obtaining the proper license, along with the costs of closing the market until the license is obtained.

Decades ago, health departments worried that vending machines couldn't provide the same degree of food safety as restaurants or retail locations with on-site employees. Regulations and strict dedication to proper food handling and its transportation by operators was able to counter those fears and keep the consumer safe from foodborne illness. Micro markets are going through the same process. Federal guidelines are coming, and it's important for micro market operators to be prepared, ready to join the educational process and comply with regulations to keep this lucrative segment of the industry going. | ◀



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IOWA VENDOR EXCELS IN RURAL MARKETPLACE WITH TECHNOLOGY & MICRO MARKETS

By Adrienne Zimmer, Managing Editor

In the last eight years, Smith Vending has invested heavily in technology and business diversification to grow its presence and exceed customer expectations.

“Why wouldn’t we do it?” That was what Rod Nester, president of Clarinda, IA-based Smith Vending thought when he was approached with the idea to place micro markets in 2013. Micro markets were unique in that they could allow for a greater number and variety of SKUs, they accepted promotions and loyalty features and they created a unique consumer shopping experience. They also epitomized the Smith Vending mindset. “We knew they were good for the customer and they were good for our business, so we had to ask ourselves ‘Why wouldn’t we do them?’” said Nester.

This is the same mindset that has led Smith Vending to become

a leader in the Midwest market. In the last eight years the company has become part of a Canteen franchise, invested in a vending management system (VMS), started prekitting on paper and switched to a mobile light system, opened a second warehouse, added cashless options to many of its machines and diversified into micro markets.

All of this has been done with diligent research, a dedicated staff and a customer-first attitude.

Across state lines

Smith Vending Company was founded in 1976 by Lyle Smith in Hiawatha, KS. Smith grew his business through acquisitions into the 1980s and when

Smith, an operator and a road musician, oftentimes left Nester to manage the business when he traveled, giving Nester the experience of managing and running routes — and learning the business inside out.

In 1989, Smith decided he wanted to grow the vending part of his business and asked Nester to stay onboard to help expand the company. Smith Vending, which was a Tom’s franchise, began transitioning from operations to sales. “We grew from Kansas and Nebraska to Missouri and into Iowa,” said Nester. “By 2008, we were doing \$2.2 million in revenue in the Iowa branch.”

That same year, Smith made the decision to retire and he sold his Missouri routes to Acme Vending and the Iowa Division to Nester. Today Smith Vending services locations in five Missouri counties, two Nebraska counties and 20 Iowa counties with their territory ranging over 200 miles apart.

Rod Nester, far right, operates Smith Vending with his children, Tyler, left, and Ashilyn, center.



Nester was hired to replace all part-time employees in 1988 the company was doing \$200,000 per year in revenue.

Route drivers Mike Coburn and Kevin Kirsch use technology to make their jobs more efficient.



Early investments

Nester knew early on that he wanted to make decisions that were best for his company and his customers and so he worked under the mantra that change should always be an expectation. Perhaps that is why change came quickly after he took the helm in 2008.

In the fall of 2008, Canteen approached Nester about joining its franchise family and it didn't take long for him to say 'yes'. He signed up to become a Canteen franchise on Jan. 1, 2009. "I can honestly say that joining Canteen was one of the best

“By 2008, we were doing \$2.2 million in revenue in the Iowa branch.”

Rod Nester, president of Smith Vending

decisions I've made for this company," said Nester. "In this day you can't survive without being part of some type of buying group and I believe that Canteen has a lot to offer, including training, internal software advice, future transitional support, and many other valuable resources for my business. It has been a great decision."

Just two months after joining Canteen, Smith Vending also became home to another big change: technology.

In March 2009, Smith Vending invested more than \$100,000 into Streamware. "I believed it to be the most comprehensive system at the time and we were already using Crane

equipment, so it was a natural move to integrate,” said Nester. Though it was initially predicted to take Smith Vending 18 months to see a return on investment, the company saw one in just nine. “Streamware helped us take control again,” said Nester. “There was cash accountability and we knew exactly which products were selling. Plus, there was DEXing at a SKU level and data was coming in that we had not seen before. It took away the human error.” This information gave them the ability to make educated decisions.

The company continued to ask “Why wouldn’t we do that?” and in 2010 it began prekitting on paper and then in 2012, LightSpeed’s mobile system. The mobile system continued to eliminate human error and created efficiencies for the company.

Although Nester believed change to be an expectation and not a surprise, technology integration was a hard transition for many employees. Route drivers, who once had control over their machines, were finding that their roles were changing. With the exception of one, Smith Vending turned over every route driver and several support staff as it added more technology. Nester, however, kept his mantra that change should always be an expectation and so the company continued to move forward. “We used to do everything the old way and we decided we weren’t going to do that anymore,” said Nester. Learning from that experience, Nester believes that in order to bring about change in a company, all team members should be involved, which helped immensely when Smith Vending opened a second facility.

With the company’s territory expanding so far north into Iowa, Smith Vending opened a Denison, IA, warehouse branch in 2012, about two hours — 100 miles — north of the headquarters. Though it had the ability to be a huge challenge for



Suzette Reed, market manager, Jenn Sands, office manager and Ashilyn Sunderman, Clarinda branch manager, are an integral part of Smith Vending’s success.



Tammy Luna and Larry Veither use LightSpeed to help eliminate human error in the warehouse.

employees, Nester knew it would be cost effective and the best decision for his customers and the company. “Technology is a challenge with two branches but to make it succeed you need to get all of your team members together, get input and put a plan in place from the start on how you’re going to get things from ‘the current way’ to ‘the NEW system,’” he said.

Consumer-driven change

In order to provide customers with the best possible vending experience, Nester decided it necessary to invest in machines that have capabilities the consumer wants. This includes top of

the line machines that also come with cashless payment options. About 50 percent of Smith Vending machines are cashless, a high number considering where some of the machines are placed. “Cashless was actually a difficulty because of how rural some of our locations are,” Nester said. “Getting a signal is tough sometimes, but that’s where it’s important to use your relationships with your equipment providers.”

Cash reconciliation was an issue as cashless grew, too, so the company switched to using Crane Navigator to work with Streamware and make transaction reconciliation seamless.

Currently 12.6 percent of Smith Vending's revenue comes from cashless purchases, and Nester expects cashless to grow 10 to 15 percent in the coming year. "Cashless is so important to have and if you don't have it, you better have a reason why," he said. "It's key to incorporate technology because Generation Y and Millennials — the people coming into the workforce and your consumers — well, this is how they live," he continued. "So we ask ourselves, 'Why would we NOT do this?' We embrace what the consumers want."

That includes investing in trends before the customer even asks for it.

Smith Vending recently partnered to place PepsiCo Hello Goodness machines to fit a movement towards healthier lifestyles. "Our job is to provide a good breakroom experience, and that includes offering all types of

NOT IN THE PRICE GAME

Nester openly admits his company is not in the business of selling on price. "We are selling a service," he said. "We are providing a breakroom experience for our customers and we live up to that service." Smith Vending believes in transparency when it comes to price increases — it lets its customers know well ahead of time if there will be an increase on items, and even includes the price increase notifications on the company website.

snacks people like to eat," said Nester. "But we also didn't want to wait for

a customer to ask us about healthy offerings, we wanted to be the driver of the trend."

The company currently has placed 26 PepsiCo Hello Goodness machines, and Nester notes that they have to fit the right location to be successful. "Fitness centers and healthcare facilities tend to work well and we have a large blue collar location that supports the machine, but it really depends on the center."

Nester said there is no written rule for whether or not the machines get traffic; that two locations can have the same demographics but different purchasing patterns. But he isn't concerned. "You can't force health and wellness on people," he said. "That would drive people from vending." Rather, he believes you offer them choices and they can make the decision.

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That's why micro markets, he believes, have been a popular offering.

Micro markets add to growth

In 2013 Smith Vending entered the micro market segment with the placement of an Avanti market. Since then, micro markets have been a large growth segment for the company. Today the company has grown to nine micro market locations and has seen a revenue increase from around \$125,000 in 2013 to nearly \$450,000 in 2015. They have experienced 50 percent growth each year in placement — placing three to four markets annually.

Customers like that they have food variety and the markets add more consumer engagement than vending. That is particularly true when it comes to offering promotions and loyalty features. "I enjoy



Tony Rubin, route driver, stocks one of the company's nine micro market locations.

that we can give customers perks in the micro markets," said Nester. "They are rewarded for shopping with us and that is beneficial for everyone." Smith Vending runs three to five micro market promo-

tions per period, which last two to four weeks.

Nester says he would love to grow the micro market segment more, but it

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has been difficult finding locations in rural Iowa that are willing to give it a try. "Many are worried about theft," he said. Theft has been about 1 to 2 percent in all locations. If it gets any higher, a Smith Vending staff member will watch video footage and combat the issue head-on. The route supervisor also travels to each market once a month to inventory product.

More than half of Smith Vending's micro markets have had an issue with theft, but Nester notes that the problems stop at locations once employees are disciplined. "I think once people hear they were disciplining at their workplace for theft, they take it more seriously," he said. Overall though, he has seen the benefit of micro markets for customers and the company and doesn't let theft issues deter his optimism. "They are a great segment if you can

OPERATION PROFILE SMITH VENDING

Headquarters: Clarinda, IA

No. of employees: 19

No. of vending/micro market routes: 8

No. of OCS routes: 1

Micro market provider: Avanti

Technology providers: Crane, LightSpeed

Annual Revenue: \$5 million

deal with the challenges that come with it," he said.

Luckily, most challenges were experienced with the installation of the first few markets, so the company

could adapt. For example, integrating a larger number of SKUs was difficult until they knew just how many products would work for them. "Knowing how many salads to place and having a surplus of items was difficult at the beginning but you learn how to solve those kinds of problems as you grow," Nester continued.

The company currently operates five vending/micro market combo routes and one OCS route out of its Clarinda branch and three vending/micro market combo routes out of its Denison warehouse.

From one generation to the next

Though the growth and success of Smith Vending can be attributed to technology integration, innovation and micro markets, none of that would be possible without a dedicated staff, says Nester. "Teamwork

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is huge at Smith Vending and it takes the entire team to have a victory,” he said. “The support staff and those behind the scenes are what make the company push forward each day.” Technology has enabled drivers to focus more on stocking, cleaning and interaction with the clients.

Nester’s children, Tyler and Ashilyn, are another reason he sees a bright future for Smith Vending. Since high school the two had worked in the company, and for awhile Nester wasn’t sure they would join the business full-time. But in 2009 he was surprised and delighted to learn that both wanted to work in vending. “Nothing is more humbling than having your kids want to work in the business that you’ve grown,” said Nester. “They add to the business and help keep us innovative.” He sees Smith Vending as a family



business and believes it will be that way for a long time.

When he looks towards the success of his own business and the industry as a whole, Nester is optimistic. “I was given a great opportunity with great partners and

Tyler Nester and Brian Thompson show off PepsiCo’s new Hello Goodness machines.

great customers,” he said. To keep the momentum going, Smith Vending will continue to be the drivers of innovation while focusing on its customers. | ◀



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Terri Pettit, Director, Audience Development

September 15, 2016

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1. Ipsos, brand health tracker, Q3 2014
2. Nielsen, xAOC plus Convenience, latest 52 weeks ending 10/24/15
3. Nielsen, BASES® II, January 2015