

2020: What a difference a (pandemic) year makes

COVID-19 puts big dent in 2020's sales through vending channel – micro markets help prevent total free-fall

By Nick Montano, Editor

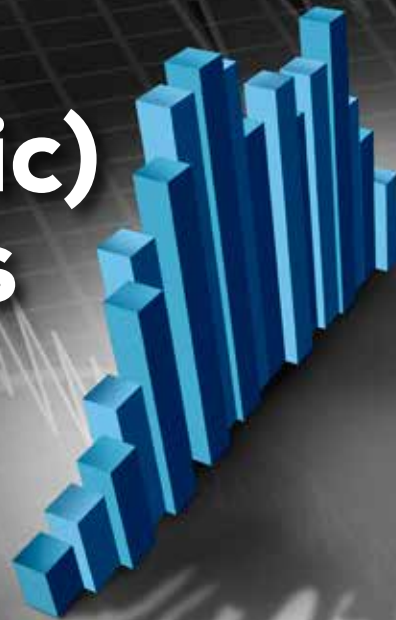


CHART 1A: Industry revenue in billions

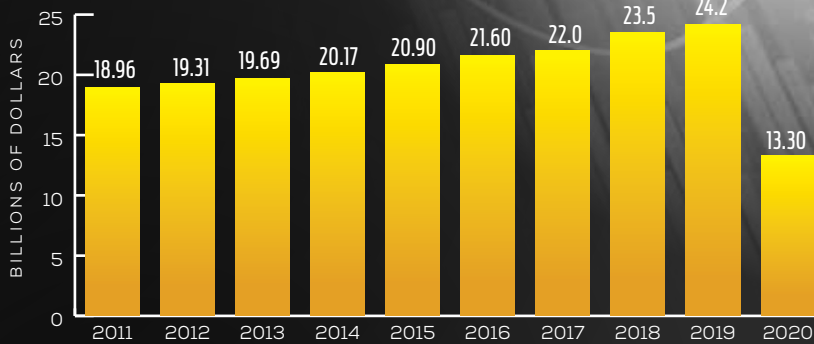


CHART 1B: Micro market 2-year review

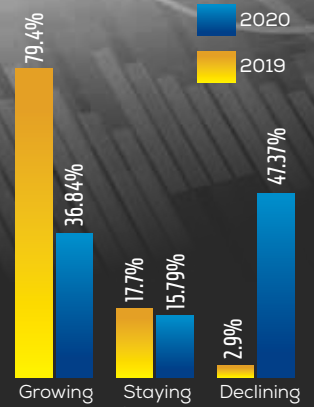


CHART 2: Operator sales

SIZE	REVENUE RANGE	% OF 2020 OPERATORS	PROJECTED 2020 SALES	% OF 2020 SALES
Small	under \$1M	68.2%	\$1B	7.5%
Medium	\$1M - \$4.9M	24.3%	\$3B	22.3%
Large	\$5M - \$9.9M	2.1%	\$2.2B	16.7%
Extra large	\$10M +	5.4%	\$7.1B	53.5%

53.5%
of the industry's revenue
is made up of 5.4% of
the businesses

Vending and micro market businesses in the United States did their best to adjust to and survive the severe economic realities of the COVID-19 pandemic in 2020. Those realities affected workplace service providers contrarily. Operators primarily serving locations with essential workers onsite held the line, and in some cases, increased total sales. Operators servicing office locations, professional sites, public venues and schools, by comparison, experienced significant sales declines.

Food, snack and beverage sales in workplaces have always been directly tied to employment. According to the Congressional Research Service, the U.S. workforce shed 22.1 million jobs from January to April 2020 alone, deeply impacting vending and micro markets. In April 2020, the unemployment rate reached 14.8%, the highest rate observed since the Bureau of Labor Statistics began collecting data in 1948. A year later, nationwide unemployment remained higher, at 6.1%, than it had been in February 2020, at 3.5%.

While last year's job losses began a steady recovery since April 2020's joblessness peak, measuring at a rate of 6.7% in December, it was the abrupt closure of offices and workplaces and the subsequent transition to remote work for millions of employed Americans that had the greatest impact on vending and micro market performance.

April 2020 ushered in the new era of remote work, immediately and significantly reducing office populations, and foreshadowing a shift in the way a workforce segment might operate in the future. As of December, 71% of office workers were doing their jobs from home all or most of the time, according to Pew Research Center.

Not surprisingly, then, and in check with pandemic-related adversities and employment shifts, *Automatic Merchandiser's* annual State of the

CHART 3A:
Machines by location

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

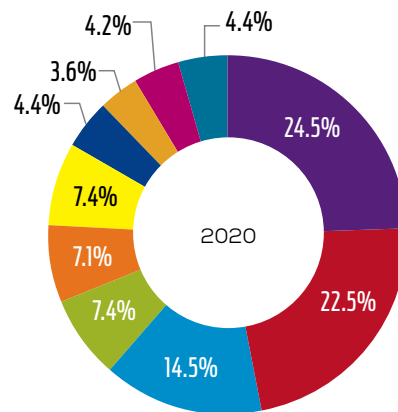


CHART 3C:
Micro markets by location

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

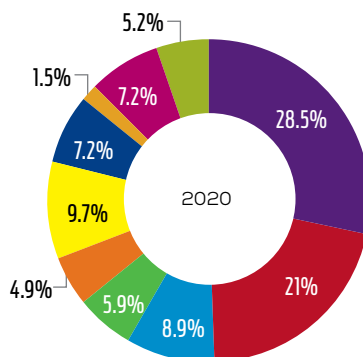


CHART 3B:
Number of locations served

- Increased
- Remained the same
- Decreased

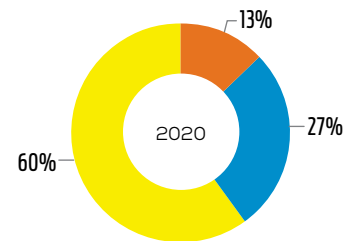
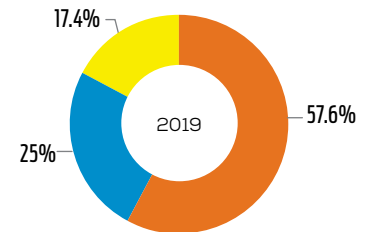
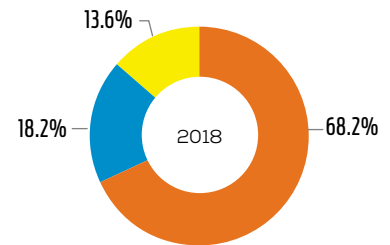


CHART 3D:
Number of micro market locations served

- Increased
- Remained the same
- Decreased

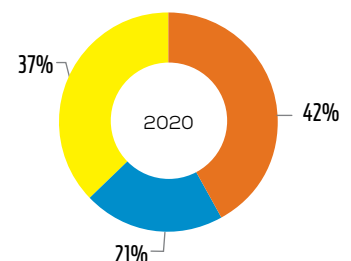
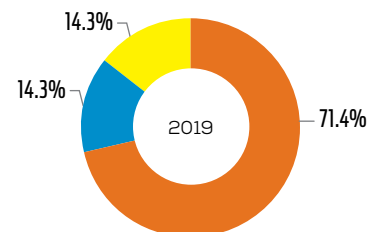
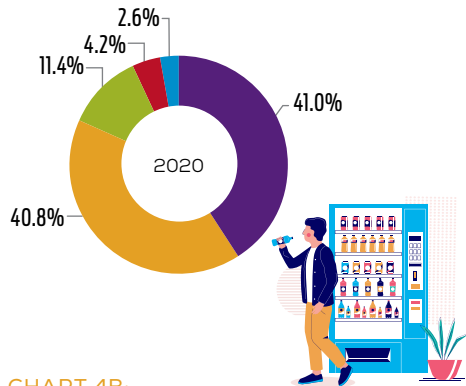


CHART 4A:
Percentage of each type that makes up placed vending machines

- 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

2,175,756

in 2019

1,740,604

in 2020

CHART 4B:
Active micro market locations

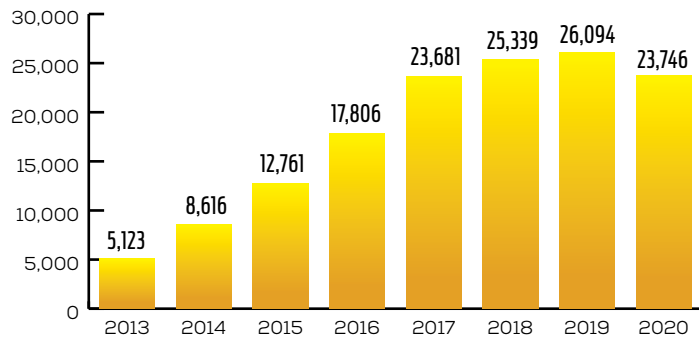


CHART 4C:
Smallest location where a micro market is currently placed

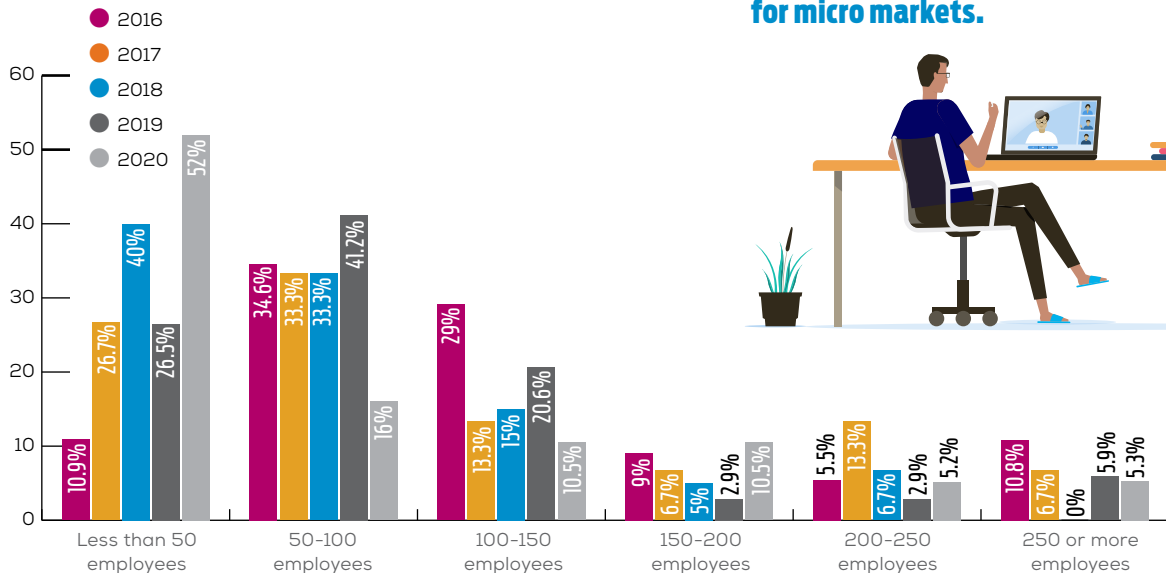


CHART 4D:
Average shrinkage rate in micro markets, as a %

	2017	2018	2019	2020
0%	0%	0%	3.4%	5.2%
1%	13.3	0	6.9	0.5%
2%	33.3	35	13.8	5.3%
3%	20.0	5	13.8	37.0%
4%	6.7	6.7	10.3	21.0%
5%	6.7	20	13.8	10.4%
6%	0	14	13.8	5.2%
>7%	6.7	19.3	20.7	10.5%
I don't know	13.3	0	3.5	4.9%

CHART 4E:
Most common loss prevention techniques, as a %

	2018	2019	2020
Regular market inventory	80%	62%	63%
Hired loss prevention employee	60	17	5
Working with a loss-prevention consultant	-	-	16
Screens showing canceled orders	60	69	58
Signage about theft in micro market area	60	66	69
Camera feed displayed above kiosk	40	76	63

Respondents said at-home work transition during pandemic was biggest challenge for micro markets.



CHART 5A:
Acquired or divested business

● 2015 ● 2016 ● 2017 ● 2018 ● 2019 ● 2020

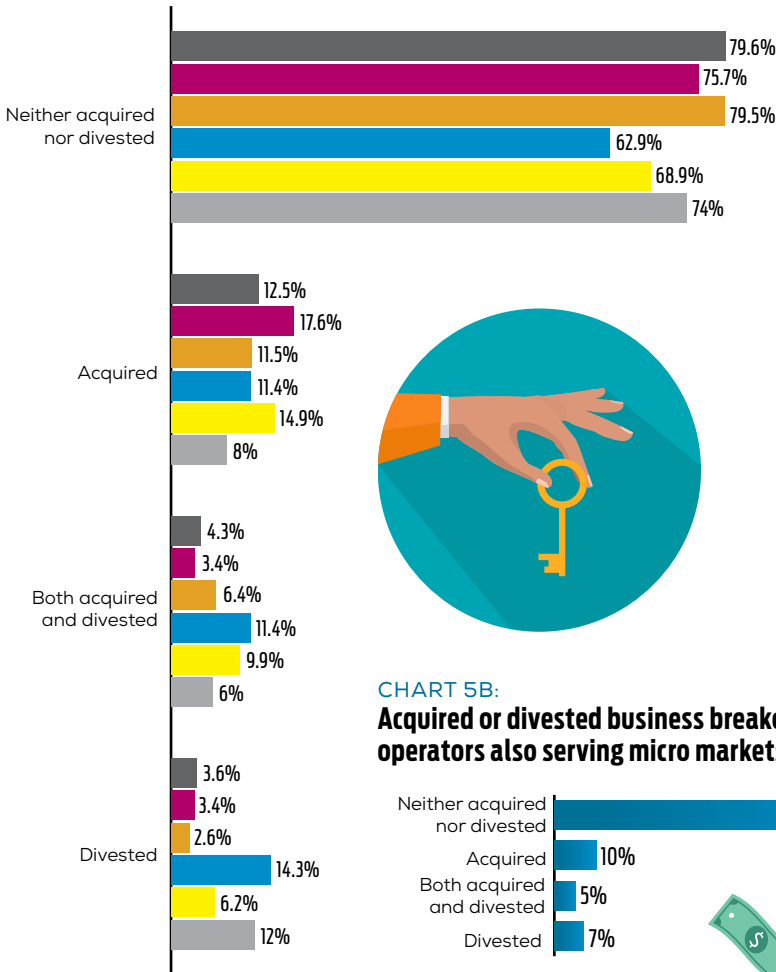


CHART 5B:
Acquired or divested business breakout for operators also serving micro markets in 2020

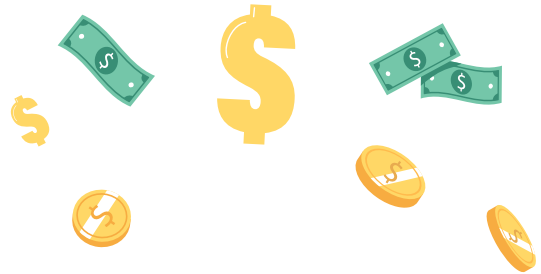
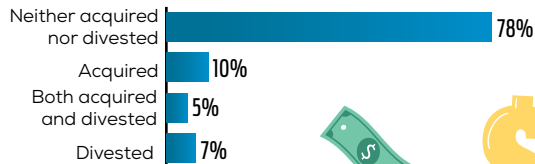


CHART 6A: Technology rankings, averaged

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

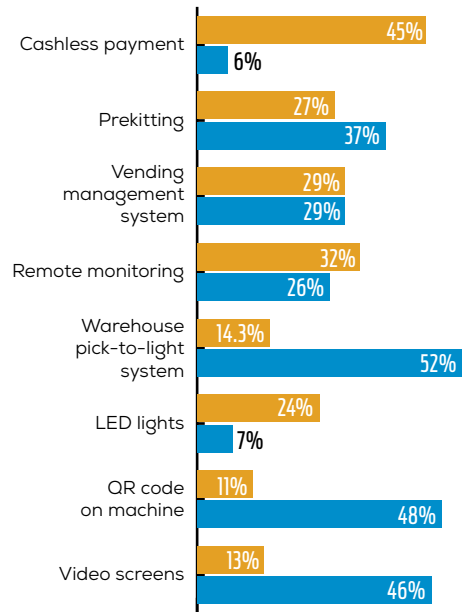


CHART 6B:
Vending data collection trends

● 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

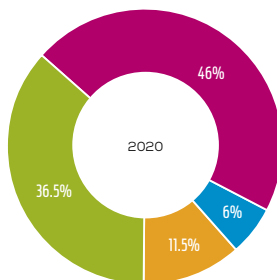
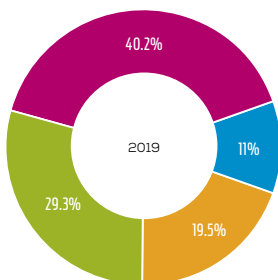
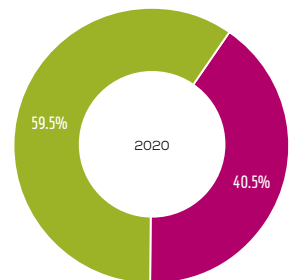
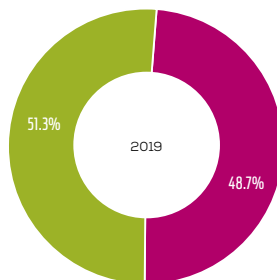


CHART 6C:
Vending management systems

● Use a VMS
● Don't use a VMS



Industry report on vending and micro markets is showing a revenue decline of 45% – from \$24.2 billion in 2019 to \$13.3 billion in 2020. The pandemic essentially erased a decade of consecutive sales and revenue gains – and more – reported by convenience service operators since the end of the Great Recession in 2009.

This year's State of the Industry report tells the story of the industry's will to survive. "Survived. Tried to survive. Did my best to survive," were the most common comments by operators.

2020 OPERATION PROFILES

In this year's survey, some 47% of participants designated their business as a full-line operation with vending, micro markets, refrigerated/frozen foods, and office coffee service (OCS), compared with 41% in 2019. This suggests more full-line firms added micro markets in

2020. Operators offering only micro markets account for fewer than 3% of all respondents in the report's sampling.

Nearly half, about 46%, of the operations surveyed employ one to five people, down from 53% in 2019. The second-highest employee range is 100-plus, or 13%, compared with 16% year over year. Around one in five operations ran a single route in 2020, compared with 17% in 2019. The number of operations with 50 routes or more, meanwhile, dropped 3%. Fewer stops and reduced inventory requirements drove route consolidation.

Fewer route acquisitions occurred in 2020; the exception was partial divestitures, which increased to 12%, compared with 6% in 2019. The number of operators who leased some or all of their cold drink vending machines held steady at 70%. About 5% of this year's survey participants

identified as bottling companies with vending and micro market operations.

More than vending, contract foodservice suffered last year. While the number of operators providing manual foodservice has been decreasing in recent decades, last year saw this service category decline more than 70% from the previous year, as workplaces limited employee populations or out-and-out prohibited manual foodservice.

BIG LOSSES, BUT SOME GAINS

The State of the Industry report's key data point, total sales for an operation, changed dramatically. Almost 75% of all participants reported sales decreases between 10% and 70%, while 6% said sales increased. In 2019, by comparison, 64% of operators said sales increased; 38% of those reported increases at 10% or greater.



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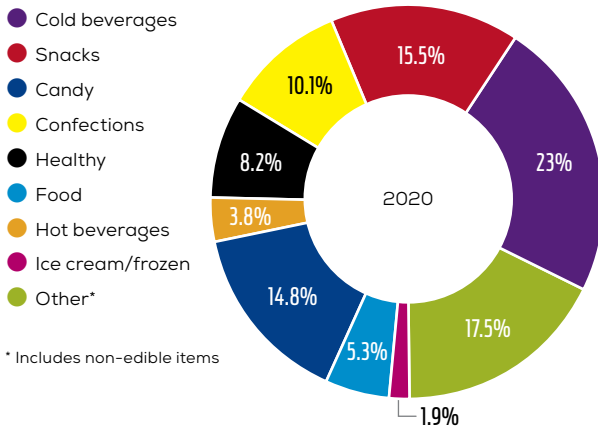
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Readers Choice - Cookie/Pastry Category



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CHART 7A:
Vended share of sales by product category



* Includes non-edible items

In 2020, almost 60% of operators reported considerable losses in the number of locations they served; by comparison, nearly 60% reported location gains in 2019. Nearly one-third of respondents, or 28%, said the number of locations they operated did not change.

Cashless acceptance on vending machines improved in 2020. Only 11% of this year's respondents said they don't use any cashless payment systems, compared with 16% in 2020. Operators reporting 100% cashless vending rose to 22% in 2020, up from 14% in 2019.

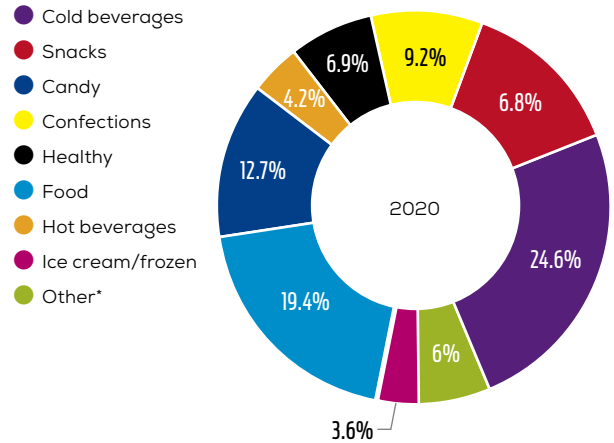
Additionally, there were reported improvements in the use of data collection technologies in 2020. Operators used "pandemic downtime" to make networking upgrades from manual and handheld processes to smart devices and telemetry systems. Additionally, the number of operators using vending management systems reached 60% in 2020, up from 50% in 2019.

Still, about 40% of operators said they took to pencil and paper to reconcile sales through vending machines last year, like 2019.

GOINGS-ON IN MICRO MARKETS

The number of vending operations with micro markets last year was 43%, unchanged from 2019. Of

CHART 7B:
Micro market share of sales by product category



* Includes cooperative service vending, condoms, toll passes, repair services, rental equipment (Redbox, etc.), chips and crackers

those micro market operators, 44% reported an increase in the number of markets they offered in 2020. Concerning micro market dollar volume, 37% of operators reported an increase in 2020, compared with 80% the previous year. Decreased revenue was reported by 47% of operators last year, compared with only 3% in 2019.

Most markets occupied manufacturing and office locations last year. Increases occurred in manufacturing sites, as well as in hospitals, healthcare facilities and other semi-public locations, including large apartment complexes. Office locations declined considerably.

Successful and profitable micro markets require merchandising overhauls to bring new customers into a store, and to get existing customers to spend more. In 2019, almost 60% of micro market operations reported monthly product updates and repositioning. The merchandising refresh rate dropped to 27% in 2020, attributable to pandemic-related restrictions.

Last year, in a positive development, micro markets were widely recognized as a corporate foodservice solution, sometimes replacing – or complementing – sited cafeterias. What's more,

the number of markets functioning as cafeteria alternatives rose in 2020. In a separate survey, 52 of 60 operators said they "definitely" think the micro market could replace manual foodservice.

In terms of employee population thresholds, the number of locations with 50 or fewer people served by micro markets surged last year. In 2019, some 51% of operators reported having markets in this lower demographic range, compared with 30% last year. Significantly reduced office occupancies drove this shift, which also saw the 50-150 employee location drop to 26% in 2020 from 64% the previous year.

Micro markets remained profitable in 2020, with 68% of operators reporting profit margins of 10% or more, compared with 52% in 2019.

VEND CATEGORIES

Packaged cold drink venders and glassfront merchandisers were the most widely operated machine types in 2020. The number of full-line coffee, refrigerated and frozen food machines continued to decline in absolute numbers and as a percentage of the equipment mix. Sales of fresh foods and frozen, on the other hand, increased market share in the micro market space.

CHART 7C:

Share of sales by service category, combined services

	2017	2018	2019	2020
Vending	66.2%	63.8%	50.1%	49.7%
Micro Markets	15	15.8	11.1	14.6
OCS	7.3	9.3	7.2	7.0
Water service	4	2.3	2.5	2.5
Other	2.9	1.4	8.0	8.5
Pantry service	-	2.9	4.1	3.1
Bulk vending	1.6	1.6	3.4	3.1
Manual foodservice	0.2	0.8	4.4	3.1
Music	0	0.8	2.8	2.5
Games	0	0.8	4.1	2.9
Janitorial Supplies	0	0.5	2.2	3.0

CHART 8:

Projected sales by category, in billions

VENDING PRODUCTS	2020	MICRO MARKET PRODUCTS	2020
Vended ice cream/frozen	\$0.1 (B)	Micro market ice cream/frozen	\$0.1 (B)
Vended food	0.4	Micro market food	0.3
Vended candy	1.2	Micro market candy	0.2
Vended hot beverages	0.4	Micro market hot beverages	0.1
Vended healthy	0.5	Micro market healthy	0.1
Vended confections	0.9	Micro market confections	0.2
Vended snacks	1.2	Micro market snacks	0.2
Vended cold beverages	2.0	Micro market cold beverages	0.5
Vended other	1.8	Micro market other	0.2

SERVICES	2020	% CHANGE
Vending	\$8.50 (B)	-29.75 (%)
Micro markets	1.70	0.00
OCS	1.09	-59.63
Water service	0.29	-51.67
Other	0.20	-60.00
Pantry service	0.30	-70.00
Bulk vending	0.15	-85.00
Manual foodservice	0.63	-66.84
Music	0.12	-85.00
Games	0.15	-86.36
Janitorial supplies	0.17	-75.71

Packaged cold drinks held their prevalence among vendible categories last year – in machines and markets (see Chart 8 for product category run-downs). In vending and micro markets, cold drinks represented, respectively,

30% and 28% of all sales. Snacks (salted snacks, bars, mixes, etc.), confections (pastries and cookies) and candy – the dominant glassfront vending offerings – represented 40% and 36% of sales, respectively, in machines and markets.

Methodology

Data in *Automatic Merchandiser's State of the Industry* report are compiled from a survey sent to operators in the spring. It collects responses from vending and micro market providers, as well as snack and soda operations. The State of the Industry report looks at performance results in major product categories.

On average, operators charged \$1 or more for a vended (post-mix) hot beverage (e.g., fresh brew, freeze-dried coffee, cappuccino, cocoa or soup).

Most respondents, about 75%, said they offered “healthy” or “better-for-you” items in vending machines in 2020, down from 82% in 2019.

Like snacking trends at home, consumption of indulgent snack foods also increased at workplaces last year. In micro markets, all respondents reported offering “healthy” meal, snack and beverage options.

Overall, dollar volume and unit sales of vended packaged cold drinks and glassfront snack/confection/candy (including “healthy” variations in those categories) ended the year more than 30% down. In micro markets, sales of these products finished 2020 almost even.

LOOKING AHEAD

The overall U.S. economy is expected to set growth records this year and next. In the first quarter of 2021, real GDP grew 6.4%, reflecting the start of a strong economic recovery, reopening of establishments and workplaces, and continued government responses related to the COVID-19 pandemic. Whether this so-called “booming economy” will bring employees back to the office in meaningful numbers, remains to be seen, and that will be the determining factor framing the recovery of the vending, micro market and office coffee service sectors. ■