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The Vending & Coffee
Service Industry Resource

April 2012

*The key to improving
sales lies in improving
consumers' experiences.*

SPECIAL REPORT

The case for a new definition of vending

What it means, and what
operators must do to
make it happen.

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CANDY AND SNACKS

What happened
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EXCLUSIVE EXPO REPORT

Vending highlights from the Digital Signage
Expo in Las Vegas.

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www.VendingMarketWatch.com/10655939

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¹ The NPD Groups' SnackTrack Service 2010 - US

² Bishop Super Study, 2009

Interactive media can renew vending, will add new blood

By Elliot Maras, Editor



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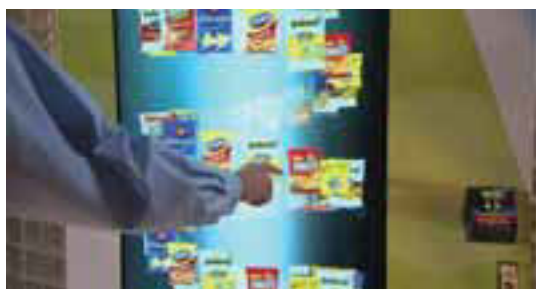
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When I attended my first kiosk/digital signage expo in 2008, there were no snack or beverage vending machines on the show floor, and as far as I could tell, no vending operators in attendance.

Last month, at the ninth annual Digital Signage Expo in Las Vegas, I saw several snack and beverage machines with interactive media touchscreens and other capabilities.

There weren't a lot of vending operators in attendance, but there were some, which speaks to the reality of a changing industry. They came not just to see the interactive vending displays, which alone was worth the trip, but all the interactive merchandising, wayfinding, facial recognition and messaging tools on the show floor.



The VE Connect interactive media screen is among the new innovations that redefines the vending experience.

Technology blurs barriers

The show targeted a wide variety of user groups, known in the digital signage trade as "verticals." People from ad agencies to retailers to government to business and industry attended. Digital signage, powered by broadband

mobile Internet, is blurring the barriers between these different "vertical" segments.

The technology providers, unlike vending and the other "verticals" currently investigating digital signage and interactive media, stand at ground zero before a rapidly expanding industry. They carry no assumptions about the future as they seek to redefine retail commerce and many other venues of human interaction.

Hundreds (if not thousands) saw the vending systems on display, such as the VE Connect content management platform with universal control board applications, near-field communication payment applications, the Intel® audience impression metrics suite and product recognition that support the vending opera-

tor's need to control and monitor transactions and interactions.

Hundreds (if not thousands) saw the Kraft Foods' food sampling machine and the Sanden-Vendo glassfront cold beverage machine with a 65-inch transparent touchscreen and anony-

mous facial recognition that determines gender and age.

Among those who envisioned new possibilities, how many were grabbed by the entrepreneurial itch to redefine vending? In this age of mobile broadband and Internet connectivity, we'll be finding out sooner than later.

People from numerous business disciplines soaked up the possibilities as they walked the show floor. Many were anxious to learn more about vending after seeing what these interactive tools can do for it.

Those of us with a working knowledge of vending fielded questions about the industry as it now exists. We ultimately had to explain the structural barriers that presently restrict operators from investing in future tools. Issues such as space limitations in machines. Reliance on the dollar bill that limits selections to small ticket items. Not to mention the numerous business practices that commoditize vending's value to the end user.

But we had to admit that all these issues can and will end up in the ash heap of history. Answers to many of the vending industry's challenges could be found on that trade show floor. All it takes is new blood, or a revolution in the existing vending operator mindset. | ◀

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Senate bill to phase out \$1 bill, promote dollar coin

A bipartisan group of U.S. senators led by Sen. Tom Harkin, D-Ia., and Sen. John McCain, R-Ariz., introduced legislation to phase out the dollar bill over a 4-year period and force the country to begin using the 1.4 billion dollar coins that are in storage at the Federal Reserve. The bill is called the Currency Optimization, Innovation, and National Savings (COINS) Act. The U.S. Government Accountability Office has advocated for this change for more than two decades to reduce government spending. They claim the dollar coin will save money for those engaged in a large number of transactions like large retail stores, vending machine operators and transit agencies. "Promoting the dollar coin is a smart investment for our country that saves taxpayer's money," said Harkin. "With the deficit looming, we need only look at the cost savings from this effort to understand why this legislation is so urgently needed."

"With our nation's debt now over \$15 trillion, Congress must look at every area of the federal government, big or small, to save money," said McCain. "By moving from the costly dollar bill to the dollar coin, we can save real money and show the American taxpayer that we are serious about cutting spending in Washington."



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The Currency Optimization, Innovation, and National Savings Act would phase out the dollar bill.

Obama seeks school vending nutrition rules

► The Obama administration is working on setting nutritional standards for foods that children can buy outside the cafeteria. The administration says it wants to ensure that what they eat contributes to good health and smaller waistlines. The proposed rules are expected within the next few weeks.

Massachusetts vendors fight fee hike

► Massachusetts vending operators have begun placing

stickers on vending machines urging consumers to contact the state department of public health to protest a machine fee increase from \$3 to \$20 per machine.



NAMA fights rest stop commercialization

► The National Automatic Merchandising Association has sent a memo urging members to oppose S.B. 1813, a transportation bill which contains "The Portman Amendment" to allow for the "commercializa-

tion" of rest stop areas. NAMA believes commercialization of rest stops could diminish vending and rest stops.

Vistar Corp. launches green initiative

► Vistar Corp. has teamed up with supplier companies such as Solo, Berkley Square, Silver Source, Tork and Chinnet, to help grow its "green initiative" business program. For additional information on the green initiative, visit the customer center tab on the Vistar Web site, www.vistar.com.



DS Waters to buy Standard Companies

► DS Waters of America, Inc. will acquire substantially all of the assets of Standard Companies Inc., one of the nation's largest OCS firms. DS Waters is one of the country's largest providers of home and office bottled water delivery service, with a growing presence in OCS and water filtration systems. Standard operates three business units: Standard Coffee Service®, StandGuard Quality Water Assurance® and Relyant Coffee Equipment Services™.



Richardsons halt Wow! Foods, join G & J Marketing Co.

► Jimmy Richardson and his sons, Cole and Jason, recently discontinued Wow! Foods, a manufacturer of handheld foods serving the vending and convenience store channels, and have joined G & J Marketing Co., the Palm Harbor, Fla.-based vend product brokerage. Richardson said he and his son, Cole, are now independent contractors working as national sales reps for G & J Marketing, while his other son, Jason, is a vice president of operations. AdvancePierre Foods bought Wow! Foods packaging materials and continues to produce certain Wow! Foods products.

General Mills buys natural snack maker

► General Mills Inc. acquired Food Should Taste Good, a natural snack maker that will become part of General Mills' Small Planet Foods.



Sara Lee Corp. renames its coffee and tea business

▶ Sara Lee Corp. announced that its International Coffee and Tea company will be named D.E. Master Blenders 1753.

Foley buys Robinson Vending

▶ Foley Food & Vending Inc., Norwood, Mass., acquired Robinson Vending Inc., based in Bridgewater, Mass. for an undisclosed sum from owner Dave Robinson who has joined Foley as vice president of route operations. Robinson's three routes have been folded into Foley's Norwood facility. Foley now operates a total of nine routes with 20 employees.



InOne signs supplier pact with USG

▶ InOne Technology, LLC, a subsidiary of Coin Acceptors, Inc., has been selected by Unified Strategies Group (USG), the vend operator

buying co-op, as a provider of vending machine controller boards, DEX audit boxes, and LED replacement lights.

Canteen buys Rainbow Vending

▶ Canteen Vending Services Inc. acquired Rainbow Vending in San Diego, Calif. from owner Greg Carron for an undisclosed sum. Canteen is leasing Rainbow Vending's facility. Carron is presently working with Canteen in a consulting capacity.

Coffee Equipment Website debuts

▶ Keith Zarin, a coffee equipment veteran, has launched Discount Coffee Equipment, an Internet Website, www.discountcoffeequipment.com, offering brewers, grinders, cappuccino machines, airpots and repair parts.



Hershey buys protein drinks maker

▶ The Hershey Co. has acquired a controlling stake in Tri-Us Inc., the manufacturer of protein drinks called mix1 that Hershey invested in last year.

People in the News

Dave Bowersox returns to Seaga

Dave Bowersox has returned to Seaga after more than one year of absence as channel manager for the full line division. He will retain his home base in Minneapolis, Minn., but work from Seaga's worldwide headquarters in Freeport, Ill.



Bowersox

Monogram Tabs G & J's Daryl Thomas

Daryl Thomas recently left his role as Midwest region business manager for G&J Marketing Co. Inc., the Palm Harbor, Fla.-based vend products broker, to become vice president of specialty markets at Monogram Food Solutions, a newly-created position.

Hostess names Rayburn president/CEO

Hostess Brands, Inc. named Gregory Rayburn, a turnaround executive, as president and chief executive officer, replacing Brian Driscoll, who resigned.

Sara Lee names COO for coffee and tea

Sara Lee Corp. named Harm-Jan van Pelt chief operating officer of Sara Lee's International Coffee and Tea Rest of World division.

Farmer Bros. Co. Taps Dean Food Co.'s Michael Keown As President And CEO

Farmer Bros. Co. announced that Michael Keown will join the company as president and chief executive officer. Keown comes from WhiteWave Foods Co., a subsidiary of Dean Foods Co., where he was president of Indulgent Brands.

CALENDAR OF EVENTS

APRIL 25-27

National Automatic Merchandising Association OneShow
Venetian/Sands Resort,
Las Vegas, Nev.
Phone: 312-346-0370
www.vending.org

MAY 18-19

Illinois Automatic Merchandising Council and Wisconsin Automatic Merchandising Council 2012 Midwest Conference
Grand Geneva Resort and Spa, Lake Geneva, Wis.
Phone: 800-558-3417
www.grandgeneva.com

MAY 31-JUNE 1

Maryland/D.C. Vending Association Annual Meeting
Harbourtown Golf Resort,
St. Michaels, Md.
Phone: 571-346-1901
Email: pgilbert@vending.org

AUG. 8-10

Southeastern Vending Association (SEVA) Annual Meeting
Sandestin Resort, Destin, Fla.
Phone: 800-320-8115
www.vending.org/seva

OCT. 24-26

European Vending Association And Vending Paris International Business Day
Paris Expo - Port de Versailles,
Paris, France
Phone: 32 (0)2 512 00 75
www.vending-europe.eu

NOV. 13-15

National Automatic Merchandising Association CoffeeTea&Water Event
New Orleans Hyatt Recency,
New Orleans, La.
Phone: 312-346-0370
www.vending.org

New payment technologies go well beyond cashless

By Mike Lawlor, Contributing Editor



Mike Lawlor is the senior vice president of sales and business development at USA Technologies Inc., based in Malvern, Pa.

The continued demand by consumers for cashless payment systems, emerging consumer trends like mobile, prepaid and loyalty programs, and two-tier pricing programs that enable operators to charge different prices for cash and credit, have changed the business model for cashless payments systems and associated services in a rapid and profound way.

The prepaid card market is expected to hit \$443 billion by 2017, according to Boston Consulting Group. In addition, 60 to 70 percent of smart phones and tablets will be near field communication (NFC) enabled by 2014, according to Goldman Sachs Research. These trends reflect how consumers are looking to be rewarded for their

dependent on cashless payments for more of their everyday purchases.

Two-tier pricing takes off

Operators that haven't yet made the transition to cashless now have even greater incentive. Two-tier pricing can provide a more cost-efficient path for operators to combine consumer's increasing dependence on cashless systems with the operator and consumer benefits of emerging retail trends. By helping to offset processing costs, two-tier pricing can re-shape the delivery model, returning more profit to an operator's bottom line than ever.

USA Technologies Inc. knew two-tier pricing would be popular with operators looking to cover processing costs for cashless

balking at credit/debit prices — they are spending more.

Complete consumer experience

This coming spring, we plan to introduce an interactive prepay, coupon and loyalty program to further enhance end-to-end cashless payment solutions and services. These new value-added services will enable operators to offer branded prepaid cards that give consumers the ability to reload a card, stack up loyalty points and be rewarded for their purchases with coupons and promotions. The program can be integrated into social media sites to strengthen that retailer-consumer relationship and broaden visibility for the operator and the brand. Eventually, GPS location services will be available that notify the consumer via email, a mobile application or over a Web interface, of any special deals the operator may be offering based on consumer location.

These new services, combined with the readers already in the field that are able to accept digital wallet technology like Google Wallet, Isis, and PayPal, further prepare operators to benefit from payment trends as they emerge.

Networking your machines is no longer simply about payments and reporting. Vendors must be positioned to offer the consumer a complete interactive experience that stays with them long after they've walked away from the machine. ◀

VENDORS *must be positioned to offer the consumer a complete interactive experience.*

loyalty to a brand or a retailer with coupons and promotions.

Prepaid cards give operators the ability to track consumer purchases and/or offer special deals to incentivize consumers.

They also ensure a captive audience and a more direct one-to-one relationship with the consumer. As the availability of NFC-capable phones increases over the next few years, consumers will become more

transactions, but we wanted to be sure consumers weren't put off by credit and debit card prices that were higher than the discounted cash price. So far, early indicators show that when comparing gross cashless sales on two-tiered deployments before and after deployment, gross cashless sales is up by approximately 20 percent and cashless usage is up by two percent-age points. Consumers simply aren't

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What skills will define tomorrow's vending leaders?

Elliot Maras, Editor

As new tools make automatic merchandising more professional, operators will need to be grounded in more management skills than they have in the past.

With vending becoming more professional thanks to the adoption of cashless transaction capability, wireless remote machine monitoring and other tools, the next generation of vending operators will likely have a different skill set than their predecessors. For operators to succeed in a market where more technology investment and training are needed, where will the next generation of operators come from? What types of education and career background will harvest the next generation of vending industry leaders?

The question was recently put to a randomly selected group of vending industry veterans. Most are optimistic that today's new tools are improving the public's image of their industry, a trend they expect will continue.

Operators agree that technology will play a bigger role. Because of this, they need the financial skills to manage their capital, communication skills to educate employees and customers about the technology, and marketing skills to survive and prosper in a more competitive market.

Operators generally believe that future vending leaders will have more financial expertise, stronger marketing backgrounds and keener communication skills than previous generations.



Thinkstock

Future vending leaders will have to be better grounded in several disciplines.

Operators also agreed there is no single type of education or career background that will dominate the next generation of leading operators. In this regard, the operators of the future will mimic their predecessors, having varied business and education backgrounds.

The key characteristics for future leadership in some ways are similar to those of previous generations: good

business sense, the ability to delegate responsibilities, knowing how to identify good talent, being willing to reward employees fairly, and a commitment to high quality service.

While many of these characteristics remain constant, operators also agree that the need to understand new technology is one of the biggest differences that future

CONTINUED ►



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vending leaders will possess. New technology, in turn, creates the need for stronger financial acumen since the technology adds more cost to operating the business.

Rome Refreshments in Houston, Texas is a 33-year-old company that utilizes DEX handhelds and is investigating self checkout micro markets. Dominic Macerola, founder, hopes to pass the business to his 28-year-old son, G.P. Macerola, who is a lawyer by training. Dominic Macerola said operators must understand how to use new tools such as card readers and know when it makes sense to invest in them. "They (customers) want us to put it in the vending machines," he said. "If you don't know that (the use of the new tools), you're going to be out of the game."

Marc Whitener, owner of Refreshment Solutions in Norco, La., has been proactive in introducing wireless pre-kitting. The company has also witnessed strong growth in recent years. Asked what he would do today as a newcomer, Whitener said he would find ways to build a stronger financial structure, one that would allow him to



Marc Whitener, a Norco, La. vendor, thinks financial skills are becoming more important in vending.

invest more in technology, acquisitions and salaries. All three of these areas, he noted, are interrelated.

Financial skills critical

With technology playing a bigger role, Whitener said it's necessary to not only have the funds to pay for it, but to have people who are trained in how to use it. He said a formal financial education would be helpful to him today. Whitener studied economics in college, which he noted is not the same as finance. Vending operators need to do more than manage day-to-day expenses, he noted; they need to be capitalized for long-term growth.

Steve Marx, another veteran operator who has invested in technology in recent years, echoes Whitener's concerns about being financially educated in order to deploy technology successfully. Marx, who owns Royal Vending in Maple Grove, Minn., has invested in cashless readers, DEXing his machines and in automated warehouse tools to allow him to pre-kit his routes. "You've got to know when and where to spend your money," Marx said.

To these traits, Marx adds the importance of good communication and marketing skills. He thinks the vending industry continues to suffer from poor skills in these areas.

Communication is an area that several veterans cited as important, both in relation to the customer and the staff. "You have to take time to invest in seeing the client and building a relationship with them," said Tony Goodman, president of Goodman Vending Service in Reading, Pa. To this end, his company has become proactive with social media in addition to its print newsletter.

Goodman said a well rounded education is more important than a focus on any one area of business.

Employee assessment to be key

Greg Breland, president of Ocean Springs, Miss.-based Gulf Coast Canteen, said the demands required by automated management systems require managers to be more adept at identifying critical employee skills. While data management is highly automated using today's software, the data input requires attention to detail. A longtime operator, Breland said it is very hard to pre-qualify an employee's awareness of the importance of detail.

Breland seconds those who noted the importance of motivating employees. "If you can't get your people to buy in, you're doomed," he said.

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Another important trait, according to Breland, is self assessment. Most vending owner/managers are strong in some areas and weak in others. A successful leader recognizes his or her strengths and weaknesses and delegates accordingly. "You can hire someone where you're not good," he said.

Some observers are hopeful that today's exciting technology will bring people from outside the industry with better marketing and management skills.

"We need people from outside the industry," said Jim Dillingham, who operates Dunbarton, N.H.-based Vend-ucation, which educates schools about vending. He is a longtime vending operator and equipment distributor. "The same old mentality is the problem. Inside the industry, we just have too many assumptions that are no longer accurate," he said

Dillingham maintains the industry is rife with bad business practices, such as offering customers high commissions, dishonest sales reporting, and promising unrealistic benefits without delivering on the promises. He



Jim Dillingham of Vend-ucation, Dunbarton, N.H., thinks the vending industry is rife with bad business practices.

“We need more people from outside the industry.”

agrees with those who say financial and technology backgrounds will be important for future operators.

Dillingham said future leaders will have longer return on investment schedules due to the higher investment required for state-of-the-art equipment and technology. He said unique technology affords a window of opportunity for negotiating realistic and profitable vend prices. New technology can place a vending proposal outside the framework of a perceived commodity, he noted.

Tom Whennen, a former vending operator who now operates a business consultancy called The Entrepreneur's Source in Oak Park, Ill., said future vending operators will be more focused on the bigger picture.

He said vending companies will be more "customer centric," meaning by using technology they will create a more positive consumer experience at the point of sale and post sale. He said people with college business

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backgrounds are more likely to understand this concept than those without it.

One thing that everyone agreed on is that a strong work ethic remains important. New tools are creating new capabilities, but there is more training needed and supervision remains as important as ever.

Paul Tims, owner of Imperial Companies in Tulsa, Okla., thinks technology raises the bar, and in doing so, requires stronger marketing and communications skills. His company is proactive with many vending technologies. Tims is adamant that it is easier to find people with strong technology backgrounds than with good marketing skills.

The need to educate customers about health and wellness issues has brought even new demands to the game, Tims noted. "It takes a smooth, more clearly capable person to communicate all the health and wellness (information)," he said.

Self checkout markets enter the fray

Tims is also among those operators who think self checkout micro markets require an even stronger marketing skill set. His company recently hired someone to market the self checkout systems.

Five Star Food Service Inc., based in Chattanooga, Tenn., recently hired a vice president of micro markets, with a convenience store chain operations management background, for its self checkout micro markets line of business. Alan Recher, company president and a 28-year vending industry veteran, believes the markets require a type of merchandising more similar to convenience stores and retail than the merchandising of traditional vending.

Recher said the products sold in the markets are of various sizes and higher quality while offering a better value to customers, and must be merchandised differently. He



Tom Whennen of The Entrepreneur's Source, Oak Park, Ill., sees operators becoming more "customer centric."



Glenn Butler, CTO Services LLC, Boston, Mass., says self checkout markets have more data to manage than vending.



Allen Weintraub of Vending Consultants Co., White Plains, N.Y., thinks self checkout markets require more oversight than vending.

did not wish to be specific. Recher added that his company has hired a dedicated marketing manager for self checkout markets for each of its major market regions, all of which brought with them retail merchandising experience.

Glenn Butler, who operates CTO Services LLC, a Boston, Mass.-based consultant, agreed that the self checkout markets involve more data to manage than vending machines, and the data must be managed efficiently. He said operators will not need additional skills for managing these systems provided they are able to integrate the self checkout markets' reporting with their vending management software.

Allen Weintraub, who operates Vending Consultants Co. based in White Plains, N.Y., said a lot more attention to detail is needed with

self checkout markets. He said it's easier for products to be displayed sloppily on shelves and in coolers than in vending machines. "It's more complex," he said. "You have to have someone who analyzes the data to maximize sales and change the products."

Not everyone agrees with this. John Mitchell, president of Treat America Food Service, which provides self checkout markets to its customers, has used vending employees to both sell and service the markets.

Operators agree that as technology is adopted, many existing job roles will change. These changes affect nearly every standard position.

"We would be well served to dedicate more resources to data analysis than we have in the past as an industry," said Mitchell.

Dave Griesedeck, a longtime St. Louis, Mo.-based operator, welcomes the new technology and has DEXed his machines and is using cashless card readers. He thinks the most important skills will not change. The employees must be trained on the job and drivers must be able to work unsupervised and represent the company professionally.

Griesedeck agrees that financial and business skills will always be important. Hence, a business and financial education will give someone a good foundation for vending.

Leaders must be more versatile

The role of the leader will be to understand all the roles as they change, in addition to understanding the capabilities of new technology, staffing in a way that allows the company to use the tools effectively, and rewarding employees according to new areas of responsibility.

The vending operators of the future will need a solid foundation in finance, marketing and communication skills in addition to a good overview of evolving technology. | ◀

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What happened to

By Emily Reformat, Managing Editor

Operators are offering fewer large size candy and snacks in vending due to the price sensitivity of consumers. Getting higher profits without increasing vend product size calls for creativity in product selection and equipment.

The higher prices of large serving size (LSS) vend products were supposed to provide vending operators with higher profits. However, the recession, and perhaps the selection constraints and payment options of vending machines, caused an overall reluctance in consumers to buy LSS, delivering fewer turns for operators. LSS salted snacks are faring better than LSS candy, but lower priced, alternative items make more sense for operators.

Vending operators can escape the restraints of the vending machine, noted above, by introducing cashless payment options and/or using self checkout micro markets to gain product display real estate. Self checkout



Thinkstock

large size snacks?

micro markets allow operators to show the comparative values of regular size servings (RSS) versus LSS products, similar to convenience stores, where the LSS product category is growing.

LSS falls in vending

Data shows LSS candy and snacks have been steadily declining after a brief surge. According to Management Science Associates (MSA), an information management company, from 2009 to 2011, the LSS candy offered in vending machines nationwide has dropped 8 percent, and LSS snacks have dropped 4 percent.

“(Product) prices continue to increase,” said Matt Groff, account director at MSA. “Now (RSS) prices commonly break a \$1 and (LSS) prices are closer to \$1.50. This has curtailed the growth of (LSS) in vend.”

Groff noted that in many instances large size products turn less frequently in vending, so they don’t warrant the machine space. “Vending operators prefer lower margin products that turn at higher rates,” explained Groff. “It leaves them less exposed to expensive inventory costs, such as stales.”

The downward trend in LSS vends runs contrary to the convenience store data from MSA, which shows an increase in LSS in both unit and dollar sales for the past several years. While the rate in 2011 slowed, it was still a gain. Groff believes value is playing a role in c-stores, where consumers can see the large size next to the standard size. They choose the larger size for its value.

Dollar no longer a hurdle in vending

It used to be that any vending product priced at a \$1 wouldn’t sell. MSA vending data shows the threshold has risen to \$1-plus, especially for candy products. Hence, more operators are charging \$1 for even standard size candy, according to Groff. “(RSS chocolate) is more than a \$1 in more than half of the vending machines we sampled,” he said.

Groff views these higher prices as necessary so operators can cover manufacturer price increases

He tried upselling, with premium protein bars, but the \$1.75 price point never took off. He has had more success with premium items that sell for the same price as the other products in his machine.

The winning strategy for Faber in these economic times is flexibility. “We’re more open to suggestions than we’ve ever been before,” he said. He thinks a lot about the type of account, putting fiber bars in accounts with lots of females, but changing to something else in heavily Spanish accounts. “If a vendor’s

Vend sales data indicates decline of LSS products in vending

Candy

Quarter	% machines carrying at least 1 large size	# large items per machine	Average price	Average price for large item
Q4 2009	22%	1.1	\$0.90	\$1.15
Q4 2010	19%	1.0	\$0.92	\$1.23
Q4 2011	14%	1.0	\$0.96	\$1.31

Snacks

Quarter	% machines carrying at least 1 large size	# large items per machine	Average price	Average price for large item
Q4 2009	78%	3.0	\$0.82	\$0.92
Q4 2010	75%	2.7	\$0.83	\$0.95
Q4 2011	74%	2.9	\$0.88	\$0.99

Source: Management Science Associates (MSA)

over the last few years. “It (the higher price point) isn’t translating to higher margins for operators,” he said.

Eliot Faber, owner of M&C Vending in the highly competitive market of Hackensack, N.J., has eliminated most of his LSS products because anything over a dollar doesn’t sell.

“Money is tight for everyone,” he said, “and vending is discretionary spending.”

using the same planogram, they’re missing out,” Faber said.

Faber doesn’t think he’ll ever go back to larger sized products. “If I raise my prices even a nickel, the locations are on the phone with other vendors,” he said.

LSS candy too expensive

“We just eliminated our LSS candy,” said Devin Smith, purchasing manager at All Star Services in Port

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Huron, Mich. “A lot of times the price was too high. Anything over a \$1 has dropped off.” However, All Star Services still puts in candy, the RSS size, and charges a dollar for it. That has helped them capture new sales.

“Everybody’s looking for a deal these days,” said Smith.

The consumer wants to spend less at the machine, so they buy a smaller product. Smith sees manufacturers “weighing out” bags, dropping the product weight in the package but charging the same price. “It’s like a price increase,” he explained, although it doesn’t affect sales as much. “We’re doing the same with vend size (RSS) candy,” he said.

Smith doesn’t see the elimination of LSS snacks, however, because snacks are often cheaper for the operator to purchase. In many machines, Smith notes an LSS snack will cost the same as an RSS candy.

Candy still strong, but smaller

Donald Lear, senior marketing manager, vending/fundraising for Hershey Co., has seen steady candy sales in vending, however, there is some downsizing going on.

“When prices increase, some vending operators choose to switch from LSC (large size candy) to standard bars, offsetting the price increase by offering a standard (RSS) size bar at the LSC price,” explained Lear. “This can result in volume reductions.” At the same time, Lear sees other operators successfully increasing candy sizes, offering peg bags at B&I accounts that have cashless payment systems.

Cashless has many associated costs, best left to other articles, but there is evidence to support cashless drives sales. Many believe consumers are less concerned about the price point when using their credit or debit card.



Unique snacks, such as those paired with a coupon, have done well in the larger size packages in vending.

“Everybody’s looking for a deal these days”

Devin Smith, purchasing manager,
All Star Services

Lear has also noticed larger candy doing well in convenience stores. While c-stores don’t sell Hershey LSC (it is exclusive to vending), they do sell the king size, which is larger than the Hershey LSC and carries a higher price point. Lear said, “According to Nielsen (52 weeks ending 1/28/12), king size bars have gained 8.0 share points from standard bars.” And both bars are experiencing growth. “King is growing 12.9 percent and standard is growing 3.8 percent,” he said.

Larger candy is doing better in c-stores because it is a better value to consumers and because of how the channel operates, according to Lear. Vending machines are limited on space, and therefore, which and how many products are offered. “Vending operators should consider offering both LSC and standard (RSS) bar products in machines,” he said. Also, he noted most operators can’t offer special

deals or display promotions that might include higher priced items, which other retail channels are able to do.

Some LSS snacks thrive

LSS snacks have declined much more slowly than candy, with many varieties still experiencing some success. Craig Harkins, sales director of vend/foodservice and specialty markets at Inventure Foods, Inc., has seen growth in LSS of the TGI-Friday’s potato skins cheddar and bacon snack. The company offers it in both an RSS and LSS.

The success of a product has a lot to do with how unique it is, according to Harkins. The TGI-Friday’s potato skins, for instance, includes a coupon right on the bag for \$10 off a meal at the restaurant.

In addition to upselling with higher priced items, Harkins suggested operators try a new price point for smaller products. This would spur interest and sales volume. “It is not as easy as it sounds to raise the price to the same audience on the same products in a highly competitive industry,” he said. “Changing the mix, changing the offering, attracts new consumers, and you’re more likely — in a bit more subtle way — to upsell.”

Single versus multi-form LSS

Mark Kelley, an industry veteran and regional sales manager for vending at General Mills Inc., considers LSS and larger products still emerging. General Mills started marketing LSS products for vending 12 years ago and has seen increases ever since. “It’s trending well, but still much of our volume is focused on traditional sizes, and in fact, we also see a role for smaller portion sizes that offers dietary benefits as well. It’s simply a matter of operators being nimble

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enough, operationally, to offer a broader range of items to meet specific consumers' needs," said Kelley.

One challenge in vending is consumer perception of the salted snack sizes, and therefore their value. There are single form products where the entire bag is made up of a single snack component. These tend to appear larger or fuller. Multi-form products, where varied components are in one package, are typically denser. According to Kelley, this creates a pricing dilemma because the same weight multi-form package looks smaller to consumers than a single form product. When they are the same price in the machine, and the consumer is buying on value, the single form product will do better. "Size to value ratio is often questioned," said Kelley.

Additionally, breaking the pricing paradigm is difficult in certain regions. "In the Midwest, the \$1 (price point) is a big hurdle," said Kelley, "On the West Coast, the \$1 price point isn't as concerning to operators and, in fact, is often embraced."

Kelley also thinks operators sometimes miss out on products that would deliver higher profits because they have preconceived product standards. "We're told, the product has to be this price, this size, branded X way, etc." he said. "So in today's environment we aren't always able to bring the best products available to market."

To stimulate sales and higher prices, Kelley recommends finding products popular in retail, even if they are priced above the vending realm. "Consumers have already accepted the price point and will purchase the item," he said. Other higher priced products can then follow that breakthrough product.

The most encouraging trend Kelley sees in upselling is the self

Did the wellness movement drive the LSS decline?

Offering large serving size (LSS) products in the vending machine strikes many as contrary to the call for healthier products since wellness is associated with smaller size candy and snack packages. However, if wellness is contributing to the decline in LSS, it's only in a small way, according to vending operators. Price was the reason most operators gave for the decline in LSS.

Wellness may actually help operators upsell since many healthier items can be priced at a higher price point. As long as customers at the location are willing to pay those higher prices, this could help operators raise prices over time.

In addition, operators should consider that even health conscious people will occasionally treat themselves to a candy or snack.

checkout micro markets. "It's encouraging because a product can be priced based on its own merit," he said.

Upselling with self checkout

Self checkout micro markets are a new alternative to vending banks that have some real potential for upselling.

"The trend now is people asking for bigger bags for micro markets," said Joe Kuehner, vice president of distributors and brokers for Herr's.

Kuehner's experience at trade show sessions and talks with vending operators leads him to believe this is the future, due to cheaper upfront equipment and routine maintenance costs, compared to vending banks.

To meet this future demand, Herr's is coming out with a new size product, a large value line, which is bigger than the LSS.

"The bigger product will have a higher price point," said Kuehner, "resulting in a higher penny profit." Kuehner used an example of selling a bag of chips for \$.50 versus \$1.29. At a 10 percent profit margin for both, the penny profit is \$.05 for the former, and \$.13 for the latter. That's the benefit of self checkout micro markets, higher prices and no pricing blocks.

While the self checkout micro market business grows, Kuehner is still seeing an increase in LSS business, although the RSS size is more common in the vending channel. "There's more variety in RSS," Kuehner said, "but the new items coming out are planned for LSS sizes."

The recession has again made consumers conscious of the \$1 price point. They want value more than ever, which has led to the decline of LSS snacks, in the vending channel at least. Instead of LSS products, operators could use higher quality products to gain higher price points or alternative, lower priced products to drive turns.

Changing equipment in the right environments, such as installing cashless readers or self checkout micro markets, can also drive sales and profits. | ◀

For more information, contact:

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www.genmills.com

Herr's Foods, 610-932-9330,

www.herrs.com

The Hershey Co., 717-534-4200,

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The image features a man in an orange polo shirt standing with his back to the camera, looking into a large vending machine filled with various snacks. In the foreground, several bags and boxes of Vistar products are displayed, including Rye Street Kettle Chips (Parmesan Garlic, Salt & Pepper, Salt & Vinegar), ROVAS chocolate bars (Milk Chocolate, Caramel Chocolate, Almond Chocolate), Heritage Oven pastries (Texas Cinnamon, Honey Bun), and mini donuts (Blueberry).

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Survey reveals Hispanics drink more coffee than consumers at large

National Coffee Association identifies consumption habits of a fast growing demographic segment of the U.S. population

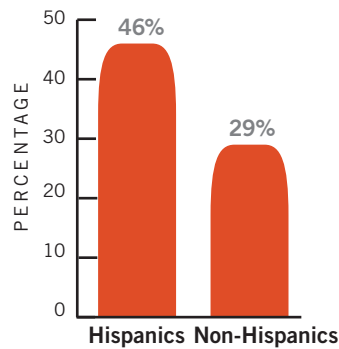
Coffee consumption is stronger among Hispanic Americans than their non-Hispanic counterparts, according to new research from the National Coffee Association (NCA). The NCA Hispanic-American Market Report reveals that 74 percent of Hispanic Americans drink coffee daily, fully 12 percentage points ahead of non-Hispanics. The differential is also sustained for less frequent consumption, with past-week consumption at 80 percent for Hispanics versus 72 percent for non-Hispanics and past-year consumption at 84 percent versus 77 percent.

“Understanding coffee consumption behaviors among the growing U.S. Hispanic population is essential to reaching these consumers and satisfying their demands,” said Robert Nelson, NCA president and CEO in a prepared statement. “A thorough understanding of this complex segment is pivotal to growing the coffee category in the U.S.”

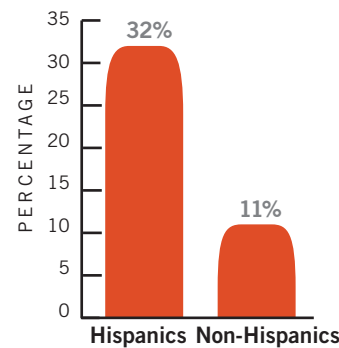
Technology blurs barriers

To achieve an accurate profile of this large and complex population, NCA engaged a highly specialized methodology. A panel was selected to ensure that the Hispanic American and non-Hispanic-American research sample matched the U.S. population distribution on the basis of age, gender and region. The survey was offered in English and Spanish to eliminate any language barriers. Proportional segments

Drink Gourmet Coffee Daily



Drink Espresso Daily



Source: National Coffee Association

were also established within the Hispanic-American sample for home language, which were also set to mirror the Hispanic-American population distribution. Using home language as a proxy for acculturation enabled distinguishing consumption behaviors within the fully acculturated, partially acculturated and non-acculturated Hispanic-American population.

Report data also reveal a segment-specific spike in coffee type consumed. Hispanic Americans appear to drink more premium

coffee types than non-Hispanics, with 46 percent saying they drink gourmet coffee beverages daily versus 29 percent of non-Hispanics and, for daily espresso consumption, 32 percent versus 11 percent. Conversely, non-Hispanics appear to favor daily consumption of traditional coffee, coming in at 57 percent versus 49 percent. However, when looking specifically at “traditional coffee, not gourmet” (black coffee that is not made from gourmet quality beans), both groups are statistically tied.

The report also indicates that higher levels of coffee consumption among Hispanic Americans carry across all age groups. Among Hispanic Americans 18- to 24-years of age, 57 percent said they drink coffee daily versus 48 percent for non-Hispanics. Daily consumption among other age groups for Hispanic Americans versus non-Hispanics came in at: 74 percent versus 60 percent among 25- to 39-year olds; 78 percent versus 63 percent for those 40 to 59; and 87 percent versus 70 percent for the 60 and older group.

Espresso-based beverages were consumed at least once per week by 57 percent of the Spanish-dominant group, compared with 55 percent for the bilinguals and 35 percent for the English-dominant. Cappuccino came in, respectively, at 38 percent, 34 percent and 16 percent, and espresso at 38 percent, 31 percent and 16 percent. | ◀

A photograph of a coffee station on a desk. On the left, there are stacks of Folgers coffee cups and several packets of Folgers coffee. In the center, a cup of coffee is steaming. To the right, there is a coffee maker and a red coffee pot. The background is a large window showing a mountain range at sunrise, with the sun low on the horizon, casting a warm, golden glow over the scene.

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OneShow: keep in the loop on a fast changing market

By LyNae Schleyer, Contributing Editor

The National Automatic Merchandising Association trade show offers attendees a chance to experience entertaining performances while learning about vending innovations and business management strategies. OCS operators will find a two-part coffee and water service symposium.



The Venetian Resort and Sands Convention Center in Las Vegas will offer all of today's new innovations in vending, OCS and foodservice under one roof.

This year's National Automatic Merchandising Association (NAMA) OneShow at the Venetian Resort and Sands Convention Center in Las Vegas offers vending and coffee service operators a wealth of opportunities to learn about new technology, take advantage of social media, and better understand emerging trends. This year's event features some of the strong educational components of previous years, along with some new features.

Attendees will find vending equipment, vending products, self checkout micro markets, coffee service, tea, water and foodservice exhibitors all on display under one roof.

Blue Man Group performance

On the entertainment front, this year's event raises the bar with hot acts, including the popular entertainment sensation, "Blue Man Group." The group has morphed into a pop culture phenomenon, and will present a specially-designed

show for NAMA that features a unique mix of comedy, music and multimedia theatrics. They are also hosting a post-performance meet-and-greet session.

Another top-notch appearance at the OneShow is Flip Flippen, the *New York Times* bestselling author of "The Flip Side: Break Free of the Behaviors That Hold You Back." His presentation will help listeners "flip" their negative thoughts and behaviors to achieve dramatic improvements in performance, leadership, trust and productivity. Flippen, a psychotherapist and business coach who has worked with businesses, organizations and individuals all over the world, believes if we can identify our own personal constraint types, we can overcome them once and for all.

Flippen will present the top 10 "killer constraints" that most of

us are confronted with every day – in ourselves, our bosses and our families. He will explain how to "flip" negative attitudes into positive action with the "Flip Side," a life-changing approach.

There are several powerful education sessions planned.

"Consumer Engagement Through Social Media" will be presented on Wednesday from 11 a.m. to 12:30 p.m. by consultant Dan Avenick. Working with some of the industry's leading experts, this session is designed to help business owners understand how to make social media work for them. The panel, including a corporate recruiting specialist who uses social media to hire new employees along with a social media expert from Coca-Cola Co., will share tips operators can use to engage their customers through this increasing medium.

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“Innovations In Intelligent Vending” by Intel Corp.’s director retail segment marketing, Chris O’Malley, will share a non-technical background of computing developments. This leads to Intel’s vision for intelligent vending — a securely managed, seamlessly connected network of vending machines, remote monitoring, electronic payments, digital signage, consumer analytics and a host of new applications designed to significantly alter the vending landscape.

Other education programs include:

- Developing a focused growth strategy: a blueprint for driving profitable growth.
- Cold beverage trends and strategic insights.
- Self checkout: how to capitalize on the new trend.
- Understanding technology’s impact on your business.
- Identifying and hiring ideal route drivers: what are the common traits.

Coffee, tea and water symposium

For coffee, tea and water service providers, the Coffee & Water Service Operator Symposium will help address issues unique to this market segment. The two-part symposium will begin with roundtable breakouts, tailored to company size and tenure, to ensure that resources match individual needs. The second half features a panel of industry experts who will share first-hand insights to help attendees benefit from their experience and share in the secrets of their success.

Prior to the show, preliminary events on Tuesday, April 24 include the Quality Coffee Certification Program from 8 a.m. to 3 p.m., the Supervisor Development Program from 8 a.m. to 6:30 p.m., and a special coaching seminar from business author Jeb Blount from 9 a.m. to 5 p.m.

There will also be a NAMA Gratitude Tour at the University

of Las Vegas student union from 11 a.m. to 2 p.m. Tuesday.

The show officially begins Wednesday, April 25. First, NAMA’s new president and CEO, Carla Balakgie, who is fresh off an industry “listening tour,” will share her vision for the industry. She will also be meeting OneShow attendees right on the show floor to continue her “listening tour.”

Also on Wednesday, the “Blue Man Group” will present their

45-minute customized OneShow performance.

Day two for the Quality Coffee Certification Program, the Supervisor Development Program and the coaching for improved sales performance also will be on Wednesday.

Wednesday education sessions include: leveraging technology in vending operations by Michigan State University Prof. Michael Kasavana; coffee and water service operator symposium chaired by Jeff Deitchler, general manager of Prairie Fire Coffee Roasters in Wichita, Kan.; federal legislation updates; Vending/Coffee Service 101 by Vic Pemberton, owner of The Pepi Companies in Dothan, Ga.; innovations in intelligent vending by Intel Corp.’s Chris O’Malley; cold beverage trends and strategic insights by Ross Colbert, global beverage strategist for Rabobank International; consumer engagement through social media by Dan Avenick; and developing a focused growth strategy by business author Mark Frigo, Ph.D., who returns following his standing-room-only seminar presentation last year.

Finally for Wednesday, the NAMA industry awards will be presented during the opening session. The awards recognize the top five luminaries in the industry who have reached the pinnacle of success.

Thursday kicks off with NAMA Chairman Brad Ellis, president of Crane Merchandising Systems, who will chair the annual meeting and deliver a keynote address. Ellis will share his insights based on his role as NAMA chairman.

THE show floor will feature designated ‘Show Special’ decals.

Thursday also features two operator perspectives panels and a self checkout micro market panel.

Exhibitor show specials

The trade show floor will feature specials designated by “Show Special” decals and signs from exhibitors that can help offset the out-of-pocket expenses.

New operators can take advantage of NAMA’s new “ambassador” program to ensure they get the most from their experience. NAMA is arranging for an “ambassador” to meet new attendees at the show, answer questions, introduce them to peers, and offer ideas on how to interact with exhibitors.

For information, call 312-346-0370 or visit www.vending.org. ◀



ABOUT THE AUTHOR

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Inventure Foods brings to market another popular salted snack, Nathan's Famous Chili Cheese Crunchy Crinkle Fries.

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Cantaloupe Systems announces **Seed Enterprise**, a new product designed to help vending operators aggressively boost top-line growth while minimizing costs, no matter how large their vending operations. Seed Enterprise includes all the business-boosting technology available in Cantaloupe Systems' flagship Seed Pro product, plus sophisticated extra features to help tech-adept operators increase revenue even more and save more time.

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NAMA's new President and CEO, Carla Balakgie, has been on the road (and in the air), getting to know our industry and meeting NAMA members nationwide. Final stop: the NAMA OneShow.SM

Join Carla at the OneShow to hear what she learned in her multi-month tour discussing members' interests, issues and ideas. Learn how these important insights will help shape the future of our industry and our association!

THE INDUSTRY IS TAKING OFF

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If you want your business to soar to new heights, register for the NAMA OneShow today!



Register now at www.NAMAOneShow.org

A new definition

By Paresh Patel, Contributing Editor

Smart vending: a progressive operator explains what it means and what operators must do to make it happen

For the past 20 years, much of the development in the vending industry has been focused on improving back-end efficiencies such as vending management software (VMS), DEX, telemetry, pre-kitting, pick-to-light, and dynamic scheduling.

Over the next 10 years, the industry will focus on increasing sales through creating rich, engaging user experiences, and allowing various payment options. It will be less about the back-of-house operations as it will be about what the consumer faces — the front side.

This will be a very big shift in the way operators think about their companies. But for this to happen, vending operators need to change the way they think about technology. There is a lot of technology investment taking place today. This is good, but most of it focuses on operations as opposed to improving sales.

My purpose in writing this article is to make the case for using technology primarily for the purpose of improving sales. I don't think anyone would argue with me

that improving sales is important for the financial health of our trade.

The key to improving sales lies in improving consumers' experiences.

Consider the consumer's experience

Consumers have become far too experienced with technology over the past 10 years to continue accepting user interfaces that require them to insert a dollar bill, have it rejected three times, straighten it up, reinsert a couple more times, and when finally accepted, try to remember which selection was needed, then press A-1 on the keypad. Oh, and if their chips get stuck, the consumer has to shake or kick the machine, or go without.

Consumers have gotten much more sophisticated over the past 20 years and have become accustomed to new experiences. It is not about the technology itself, but rather how the technology improves our experience.

Cashless

Nutrition Display

SMART
VENDING

of vending

But it is much more — it is about creating a unique, engaging experience for the consumer using the vending machine. It incorporates not only how they interact with the machine, but also everything that leads up to their interaction.

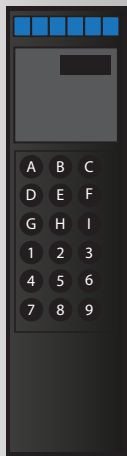
For example, there could be social media involved — a coupon code being sent via text, a Facebook contest, or a brand sending an instant promotion out via Twitter to the first 1,000 consumers who enter such a code at the machine.

It could also involve their personal mobile device. Imagine this: you work on the sixth floor of a building. Using your phone, you locate the nearest vending machines. The vending machines are located on the third floor breakroom. Before you head down there, using your phone you browse the

cashless payment and pay right on your phone. And you can see how many points you added to your loyalty card.

Then you go downstairs to the machine, simply present your phone to the machine and it dispenses the items almost immediately as you hold up your phone without having to press anything on the machine. On the displays, it says “Thank you Sarah, your Snickers and Fritos are dispensing now. A copy of the receipt has been sent to your mobile wallet.”

The process is streamlined, yet very rich and engaging. You were able to browse the items at your leisure, review what the top sellers in that machine were, maybe see some reviews from your co-workers, and figure out what you wanted without having to waste time standing in front of the machine. That’s smart vending.



Promotions

Real-time Status (DEX)

Mobile Apps

User Experience

Business Intelligence

products that are in that specific machine downstairs.

You can do sorting and filtering based on your dietary requirements. You can even build your “shopping cart” on the phone itself. As you’re browsing, you get a coupon from Mars for 25 cents off Snickers. Say you want the Snickers and Fritos. You have the option of using the wallet or other

A shift for operators

From the operator perspective, there will be a marked shift from using technology to reduce costs to improving sales. This

is a monumental shift that will have a significant impact on the industry.

Fundamentally, there is a limit to how much efficiency can be gained

CONTINUED ▶

from technology. An operator begins to see diminishing returns with each new technology simply because some costs can't be eliminated.

More specifically, think about what percentage of an operator's costs are actually "operating" costs. Usually, product cost accounts for somewhere around half, then add

operating cost (obviously not possible), the most that could be saved is 40 percent of total cost. Usually, technology can help reduce operating costs by about 30 percent or so — but that means the operator is really saving just 12 percent of total cost (30 percent of the 40 percent operating expense).

industry has spent 20 years focusing on this. Don't get me wrong, I do believe this 12 percent is valuable and certainly worth the investment. My point is simply any further returns will be capped.

On the other hand, using technology to improve sales has no natural limit.

USING technology to improve sales has no natural limit.

customer commissions and corporate overhead. However a company may perform, typically, it is fair to say somewhere around 30 to 40 percent of total cost is operating cost. So if an operator eliminated all

In effect, all the effort of installing a VMS, DEX, telemetry, dynamic scheduling, pre-kitting, and every other operating technology will likely save the operator around 12 percent of total cost. The

Higher sales versus lower costs

There is another important thing to consider. Oftentimes, the two goals of maximizing sales and minimizing costs work against each other.

Again, taking it to the extreme for illustrative purposes, think about how often you would schedule a machine to be serviced if your only goal was to minimize servicing cost.

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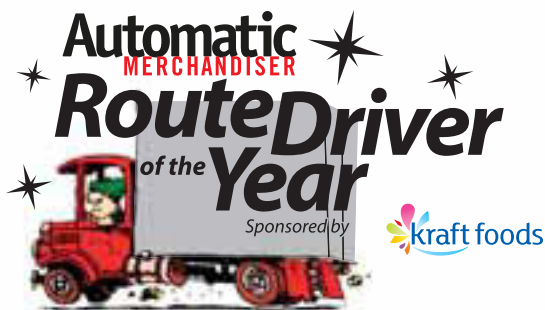


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The answer is you would only service that machine when it is completely sold out of everything. When there are no items left in the machine, your revenue collected relative to the cost of that servicing is maximized.

However, as any operator knows, you cannot do that. You will be losing sales if the machine is not serviced

until completely sold out (not to mention the customer service nightmare). But it is important to note: you have no idea what you did not sell. All you know is what you collected and what it cost you to service that machine.

This subtle, but powerful point is that the opportunity cost is not ever known to the operator.

Intuitively, the operator knows a completely empty machine has resulted in lost sales. But the magnitude is not known. Now let's go to a more likely scenario with what an operator may strive for with dynamic scheduling — a system in which machines are scheduled to be serviced not based on a regular schedule but rather based on forecasting when the machine will need to be filled (using historical information), or based on real-time telemetry data when a certain level of inventory has sold out.

What is the 'opportunity cost'?

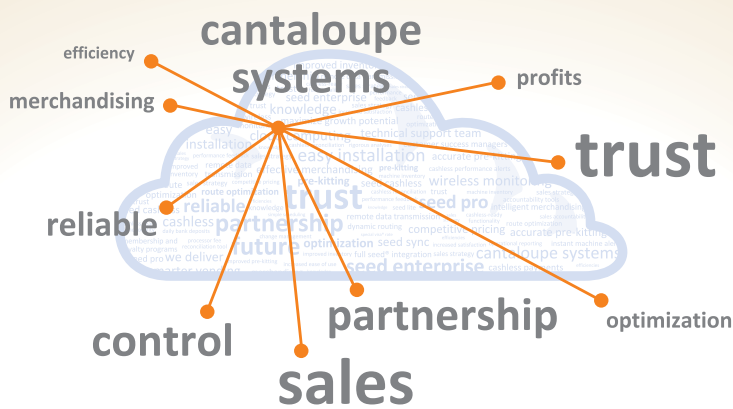
When the vending machine is about one third sold out (about 15 out of selections), what is the opportunity cost of that? The operator may know he is collecting \$250 per servicing and \$20,000 per week per route, and that sounds great because the average collection per route has increased significantly as compared to a fixed schedule.

However, what is not known is what sales have been lost — the people who did not buy anything. My thesis is that by the time the machine has 15 out of stocks, the cost of lost sales starts exceeding the operational savings. Especially since the first items to sell out represent a disproportionate share of the consumers' demand.

While the opportunity cost is inevitable, the heart of the issue is that the opportunity cost must be balanced with operating cost. This is a difficult balancing act because the true opportunity cost is never known. But through experimenting and refining the optimal point at which the machine should be serviced, profitability can be maximized.

It's important to note the opportunity cost is not the same across all machines. A key factor to con-

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Nutrition display at the point of sale is one aspect of smart vending.

sider is the extent to which demand for an item can be substituted for another item. In some office accounts, if all the customer wants is Diet Coke, it is unlikely they will buy another drink. A lost sale will result. But at a school, if one item is sold out, it is likely the students will take an alternate item.

Shift to focus on sales

As operators migrate to “smart vending,” the focus shifts from minimizing costs to increasing sales. This shift will not only be magnificent, but also imperative to save the industry.

Without change, the industry cannot survive in an environment where consumers are shifting to cashless payments, demanding more information, and desiring choices. The single biggest issue is the problem of the \$1 bill.

Cashless is changing the industry. Many of us realize this. What many of us don't realize is that in order to allow this new tool to work to its full potential, we must stop thinking about our product offerings within the old cash dominated mindset. When a cashless reader is placed on a machine, the operator must understand that he

is no longer restricted by the same rules that cash imposed on him.

This industry and some other industries are so dependent on the \$1 bill that the design for the \$1

bill has not changed since 1963 — almost 50 years! Every other denomination of U.S. currency has changed multiple times in just the past 10 years. This isn't going to change any time soon for to political reasons.

Less than half of people today will have \$2 cash in their pocket. Hence, every operator who installs a vending machine that only accepts bills and change can sell to only about half the people. The Gen X and Gen Y population with dollar bills is even lower, and these are often the targeted users of vending machines.

The dollar bill also limits items we put in the machines. There is a longstanding \$1 price point barrier.

But once we start accepting cashless forms of payment, we can get really creative of what we stock

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in the vending machines. After all, the vending machine is simply a distribution channel.

For example, at a hospital my company services, we installed cashless acceptors. I decided to take two of the 40 items and convert to non-food items. I bought iPhone/iPod charger kits and headphones and placed them in two separate slots.

My thinking was that anyone who wanted a snack would still purchase from any of the other 38 slots. But at a hospital, people may often come and forget their headphone or charger.

We priced these two slots at \$12.50 each. Again, I knew that no one would have purchased these items with cash. But with cashless, they can. I figured I could watch the sales of these two items, and

at minimum, whatever they sold would be purely incremental sales.

These two items soon accounted for one-third of the machine's sales by dollar volume! And even better,

could use during a picnic. We converted one entire shelf to items like water guns, sunscreen, hand wipes, etc. The water guns cost me 50 cents a piece (two per pack of

THESE *two items soon accounted for one-third of the machine's sales by dollar volume!*

my margin on the items was significantly higher than on food items. I was paying \$2.75 and selling for \$12.50. Think about that! That price was almost five times cost.

Another account was a park. For that, I went to the dollar store and bought things I thought people

\$1.00, but we sold them individually), and I priced them at \$2.50 each. I figured no parent would buy just one water gun, so I priced it at \$2.50 so they could get two for \$5. My cost is 50 cents, but I again am charging five times cost.

CONTINUED ▶



The advertisement features a woman with brown hair, wearing an orange long-sleeved shirt and a blue skirt, pointing towards the VendScreen logo. The logo is a blue square with a white stylized 'V' and 'S' inside. Below the logo, the text reads: "VendScreen™ See VendScreen in action at the NAMA Show in Las Vegas!". The background is a light blue gradient with radiating lines.

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And we couldn't keep them stocked.

The point is smart vending will open doors that we can't even imagine today. Not only can we sell higher priced items, sell more items per person and have more frequent visits, but it opens the door to sell all kinds of things that can help improve operator profitability.

Operators who embrace smart vending will realize the opportunities to increase sales far exceed the opportunities to save costs. But it does take a bit of a leap. To justify investments in smart vending, operators will inevitably try to do a return on investment calculation.

That has inherent problems because the operator is trying to justify a future cost with historical sales. The two don't match up. There is no accurate way to do the calculation. Any calculation will require unfounded assumptions. But astute operators who embrace smart vending technology will reap gains that simply cannot be calculated today.

Our industry is at the point where it must change, and become much less reliant on the dollar bill. Moreover, we must broaden our use of technology to improve the user experience, not just try to save on operating costs.

Without change, things can spiral downward rapidly, just like the movie rental stores, film processing stores, or pay phones. As an industry, we can do better. And we will do better. Changes will happen fast, but operators will need to be committed. Are you ready? | ◀



ABOUT THE AUTHOR
Paresh Patel, Ph.D., M.B.A., is owner and president of Courtesy Vending LLC in Portland, Ore.



Cashless technology removes the barriers associated with cash.

Cash and cashless: compare the costs

Most operators lament the fact that cashless transactions incur a processing fee. This fee is usually in the neighborhood of 5 percent to 6 percent, and it is often one of the main barriers operators face in deploying cashless across a wider base of machines. The concern is valid because 5 percent is quite high in our industry where every penny matters.

Operators typically argue that with cash transactions, there are no fees and it is hard to justify the fees paid on cashless. True, there are no "fees" at the machine for the cash transactions. However, operators fail to consider the true cost of cash transactions.

There is a real cost to cash transactions once the operator takes into consideration all of the following: cost of money room personnel, money room equipment and service, armored car transport, bank charges to deposit the cash, bank charges to buy rolled coin to replenish vending machines,

repair and service cost of bill acceptors and coin mechanisms, internal theft, vandalism, service calls related to bill, coin, or change problems (probably over 60 percent of calls are related to cash in one way or another), downtime due to cash problems, lost sales from customers unable to pay with cash, supervisory time to reconcile cash, and more.

Taking all this into consideration, most operators will find that the cost of processing cash transactions actually exceeds 5 percent. While not all of the costs listed above can be eliminated, certainly the costs start declining as cashless transactions increase.

In short, just because there isn't a "fee" associated with cash transactions does not mean there is no cost to it. Quite the contrary, even with the fees for cashless, most operators will begin to experience some overall cost savings as their cashless transaction volume increases.

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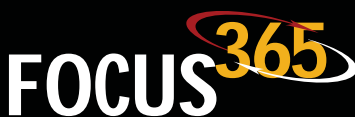


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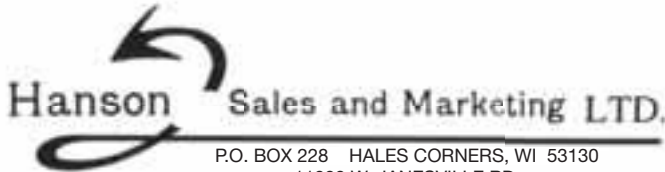
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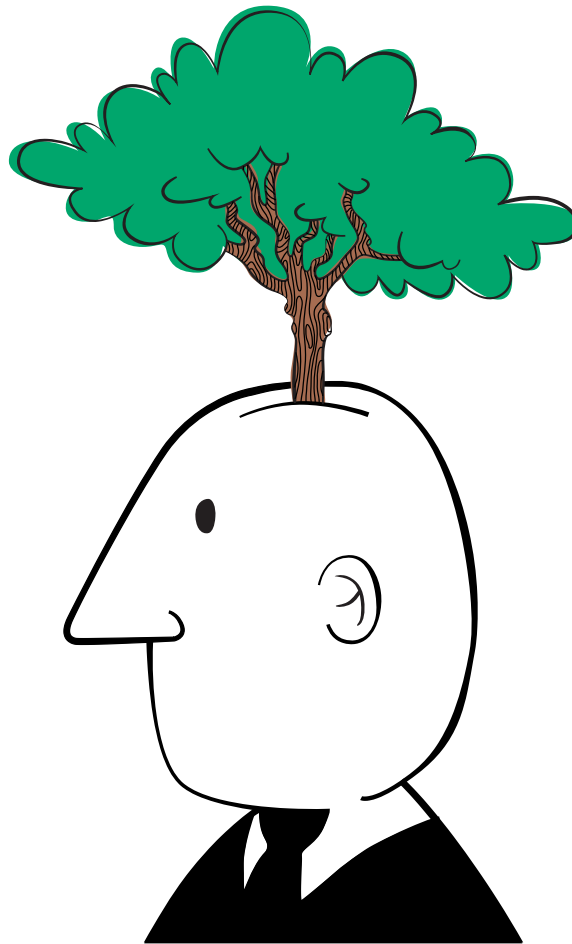
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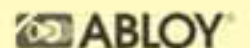
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QUARTERLY WINNER

Marsha Maez,

Premier Service & Alpine Roastery, Englewood, Colo.

OCS customers rave about her dedication to the job.

FOR EVERY retail business, customer service is paramount. Some employees achieve a good level of service, and some excel. Marsha Maez, an OCS driver at Premier Service and Alpine Roastery in Englewood, Colo., is the latter. For the first time in the *Automatic Merchandiser* route driver contest, three customers nominated a driver. This boosted Marsha Maez into the top ring, winning her the 2012 first quarter OCS driver of the year spot.

Maez won the 2012 quarterly award, sponsored by Kraft Vending & OCS, based on her online nominations and numerical scores tallied from years of service, miles traveled, accidents/citations, customer compliments, truck condition, and sales.

Maez has worked for Alpine Roastery for five years, but she brings many years of prior experience. Company owner George Yost couldn't be more proud of Maez's skills. She takes on new customers, excels at dealing with difficult ones, and can increase sales without losing perspective of customer needs. She loads her own truck and is self motivated to make return trips for product if needed. "She is the definition of a professional," he said.

Customers impressed with dedication

"If the office is out of coffee," said Delores Bolt, a receptionist for one customer, "or anything, and even if it isn't her regular delivery day, she will bring it out first thing. (She) always has a smile on her face."

Tracy Palumbo, executive assistant at another customer location, said: "Marsha is always friendly, courteous and whenever we need an extra delivery, she is here within a few hours."

Dee Haugen, another customer, appreciates her personalized service. "She makes sure she knows our employees' preferences. She remembers if we try a different brand and we didn't like it. She knows what we like from station to station in our facility."

New job, old career

Maez started as an OCS driver in 1988. She worked through having kids and through multiple company acquisitions.

Finally, after a few years off as a stay-at-home mom, she came back to the business to drive for Alpine Roastery, then, a new OCS startup. Yost was thrilled to have a veteran driver. "We consider her a big reason for our growth, because it is a rare day when one of her customers cancels service," Yost said.

"I like what I'm doing," said Maez. "These are my customers. It's my job to make sure they get what they need."

Kyle Yost, Denver market salesman and son of the owner, values Maez's ability to solve equipment and product problems. "Hands down she's our best route driver," he said.

"In the end, people just want a good cup of coffee," said Maez. | ◀



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