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Automatic MERCHANDISER

The Vending & Coffee Service Industry Resource

June/July 2011

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First Class Vending pioneers solar energy in Southern California

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'We want to meet the sustainability standards our clients set for themselves.'

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Self checkout markets ride growing retail trend

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Coffee drinking survey indicates strong consumer demand

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NEW EDITOR'S BLOG
Blogosphere goes wild over PepsiCo's social vending system

EXCLUSIVE NAMA ONESHOW SLIDE SHOW
See exhibitors and attendees from the trade show at McCormick Place

HOT PODCASTS
Vending operators note innovation at NAMA OneShow

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Oil
A1 2.05
A2 2.05
A3 2.05
A4 2.05
SALT
B1 1.30
B2 1.30
B3 1.30
B4 1.30
ONE DOLLAR
PUSH

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▸ CALIFORNIA'S PROPOSITION 65 snares refreshment services operator; uniform food safety is needed to prevent messes like this.

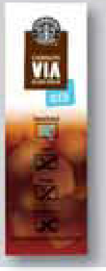
▸ GOOGLE WALLET brings mobile commerce closer to your smart phone; Will vending machines be ready?

AM UNCUT

▸ FOOD AND DRUG ADMINISTRATION official urges vending operators to comment on proposed calorie labeling rules.

buyer's guide VENDINGMARKETWATCH

▸ NEW OCS PRODUCTS and programs added this month to the Buyer's Guide. Find them and a lot more online.



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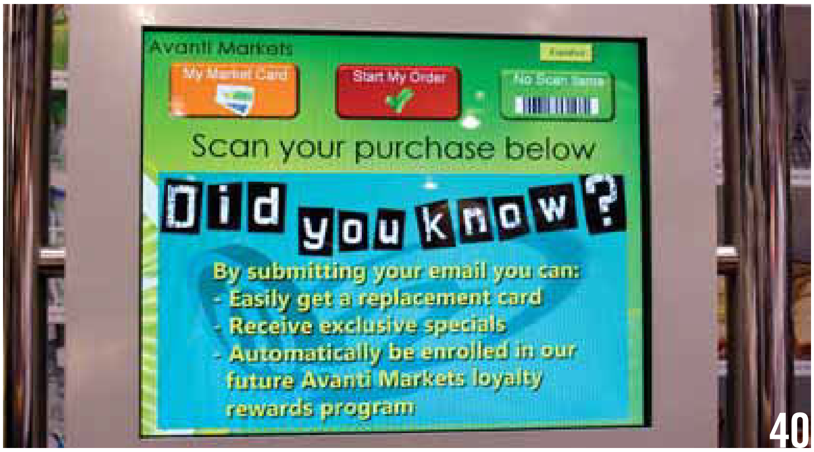

CALENDAR OF EVENTS

JUNE 15-16
AVEX 2011 International Vending and Water Exhibition
NEC, Birmingham, U.K.
www.avexshow.com

JUNE 16-17
Tri State Automatic Merchandising Council Annual Membership Meeting
Caesar's Palace, Atlantic City, N.J.
Phone: 571-346-1900
www.pamcvending.com
Email: pgilbert@vending.org

JUNE 24 - 26
Kentucky Automatic Merchandising Council Annual Meeting
Holiday Inn in Covington, Ky.
Phone: 502-451-0111
mmonaghan@vending.org
www.kyvending.org

AUG. 3 - 5
2011 Southeastern Vending Association Convention
Sandestin Resort, Destin, Fla.
Phone: 312-346-0370, ext. 223
www.vending.org/seva

SEP. 29 - OCT. 1
Texas Merchandise Vending Association Annual Conference
Omni Bay Front & Marina Towers,
Corpus Christi, Texas
Phone: 713-772-7946
www.tmva.org/Home.html

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WWVPA The World Wide Vending Press Association
BPA WORLDWIDE
PRINTED WITH SOY INK

Vending's interactive future will arrive, but when?

By Elliot Maras, Editor

Those of you who attended the National Automatic Merchandising Association (NAMA) OneShow got a glimpse of what future vending machines will look like. The show featured exciting video touchscreens that display nutrition information and promotional videos. Some machines allow consumers to engage in social media. NAMA, as if taking its cue from these displays, announced an industry growth strategy designed to appeal to Generation Y, which is comfortable with technology and generally holds a more favorable view of vending than other consumer audiences.

As exciting as this future will be, we still face a big question: how long will it take us to get there? The *Automatic Merchandiser* State of the Vending Industry Report (beginning on page 16) notes that investment in technology continues to move at a snail's pace. Unless the rate of investment picks up, NAMA's industry growth strategy won't accomplish much in the near term.

Another hindrance is the lack of qualified information technology personnel attracted to the vending industry to implement the new technology.

A reviving economy will encourage more operators to make these

THE ***vending industry is finding ways to engage customers like never before.***

investments. But as our State of the Industry Report notes, the operating environment remains very challenging. Operators saw some improvement in 2010, but the nation remains stuck in a stubborn recession.

One cause for hope is that both of the cola giants have shown new interest in vending technology. Both have signaled an interest in supporting machines equipped with cashless readers and/or wireless reporting.

Another encouraging sign has been the growth of self checkout markets. The OneShow featured three self checkout systems on the show floor.

Self checkout markets create a new customer experience. Contributing editor Allen Weintraub notes in his article on page 40 that these systems largely sell themselves to consumers.

Self checkout markets are not new. But two things can now be said for certain: 1) They have attracted a strong and growing following among vending operators, and 2) No other industry other than vending has recognized their benefits or has found itself in a position to take advantage of them.

Will self checkout markets stymie investment in new vending technology? No, and here is why.

Self checkout markets incorporate cashless capability, video touchscreens and remote machine monitoring; all technologies that promise to take vending to a new level of professionalism. As operators become more familiar with self checkout markets, they will get up to speed faster on how these technologies work.

The vending industry is finding ways to engage customers like never before. |◀

Please send your comments regarding this or any article in *Automatic Merchandiser* to Elliot.Maras@VendingMarketWatch.com

NAMA profit report finds profitability rose in 2010

The National Automatic Merchandising Association (NAMA) 2011 profit report found that among the companies participating in the report, pre-tax profit improved in 2010. Pre-tax profit improved from 1.5 percent in 2009 to 2.4 percent in 2010 for typical firms.

Results were based on data provided by 105 participants. The tables and graphs in the 50-page report present a comprehensive guide for analyzing profitability. For analysis, results are broken down by firm size. Results are analyzed for firms with less than $2 million in sales and for those with more than $2 million. Financial operating ratios are also broken out for "typical" firms and "high profit" firms.

STRATEGIC PROFIT MODEL RATIOS FOR 2010

	TYPICAL FIRM	HIGH PROFIT FIRM
Cost of goods sold	48.2%	48.4%
Gross margin	51.8%	51.6%
Total operating expenses	49.2 %	42.7%
Total sales per employee	$153,785	$171,231
Gross margin per employee	$83,631	$88,721
Profit before taxes	2.4%	8.7%
Pre-tax return on assets	7.7%	31.3%

The report found financial performance varied widely among participants. Of greatest consequence, the report noted the typical firm had a 7.7 percent pre-tax return on assets (profit before taxes expressed as a percentage of total assets) while high profit firms generated a return on assets of 31.3 percent. For more information, call NAMA at 312-346-0370.

Unified Strategies Group, VMI formalize new relationship

Starting July 1, 2011, the 17 **Vend Marketing Institute** (VMI) members will join the **Unified Strategies Group** (USG) as full members. USG, in turn, has launched a new technology oriented subsidiary called USG Connectivity which will initially be comprised of the operating companies joining from VMI. The focus of USG Connectivity will be compliance-based programming shaped by spiral data and consumer needs, and technology best practices focusing on telemetry and "micro markets." USG Connectivity will be open to USG members who have begun the transformation to telemetry deployment and are willing to make a long-term commitment to telemetry and cashless as business tools. USG Connectivity will take a place alongside the Dynamic Purchasing Group (DPG) and Unified Vending Management as instruments to drive profitability and growth to USG's independent operator owners.

NAMA intros industry growth strategy

The **National Automatic Merchandising Association** (NAMA) introduced an industry growth strategy to revitalize the image of vending and stimulate growth. The plan was announced at the annual meeting at the NAMA OneShow in Chicago's McCormick Place. NAMA will engage consumers in an interactive dialogue about vending. The strategy will include four major initiatives.

- **Vend.Love.Win**. This will be a Facebook contest that will encourage Gen Y and other consumers to upload photos, videos and descriptions of their favorite machines, locations and products. Users will encourage others to "like" their entries, and those with the most "likes" will win prizes. The contest will communicate messages about value, convenience, variety, quality and reliability.
- **The Gratitude Tour**. A mobile marketing tour will take machines on the road to seven markets with high Generation Y populations with open air events that feature "dream machines."
- **Putting Vending Online.** This initiative will reach Gen Y consumers where they are through a "ven-dialogue," an interactive buzz built through social media, Websites, blogs and Web feeds.
- **Vending Vanguard**. Implied "endorsements" of third parties will target Gen Y though leaders, social/recreational groups, vending industry leaders and college campus organizations.

Saeco names Seaga as master distributor

Saeco, an international maker of coffee solutions, has appointed **Seaga Manufacturing Inc.**, a Freeport, Ill.-based vending machine manufacturer and service provider, as its North America master distributor for the Saeco range of vending and professional coffee machines.

J.M. Smucker buys Rowland Coffee

The J. M. Smucker Co. has completed an acquisition of the coffee brands and business operations of **Rowland Coffee Roasters, Inc.**, a privately-held company headquartered in Miami, Fla. Rowland Coffee's products are primarily sold under the Hispanic Cafe Bustelo® and Cafe Pilon brands with distribution in retail and foodservice channels concentrated in the northeastern U.S. and southern Florida.

Canteen acquires Tampa Bay Vending

Canteen Vending Services Inc. acquired the business and assets of **Tampa Bay Vending, Inc.** and its affiliates, **Corporate Services Group, Inc.** and **Corporate Distribution Services, Inc.**, based in Tampa, Fla. Tampa Bay Vending had $28.3 million in 2009 revenue and 185 employees, according to *The Tampa Bay Business Journal*.

Prestige acquires Harrison Vending

Prestige Services Inc., based in Clifton Park, N.Y., acquired **Harrison Vending Inc.**, a 2-route vending operation based in Hoosick Falls, N.Y. from the founding Harrison family, according to Mike Esposito, vending division manager of Prestige Services. Esposito said the acquisition gives Prestige a new geographic market. Prestige is leasing 2,000 square feet of space from Harrison Vending's building, which has been sold. Prestige retained three Harrison employees, including a route supervisor and two drivers. Prestige now has a total of nine vending routes, one OCS route, five attended sites and 10 manual feeding customers.

Professional Vending buys South Florida firm

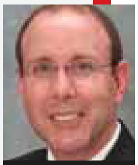
Professional Vending Services of South Florida, based in Coconut Creek, Fla., acquired **South Florida Vending LLC**, a Canteen franchise based in Davie, Fla., from owners Dean Sharp and Darryl Ashmore for an undisclosed sum. Andy Kartiganer, owner of Professional Vending Services, said he will fold South Florida Vending's five routes into his existing operation, which will have a total of nine routes. Kartiganer said with the acquisition, Professional Vending Services of South Florida becomes a Canteen franchise.

Cafection names Top Shelf Food and Saverino as brokers

Cafection Enterprises Inc., the Quebec, Canada-based manufacturer of Avalon coffee brewers, recently named two U.S. brokers, marking the company's first broker agreements. Cafection named **Top Shelf Food Sales**, based in Londonderry, N.H., to cover New England, and **Saverino & Associates**, Carol Steam, Ill., to cover the Midwest. Mike Cochrane, director of sales for the U.S., manages the brokers. Cochrane said the company is considering brokers for other regions.

People in the News

Ned Monroe to leave NAMA


Monroe

Ned Monroe, NAMA senior vice president of government affairs, is resigning his position to join the National Association of Manufacturers, the nation's largest industrial trade association representing manufacturers of all sizes and industries.

Grindmaster-Cecilware names four

Grindmaster-Cecilware has appointed the following members of its sales team as vice presidents of sales: Frank Coronado based in Phoenix, Ariz.; Keith Enscoe in Louisville, Ky.; Paul Kahn in New York, N.Y.; and Rich Tosi in Orlando, Fla.

Lockett retires from Crane Streamware


Lockett

Bill Lockett, a longtime vending software salesman, recently retired from Crane Streamware, where he was national account manager. Lockett plans to remain involved in vending technology. He can be reached at blockett@austin.rr.com.

Coinco names Giroux and Hoormann

Coin Acceptors Inc. hired industry veteran Mark Giroux as national sales director and promoted Ron Hoormann to senior vice president of engineering.

Vendever LLC hires Jim Day for sales


Day

Veteran vending equipment salesman Jim Day joined Vendever LLC, a popcorn vending machine manufacturer, as technical support manager. He most recently served as vending sales manager at Pioneer Sales & Service Inc. in Menomonee Falls, Wis.

Keurig names Clark for marketing

Keurig Inc. has named Chris Clark as director of marketing in an effort to increase consumption in offices. He was most recently vice president of marketing for Xenith, which provides head protection technology. Clark spent nine years at Pepsi Cola Foodservice in brand and foodservice marketing and two years at Unilever working in brand and innovation marketing.

Industry loses Joel Kleiman

Joel Kleiman, founder of Pioneer Sales & Service Inc., Menomonee Falls, Wis., recently passed away. He was 91.

Five Star buys AAA Plus Vending & Coffee

Five Star Food Service Inc., based in Chattanooga, Tenn., recently acquired **AAA Plus Vending & Coffee Service** in Cookeville, Tenn. from owner Steve Allen for an undisclosed sum. The 3-route vending operation has been folded into Five Star Food Services' existing operations.

Canteen buys Custom Vending Co. Inc.

Canteen Vending Services Inc. acquired the assets of **Custom Vending Co. Inc.** in Beltsville, Md. for an undisclosed sum, according to Dominic Finelli, vice president and a partner in Custom Vending Co. Custom Vending Co. was one of the largest independent vending companies in the Washington, D.C./Baltimore, Md. market.

Glacier Water files for public offering

Glacier Water Services, Inc., which owns and operates the largest network of filtered drinking water vending machines in the U.S. and Canada, has filed a registration statement for a proposed initial public offering of its common stock.

Nestle Waters to buy Sweet Leaf Tea

Nestle Waters North America Inc. signed an agreement to acquire the **Sweet Leaf Tea Co.** which includes the Sweet Leaf® and Tradewinds® beverage brands. Nestle Waters made an initial investment in Sweet Leaf in March 2009. This acquisition will expand the company's beverage portfolio of bottled water to include high-quality iced teas, lemonades and juice drinks.

NAMA lists innovation awards for 2011

The National Automatic Merchandising Association (NAMA) announced its 2011 "iSpot" innovation awards. This marked the second year for the awards. The winners were recognized at the opening ceremonies during the NAMA OneShow at Chicago's McCormick Place North. The winners are: Products: Main Street Café Protein Smoothies from **Gehl Foods**; Equipment Machinery – Other: ADA Compliance Retrofit Kit from **Vendors Exchange International Inc.**; Equipment Machinery – Technology: SmartShop from **365 Retail Markets**; Equipment Machinery – Coffee/Water: Genesis Counter Top from **MTN Products**; Equipment Machinery – Machines: Alpine Elevator from **U-Select-It Corp**.

Pepsi to acquire Corvallis, Ore. bottler

Pepsi Beverages Co., the North American bottling division of **PepsiCo Inc.**, has signed a letter of intent to acquire **Pepsi-Cola of Corvallis, Ore.**, including its warehouse locations in Corvallis, Medford and Tillamook, according to *The Democrat Herald* in Albany, Ore.

AdvancePierre Foods buys Barber Foods

AdvancePierre Foods has acquired **Barber Foods**, a Portland, Me.-based, company which manufactures and distributes their signature stuffed chicken breasts as well as other chicken products.

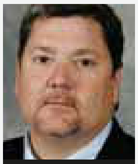
J & J to acquire brands from ConAgra Foods

J & J Snack Foods Corp. will acquire several frozen food lines from **ConAgra Foods** for an undisclosed sum, including brands such as Patio, Hand Fulls, Holly Ridge Bakery, Villa Taliano, Top Picks and private label brands that sell dough-encased frozen goods.

People in the News

G & J Marketing & Sales names three


Canepa


Celeslie


Blackstone

G & J Marketing & Sales, the Palm Harbor, Fla.-based vending and coffee service product brokerage, has named three veterans to its sales and marketing team. Scott Canepa was named North and Central Florida sales representative. John Celeslie was named national account executive for the retail division. Terrie Blackstone will represent Colorado, Utah and Wyoming.

Five Star tabs McCall from Sara Lee for sales and marketing

Five Star Food Service Inc., based in Chattanooga, Tenn., hired food and beverage industry veteran Gregory McCall as vice president of sales and marketing, a newly created position at the company. He was previously Southeast region sales manager for Sara Lee Coffee & Tea.

Del Monte Foods tabs Hershey's David West as CEO

Del Monte Foods Co. has appointed David J. West as its new chief executive officer, effective Aug. 15, 2011. West will also join the company's board of directors in June. West joins Del Monte from The Hershey Co. where he was president and CEO.

2nd NAMA OneShow draws a big turnout

Refreshment service operators from all over the country came to McCormick Place North in Chicago, Ill. in late April for the second National Automatic Merchandising Association OneShow. They saw lots of new technology and well attended seminars, covering regulatory issues, business management and technology topics. There were several booths displaying video touch screens in addition to other technologies. Insightful seminars included updates on the calorie disclosure rules and the new machine control reach requirements.

Find more convention coverage online at:
www.VendingMarketWatch.com/topics/associations-organizations/trade-shows-meetings

▲ Michael Franceschino, second from the left, and Jim Finelli, fifth from left, of The Promotion In Motion Companies, Inc. present the award for exceptional sales growth in 2010 on the East Coast to Michael Kelley, left, Lou Pace, Sr., Jim Saunders and Bob Myers, Jr. of Quality Brokerage Inc. in Turnersville, N.J.

◄ Sindi Ortiz of Cloverhill Bakery accepts the Readers' Choice New Pastry of the Year award for the Boston Créme Danish, presented by *Automatic Merchandiser* Magazine.

▲ Tony DeNote, center, presents the broker of the year award for Diamond Crystal Sales to Greg Teel, left, Kenny Freeman, Chris Freeman, and Lance Hall of Brokers Unlimited in Denver, N.C.

▲ Paul Schindelar, Kraft Vending & OCS, second from right, presents the 2010 *Automatic Merchandiser* Route Driver of the Year award to Siluvathasan Edwin Ravienthira of Culinary Ventures Vending in Union, N.J., left. His wife, Sugirthaseeli and Culinary Ventures owner, Tom Dinardo, congratulate him.

▲ Brent Garson of Vendors Exchange International Inc. presents the company's new VE Connect video touchscreen.

▲ Larry Mastenbrook, right, and Cyndi Witt of K&S Vending Services Inc. in Mattawan, Mich., learn about Cantaloupe Systems from Terry Hovis.

▲ Stacey Soik, left, Rick Ruth and Brent Barker of Mars Inc. accept the *AM* Readers' Choice Award for New Candy Product of the Year for Snickers® Peanut Butter Squared.

▲Paul Klutes, left and Jim Finelli, The Promotion In Motion Companies, Inc., accept the *Automatic Merchandiser* Readers' Choice Award for New Cookie Product of the Year for the Bake Shoppe™ Cookie Dough Miniatures™.

▲ Elliot Maras, left, of *Automatic Merchandiser* presents Stu Case, Northwest Vend Regional Manager, BBI Pacific, Yorba Linda, Calif., the 2010 *Automatic Merchandiser* Reader's Choice Broker of the Year Award.

◀Rachel Greenley, right, Starbucks Coffee Co. and Maggie Carvajal, Crane Merchandising Systems, accept the *AM* Readers' Choice Award for New Hot Beverage Product of the Year for Seattle's Best Coffee Vended Coffee.

◀Tony Schroder, left, Chris Allahyar, Alexis Baize, and Nancy Todys of AdvancePierre Foods accept the *AM* Readers' Choice Award for New Food Product of the Year for Mini Sausage, Egg and Cheese Biscuit Twins.

◀Amanda Munson of Munson's Munchies LLC, Linden, Mich. gets $100 from *Automatic Merchandiser* for wearing the Kraft Vending & OCS sponsored Tassimo t-shirt.

◀Jim Travis, left, and T.J. Whalen of Green Mountain Coffee Roasters accept the *AM* Readers' Choice Award for New Cold Beverage of the Year for the Brew Over Ice K-Cup Portion Pack.

CONTINUED ▶

▲ Jimmy Variglotti, left, of Cuyahoga Group, Maple Heights, Ohio, and Tom Diffendal, Laurel Foodsystems Inc., Pittsburgh, Pa., check out the LightSpeed automated pre-picking system.

▲ Howard Fischer, left, USRoasterie, welcomes Harold Gold of AMS Colorado LLC, Englewood, Colo., and Craig Nelson of Kraft Vending & OCS at the trade show.

▲ Heidi Chico of The Wittern Group and Kevin Ward of Royal Vendors greet attendees at the trade show.

▲ Elliot Maras of *Automatic Merchandiser* Magazine checks out the ADA compliant beverage machines at the Crane Merchandising Systems booth.

▲ Uri Fridman Farca, left, of grupobiz in Guadalajara, Mexico checks out the video touchscreen at the Crane Merchandising Systems booth with Ron Barnes of Crane Merchandising Systems.

▲ Eric Aguirre presents the Freestyle™ fountain beverage dispenser at the Coca-Cola booth during the trade show.

◄ Steve Lambert serves attendees Ugly Mug single-cup coffee at the trade show.

◄ Dan Kilcoyne, left and Shawn Kilcoyne introduce attendees to the Minimelts machine at the Fastcorp booth.

CONTINUED ►

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▲ Prof. Mike Kasavana, right, of Michigan State University, accepts the NAMA Industry Person of the Year Award from Michigan State University basketball coach Tom Izzo during the trade show.

◀ Howard Chapman, NCE, CCS, Royal Cup, Birmingham, Ala., left, accepts the NAMA Coffee Operator of the Year Award from Michigan State University basketball coach Tom Izzo.

◀ Steve Richardson, left, of DeMitri Chesapeake Sales, Chase, Md., left, accepts the NAMA Vending Allied Member of the Year Award from Michigan State University basketball coach Tom Izzo.

◀ Craig Kushner, Monumental Vending, Beltsville, Md., left, accepts the NAMA Vending Operator of the Year Award from Michigan State University basketball coach Tom Izzo.

◀ Frank Baron, left, presents the Avalon single-cup coffee machine to Jim Muldoon and Shawn Muldoon of Muldoon's Own, Mississauga, Ontario, Canada.

◀ Tim Cleland of Gavina, left, accepts the NAMA Coffee Allied Member of the Year Award from Michigan State University basketball coach Tom Izzo.

◀ Jud Skinner presents Sunny D beverages at the trade show.

▲ Peggy Vanbuel of Fresh Start Vending, Muskegon, Mich. gets $100 from *Automatic Merchandiser* for wearing the Kraft Vending & OCS sponsored Tassimo t-shirt.

▲ Joe Kuehner, Herr's Foods, Inc. accepts the *Automatic Merchandiser* Readers' Choice Award for New Snack Product of the Year for the Herr's Hot Sauce Flavored Potato Chips.

Recession softens, giving a better top line

Vending operators continue profit protect measures; more invest in technology

By Elliot Maras, Editor

Fiscal 2010 brought some relief to the vending industry as the recession that decimated sales in the previous two years grew less severe. While vending operators continued to lose sales on an aggregate basis, the dip in 2010 was mild compared to 2008 and 2009.

According to the *Automatic Merchandiser* State of the Vending Industry Report, aggregate vending sales fell 3 percentage points in 2010, taking the industry to $19.25 billion, the lowest level since 1994, which was $19.24 billion. The 3-point drop, however, was small compared to the aggregate 15-point fall from the prior two years.

The 18-point revenue loss in the last three years reflected the nation's overall employment loss, which affected every sector of the U.S. economy. The nation's unemployment rate since the recession began in late 2007 reached a high point of 10 percent in the fourth quarter of 2009 before falling to 8.8 percent in the fourth quarter of 2010.

CHART 1: INDUSTRY REVENUE IN BILLIONS, 10-YEAR REVIEW

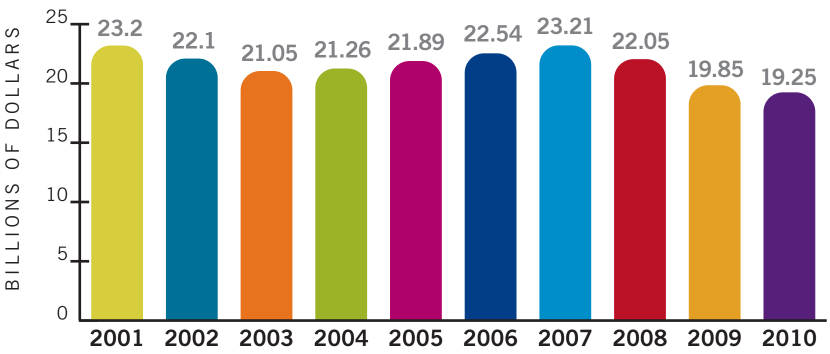


CHART 2: OPERATOR SALES

SIZE	REVENUE RANGE	% OF 2010 OPERATORS	PROJECTED 2010 SALES	% OF 2010 SALES	PROJECTED 2009 SALES	% OF 2009 SALES
Small	under $1M	77%	$1.65B	9%	$1.51B	8%
Medium	$1M - $4.9M	15%	1.1B	6%	1.32B	7%
Large	$5M - $9.9M	5%	2.38B	13%	2.83B	15%
Extra large	$10M +	3%	13.17B	72%	13.2B	70%
TOTAL			$18.3 BILLION*		$18.85 BILLION*	

*Does not include 5 percent of total industry revenue for machines owned and operated by locations.

Editor's Note: Revenue totals for individual groups were rounded off, therefore the sums will not completely reflect the totals.

While employment improved in 2010, it remained at a historically low level. The employment gain in 2010 did not significantly reverse

CHART 3: MACHINES BY LOCATION, 4-YEAR REVIEW

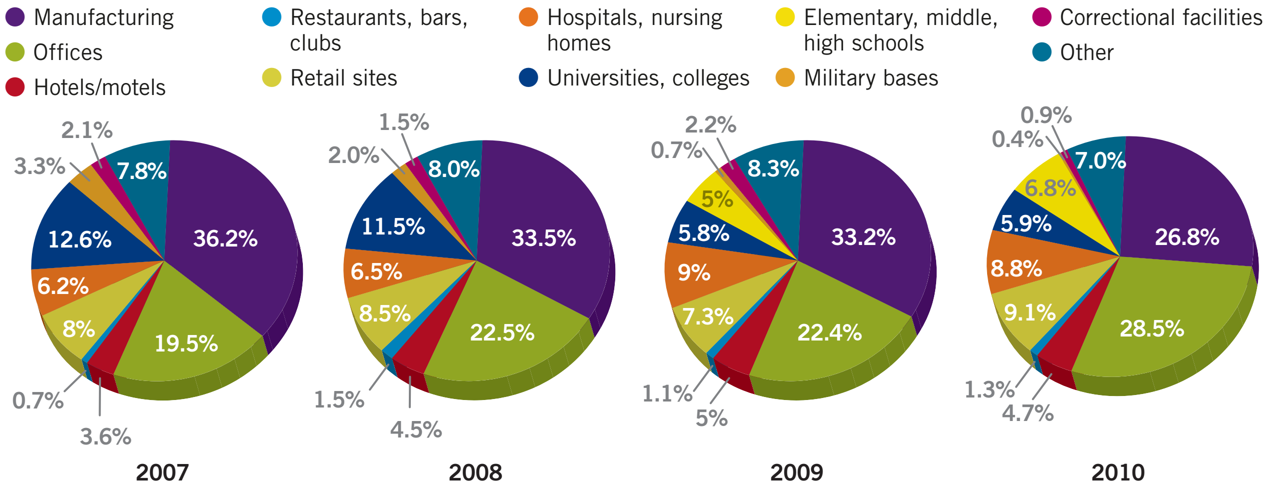


CHART 4A: STAFFING CHANGES, 3-YEAR REVIEW

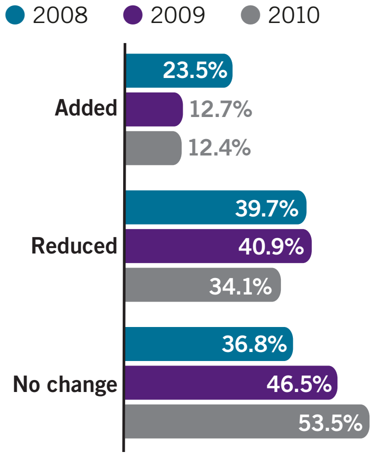


CHART 4B: AREAS WHERE STAFF WAS REDUCED, 3-YEAR REVIEW

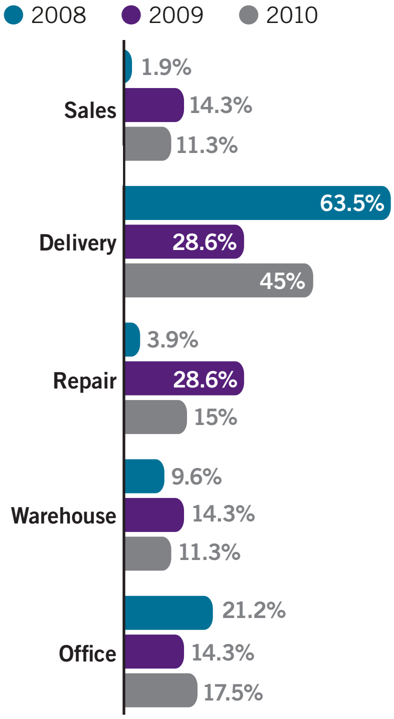
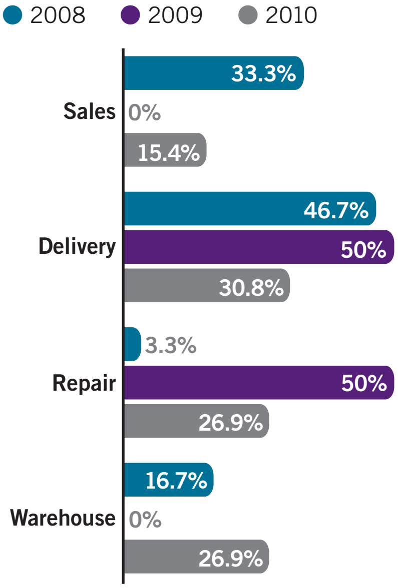


CHART 4C: AREAS WHERE STAFF WAS ADDED, 3-YEAR REVIEW



Editor's Note: 2009 figures reported in 2010 were adjusted based on additional data.

the downward trend of the prior two years.

High joblessness not only reduced the number of vending customers. It also hurt the willingness of consumers to spend money.

On the upside, many vending operators noted high unemployment delivered a more dedicated work force to their companies.

Operators also noticed fewer operators in the business. But they were reluctant to cite this as a benefit since the level of competition remained high. Many operators believed the increasing level of investment required for vending reduced the number of players, but the existing players became more formidable.

The State of the Vending Industry Report tracked a decline in the number of medium size operators ($1 million to $4.9 million in annual sales) in recent years. This trend continued in 2010. In 2010, the number of large operators ($5 million to $9.9 million) also declined while the number of small operators (under $1 million) increased. The number of extra large operators remained the same in 2010, but their share of industry sales increased.

Vending operators enacted profit saving measures in response to lower sales to minimize the recession's impact on their bottom lines. While the State of the Vending

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CHART 5: ACQUIRED OR DIVESTED BUSINESS, 3-YEAR REVIEW

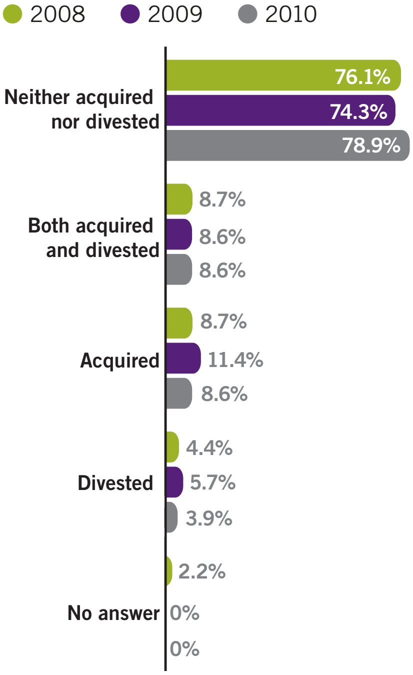


CHART 6: STRATEGIES FOR HANDLING HIGHER COSTS, 3-YEAR REVIEW

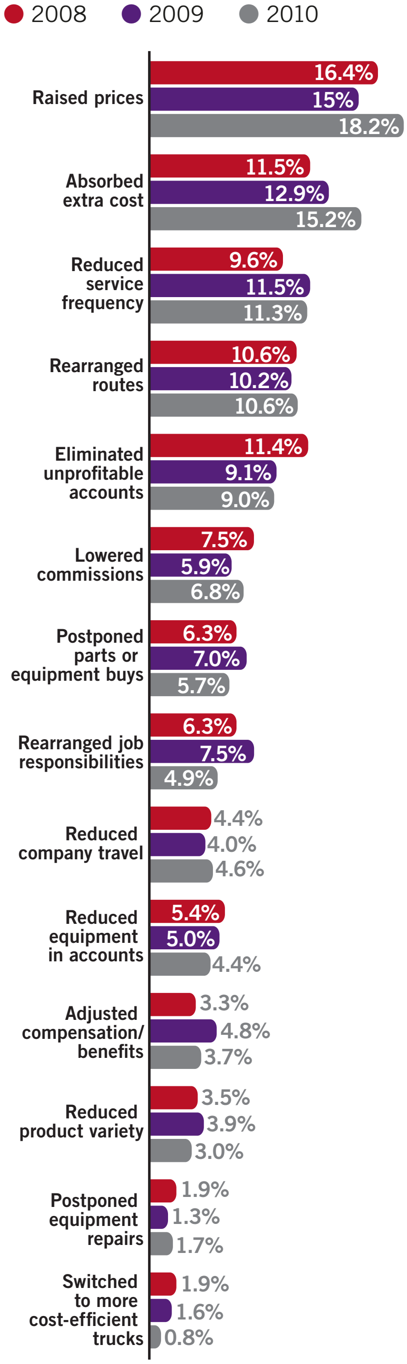
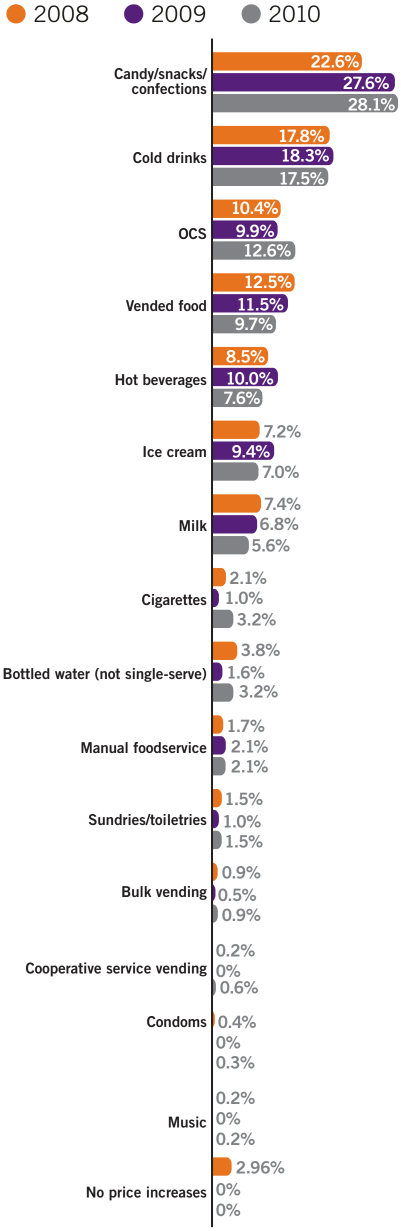


CHART 7: SEGMENTS WHERE PRICES WERE RAISED, 3-YEAR REVIEW



Industry Report does not measure profitability, the National Automatic Merchandising Association (NAMA) profit report indicated operator profits improved during the recession.

The NAMA profit report found that the pre-tax profit margin for a "typical" firm doing more than $2 million in sales improved for the third straight year in 2010. Pre-tax profit was 2.4 percent in 2010 compared to 1.5 percent in 2009 and 0.5 percent in 2008.

OPERATORS CONTINUE PROFIT PROTECTION

The State of the Vending Industry Report found operators continued many of the profit protection measures they enacted in 2008 and 2009, indicated in chart 6.

Operators enacted fewer layoffs in 2010 than in either of the previous two years.

More operators reported raising prices in 2010 than in either of the previous two years, also indicated in chart 6. The recession spurred more frequent price increases than any time since *Automatic Merchandiser* began tracking vend prices.

Operators interviewed at random agreed that competition among operators limited their ability to raise prices.

Operators agreed that higher prices in other retail outlets made it easier to raise their own prices. However, the price increases did not fully compensate for higher operating costs.

Reflecting operators' limitations in managing higher costs, more operators simply absorbed extra costs in 2010 than either of the prior two years, indicated

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in chart 6. Absorbing extra costs has been cited as the second most common strategy for handling higher costs in each of the last three years.

Reducing service frequency and rearranging delivery routes were the next most common cost management measures in 2010.

Lowering commissions jumped from the eighth most common cost handling strategy in 2009 to number six in 2010.

Cost increases continued in health insurance, vehicle expenses, taxes, payroll and workers compensation.

REGULATORY CHALLENGES INCREASE

Additional challenges emerged on the regulatory front in 2010, the most significant being mandatory calorie disclosure. The federal health care reform act signed by President Obama requires vending operators with 20 or more machines to post calorie counts at the point of sale. The law is not scheduled to take effect until 2012, and the U.S. Food and Drug Administration is not expected to release specific requirements until later in 2011.

In the meantime, more states, schools and local governments continued to propose nutrition restrictions on vend products in 2010. Many proposals only applied to government accounts, although some were directed at the private sector as well.

SUPPORT GROWS FOR 'HEALTHY' ITEMS

Government initiatives notwithstanding, vending operators observed growing interest among account decision makers in "better for you" products. While operators have long observed that meeting these requests results in lower sales, the performance of products associated with health and wellness posted a better showing than in the past, indicated in chart 14B.

Improved sales for healthy products was most evident in the candy/snack segment, which has the largest product variety.

Other government mandates made headlines in 2010.

The U.S. Justice Department announced lower reach requirements for vending machines accessible to the public. The requirements are scheduled to take effect in 2012. They call for different accessibility standards than are found in most existing machines. At the present time, NAMA is trying to get the federal government to change the requirements for vending operators.

OIL RIG DISASTER IMPACTS GULF COAST

The Deepwater Horizon rig that exploded in the Gulf of Mexico in April of 2010 disrupted Gulf Coast tourism. The economic fallout from this disaster mainly affected Gulf Coast businesses. The rescue effort compensated for some of the loss.

One factor benefiting overall U.S. employment in 2010 was the automotive sector, which reversed the downward spiral of the prior four years. After falling 44.7 percentage points from 2006 through 2009, North American auto production rose 39.6 points in 2010, according to the Detroit, Mich.-based Automotive Information Center. Besides adding more workers to the automotive factories, the increase benefited sales for automotive suppliers and dealers.

The auto industry's improvement was not enough to offset the continued decline of manufacturing as a share of vending locations, indicated in chart 3.

For the first time in the vending industry's history, in 2010, office accounts represented the largest

CHART 8A: ADJUSTED PRODUCT MIX TO REDUCE DELIVERIES, 2-YEAR REVIEW

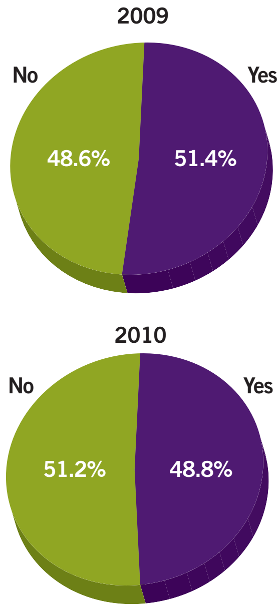
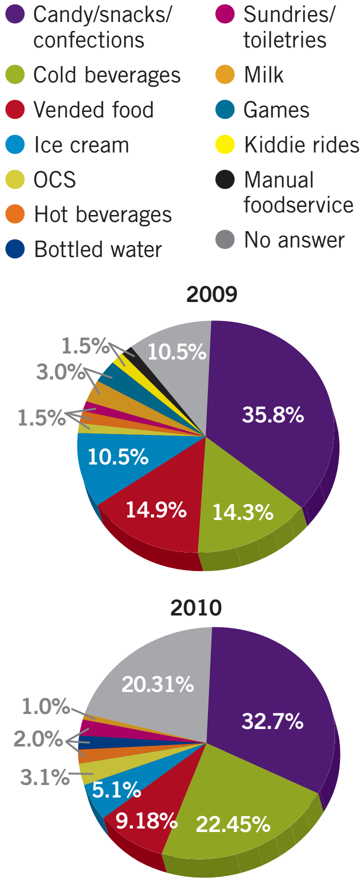


CHART 8B: FOR THOSE WHO REDUCED PRODUCT VARIETY, REDUCED IN THE FOLLOWING AREAS:



single customer segment of vending locations, indicated in chart 3, ending the historic dominance of manufacturing accounts. This quantifies the vending industry's need to upgrade its offerings to serve a customer that has more meal and refreshment options.

INVESTMENT IN TECHNOLOGY GROWS

Investment in new technology increased in 2010, continuing a trend that became evident in 2008, indicated in chart 10. Whether the recession has hampered or hastened this investment is a matter of debate.

Those interested in investing in technology were helped by low borrowing rates as the Federal Reserve Bank tried to keep inflation in check.

Operators who invested in technology noted that the introduction of cashless readers and bill recyclers facilitated sales of higher priced products. Hence, some operators reported these technologies made higher prices more acceptable to customers.

Some operators also noted that the introduction of new technology minimized the importance of product price in the machine to the customer. Hence, technology supported the vending industry's efforts to "de-commoditize" itself.

NAMA introduced a cashless program in 2010 designed to encourage more operators to invest in cashless technology.

In addition to cashless transactions, wireless reporting hardware and bill recyclers, technologies that gained visibility in 2010 included "pick to light" warehouse picking systems that support pre-kitting routes in the warehouse.

VENDING LAGS RETAIL AGAIN

Vending operators once again were forced to compete against retail channels that faced less bottom line pressure in 2010.

CHART 9A: EXPANDED INTO NEW SERVICES, 3-YEAR REVIEW

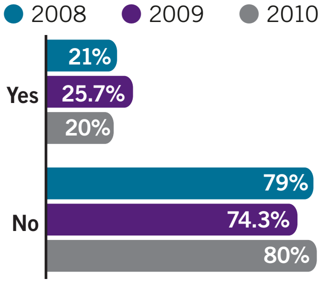
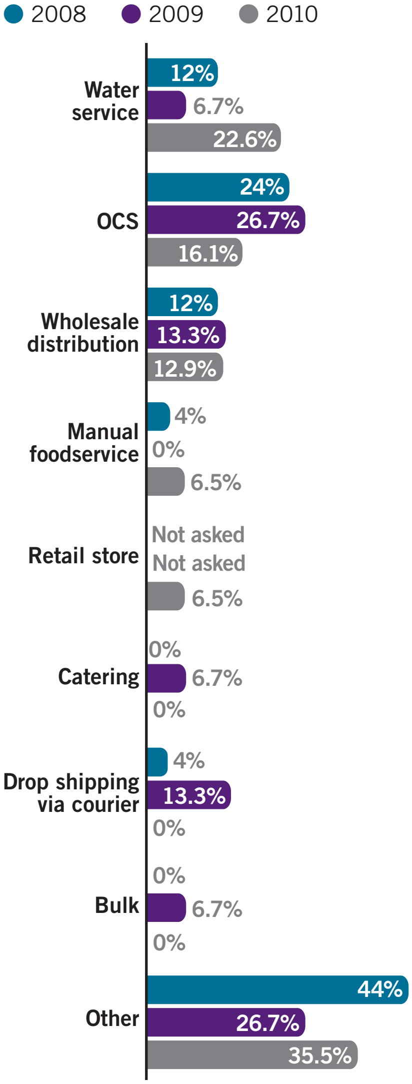


CHART 9B: IF YES, WHICH SERVICES?



Vending sales underperformed foodservice in general. Where vending lost 3 percentage points in 2010, foodservice in general lost only 0.2 percent of sales in inflation adjusted terms, according to the National Restaurant Association.

The foodservice industry's minor sales loss in 2010 followed its worst year ever in 2009, when it fell 2.9 points.

Business and industry (B&I) foodservice sales, however, underperformed vending in 2010. Technomic, a research firm which tracks foodservice industry sales, reported that B&I foodservice suffered a 4.6 percentage point sales loss in 2010. This loss was less than half the 10-point loss reported for this segment in 2009.

Convenience stores, which many vending operators view as their biggest competitors, posted a 4.4 point sales gain in 2010, according to the National Association of Convenience Stores.

The *AM* State of the Vending Industry Report is based on returned email questionnaires sent to more than 9,000 operators in the magazine's subscription list, which generated a 15 percent response.

Following is a summary of the main product segments.

COLD BEVERAGES REGAIN GROUND

In 2010, the cold beverage vending segment recovered some of the volume lost in the prior two years, driven by a mild resurgence the category experienced in all retail outlets.

Cold beverages was one of three vend product segments to gain revenue in 2010, the other two being OCS and ice cream, indicated in chart 12b.

The Beverage Marketing Corp. (BMC), which tracks beverage sales in retail outlets, reported the U.S. refreshment beverage market grew by 1.2 percent in 2010, reversing the declines of the previous two years. BMC noted that non-carbonated beverages played a big role in

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the comeback.

Beverages such as ready-to-drink (RTD) tea and coffee, sports beverages and energy drinks displayed particular vibrancy during 2010, while larger, more established segments such as carbonated soft drinks and fruit beverages failed to grow, BMC reported.

RTD tea led all beverage segments in 2010 with a 12.5 percent volume gain, followed by sports drinks (9.4 percent), ready-to-drink coffee (8.1 percent), energy drinks (5.4 percent) bottled water (3.5 percent), value-added water (0.2 percent), fruit beverages (-2 percent), and carbonated beverages (-0.8 percent), according to BMC.

The 1.58-point gain reported for cold drink vending sales in the *AM* State of the Vending Industry Report in 2010 hardly compensated for the losses suffered in 2008 and 2009. In addition to the loss caused by the first two years of the recession, vending operators were forced to remove soda, their top selling beverage, from many schools and government accounts due to health concerns.

Vending operators attempted to compensate for this setback by raising prices, indicated in chart 13C. Extra large operators were especially involved driving up the average prices in this category.

COLD DRINK MACHINES REBOUND

The cold beverage revenue gain in 2010 was also due to the fact that operators placed more cold beverage machines in 2010, reversing a 5-year trend. Bottlers and vendors began pulling machines in 2006 and continued doing so through the recession beginning in late 2007. The decline in machines of the previous five years appears to have bottomed out in 2010.

Also contributing to the 1.58-point cold drink revenue gain in

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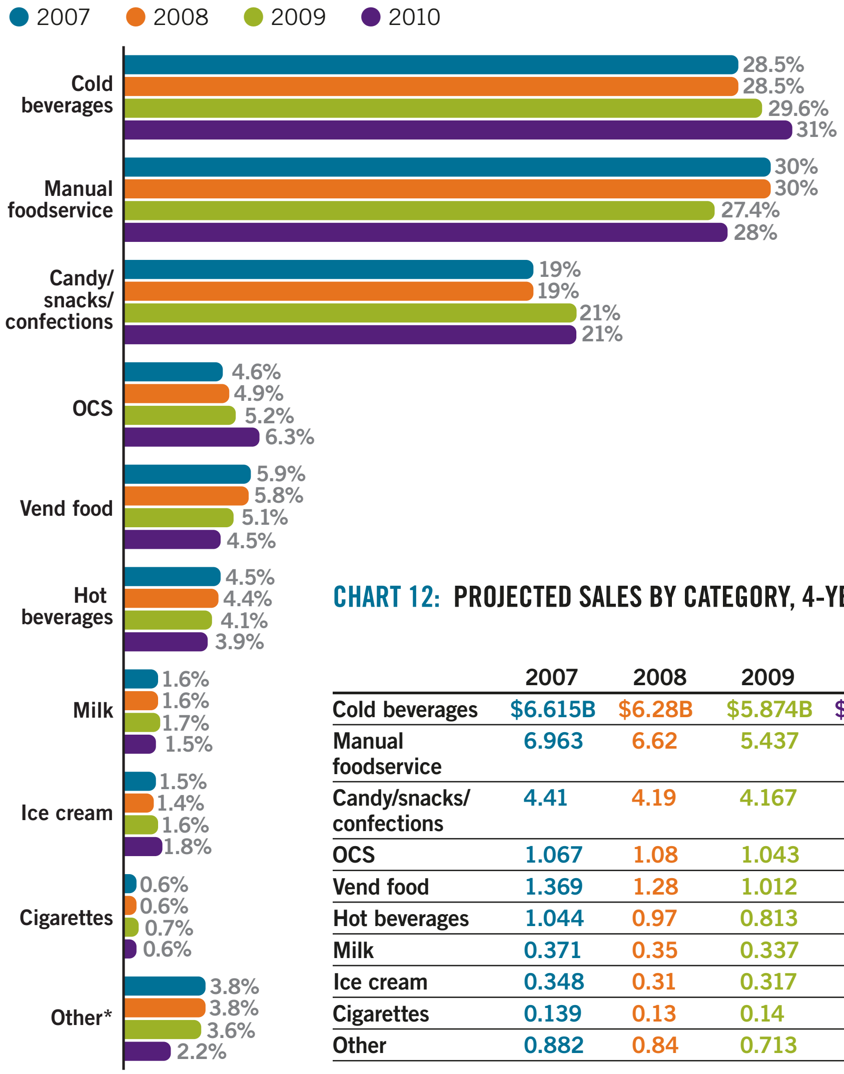
CHART 10: TECHNOLOGY UPGRADES, 3-YEAR REVIEW

	2008	2009	2010
Installed bill recyclers	25.0%	17.5%	26%
Invested in remote monitoring	8.0%	10.0%	1.7%
% of machines equipped with cashless readers	1.8%	2.3%	3.5%

CHART 11: SHARE OF SALES BY CATEGORY, 4-YEAR REVIEW



*Includes cooperative service vending, music, games, bulk vending, bottled water, sundries, toiletries, condoms, kiddie rides, and other foodservice revenue.

CHART 12: PROJECTED SALES BY CATEGORY, 4-YEAR REVIEW

					PERCENT REVENUE CHANGES			
	2007	2008	2009	2010	2007	2008	2009	2010
Cold beverages	$6.615B	$6.28B	$5.874B	$5.967B	2.9%	-5.0%	-8.5%	1.58%
Manual foodservice	6.963	6.62	5.437	5.39	2.9	-4.9	-17.8	-0.08
Candy/snacks/ confections	4.41	4.19	4.167	4.04	2.4	-4.9	-0.05	-3.0
OCS	1.067	1.08	1.043	1.212	5.2	1.2	-3.4	16.2
Vend food	1.369	1.28	1.012	0.866	1.2	-6.5	-20.9	-14.4
Hot beverages	1.044	0.97	0.813	0.75	0.06	-7.0	-16.1	-7.7
Milk	0.371	0.35	0.337	0.288	3.0	-5.6	-3.7	-4.9
Ice cream	0.348	0.31	0.317	0.346	3.0	-10.0	2.2	9.14
Cigarettes	0.139	0.13	0.14	0.115	2.9	-6.4	7.7	-17.8
Other	0.882	0.84	0.713	0.421	3.0	-4.7	-15.1	-40.9

2010 was the fact that glassfront machines continued to expand.

While the rate of glassfront expansion slowed during the recession, and more so in 2010 than in the prior two years, these machines enabled operators to boost individual location sales by 30 percent on average.

Glassfront machines allowed vending operators to offer a greater variety of products, giving them the means to serve the more diverse customer demand that characterizes modern consumption habits.

A successful cold beverage strategy in many vending locations was to have a closed front machine for the high volume sellers (such as soda) along with a glassfront machine for the secondary ones.

ENERGY DRINKS COMMAND HIGHEST PRICES

Energy drinks were the highest priced cold beverages in vending, with price points typically above $2. While these were not high volume sellers, vending operators found that having such a high price in the machine helped condition customers to accept higher prices for other products.

Vending operators noted energy drinks carried a high level of brand loyalty. Customers who preferred one brand were not likely to buy an alternative.

Operators found product level management software particularly helpful managing a large variety of beverages.

Hence, technologically savvy operators were able to utilize glassfront machines more effectively than less technologically sophisticated operators.

CANS CONTINUE TO GAIN ON BOTTLES

Cans continued to gain at the expense of PET bottles in 2010, continuing a trend from the previous years, indicated in chart 13B.

CHART 13A: COLD BEVERAGE MACHINES BY TYPE, BOTTLERS AND VENDORS, 4-YEAR REVIEW

BOTTLER OWNED

TYPE	2007	2008	2009	2010
Can closed front	1,000,000	974,000	950,000	950,000
Bottle closed front	1,030,000	1,030,000	1,000,000	1,000,000
Combo bottle & can closed front	378,000	378,000	350,000	350,000
Glassfront	153,000	180,000	195,000	200,000
Cup	0	0	0	0
TOTAL	2,561,000	2,562,000	2,495,000	2,500,000

VENDOR OWNED

TYPE	2007	2008	2009	2010
Can closed front	830,000	827,000	820,000	820,000
Bottle closed front	115,000	115,000	110,000	110,000
Combo bottle & can closed front	42,000	42,000	42,000	42,000
Glassfront	17,000	20,000	25,000	30,000
Cup	13,000	11,000	8,000	6,000
TOTAL	1,017,000	1,015,000	1,005,000	1,008,000

CHART 13B: COLD BEVERAGE SALES, 4-YEAR REVIEW

% OF SALES

TYPE	2007	2008	2009	2010
Can	25.0%	27.0%	29.0%	29.0%
Bottle	74.5	72.6	70.7	70.8
Cup	0.5	0.3	0.3	0.2

PROJECTED TOTALS

TYPE	2007	2008	2009	2010
Can	$1.65B	$1.69B	$1.7B	$1.73B
Bottle	4.928	4.56	4.15	4.22
Cup	0.033	0.018	0.017	0.012

Editor's Note: These totals only apply to the volume sold by vending operators, not bottlers.

CHART 13C: AVERAGE COLD BEVERAGE PRICES, 4-YEAR REVIEW

TYPE	2007	2008	2009	2010
Can	69¢	69¢	71¢	73¢
Bottle	$1.10	$1.15	$1.25	$1.30
Cup	70¢	70¢	70¢	70¢

Many operators noted that as customers became more price conscious during the recession, more opted to buy the lower price cans.

Some operators noted that container deposit fees did not apply to cans as much as bottles.

Beverage Digest, a beverage industry newsletter, reported that aluminum cans posted a 0.2 percent shipment gain in 2010, the first growth in can shipments since 2006. Can shipments had been declining since 1994, the newsletter reported.

At the same time, vending operators noted that beverage manufacturers continued to market 20-ounce bottles aggressively, and most operators did not expect cans to make a significant comeback.

Vending operators also noted that bottles delivered a higher monetary profit than cans, even if

CHART 14A: CANDY/SNACK/CONFECTION MACHINES, 4-YEAR REVIEW

	2007	2008	2009	2010
Projected Total	1,328,760	1,320,000	1,315,000	1,315,000

CHART 14B: TOTALS BY CATEGORY AND SUBCATEGORY

	PROJECTED REVENUE	% SALES OF TOTAL	SHARE CHANGE FROM 2009	% SALES CHANGES 2010: REVENUE CHANGE	% SALES CHANGES 2010: UNIT CHANGE
CANDY	$1.329B	32.9%	-0.1%	-3.34%	-6.6%
Chocolate candy	0.948	23.47	0.3	-1.76	-5.5
Gum	0.061	1.51	0.01	-1.6	-8.3
Mint/hard roll	0.029	0.074	-0.008	-20.5	-21.3
Non-chocolate	0.290	7.2	0.2	-0.03	-4.0
SNACKS	$2.709B	67.06%	0.06%	-2.97%	-5.03%
Total nutrition snacks	0.125	3.11	0.33	7.7	4.4
Breakfast bars, cereal, fruit snacks, functional bars, nutritional pretzels, granola bars, rice cakes, trail mix					
Baked goods	0.799	19.79	-0.85	-7.0	-10.4
Cakes/brownies, cereal snacks, crème-filled cake, Danish, donuts/gems, honey buns, misc. (Poptarts), muffins, pies, regular cookies, sandwich cookies, sweet rolls, unfilled cakes					
Crackers	0.211	5.23	0.23	-1.4	-4.5
Regular crackers	0.139	3.4	0.1	0	-5.6
Sandwich crackers	0.072	1.79	0.066	0	-2.9
Food snacks	0.043	1.08	0.99	4.8	0.7
Meat snacks	0.038	0.095	0.012	10.5	6.6
Meat and cheese	0.005	0.012	0.006	-28.5	-25.9
Nuts and seeds	0.058	1.43	0	-2.58	-5.3
Almonds, cashews, mixed nuts, peanuts, pistachio nuts, pumpkin seeds, sunflower seeds					
Salty snacks	1.47	36.42	0.02	-4.7	-6.0
Cheese curls, corn/tortilla chips, onion rings, popcorn, potato chips, potato sticks, pretzels, snack mix, misc.					

CHART 14C: AVERAGE NUMBER OF ITEMS STOCKED IN CANDY/SNACK MACHINES, 3-YEAR REVIEW

	2008	2009	% CHANGE	2010	% CHANGE
CONFECTIONS	12.4	13.2	5.6%	12.6	-4.3%
Chocolate candy	8.4	8.9	5.7	8.6	-3.6
Gum	1.5	1.6	3.0	1.5	-6.1
Mint/hard roll	1.3	1.3	11.3	1.2	-7.6
Non chocolate candy or toffee	1.3	1.4	2.8	1.3	-7.1
SNACKS	26.9	27.1	0.6%	26.1	-3.6%
Nutrition snacks	1.4	1.7	24.7	2.0	17.6
Baked goods	8.3	7.5	-8.8	7.5	0
Crackers	2.8	2.7	-2.8	2.4	-11.1
Food snacks	0.4	0.4	-0.8	0.3	-25
Nuts and seeds	0.8	0.9	10.2	0.9	0
Salted snacks	13.4	13.9	4.2	13.8	0.7

the profit percentage on cans was sometimes higher.

CANDY, SNACKS AND CONFECTIONS FALL

The candy, snack and confection segment continued to lose volume in 2010, despite continued price increases in the top 20 selling items, indicated in chart 14E. The decline in the number of candy, snack and confection machines leveled off in 2010, indicated in chart 14A.

Management Science Associates (MSA), which tracks line item revenue and unit sales in this vending segment, indicated unit sales posted a bigger decline than dollar sales in 2010. This explains why the segment continued to lose volume despite price increases and no change in machine placements.

This marked the second consecutive year vending operators raised prices in the candy, snack and confection segment. Most product manufacturers did not raise prices in this segment in 2010, making it the second year operators were able to make up for the manufacturer price increases in the previous three years.

Operators did not raise prices as much on their top 20 selling candy, snack and confection products in 2010 as 2009. Chart 14E indicates the 2010 price increases were less on a percentage basis for all but two of the top selling 20 items.

Candy lost market share to snacks in 2010, continuing a trend from the previous four years. However, in each of the last two years, the loss was less on a percentage basis. This indicates the decline in candy could be bottoming out.

Candy products continued to lag snacks among the products gaining the most distribution in 2010, indicated in chart 14F. However, candy items improved their performance in this area for the second straight year.

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CHART 14D: LARGE AND EXTRA LARGE CANDY/SNACK PACKAGES, 2009 VERSUS 2010

Retail sales	-4.1%
Unit Sales	-7.0%

Source: Management Science Associates ProVen data.

CHART 14E: TOP 20 CANDY/SNACK/CONFECTIONS IN DOLLAR SALES, 4-YEAR REVIEW

		AVERAGE SELLING PRICE					
#	PRODUCT	2007	2008	2009	1-YEAR CHANGE	2010	1-YEAR CHANGE
1	Masterfoods USA 2-oz. Snickers Original	73¢	76¢	83¢	*9.21%*	88¢	*6%*
2	Masterfoods USA 1.74-oz. M&M's Peanut	73	77	84	*9.09*	89	*5*
3	Masterfoods USA 2-oz. Twix Bar	73	78	85	*8.97*	89	*4.7*
4	Frito-Lay 1.5-oz. Ruffles Cheddar & Sour Cream	71	81	85	*4.94*	88	*3.5*
5	Frito-Lay 1.75-oz. Doritos Nacho Cheesier Big Grab	79	80	83	*3.75*	86	*3.6*
6	Frito-Lay 1.5-oz. Lay's Chips	77	79	81	*2.53*	84	*3.7*
7	Frito-Lay 1.125-oz. Cheetos Crunchy	59	64	87	*35.93*	75	*-13.7*
8	Masterfoods USA 2.13-oz. Three Musketeers Original	71	77	84	*9.09*	88	*4.7*
9	Kellogg/Keebler 3.6-oz. Poptarts Frosted Strawberry	84	88	91	*3.41*	95	*3.2*
10	Kellogg/Keebler 1.7-oz. Rice Krispies Treat	77	78	84	*7.69*	89	*5.95*
11	Kellogg/Keebler 2-oz. Famous Amos Chocolate Chip Cookies	71	79	87	*10.12*	91	*4.5*
12	Kellogg/Keebler 1.5-oz. Cheez-It Original	57	61	69	*13.11*	73	*5.7*
13	Frito-Lay 2.125-oz. Cheetos Crunchy	80	80	82	*2.5*	83	*1.2*
14	Masterfoods USA 2.17-oz. Wrigley Skittles	76	79	87	*10.12*	91	*4.5*
15	Masterfoods USA 1.69-oz. M&M's Milk Chocolate	72	76	84	*10.53*	88	*4.7*
16	Nestle 2.1-oz. Butterfinger	73	75	84	*12*	89	*5.9*
17	Inventure Foods 1.75-oz. TGI Friday's Cheddar & Bacon Potato Snacks	75	76	84	*10.52*	88	*4.76*
18	Kellogg/Keebler 2-oz. Cheez-It Original	NA	81	87	*7.4*	88	*1.1*
19	Frito-Lay 2.25-oz. Fritos Chili Cheese	77	79	82	*3.8*	84	*2.4*
20	Frito-Lay 2.75-oz. Grandma's Peanut Butter Cookie	68	68	72	*5.88*	78	*8.33*

Editor's Note: Percentage gains have been affected by rounding.

CHART 14F: CANDY/SNACK/CONFECTIONS GAINING THE MOST DISTRIBUTION IN 2010

#	PRODUCT
1	Kraft Nabisco 1.8-oz. Oreo Cookies
2	Frito-Lay 1.125-oz. Cheetos Crunchy
3	Frito-Lay 1.25-oz. Chili Cheese
4	Kraft Nabisco 1-oz. Planters Peanuts
5	Nestle 2.1-oz. Butterfinger
6	Kraft Nabisco 1.4-oz. Planters Cheese Peanut Butter Sandwich
7	Kellogg Keebler 2-oz. Cheez It Original
8	Frito-Lay 1.5-oz. Lays Sour Cream & Onion Chips
9	General Mills 1.75-oz. Traditional Chex Mix
10	Hershey 1.61-oz. Almond Joy
11	Kraft Nabisco 1.75-oz. Wheat Thins
12	Frito-Lay 2.75-oz. Grandma's Peanut Butter Cookie
13	Hershey 1.85-oz. PayDay
14	Hershey 2.5-oz. Strawberry Twizzler
15	Frito-Lay 2-oz. Cheetos Crunchy Cheddar Jalapeno

CHART 14G: NUMBER OF CANDY/SNACK/CONFECTION PRODUCTS INTRODUCED TO VENDING, 4-YEAR REVIEW

2007	2008	2009	2010
147	122	245	152

Source: Management Science Associates ProVen data.

While none of the top 15 products that gained placement were candy products in 2008, two candy products made the list in 2009 and four made it in 2010.

The most notable change in 2010 was the increase in nutrition snacks, which include breakfast bars, cereal, fruit snacks, functional bars, nutritional pretzels, granola bars, rice cakes and trail mix, indicated in chart 14C. This continued a trend from 2009, but in 2010 the gain was much larger (7.7 points in revenue sales and 4.4 points in unit sales). Nutrition snacks was also the only snack category other than food snacks to post a volume gain in 2010.

The increase in nutrition snacks was driven by a 17.6 point gain in the number of these items stocked in 2010, indicated in chart 14C. Nutrition snacks posted the largest number of items added in 2010 and was one of only two categories to register an increase, the other being salted snacks, which posted a 0.7 point gain.

HOT BEVERAGES FALL AGAIN

Hot beverage vending continued to decline in 2010 despite a vibrant retail coffee market. Hot beverage vending has been unable to participate in the general growth of coffee

CONTINUED ▸

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* Comscore 2009

consumption due to unfavorable economics (fewer locations are large enough to support the investment in hot drink machines) and the inability of vending operators to change the public's negative view of vended coffee.

Hot beverage machines were historically concentrated in industrial, blue collar work sites. As the industrial manufacturing customer base declined in recent years, vending operators began removing hot beverage machines. This continued in 2010, indicated in chart 15A.

Another reason for the decline of hot beverage vending was the growth in OCS.

Vending operators expanded into OCS in recent years in response to a customer base favoring white collar accounts. OCS surpassed hot beverage vending in 2007 as a percent of total vending industry sales.

OCS posted the largest 1-year sales gain among all segments in 2010, indicated in chart 12.

The unfavorable economics of hot drink vending became more challenging in 2010 as coffee roasters increased prices due to rising commodity prices. Vending operators failed to raise hot beverage prices in 2010, indicated in chart 15D, despite price increases announced by competing retail channels. Hot drink prices remained flat, the exceptions being fresh-brew specialty/flavored coffee and hot chocolate, which were small categories.

Vending operators active in OCS raised OCS prices more frequently than hot beverage vending prices in 2010, indicated in chart 7.

The failure of vending operators to raise prices in a segment that witnessed price increases in other retail outlets reflected its low value perception.

Vending operators observed that customer perception of hot beverage vending remained poor due to low quality product compared to coffee available in other retail outlets.

In 2010, Starbucks Corp. partnered with Crane Merchandising Systems to introduce a Seattle's Best Coffee branded machine designed to change this perception, marking a commitment by a specialty coffee roaster to the vending channel.

The recession has created an opportunity for hot beverage vending in some accounts seeking to eliminate OCS as a cost saving

CONTINUED ▸

CHART 15A: HOT BEVERAGE MACHINES, 4-YEAR REVIEW

2007	2008	2009	2010
341,000	338,000	320,000	315,000

CHART 15B: HOT BEVERAGE SALES, 4-YEAR REVIEW*

% OF SALES

TYPE	2007	2008	2009	2010
Fresh-brew regular	47.08%	46%	53.16%	54.9%
Fresh-brew decaf	4.99	4.0	5.32	5.42
Fresh-brew specialty/flavored	10.17	10.5	8.2	7.9
Freeze-dried regular	4.99	4.15	5.5	3.1
Freeze-dried specialty	8.75	11.5	6.7	7.86
Tea	2.37	3.5	2.3	1.72
Hot chocolate	13.24	11.5	11.67	11.67
Soup	2.5	2.0	0.6	0.53
Other	5.88	6.75	6.45	6.75

CHART 15C: HOT BEVERAGE SALES, 4-YEAR REVIEW*

PROJECTED TOTALS

TYPE	2007	2008	2009	2010
Fresh-brew regular	$483.8M	$446.2M	$432.2M	$411.75M
Fresh-brew decaf	42.9	38.8	43.25	40.5
Fresh-brew specialty/flavored	110.5	101.85	66.66	59.25
Freeze-dried regular	43.3	40.2	44.72	23.25
Freeze-dried specialty	121.1	111.5	54.47	58.5
Tea	35.1	33.95	18.7	12.9
Hot chocolate	116.1	111.5	94.88	87.53
Soup	28.4	19.4	4.88	3.99
Other	64.7	65.46	52.44	50.63

Some 2009 numbers have been adjusted since last year's report.

CHART 15D: HOT BEVERAGE PRICES, 4-YEAR REVIEW

TYPE	2007	2008	2009	2010
Fresh-brew regular	53¢	57.4¢	59¢	59¢
Fresh-brew decaf	53	57	58	58
Fresh-brew specialty/flavored	63	66	64	65
Freeze-dried regular	52	57	59	59
Freeze-dried specialty	62	59	59	59
Tea	51	57	55	55
Hot chocolate	53	60	58	59
Soup	53	58	57	57

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CHART 16A: FOOD MACHINES, 4-YEAR REVIEW

TYPE	2007	2008	2009	2010
Refrigerated	137,000	135,000	133,000	131,000
Frozen*	57,300	53,300	51,300	52,600
Heated	1,500	1,300	1,100	900
Ambient	800	800	2,000	2,000
Food systems (pizza, french fries)	3,300	3,100	2,800	600
TOTAL	199,900	193,500	190,200	187,100
Frozen food machines as a percent of total	28.66%	28%	27%	28.1%

* Most were also used for ice cream.

CHART 16B: FOOD MACHINE SALES, 4-YEAR REVIEW

% OF SALES				
TYPE	2007	2008	2009	2010
Freshly-prepared	27%	25%	25.35%	23.76%
Frozen-prepared	58	58	56.05	54.56
Shelf stable	15	17	11.82	13.79
Other**	NA	NA	6.77	7.87
PROJECTED TOTALS				
TYPE	2007	2008	2009	2010
Freshly-prepared	$369.6M	$320M	$256.5M	$205.7M
Frozen	794	740	567.2	472.4
Shelf stable	205.4	220	119.6	119.4
Other**	NA	NA	68.5	68.2

** Non-food items in food machines

CHART 16C: VEND FOOD PRICES, 4-YEAR REVIEW

TYPE	2007	2008	2009	2010
Freshly-prepared	$1.96	$2.10	$2.34	$2.35
Frozen-prepared	1.88	2.05	2.27	2.27
Shelf stable	1.83	1.92	2.06	1.95

measure. But due to the high investment needed to place and service a hot beverage machine, the opportunity was limited to accounts large enough to support the investment.

FOOD REMAINS CHALLENGED

While the loss in vend food sales was not as severe in 2010 as 2009, it nonetheless suffered the largest segment decline besides cigarettes, a negligible business, indicated in chart 12.

Vend food, like hot beverage vending, has been severely hurt by the decline in the nation's blue collar manufacturing segment.

Operators did not raise prices in this segment in 2010 as much as in 2009. This negatively impacted the segment's profitability in light of the jump in wholesale food prices in 2010. The National Restaurant Association reported wholesale food prices rose 5 points in 2010, which more than offset a 3.8-point drop in 2009.

The most positive development for food vending in 2010 was that a decline in frozen food machines, first reported in 2008, reversed. Frozen food machine placements declined in both 2008 and 2009.

CONTINUED ▸

CHART 16D: TOP 20 FROZEN FOOD PRODUCTS IN 2010, DOLLAR SALES

#	PRODUCT
1	White Castle Twin Cheeseburger
2	Pierre Foods Big AZ Beef Charbroil With Cheese
3	Pierre Foods Buffalo Style Wings
4	Don Miguel Foods Mini Beef Tacos
5	Pierre Foods Fast Choice Double Beef Stacker With Cheese
6	Pierre Foods Bacon Cheeseburger
7	Pierre Foods A-1 Chopped Beefsteak Sandwich
8	Chef America Hot Pockets Pepperoni Pizza
9	Pierre Foods Fast Choice Jalapeno Charbroil With Cheese
10	Hillshire Farms Bagel Cheddarwurst
11	Pierre Foods Big AZ Bubba Twin Chili Dogs With Cheese
12	Pierre Foods Jumbo Cheeseburger
13	Pierre Foods Barbecue Wings
14	Rudy's Farm Biscuit & Sausage Twin
15	Chef America Hot Pockets Ham & Cheese
16	Tony's Pepperoni Pizza
17	Pierre Foods Jumbo Jalapeno Cheeseburger
18	Pierre Foods Monterrey Ranch Chicken Sandwich
19	MarketFare Foods AllStars Southwest Chicken Sandwich
20	Chef America Hot Pockets Meatball Mozzarella

Source: Vendchannel, 800-999-4271

CHART 16E: TOP 10 REFRIGERATED FOOD PRODUCTS IN 2010, DOLLAR SALES

#	PRODUCT
1	Oscar Mayer Turkey & Cheddar Lunchables
2	Oscar Mayer Ham & Cheddar Lunchables
3	Oscar Mayer Ham & Swiss Lunchables
4	Nesquik Chocolate Milk
5	Nesquik Strawberry Milk
6	Nesquik Banana Milk
7	Dannon Yogurt Peach Fruit On Bottom
8	Dannon Yogurt Cherry Fruit On Bottom
9	Dannon Yogurt Strawberry Fruit On Bottom
10	Mott's Foods Original Apple Sauce

Source: Vendchannel, 800-999-4271

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CHART 17A: MILK SOLD BY MACHINE TYPE, 4-YEAR REVIEW

% OF SALES				
TYPE	2007	2008	2009	2010
Dedicated milk	18%	9%	5.4%	5.0%
Cold beverage	32	28	25.24	24
Refrigerated food	50	63	65.36	68
Other	0	0	4	3
PROJECTED SALES				
Dedicated milk machine	$66.78M	$30M	$18.2M	$14.4M
Cold beverage machine	118.7	100	85	69.12
Refrigerated food machine	185.5	220	220.2	195.82
Other machine	0	0	13.4	8.64

CHART 17B: DEDICATED MILK MACHINES, 4-YEAR REVIEW

	2007	2008	2009	2010
Total	56,000	53,000	51,000	49,000

CHART 17C: 2010 MILK SALES BY CONTAINER TYPE

- Traditional gable
- Plastic bottle
- Other (glass, aseptic)

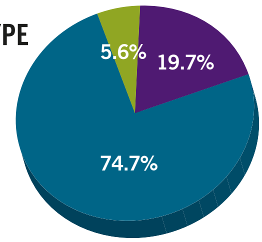

CHART 17D: MILK PRICES, 4-YEAR REVIEW

	2007	2008	2009	2010
Traditional gable cartons	71¢	74¢	74¢	74¢
Plastic bottles	$1.05	$1.07	$1.20	$1.20

Frozen food machines, which allow vending operators to provide food to customers more economically than refrigerated food machines, increased consistently since they were introduced in the mid 1990s up until 2008.

Frozen food machines required less frequent service than the more common refrigerated machines and have nearly zero product waste.

The reversal of the 2-year decline in frozen food machines in 2010 indicated that account downsizing, which *Automatic Merchandiser* cited as the cause of fewer frozen machines in 2008 and 2009, leveled off in 2010.

Refrigerated food machines, which have a larger market presence than frozen machines, continued to decline in 2010.

In response to the decline of refrigerated and frozen food machines since 2008, more operators began offering food in ambient machines, indicated in chart 16A. Operators were able to utilize ambient machines for food due to the introduction of shelf stable lunch kits.

Operators used more shelf stable food in 2010, indicated in chart 16B.

There was also a slight gain in the amount of non-food offerings in food machines, reflecting the need to reduce costs and waste.

Integrated food systems, while never a big market, suffered a hefty loss in placements in 2010 due to the liquidation of a major operator of these systems. Integrated food systems are machines that heat and serve pre-cooked meals.

MILK KEEPS FALLING

Milk sales fell for the third straight year in 2010, largely due to the continued decline in refrigerated food machines, which carried most vended milk. The loss was also driven by a continuous reduction in dedicated milk machines, indicated in chart 17B.

Refrigerated food machines and dedicated milk machines were historically placed in industrial accounts which have diminished steadily in recent years.

Aggressive marketing by dairy organizations in the mid 1990s did not sustain milk sales.

Some state and regional milk initiatives continued in 2010, but the nationwide initiative subsided in 2009.

Total retail milk sales suffered in 2010, reversing gains in the previous two years.

Annual estimated total fluid milk sales declined by 1.4 percent in 2010, according to the U.S. Department of Agriculture's Agricultural Marketing Service (AMS). This was the worst annual decline since AMS began publishing the monthly data in 2000. Previously, the largest annual decline in fluid milk sales reported by AMS was a 1.01 percent decline in 2004.

Some vending operators reported success offering milk in schools since many school districts removed soda and other beverages. However, acceptance by schools was not uniform since school foodservice directors remained divided over milk's nutritional benefits, especially flavored milk.

Milk nonetheless remained a staple in many cold food machines. Many vending operators found milk a good substitute product where they wanted to reduce cold food

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CHART 18A: ICE CREAM SALES

- Ice cream
- Frozen confections
- Other

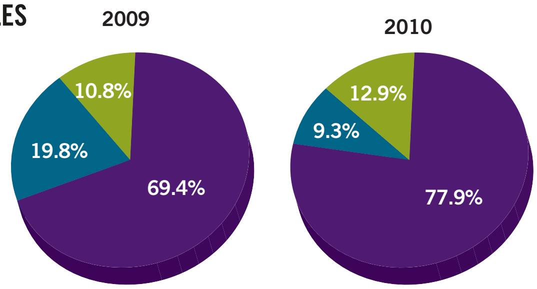


CHART 18B: ICE CREAM SALES, 4-YEAR REVIEW

2007	2008	2009	2010
$348M	$310M	$317M	$346M

CHART 18C: % OF ICE CREAM SALES BY MACHINE TYPE, 4-YEAR REVIEW

MACHINE TYPE	2007	2008	2009	2010
Combination food/ice cream	47%	47%	69.5%	60.1%
Old style, 3- and 4-select	10	10	3.84	4.5
Dedicated, new style multiproduct	40	40	25.16	28.53
Dual temperature machine	3	3	1.5	4.45
Other	0	0	0	2.35

CHART 18D: PROJECTED SALES BY MACHINE TYPE, 4-YEAR REVIEW

MACHINE TYPE	2007	2008	2009	2010
Combination glassfront food/ice cream	$163.6M	$150M	$220.3M	$207.95M
Old style, 3- and 4-select	34.8	30	12.17	15.57
Dedicated, new-style multiproducts	139.2	120	79.75	98.71
Dual temperature machine	10.4	10	4.75	15.4
Other	0	0	0	8.13

CHART 18E: DEDICATED ICE CREAM MACHINES, 4-YEAR REVIEW

2007	2008	2009	2010
62,770*	58,770**	48,770***	50,070***

* Of 57,300 frozen food machines in 2007, 44,121 are included in this number.
** Of 53,300 frozen food machines in 2008, 40,121 are included in this number.
*** Of 51,300 frozen food machines in 2009, 39,501 are included in this number.
**** Of 52,600 frozen food machines in 2010, 40,801 are included in this number.

CHART 18F: ICE CREAM PRICES, 4-YEAR REVIEW

TYPE	2007	2008	2009	2010
Ice cream	$1.15	$1.20	$1.30	$1.31
Frozen confections	1.00	1.34	1.35	1.28

offerings due to declining food sales.

ICE CREAM REVIVES

Ice cream sales posted one of its best showings in 2010, building on a trend that began in 2009. Ice cream posted the largest segment gain of any category other than OCS in 2010. The gains in the last two years nearly returned the segment to its 2007 level, indicated in chart 18B.

CHART 19A: SOCIAL MEDIA USE

- Yes
- No

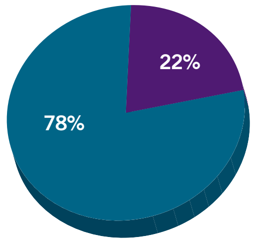
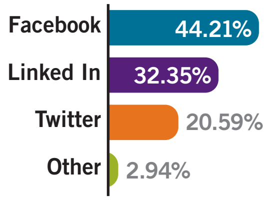


CHART 19B: MOST COMMONLY USED SOCIAL MEDIA WEBSITES



The gain in 2010 was driven in large measure by operators moving more of the offerings in frozen machines from frozen food to ice cream. In 2010, the number of frozen machines increased, as noted in the discussion on frozen food sales.

2011: OUTLOOK MIXED

Vending operators reported stronger sales in the fourth quarter of 2010 continuing into 2011. Economists claimed the nation was recovering from the recession, but signs were mixed.

Consumer confidence, which reflects consumer willingness to spend money, steadily increased from the fourth quarter of 2010 through April of 2011, according to the Conference Board, an organization that tracks consumer spending.

Food and fuel prices began rising at a rapid pace in the first quarter of 2011, threatening to undermine any gains in consumer confidence.

Vending operators continue to invest in new technologies in order to improve their operating efficiencies. The new technologies also give operators a better understanding of product costs, which have become a bigger challenge.

Self checkout markets ride growing retail trend

An evaluation of established systems verifies benefits to operators, customers and end users.

By Allen Weintraub, Contributing Editor

In 1998, I came across the first self checkout system I had ever seen at a National Automatic Merchandising Association (NAMA) convention at McCormick Place in Chicago. It was a company called Smart Vending Solutions Ltd. based in Israel. The system involved going into an enclosed area using an access card, selecting the products, paying for the products, and then exiting the enclosed area. The system seemed to be designed primarily to prevent theft.

TIMES HAVE CHANGED

Times have certainly changed. Self checkout systems are expanding rapidly from coast to coast. In a self checkout market, a customer picks products from open racks, coolers, freezers and bins, then scans the UPC bar code or RFID tag for each product at a payment kiosk. They pay with a single payment, be it cash, credit card or stored value card.

In showing a prospective customer a self checkout system at an existing location, I witnessed how the consumers at the location were happy to demonstrate how fast and efficient was the selection and payment process. The operator did not have to say a word: the consumers themselves were selling the self checkout system. When did this ever happen to you, as a vending operator, at a vending location?

IT'S ***important to note that self checkout is not happening in a vacuum.***

Self checkout is expanding in a variety of retail environments, and as it does, we can expect the acceptance of self checkout markets to increase. In the meantime, vending operators have plenty of questions about these formats. The purpose of this article is to educate vending operators about the operations and economics of these systems.

Before examining the benefits these systems offer to vending operators, I think it's important to note that self checkout is not happening in a vacuum. Retail self checkout is evolving quickly, and as it does, the acceptance and demand of the systems that vending operators are using will grow.

The other day, I went grocery shopping at our local Stop & Shop supermarket. Upon entering the supermarket, my wife and I scanned our Stop & Shop card and obtained a "Scan It" gun and started shopping. The Scan It gun quickly scanned all the UPC labels on the product packaging. We placed the scanned products in our "green" shopping bags we had brought into the store.

Any products that required preparation at the fish or meat counters were wrapped with labels with prices and the UPC for scanning. Fresh fruits and vegetables had numbers affixed to the bunches. We went to the readily available scales, entered the number, weighed the product, generated a price/UPC label, placed the product in a plastic bag, affixed the label to the bag, and then scanned the label. If the fruit or vegetable did not have a number, the scale had icons describing the product from which you could generate the appropriate price/UPC label.

A display on the scanning gun enabled us to track our purchases by unit and price. Periodically, special promotions appeared on the screen. Stop & Shop can store each customer's sales and then at the next visit, customize promotions to their purchases. The promotions are recorded immediately on the screen.

A pint of strawberries was displayed with the signage, "Buy 1 And Get 1 Free." We scanned in the two pints and the display confirmed that the second pint was free. (I wondered: Is this a method to move products that are approaching their shelf life?)

The most important aspect of the shopping experience occurred at the self checkout kiosk. Responding to prompts we scanned in the gun, we selected a method of payment – cash, and credit or debit card – paid, and walked out of the store without any store personnel checking the contents of our bags. We saved time and money. It was totally user friendly; a dramatic contrast to the "locked" room concept of the earlier self checkout system described above.

Down the block at our local drug store, there are no cash registers. Every product is paid for at self checkout kiosks. There are store personnel available for assistance. Once you interact with any of these systems, it is just like pumping gas.

A recent *Wall Street Journal* article on these new devices claims that smart phones will eventually incorporate these capabilities.

The vending industry must now take advantage of what I call self checkout vend markets (SCVMs). I have adopted this term since these applications function without any personnel on-site. In contrast, the kiosk applications at retail sites have staff available to assist the consumer. SCVMs process involves purchases without any support from on-site personnel. They are truly part of the vending industry.

SELF CHECKOUT EMERGES FOR VENDING

Automatic Merchandiser Magazine first reported on SCVMs in its March 2006 issue (although the article did not use the term SCVM).

In 2010 at the NAMA OneShow, there were no companies displaying SCVMs. At this year's OneShow in Chicago, there were three companies showing SCVMs: Avanti Markets, 365 Retail Markets and Microtronic US. In addition, vending operators using the two more established of these SCVMs, Avanti Markets and 365 Retail Markets, made a joint presentation at the 2011 OneShow. More SCVMs have entered the market, such as Company Kitchen, operated by Treat America Food

CONTINUED ▶

Richard Harvey of A&R Services LLC, Monument, Colo., left, and Jeff Rank, Sterling Services, Canton, Mich., discuss the Avanti Markets and 365 Retail Markets self checkout markets, respectively, during an operator perspectives session at the OneShow in Chicago.

Services Inc. in Merriam, Kan., and Breakroom Provisions Co., based in Hickory, N.C.

One of the most interesting things about the evolution of the SCVMs is that vending operators have been the key developers of these systems.

At the present time, the vending industry is using this concept to change and improve its offerings to vending locations.

In anticipation of this development, Kraft Vending & OCS engaged Vending Consultants Co. to conduct a survey of the two more established SCVMs. The survey specifically examined what is being sold and what is the return on investment (ROI) for the SCVMs. Vending Consultants obtained sales data for a 2-month period, December 2010 and January 2011, from six SCVMs, three from Avanti and three from 365.

The major and most dramatic difference from vending is the number of stock keeping units (SKUs) available to satisfy the consumer. The six SCVMs had an average of 272 SKUs available for sale, sold 4,304 units each month, and averaged $6,888 in monthly sales, $1.60 per unit sold. Vending Consultants analyzed the monthly sales by the following product categories: cold beverages, candy, food, pastry, snacks and sundries.

Food, for the purpose of this analysis, included all refrigerated and frozen products as well as ambient products such as Kraft's Mac 'n Cheese, single-serve cereals and soup.

Cold beverages and food comprised 50 percent of the SKUs (127) generating 60 percent of the monthly units sold (2,541), and 70 percent of the monthly dollars sold ($4,740). The average unit selling price for cold beverages was $1.50; $2.52 for food, $1.31 for candy and $1.19 for snacks.

Any experienced vending operator can see these averages are higher than typical vending prices. But more importantly, the gross dollar profitability is higher as well. In terms of gross profit, cold beverage and food products delivered the best results, in the 70 percent to 75 percent range.

MORE DIVERSE PAYMENT OPTIONS

How consumers pay is also critical to understanding SCVMs. There is a key difference between the two systems; the 365 accepts cash in addition to card payment while the Avanti system only accepts card payment. The Avanti system does allow cash for reloading the stored value card at the payment kiosk, but it does not offer cash purchases.

At the three Avanti SCVMs, credit and debit cards payments averaged 28 percent and the stored value account card was 72 percent.

Stored value account cards are debit cards controlled by the Avanti system. The significant advantages to the stored value cards are: 1) there are no fees associated with the cards, and 2) the operator has access to data about the consumers to create special promotions.

The monthly sales breakout for 365 were: 37 percent for credit and debit cards, 14 percent for the stored value cards, and 49 percent for cash.

More importantly, consumers now have a full range of products to select. Traditional vending operations only provide products that can be vended. This restriction now no longer exists. The SCVM operator can provide any product.

If you have a chance, visit a SVCM operation and watch the consumers. They pick up the products, check the nutrition information, and buy multiple items. One consumer stated: “With the wide range of products and sizes, I now have the ability to select; with vending, I felt that I was being dictated as to what I had to buy.”

One critical omission from the SCVM sales in the installations tested was coffee. The average monthly sales figure of $6,888 does not include any coffee sales.

Coffee at all six locations was provided by traditional OCS.

Coffee can be sold through SCVMs. The opportunity to include coffee sales through the SCVMs will be critical to profitability.

A CLOSER LOOK AT THE NUMBERS

Both Avanti and 365 have provided ROI pro formas based on annual sales through the SCVMs in the range of $32,000 to $100,000.

The 365 pro forma offers scenarios for stored value card sales, combined credit card and cash sales, and credit card only sales. The pro forma considers product

CONTINUED ▶

Terri Starnes-Bryant presents a kiosk that combines cashless with self checkout at the Microtronics US booth at the OneShow trade show.

cost, shrinkage, depreciation, labor, utilities, parts, credit card expense and depreciation.

The Avanti pro forma compares the SCVM to a vending bank and considers product costs, shrinkage, depreciation, labor, utilities, vehicle costs, parts, credit card costs, sales taxes and overhead.

The pro formas are comprehensive, but in reviewing them, several questions arise. Given the importance of food, neither pro forma addressed the critical issue of spoilage, which most vending operators know severely compromises the profitability of refrigerated food.

Another question concerns the locations where the SCVM failed, and of course, the reasons for such failure.

Vending Consultants will be expanding its analysis of SCVM sales to include refining food sales and quantifying sales per person at each location.

In addition, vending operators should be aware that management companies will provide a complete range of services, including financing, for vending operators to successfully install SCVMs.

Your vending consumers are being educated about self checkout cold beverage and food products. Retail locations are no longer purchasing cash registers. Soon, vending operators will be concentrating on purchasing SCVMs. |

For information, contact:

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ABOUT THE AUTHOR

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Strong future for coffee likely as younger generation's consumption rebounds

Coffee has been strong throughout the recession, but the latest research done by the National Coffee Association (NCA) shows the future is even better. Consumption of coffee in consumers 18 to 39 years old has rebounded to levels seen in 2008 to 2009. Robert F. Nelson, NCA president and CEO, said in a prepared statement that the 2011 National Coffee Drinking Trends data shows strong category loyalty and suggests a solid customer base for future growth.

The rebound of coffee consumption is tied to this younger group of consumers feeling more positive about their financial situation.

The 2011 study revealed 86 percent of daily consumers drank coffee at home in the past day, compared with 24 percent who drank coffee out of the home. Gourmet coffees continue to be a significant portion of total coffee consumption.

Consumers with single-cup systems are growing an average of 1 percent a year. Many of the consumers, 35 percent, purchased a single-cup system within the past six months. Almost half, 45 percent, think the systems are excellent or very good, compared with just 26 percent reporting the systems are excellent or very good back in 2007.

For more information, visit www.ncausa.org.

DRINK COFFEE DAILY

CHART 1: 18 TO 24 YEARS OF AGE

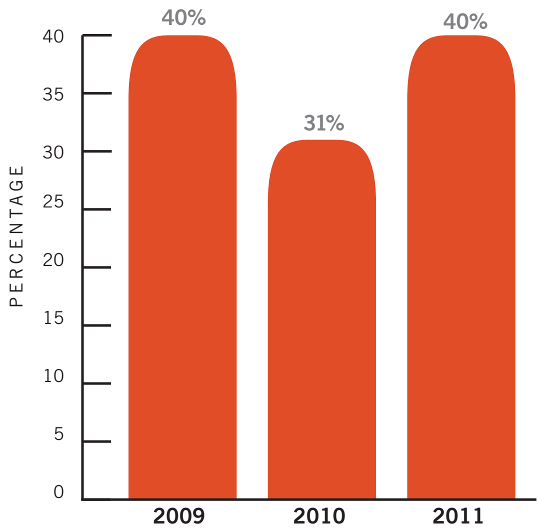
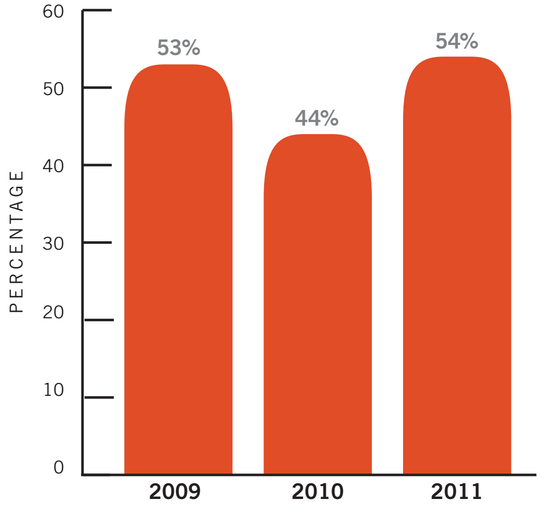


CHART 2: 25 TO 39 YEARS OF AGE



AT JUST 14 YEARS OF AGE, JAMES FOLGER USED HIS CARPENTRY SKILLS TO START BUILDING A NAME IN COFFEE.

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James Folger helped build the first wind-powered coffee roasting mill in San Francisco in 1850. He saw early on that the right cup of coffee provided much needed connections to all things home.

Make your employees feel more at home with Folgers.

First Class Vending pioneers solar energy in Southern California

By Elliot Maras, Editor

Brothers Matthew and Ryan Marsh use state-of-the-art software, sustainability and technology to build the Los Angeles area's largest vending operation; solar energy now supports a multi-faceted sustainability initiative.

How did a pair of newcomers manage to build the biggest vending operation in the nation's second largest city in their first 10 years of business?

There is no simple answer. But the fact that brothers Matthew and Ryan Marsh are taking a pioneering role in solar energy demonstrates independent thinking, dedication to operational excellence and self confidence. These qualities partly explain how the Marshes, co-owners of First Class Vending Inc., Bell Gardens, Calif., became the domi-

First Class Vending's roof panels collect solar energy, which converts to electric power.

nant player in greater Los Angeles at a fairly young age. (Matthew is 40 while Ryan is 37).

The brothers' ability to work well together undoubtedly plays a role in their success. Matthew, the president, oversees customer relations, sales and equipment purchasing while Ryan, the vice president, handles operations, route management and product purchases.

While both brothers caught the entrepreneurial bug at an early age, they never intended to work together until the opportunity presented itself early in the company's growth.

Both Matthew and Ryan point to their father, Steve Marsh, a self made garment manufacturer, as their personal role model.

Matthew, who began the business in 1994 fresh out of San Diego State University by purchasing a 1-route operation, credits some

Brothers Matthew, left, and Ryan Marsh recently completed one of the largest private solar energy installations in Southern California at their Bell Gardens, Calif. headquarters.

advice he received early in his career from a business consultant. The consultant told him if a competitor is doing something, that doesn't mean it's the right thing to do.

Conversely, if a competitor isn't doing something, that doesn't mean it's the wrong thing to do.

By 1996, Matthew had built the company to four routes and was aggressively studying the business. He came across a fairly young software company called Streamware. Streamware's software included item level product tracking and category management, features that were then new to vending management software.

Streamware's management software improved the company's efficiency and encouraged Matthew to try to grow the company. "A good software system is mandatory," Matthew said.

> ***"A good software system is mandatory."***
>
> Matthew Marsh, First Class Vending

As a novice operator, he participated in *Automatic Merchandiser's* vending manufacturers' conference in Chicago in 1996. His role at the conference was to provide an operator's perspective of Streamware's category management software.

ACQUISITIONS SUPPORT GROWTH

Acquisitions have played a big role in the company's growth.

The company made its first major acquisition in 2003 when it bought one of the oldest and largest Los Angeles operations, R.J. Bradberry Co.

In 2008, First Class Vending acquired many of the routes formerly owned by MAB Services Inc. of Los Angeles.

The Marshes expanded into San Diego in 2008 by acquiring Take A Break Services Inc., followed by the

CONTINUED ▶

acquisition of BREC Vending Inc.'s San Diego branch in that market in 2009.

This past year, the Marshes expanded into Las Vegas, Nevada. They rented a building and hired Kevin Grundy, a vending veteran, as manager.

Matthew noted First Class Vending gained some strong management talent from the acquisitions. Key managers are: Steve Foitle, executive vice president; Richard Cassel, executive vice president; Miguel Calderon, route operations manager and client relations manager; Keith Ahern, manager; and Charles Ringled, manager.

The company has three dedicated sales people and 14 route supervisors.

The Marshes believe they have been able to maximize their profitability by having only three operating facilities (Bell Gardens, San Diego and Las Vegas) and minimizing middle level management.

Key managers at First Class Vending include, at left: Alex Zendajas, route operations manager; Brian Levy, vice president of administration; and Miguel Calderon, operations manager.

PIONEERING SUSTAINABILITY

The solar energy installation is part of a larger sustainability initiative for First Class Vending that began in 2000 with cardboard recycling and has grown to include hybrid fuel vehicles, Energy Star certified vending machines, vending machine energy sensors, fully recyclable beverage bottles, and more.

In 2000, Matthew grew concerned about his company's trash bill. He needed to have the trash collector make extra trips to the company's building. He found a company that was willing to pay him for cardboard by the truck load.

Matthew instructed his drivers to break apart all empty cardboard boxes and return them to the distribution center. "We recycle 100 percent of our cardboard," he said.

He then began applying the principle to other types of waste: vending machines, ink cartridges, telephones and printers. All scrap gets sent to a scrap yard.

Matthew also began offering container recycling bins to customers. He said most accounts that take the containers choose to manage their own recycling.

ALTERNATIVE FUEL VEHICLES

Even before gasoline prices began spiking in 2009, the Marshes investigated alternative fuels. They began buying Toyota Prius Hybrids for technicians, managers and supervisors. The self charging hybrids, rated by both the federal and state governments as among the cleanest vehicles available based on smog and toxic emissions, get around 50 miles per gallon in the city.

First Class Vending currently has 22 Priuses, which comprise 90 percent of the vehicles for technicians, managers and supervisors in all three operating facilities.

The company also uses satellite-based global positioning systems to manage vehicle use.

The Marshes have not yet found an alternative fuel for delivery trucks that they like, but they believe they will be available in the near future.

The brothers were also ahead of the curve in offering bottles made from 100 percent recycled materials. Two years ago, they began buying bottled water from Chameleon Beverage Co. Inc. in City of Commerce, Calif.

PIONEERING SOLAR ENERGY

The $1.8 million solar energy project has been the most ambitious sustainability initiative to date. Solar panels have been installed to the roofs of four buildings, comprising a total 60,000 square feet. The project is one of the largest private sector solar energy installations in southern California.

"The solar industry is so new," Matthew noted.

Solar power has been the most challenging initiative for Matthew in his entire career, not only financially but educationally. Solar energy is an evolving science. For people not experienced in either alternative energy or construction, it requires extensive research. Matthew spent seven months studying solar energy before hiring a construction team.

"We're trying to do everything we can to reduce our carbon foot-

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print and do what's right for the environment," said Matthew.

"We had four main motivations for going solar," he explained. "First was financial. We're facing rising energy costs throughout our operations and we're trying to save as much as we can. Second, we want to meet the sustainability standards our clients set for themselves. Third, we want to reduce our carbon footprint and the impact we have on the grid. Finally, we're facing rising gas prices in a mileage-intensive business, and we have to offset those rising costs by any means we can."

After studying solar energy, Matthew asked four companies for bids to renovate his existing facility in Bell Gardens. All four companies came back with different proposals. At this point, he felt he needed help from someone more knowledgeable.

He turned to Howard Spunt and Gary Rochlin of Spears Construction, Inc. of Carlsbad, Calif., a full-service general contractor with over 35 years of construction experience to evaluate the bids.

Spears Construction recommended the Marshes hire DRI Energy, based in Irvine, Calif. The Marshes retained Spears Construction to oversee the project and act as prime contractor.

Recognizing that weight and seismic limitations on the existing roofs reduced their solar generating capacity, Spears Construction recommended the construction of solar structures to mount the solar panels to provide more electricity, offset more grid-supplied energy, and accelerate the payback period.

Spears then selected Campbell Certified steel contractors in Oceanside, Calif. to build two solar structures to attach the solar panels to.

The installation of the panels, which include a total of 1,296 solar modules, was completed in five months.

Steve Foitle, left, and Richard Cassel, executive vice presidents, inspect a Toyota Prius Hybrid used by First Class Vending's supervisors, technicians and managers.

Solar energy investment; how the payback works

Howard Spunt, CEO of Spears Construction Inc., explains the less than 4-year payback that First Class Vending Inc. will receive on its $1.8 million solar installation as follows:

1) A payment in lieu of a tax grant for equipment placed into service from 2010 to 2011 from the federal government of 30 percent of the construction cost. This amounts to $540,000 and is paid in the first year.

2) Under a federal depreciation rule, 100 percent depreciation of the system in the first year, minus half of the cash payment from the government amounts to approximately $600,000.

3) An annual payment under the California solar initiative funded by the electric company, California Edison. This amounts to $400,000 in the first four years with an additional payment of $100,000 in year five.

4) A savings in avoided electricity costs that First Class Vending would have paid in a 4-year period, totaling $450,000.

The total energy output of First Class Vending's solar installation will exceed half a million kilowatt hours annually, offsetting more than 80 percent of the company's annual load of grid-supplied electricity.

During the day, the roof panels collect solar energy, from which the energy is converted to electric power.

The solar array is expected to produce more than 500,000 kilowatts annually, reducing carbon dioxide emissions by over 820,000 pounds a year.

The greenhouse gas emissions avoided is similar to the combustion of 42,000 gallons of gasoline by a car, according to DRI Energy.

First Class Vending receives a rebate from the electric company based on the amount of electricity the solar system generates. It also receives government credits.

"Energy management is sound business: saving fuel, saving money, containing costs and finding savings and efficiencies anywhere it's pos-

CONTINUED ▶

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*Brandshare YTD September 2010

sible," Matthew said. "That's why solar electricity was such a logical choice for us. Our distribution center is a 60,000-square-foot, multi-building facility with parking over four acres. It was a great candidate for a solar installation."

Matthew said that without the government rebates, he would not have undertaken the solar project.

He expects the solar project to pay for itself in four years. (See page 52.)

The Marshes do not know if the sustainability initiative has won business, but they are aware that customers are asking more about it. Some accounts want to know about sustainability measures in their requests for proposal. "Our customers like to see that we're doing this," Matthew said.

COMMITTED TO TECHNOLOGY

While First Class Vending was an early user of DEX handhelds, Matthew was not an early believer in pre-kitting routes. They have recently begun experimenting with pre-kitting, supported by wireless telemetry.

This past year, the company also introduced self checkout markets. They have installed several such markets to date, and expect to add more in the next few years.

Most self checkout markets have been installed in new accounts. In the two existing vending accounts he converted to self checkout, Matthew said the conversion delivered a 25 to 30 percent sustained sales lift.

"It could never replace vending 100 percent, but it's filling certain niches." Matthew said of the self checkout market.

First Class Vending will soon have dedicated self checkout market merchandisers.

HEALTHY CHOICES IMPROVE

First Class Vending has also been a leader in healthy options.

Keith Ahern, left, and Charlie Ringled bring extensive vending management to First Class Vending.

PROFILE: First Class Vending Inc.

Founded: 1994

Owners: Matthew Marsh and Ryan Marsh

Headquarters Location: Bell Gardens, Calif.

Current Branches: San Diego, Calif., Las Vegas, Nevada

Number of Routes: 100+

Number of Employees: 200+

Software Provider: Crane Streamware

Self Checkout Market Provider: Avanti Markets

Annual Sales: Not revealed

In 2006, the company introduced its first such program under the name, "Get Fit." It has since introduced its second version, "Well Within Reach."

The Marshes are optimistic about the program since the quantity and quality of "better for you" products have improved. The offerings are selling noticeably better than they did a few years ago.

The company has not expanded into OCS or manual feeding; it partners with other companies in these areas.

A CHALLENGING FUTURE

Being a large company has benefits in today's vending industry, the Marshes agree. It has given them access to capital resources that has allowed big investments.

At the same time, the company faces the same challenges of all companies. The most serious one at present is the cost of goods.

The product item level tracking gives the Marshes an accurate reading on product costs, which they see as very important, particularly when prices are changing frequently.

"Profits are getting squeezed," Matthew noted.

The Marshes believe their investments in sustainable energy and technology will allow them to be profitable in the long term.

While First Class Vending has been one of the fastest growing vending operations in recent years, the Marsh brothers do not have any particular revenue goal. Their long term goal is to focus on profitability. |◀

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Office Coffee & Vending

Vending industry members gain management insight from diverse authors

By Jon Ford, Contributing Editor

Industry members cite books that challenge the mind and inspire leadership.

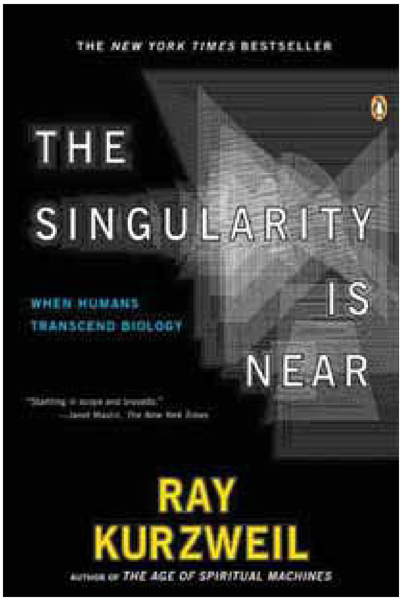
Several months back I read an article on a leadership program that General Electric (GE) created in the 1970s. GE worried that its executives lacked a broad view of society or even life itself. GE needed more employees capable of guiding the company rather than following instructions or responding to obvious crises. They focused on a liberal arts oriented program. This reminded me of something an old history teacher would say to me time and time again.

"A well-trained man knows how to answer questions, but an educated man knows what questions are worth asking."

It was with this belief they formed a partnership with a well known university to create a training program in which executives read and discussed the great books of the past, studied architecture, and went to museums.

I have thought how little time any of us has to reflect on what questions are worth asking, look broader, and think deeply.

With humanistic studies in mind, I asked a diverse group of industry thinkers, CEOs, and entrepreneurs what writing has had a huge impact on them, and that they would recommend to others. What they sent back was a diverse and intriguing collection of writings that is bound to stir the soul and challenge the mind. Following are their recommendations.



JOHN MICTHELL JR., PRESIDENT, TREAT AMERICA FOOD SERVICES

'The Singularity is Near' by Ray Kurzweil

A few years ago, I was discussing the future of vending with my friend Anant Agrawal of Cantaloupe Systems. We were imbibing and lamenting our mutual frustration with the slow pace of technological adoption in the vending industry, at which point Anant suggested I pick up a copy of "The Singularity," by Ray Kurzweil. Anant expressed hope that if I read the book I might better understand the evolution of technology and thus I might conclude that by embracing technological change (he preferred Cantaloupe's) I could create an advantage for my company. He said he thought that "The Singularity" would help me see things in a different light. Wow! Was Anant ever right!

The book's central thesis is that the continuation of Moore's law combined with extreme miniaturization of mechanical devices (nanotechnology) will drive exponential societal change, and that within this generation, humanity will evolve by literally merging with technology. (Yes – it took me a while to wrap my head around that concept!)

The book is technical and somewhat repetitive, but it convincingly details the arguments that support the conclusion. After reflecting on "The Singularity," it became clear to me that technology could indeed be the catalyst to re-energize my

CONTINUED ▸

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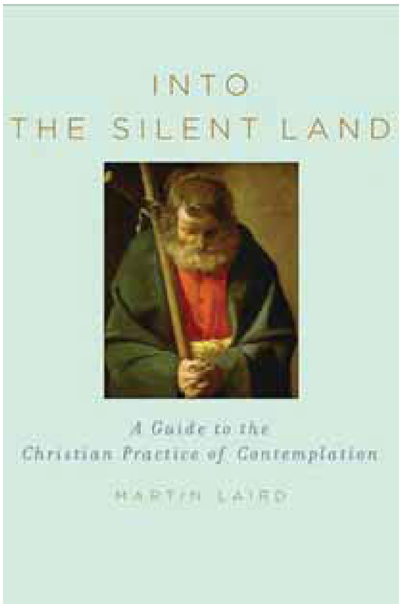
To nominate a driver or view complete contest rules, visit VendingMarketWatch.com.

company and the vending industry. Today, I am a disciple of "The Singularity." (There is an annual conference for those who follow this book's ideas, but I don't anticipate attending.) I have moved my company into the "clouds" (cloud computing), purchased an I-Pad, and I am eagerly awaiting the day when "nanobots" can be implanted in my brain so that I can finally remember people's names. Oh, and in case you are wondering, no, I was never a Trekkie.

DR. RONALD CICHY, DIRECTOR AND PROFESSOR, THE SCHOOL OF HOSPITALITY BUSINESS AT MICHIGAN STATE UNIVERSITY

'Into the Silent Land' by Martin Laird

I just finished reading "Into the Silent Land" written by Martin Laird, O.S.A, a monk at St. Monica'e Priory in London. It is a guide to the Christian practice of contemplation. The author notes that we are all built for contemplation, and his book is about the skills necessary for entering the land of silence within, through disposing ourselves to surrender. The practice of silence positions us to allow something to take place, through our stillness and awareness.



In silence, you hear. It is easy to silence the noise externally -- shut off your radio while driving, sit on a beach, as examples -- however, it is extremely difficult to silence the voice within. That is the voice that tells us what we did wrong or what we did not do. We are our own worse critics. Contemplation attempts to free us from this negative voice, connect us with a new and heightened level of awareness, and encourages us to hear what we do not typically hear. It is a practice that takes a lifetime.

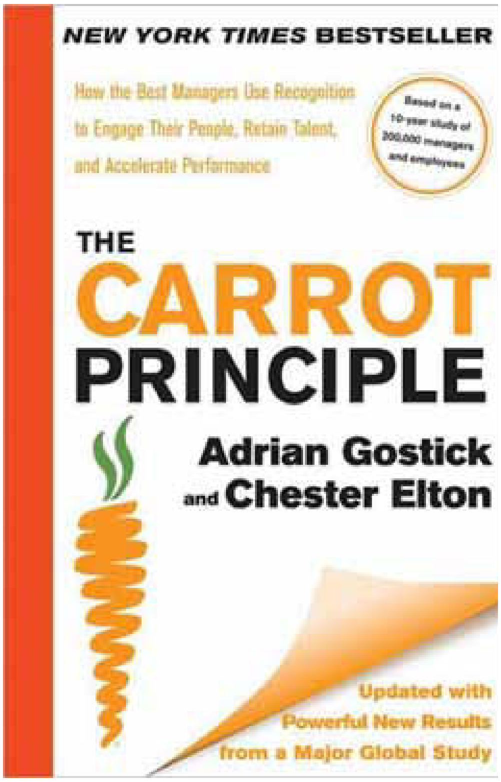
One of the quotes attributed to Mark Twain in Laird's book was a source of contemplation for me: "I am an old man now and have had a great many problems. Most of them never happened."

HEIDI CHICO, PRESIDENT, THE WITTERN GROUP

'The Carrot Principle' by Adrian Gostick and Chester Elton

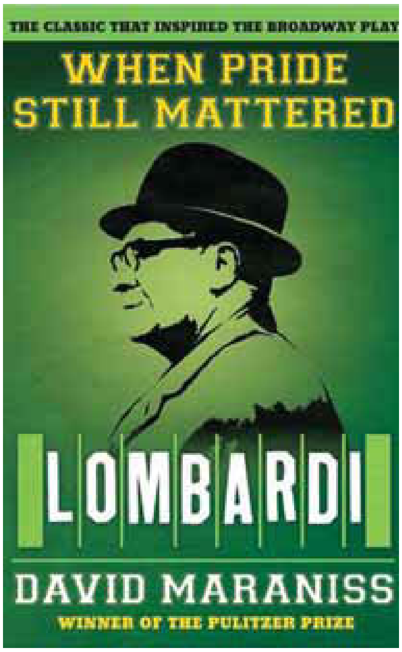
I always enjoy reading books that focus on accelerating growth in business and the steps companies focus on to achieve their goals. This book focuses on the human factor and how good leaders inspire their employees through recognition and motivation. This book is comprehensive and provides a road map of execution. It is a quick read and it is well worth it.

One of the principle concepts of this book is focusing on recognition. As leaders do, we should recognize our employees' efforts on a regular basis.



Do we focus on the positive or the negative attributes of our employees? When was the last time you thanked your employees? This book states that there was a global workforce study from Towers Perrin that found that 86 percent of the world's employees are not willing to go the extra mile for their employers. Is this because of lack of recognition? This intrigued me.

I thought I would test the theory by asking one of my associates to go the extra mile with no recent recognition of his hard work. My employee couldn't find enough time in the day to complete the task. He said that his department was over worked and under staffed. I knew that I wasn't going to get the result I was looking for, so I decided to thank him for his efforts in another recent project. I also recognized his efforts among his peers. The next day, I asked him about completing this task. He



went the extra mile, and completed the task on time.

As we all know, it's the employees and their dedication that makes a company and their products great. As executives, we need to thank them more often. This book just emphasizes techniques on how to motivate.

JON FORD, NCE5, PRESIDENT, ALL STATE MANUFACTURING CO.

'When Pride Still Mattered' by David Maraniss

As for my selection, I would recommend a biography of football coach Vince Lombardi by David Maraniss, called "When Pride Still Mattered." It's one of the best biographies ever written.

The author movingly weaves the tale of one of the most famous football coaches ever. If you finish this book and are unmoved by his story, his leadership and his love of the game, then there could be something wrong with you. You don't have to enjoy football to enjoy this book. Lombardi was a flawed man coaching an imperfect game, but he squeezed every drop of blood, sweat and tears from his life. And that is to be admired.

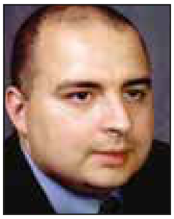
"Contrary to the opinion of many people, leaders are not born. Leaders are made, and they are made by effort and hard work," said Lombardi. When I read the above quote, my idea of leadership changed and I have used his ideas on leadership to develop my staff.

Like Coach Lombardi, my staff and I have come to believe in doing simple things with consistent excellence and practicing in a concise and intense matter.

For example, we cross train many of our positions so an assembler learns to fabricate and a painter learns to assemble. We do this one week a month so that each employee has time to practice throughout the year. We also allow our employees two days a month to develop an idea they may have.

This effort put forth by our employees has resulted in a number of new products and much more manufacturing efficiency.

Here's hoping you find time to read a few of these selections. Or at the very least, find time now to suggest your favorite writing to others. |



ABOUT THE AUTHOR

Jon Ford, NCE5, is president of All State Manufacturing Co. (www.allstatemfg.com), a manufacturer of metal coffee, vending and foodservice equipment. He is a director of the Indiana Vending Council and the Indiana Manufacturers Association. He can be reached at 800-274-2428.

PRODUCT NEWS

Gaviña Gourmet Coffee offers **Don Francisco's Family Reserve Coffee Pods.** Don Francisco's Family Reserve single-serve pods are available in a variety of flavors, including: Vanilla Nut, 100 percent Colombia Supremo and Decaf 100 percent Colombian. For information, call 800-428-4627 or visit www.gavina.com.

Follett has introduced a new series of **Chewblet® icemakers** to complement the existing Horizon icemaker line of 1000 and 1400 series icemakers. Designed to produce up to 1,580 pounds of ice in a 24-hour period, the Horizon™ 1800 series icemakers will support high volume foodservice applications. These new units are available in remote air-cooled condensing unit configurations.

For more information, call 800-523-9361 or visit www.follettice.com.

AdvancePierre Foods has given its popular Grahamwich sandwich a bold new makeover with a new name and packaging. Introducing the **Whole Grain Graham Snackers™**, a convenient, handheld peanut butter and grape jelly snack "sandwiched" in between two whole grain graham crackers. The products are individually wrapped to lock in freshness.

For more information, visit www.advancepierre.com or call 800-969-2747.

Mars Inc. has reformulated the classic light and fluffy taste of **3 MUSKETEERS® Bar** to deliver a richer chocolate experience. Taste is the leading driver of sales for 3 MUSKETEERS® Bar, and this new enhancement still satisfies as a lighter candy bar (45 percent less fat) while increasing the chocolate appeal among consumers.

Mars promotions include compelling advertising, social media, coupons, and in-store support.

For more information, visit www.mars.com.

The **elstat r-series** is designed for use in sub-zero coolers, vending machines and coolers of all sizes for non-perishable beverages. The r-series uses elstat's intelligent learning system to deliver energy savings of up to 60 percent, depending on the market channel, learning the location's patterns. It is built to withstand harsh environments and is easily fitted in-field. For more information, call 888-903-2463 or email lmurray@elstatamericas.com.

Locking Systems International offers the **Universal PUCK Padlock™**, recently awarded a U.S. patent. It uses a unique universal spacer that allows the end user to change the lock cylinder, determining the appropriate security level.

The Universal PUCK Padlock™ accepts most standard vending locks such as the Cobra7, CobraMatic7, Medeco, plus many others. For more information, call 800-LOCK (5625) or visit www.lockingsystems.com.

Marketplace

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QUARTERLY WINNER

Steve Jenkins,

Midlantic Vending, Moorestown, N.J.

A positive and proactive attitude sets this route driver apart in the annual contest

ANYONE IN BUSINESS knows it's hard to find good employees. When one displays an above average work ethic, smart managers give recognition. And that's what happened for Steven Jenkins, route driver at Midlantic Vending in Moorestown, N.J.

First recognized at the company level as the Midlantic Vending 2009 Employee of the Year, Jenkins is now being recognized by *Automatic Merchandiser* and Kraft Vending & OCS as the Route Driver of the Year, second quarter winner, because of his positive and proactive attitude.

The selection is based on comments and a numerical score in areas such as: years as a driver, number of machines serviced, miles traveled, accidents and citations, thoroughness, customer compliments, truck and machine condition, and sales.

THE RIGHT ATTITUDE

"Since he started with Midlantic Vending (six years ago), he has had an unbelievably positive attitude," said Alan Drazen, vice president and the person who nominated Jenkins. While he has his own route, Jenkins is also a relief driver or route jumper. When Jenkins sees a machine that's not serviced to his standards, he will talk to the regular route driver, without speaking to management. As a result, the quality of all of the machines has improved.

"I'm sort of 'OCD' (obsessive compulsive disorder)," said Jenkins jokingly, "so everything I do has to be perfect in my eyes or I can't walk away from it."

Jenkins got interested in becoming a driver when he worked for UPS 18 years ago, but there were few opportunities in the area. It wasn't until 2005, when a friend told him about an opening at Midlantic that Jenkins got a chance to fulfill his goal. "The thing I enjoy most (about my job) is making customers happy," said Jenkins.

"Steve really looks after the company and equipment like it's his own," said Drazen. Midlantic has mostly branded machines in public locations, so the close attention to cleaniness and level of service is especially important.

Jenkins is flexible with his hours. He will work weekends or holidays, and stay late to prep machines if the company is behind schedule. He talks to management about ways to do his job more efficiently.

Outside of work, Jenkins is an activist for stronger "hit and run" laws in Pennsylvania. He supports House Bill 208 which includes a longer minimum sentence. "It's near and dear to my heart," said Jenkins. For fun, Jenkins goes to live events, like NASCAR races and baseball games.

"I've been in this industry for over 30 years, and I can't think of anyone with a more exemplary spirit and who services equipment at a higher level than Steve does. It's great to see someone like that get recognized," added Drazen. | ◀

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